

California Prison Health Care Services

Improper Contracting Decisions and Poor Internal Controls

INVESTIGATION I2008-0805, JANUARY 2009

California Prison Health Care Services' and Department of Corrections and Rehabilitation's responses as of May 2009

When California Prison Health Care Services (Prison Health Services) discovered that some of its information technology (IT) acquisitions had been made with a single vendor in 2007 and 2008 without complying with either the state contracting process or the alternative contracting processes established by a federal court, it requested that we investigate the matter.

Finding: Prison Health Services acquired \$26.7 million in IT goods and services in a noncompetitive manner from November 2007 through April 2008.

We found that staff at Prison Health Services ignored state contracting laws, as well as the alternative contracting requirements, when it acquired \$26.7 million in IT goods and services in a noncompetitive manner from November 2007 through April 2008. Specifically, Prison Health Services used 49 purchase orders to acquire \$23.8 million worth of IT goods from a single vendor when it should have sought competitive bids. It also contracted with the same vendor to provide \$2.9 million in IT services again without using a competitive process. Further, staff at the Department of Corrections and Rehabilitation (Corrections) helped to execute the purchase orders for Prison Health Services after initially questioning the propriety of the process used. Consequently, the State cannot be certain that Prison Health Services spent \$26.7 million in public funds prudently or that it received the best value for the money spent.

To ensure consistent application of proper contracting procedures for acquiring IT goods and services, we recommended that Prison Health Services do the following:

- Require employees with procurement and contracting responsibilities to attend training at regular intervals regarding state contracting processes.
- Formally communicate to purchasing and contracting staff at Prison Health Services and Corrections the meaning of the federal court's waiver order and the correct procedures that must be followed to use the alternative contracting processes approved by the court.
- Develop and document contracting procedures for staff to follow when acquiring IT goods and services under existing state processes.
- Develop and document the contracting procedures for staff to follow when acquiring IT goods and services under each of the alternative contracting processes approved by the federal court.

Investigative Highlights . . .

California Prison Health Care Services' (Prison Health Services) staff violated legal requirements and bypassed internal controls by noncompetitively acquiring \$26.7 million in information technology (IT) goods and services. Specifically, Prison Health Services:

- » *Used 49 purchase orders to acquire \$23.8 million of IT goods from a single vendor without inviting competitive bids.*
- » *Contracted with the same vendor to provide \$2.9 million in IT services without using a competitive process.*

Staff at the Department of Corrections and Rehabilitation ultimately executed purchase orders after initially questioning the propriety of the process used.

- Specify in writing who at Prison Health Services has authority to sign contracts and purchase orders under the state and alternative contracting processes, and distribute this information to employees who have responsibilities regarding procurement.
- Establish internal procedures to ensure there is documentation of approval from the receiver or his designee to make an acquisition under each of the alternative contracting processes.
- Ensure that prior to staff selecting a method for acquiring an IT good or service, the proposed acquisition is reviewed by an appropriate staff member to evaluate whether the method of acquisition is proper.
- Ensure that when contracts and purchase orders are being processed by staff at either Prison Health Services or Corrections for IT goods and services, an appropriate staff member will evaluate the proposed acquisition to determine whether it is proper and has the authority to halt the acquisition until any suspected impropriety has been resolved.

To ensure that the State follows applicable contracting laws, Corrections should establish a protocol for communicating with Prison Health Services' executive management when it becomes aware of any potential violations of state contracting laws.

Prison Health Services' Action: Partial correction action taken.

Prison Health Services reported that it has obtained approval from the Department of General Services to use a noncompetitively bid contract to continue to use the vendor that is the subject of this report. It also reported that it adopted a formal policy governing the use of the federal court's waiver of state contracting laws. Further, Prison Health Services notified us in May 2009 that it developed a training policy for staff with purchasing responsibilities. In addition, it developed procedures for staff to follow when acquiring IT goods and services under state processes as well as under contracting processes approved by the federal court. Further, it established a policy to ensure that authority to sign purchasing documents is limited to authorized individuals.

Corrections' Action: Corrective action taken.

Corrections reported that its managers will continue to review contract documentation and abort any transactions that violate applicable contracting requirements.