



# CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

## FACT SHEET

Date: July 8, 2010

Report: 2009-114

The California State Auditor released the following report today:

### Department of General Services

*It No Longer Strategically Sources Contracts and Has Not Assessed Their Impact on Small Businesses and Disabled Veteran Business Enterprises*

#### BACKGROUND

More than half of the 379 contracts the Department of General Services' (General Services) Procurement Division awarded in fiscal year 2008-09 were for one-time acquisitions while 15 percent were for statewide goods. These statewide goods contracts typically last several years and can involve millions of dollars in purchases by multiple state agencies. As the State's business manager, General Services can establish various types of contracts that leverage the State's buying power, while considering state goals for small business and Disabled Veteran Business Enterprise (DVBE) participation in state contracting. In 2004 General Services implemented a strategic sourcing initiative to save money on goods and services that state agencies purchased most frequently and hired a consultant to assist in implementing this initiative. Between February 2005 and July 2006, General Services awarded a series of strategically sourced contracts, establishing these contracts as mandatory for state agencies to use in order to achieve savings.

#### KEY FINDINGS

During our review of the General Services' strategically sourced contracting practices, we noted that it:

- Realized at least \$160 million in net savings to the State through June 2007 from 33 strategically sourced contracts it awarded for 10 categories of goods.
- Has not strategically sourced contracts for 20 other categories of goods and services its consultant identified in 2004 and did not prepare an analysis to support that decision.
- Has not entered into any strategically sourced contracts since July 2006, and, despite having incurred significant costs to train staff and develop written procedures on these practices, has not reviewed comprehensive purchasing data to identify new strategic sourcing opportunities.
- Lacks data needed to determine the change in the number of small businesses and DVBEs participating in a category of goods that was strategically sourced and thus, cannot measure the impact of these contracting practices on such businesses.
- Does not monitor whether small businesses and DVBEs perform, as required by law, a meaningful role in strategically sourced contracts.
- Does not yet have standard procedures to recover state funds when it identifies a contractor that has not complied with the pricing terms of the contract.

#### KEY RECOMMENDATIONS

We recommended that General Services ensure it maximizes savings to the State for future purchases by performing needed analyses to identify opportunities for strategic sourcing; examining recent purchasing patterns when determining whether to rebid or extend strategically sourced contracts; and reviewing previously recommended categories to determine opportunities to achieve savings. Also, General Services should improve the integrity of its monitoring of pricing compliance and ensure the prompt recovery of state funds by implementing standard procedures for identifying vendor overcharges. Further, to evaluate the true cost and benefit of strategic sourcing, we recommended that General Services evaluate the impact of such contracting practices on small businesses and DVBEs and that it monitor how small businesses and DVBEs are used in contracts they participate in to ensure compliance with requirements.

