



CALIFORNIA STATE AUDITOR

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FACT SHEET

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The California State Auditor released the following report today:

California Prison Health Care Services: *Improper Contracting Decisions and Poor Internal Controls*

BACKGROUND

The California Whistleblower Protection Act authorizes the Bureau of State Audits (bureau) to investigate allegations of improper governmental activities by agencies and employees of the State. The United States District Court appointed a receiver to administer, control, manage, operate, and finance the health care system in California prisons. The California Prison Health Care Services (Prison Health Services), the entity acting in such a capacity, asked the bureau to investigate its information technology (IT) acquisitions with a single vendor in 2007 and 2008. Prison Health Services, working with the Department of Corrections and Rehabilitation (Corrections), is required to make such acquisitions either in compliance with state contracting laws or by using one of three alternative contracting processes prescribed by the federal court.

KEY FINDINGS

Our investigation of the IT acquisitions revealed that Prison Health Services:

- Improperly acquired \$26.7 million of IT goods and services without competitive bidding.
 - It executed 49 purchase orders over a six-month period with one vendor and one of the vendor's subcontractors at a cost of \$23.8 million.
 - It entered into a sole source contract for IT services from the same vendor and amended the contract three times on the same day, for a total cost of \$2.9 million.
- Violated legal requirements—both state contracting laws and the court-approved alternative contracting processes— and bypassed certain internal control procedures in its use of purchase orders for the acquisition of IT goods and in its awarding of a contract for IT services.
- Lacked formal policies and procedures to ensure compliance with contracting rules.
- Staff at various levels had little, if any, understanding about the competitive bidding requirements imposed by the federal court.

Additionally, our investigation revealed that:

- The work environment discouraged staff of Prison Health Services and Corrections from raising concerns about contracting or slowing any of the IT projects.
- Staff at Corrections helped to execute purchase orders for Prison Health Services after initially questioning the propriety of the process used.

KEY RECOMMENDATIONS

The bureau made several recommendations to Prison Health Services to ensure the consistent application of proper contracting procedures for acquiring IT goods and services. Such recommendations include providing training to staff responsible for procurement and contracting, formally communicating the meaning of the federal court's waiver and the correct procedures for using alternative contracting processes; and developing, documenting and implementing proper internal controls for IT purchases.

