



# CALIFORNIA STATE AUDITOR

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## FACT SHEET

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Report: **2009-103**

The California State Auditor released the following report today:

### **Departments of Health Care Services and Public Health**

*Their Actions Reveal Flaws in the State's Oversight of the California Constitution's Implied Civil Service Mandate and in the Departments' Contracting for Information Technology Services*

#### **BACKGROUND**

The Department of Health Care Services (Health Care Services), previously known as the Department of Health Services, and the Department of Public Health (Public Health)—established on July 1, 2007—have similar goals in preserving, improving, or optimizing the health of Californians. Both departments use various forms of information technology (IT) to carry out their programs and responsibilities, and enter into personal services contracts with private consulting firms to assist in developing and supporting their IT systems. State agencies are prohibited from contracting with private entities to perform work the State has historically and customarily performed and can do so adequately and competently. However, under certain circumstances, state agencies may enter into personal services contracts with private vendors, but these contracts are subject to review by the State Personnel Board (board).

#### **KEY FINDINGS**

During our review of Health Care Services' and Public Health's use of IT consulting and personal services contracts (IT contracts), we noted the following:

- A state employees' union challenged 23 executed IT contracts over the past five years—however, two contracts expired before the union challenge. The board's executive officer disapproved 17 of the 21 remaining IT contracts she reviewed.
  - Of those contracts disapproved:
    - Eleven expired either prior to the board's executive officer's decision or the board's appeal decisions. The board's executive officer took between 64 and 152 days to review the 21 contracts—much longer than the 45 days established by the regulations.
    - The departments terminated only three of the six disapproved IT contracts still active at the time of the decisions. The departments experience no repercussions because the State does not have a mechanism for determining whether or not state agencies carry out board decisions.
  - For nine of the 17 disapproved contracts, the departments entered into subsequent contracts for substantially the same services as those in the disapproved contracts.
- Although Health Care Services saved more than an estimated \$1.7 million between October 2006 and July 2009 by replacing IT consultants with state employees, it did not have budget approval to create any new, permanent IT positions and inappropriately funded the new positions with funds intended for temporary positions.
- Although the departments generally complied with procurement requirements for the 14 IT contracts we reviewed, they did not obtain some required approvals and some employees that engaged in contracting activities did not file financial interest statements.

#### **KEY RECOMMENDATIONS**

We made several recommendations to the Legislature for creating more substantive results from the reviews conducted by the board, such as clarifying that state agencies must terminate disapproved contracts and prohibiting them from entering into subsequent contracts for substantially the same services without first notifying the board and unions. We also made numerous recommendations to the departments including changes to ensure timely communication to contract managers regarding decisions rendered on contracts challenged, and for the departments' legal services to review proposed personal services contracts deemed high risk. Other recommendations were aimed at ensuring compliance with procurement requirements and contract provisions.

