AGENDA

SPECIAL BUDGET & FINANCE
COMMITTEE MEETING
Chair: Marv Southard

Friday, March 23, 2012
10:00 am - 12:00 pm

First 5 LA
Commission Conference Room
750 N. Alameda Street
Los Angeles, CA 90012

Item 1 Call to Order

Item 2 Public Comment for Items on the Agenda

Item 3 Scope of Work for 2011-12 Annual Audit

Item 4 Overview of FY 2012-2013 Budget Process
    and Financial Reporting

Item 5 Review of Proposed Fiscal Policy Amendments
    a. Strategic Partner Policy
    b. Procurement Policy

ACTION

INFORMATION

INFORMATION

INFORMATION

INFORMATION

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Los Angeles, CA 90012
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A public entity.
Item 1

Call to Order
Item 2

Public Comment
for Items on the Agenda
Item 3

Scope of Work
for 2011-12 Annual Audit
MEMO

To: Budget & Finance Committee

From: Raoul Ortega, Interim Finance Manager

Date: March 23, 2012

Copies To: Craig A. Steele, Interim Chief Executive Officer

Subject: Auditing Services

RECOMMENDATION:
Review and consideration of the expanded scope of work for auditing services; recommend changes, as necessary; and, recommend approval of final scope of work and contract to the Commission at the Commission meeting of April 12, 2012.

BACKGROUND:
California law requires that each county commission conduct an audit of, and issue a written report on, its financial activities during the preceding fiscal year. The financial reports at a minimum must include a review of the processes to track and monitor administrative costs, a review of policies needed to assess and communicate the financial condition of the commission, and a review of processes to track evaluation expenditures and document results of those expenditures.

First 5 LA has historically completes an audited Comprehensive Annual Financial Report (CAFR) and proposes to continue this practice. Macias Gini & O'Connell LLP, Certified Public Accountants had been under contract for auditing services from 2004 to 2009. Best practices in the industry recommend that a proposal process for independent auditing services be completed at least every five years to ensure objectivity of the audit process.

On February 18, 2010 First 5 LA released a Request for Proposals (RFP) for auditing services. The terms of the RFP included but were not limited to a certified annual audit performed in accordance with generally accepted auditing standards and an evaluation of the adequacy of internal controls. Based on the thorough review of all proposals, staff recommended that the firm of VTD complete First 5 LA's financial audits for up to five years. The current contract began on May 1, 2010 and continues through April 30, 2011. It was the intent of staff to continue the audit relationship with the selected firm for four additional years recognizing that an annual contract would be negotiated and would be brought forward each year to the Board of Commissioners for formal approval. A contract for auditing services for the period ending June 30, 2011 was negotiated with VTD last spring completing their second year as financial auditors for the Commission.
Staff once again is recommending the Commission contract with VTD for auditing services for the period ending June 30, 2012. The scope of services from last year’s contract is included for reference and staff recommends the same scope of work for the financial audit be brought forward.

DISCUSSION:
In addition to approving the same scope of work for the Commission’s financial audit to be completed by VTD, the Commission retained Harvey M. Rose and Associates, LLC (HMR) to conduct a two phased audit, Phase One (completed in July 2011) to review and validate First 5 LA’s reserved and available funds and to evaluate financial information reported to the Board of Commissioners. The purpose of Phase Two was to review how First 5 LA was using its available resources, compared to other First 5 agencies and relative to pertinent laws, policies, agency goals and objectives and efficiency and effectiveness measures. Phase Two was completed in October 2011.

There were a number of recommendations made by HMR. The Commission has expressed a desire that the progress of implementation of these recommendations be reviewed by an independent third party and has suggested that the Commission expand its scope of work with VTD to include this review. Staff has met with the partner of VTD and has proposed the attached expanded scope work for consideration by the Budget and Finance Committee for Fiscal Year 2011/12.

Attachments (2)
First 5 LA - Scope of Work

The Work Plan and Timetables

1. Complete Work Plan/Project Description

   **Overview of the Audits**

   As required by the request for proposal our audit plan covers the engagements for:

   - Task 1: First 5 LA
     - Interim Work – May 2012
     - Fieldwork – August 2012
     - Draft Financial statement completed – September 2012
     - Presentation of draft statements to the Budget and Audit Committee – End of September
     - Draft report completed – October
     - Present financial statements to the Board of Commissioners – approximately October 14th
     - Audited Statements to the State of California – November 1st

   - Task 2: Single Audit, if applicable
     - The above noted timelines also apply to the audit and completion of the single audit.

   - Task 3: Agreed Upon Procedures; Investment compliance work relating to the investment portfolio maintained with the Los Angeles county Treasurer.
     - The agreed upon procedures work will coincide with the annual audit of First 5 LA.

2. Our Proposed Audit Plan

   Our audit plan for each of the fiscal years involves six (6) stages for each audit. These stages are:

   Stage 1, Planning
   Stage 2, Risk Assessment
   Stage 3, Preparation of the overall audit plan
   Stage 4, Conducting the Interim Audit
   Stage 5, Conducting the Final Audit
   Stage 6, Reporting

   **Stage 1, Planning**

   VTD will meet with key staff to plan the audit services for the year. These meetings will discuss all audit issues and the proposed interim work plan.

   **Stage 2, Risk Assessment**

   Based upon the information obtained in the planning meetings VTD will perform a risk assessment as required by Statements on Auditing Standards (SAS) to be used in the preparation of the overall audit plan.
2. Our Proposed Audit Plan, (Continued)

Stage 3. Preparation of the overall audit plan

Once the planning and risk assessment process are complete an overall audit plan will be prepared. The plan will specify each audit task, staffing assignments, timelines, and due dates. The plan will also break down the work assignments between interim and final audit timelines. The audit plan will include the transaction cycles which have been selected for internal control testing and those for which only the detailed walk through will be performed.

Stage 3. Preparation of the overall audit plan, (Continued)

Once the audit plan has been completed the prepared by client (PBC) requirements and the responsibilities of the auditor document will be prepared. The document listing will be detailed by specific task and will include the due dates and names of the persons responsible for each task.

Stage 4. the Interim Audit

Our interim fieldwork dates will occur during May timeframe. The specific weeks will be determined during the planning meeting and preparation of the audit plan process. Our interim work will include the following:

We will obtain an understanding of the Commission’s internal control and compliance with the Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (First 5).

We will also obtain an understanding of the design and implementation of the financial reporting system to understand the follow of information for:

1. Each class of transactions that is significant to the financial statements.
2. The procedures within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, and reported in the financial statements.
3. The related accounting records, whether in electronic or manual supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing and reporting transactions.
4. How the information systems captures events and conditions other than classes of transactions that are significant to the financial statements.
5. The financial reporting process used to prepare the Commission’s financial statements, including significant accounting estimates and disclosures.

Testing the effectiveness of internal controls will be accomplished for the significant internal controls systems for which we plan to place reliance. To gain efficiencies our control testing will be structured so that it can be used for each of the audits we will perform.

Other areas to be completed at the interim audit include SAS No. 99 interviews and documentation.

Discuss workable solutions for potential findings that have been identified and communicated to the Commission during the audit process.
First 5 LA - Scope of Work

2. Our Proposed Audit Plan, (Continued)

Stage 5, the Final Audit

We will commence our final fieldwork as soon as First 5 LA has sufficiently closed their accounting records. We expect final fieldwork to take place during August.

During this phase, we will perform substantive audit procedures on the year-end statement of net assets and fund balances, revenue and expenditure/expense accounts. We will use a variety of audit procedures which may include outside confirmations, statistical sampling, and detailed testing of schedules, analytical review, inquiry, and observation.

Stage 6, the Reporting Phase

At the end of the audit process we will meet with key staff to cover the following:

- Discuss improvements for subsequent years audit plan,
- Meet with the Audit Committee to present the results of the audit,
- Communicate with those charged with Governance.

We do not believe in surprises. Although the reporting phase involves a recap of the process we will be in constant communication regarding the each aspect of the audit throughout the entire process. You will not have any surprises at the end of the audit.

Individual or unique aspects that apply to each of the required audits and/or services will be described within the next section.

We have also prepared a time schedule for each of the components of the audit that is structured to meet and/or exceed all time requirements of First 5 LA.

3. Use of EDP Software in the engagement

VTD will use the IDEA audit software during the engagement to assist with data analysis and for the selection of audit samples.
Proposed Expanded Scope of Work under Task 3: Agreed Upon Procedures to verify that:

The Agency has developed written policies and procedures for:

1) Manual compilations of financial information,
2) Allocations, reserves and designations, GASB 54

The Agency has developed a process for the Finance Department and the Grants Management Department:

1) Maintain an inventory of all grantees that consistently fail to meet annual budgeted expenditure goals

The Agency has established Budget and Finance Committee.
Item 4

Overview of
FY 2012-2013 Budget Process
and Financial Reporting
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<th>Activity</th>
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<th>Date</th>
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<tr>
<td>Budget Adoption</td>
<td>Final Draft Document Complete</td>
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<td>Final Comments by CEO</td>
<td>Final Comments by CEO</td>
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<td>Key Dates to CEO</td>
<td>Final Draft to CEO</td>
<td>May 29, 2012</td>
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<td>Review of Revised Draft Document</td>
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<td>Week of March 26th</td>
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<td>Budget and Finance Committee</td>
<td>Revised Draft Document Complete</td>
<td>May 15, 2012</td>
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<td>Preliminary Draft Budget Complete</td>
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<td>Review of Preliminary Draft Budget</td>
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<td>Review by Chief, Directors and Executive Staff</td>
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<td>Finance Analysis and Consolidation of Preliminary Budget</td>
<td>Draft Workplans and Preliminary Budget Due to Finance</td>
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<td>Draft Workplans and Preliminary Budgets Due to Finance</td>
<td>Department MMRs and Staff</td>
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<td>Department MMRs and Staff</td>
<td>Develop Workplans and Preliminary Budget Requests</td>
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<td>Develop Workplans and Preliminary Budget Requests</td>
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<td>Week of March 12th</td>
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Item 5

Review of Proposed Fiscal Policy Amendments
Memo

To: Budget & Finance Committee

From: Craig A. Steele, Interim Chief Executive Officer

Date: March 23, 2012

Subject: Fiscal Policy Amendments

RECOMMENDATION:
Review proposed policy amendments and recommend approval to the Board of Commissioners at the Commission meeting of April 12, 2012.

BACKGROUND:
In response to the Harvey M. Rose audit report recommendations, two separate policy amendments are being brought forward to the Budget & Finance Committee for discussion and consideration.

a. Policy and Guidelines for Selecting Strategic Partners
b. Procurement Policy

DISCUSSION:
The proposed policy amendments are intended to formalize and more completely document decisions of the Commission related to budget and fiscal matters.

The Harvey M. Rose audit found that certain Commission contracting decisions were not thoroughly documented and that the justification for certain decisions to enter into "sole source" contracts should be completely and permanently documented. Because the auditors did not find an expected level of documentation for certain contracts, they criticized the agency's level of transparency. In many cases, the contracts questioned represented "strategic partnerships, in which the Commission specifically decided to contract with a specific entity, such as Los Angeles County or LAUP, but those decisions from prior years were not documented for subsequent years' contract renewals. The auditors also suggested that the Commission establish specific dollar thresholds for levels of approval.

The proposed policy amendments relating to strategic partnerships establish consistent and specific criteria for making these decisions. The Chief Executive Officer would be delegated the authority to make decisions on proposed strategic partnerships less than $25,000, with all proposals for greater amounts subject to Commission approval. In either case, the proposed strategic partnership would require the written findings specified in the policy, and those written findings would be required to be maintained within the permanent contract file.
Policy b addresses some perceived shortcomings in the Commission's existing contracting solicitation policies and procedures. Again, the auditor suggested that the Commission establish specific dollar thresholds for contracting processes. For goods and services worth less than $5,000, a formal bidding process would not be required. This is consistent with existing practice. All other contracting would require a competitive process, unless certain exceptions specified in the policy exist. Those exceptions are part of existing policy and are taken directly from the statewide First 5 procedures guide. All exceptions are required to be documented. Under this proposed policy amendment, the Chief Executive Officer would have the authority to approve contracts less than $25,000 in the aggregate, with full Commission approval required for all other contracts.

Attachments (2)
Los Angeles County Children and Families First-Proposition 10 Commission

All Departments
Policy and Guidelines for Selecting Strategic Partners

1. POLICY STATEMENT

First 5 LA may enter into strategic partnerships, for specific purposes and under limited conditions, without a competitive solicitation process and through sole source contracting. Compliance with this policy will provide consistency, transparency, accountability and uniformity in the selection of strategic partners.

2. PURPOSE

The purpose of this policy is to provide general guidelines in a process for the selection process of strategic partners based on specific guidelines established by the "Los Angeles County Children and Families First – Proposition 10 Commission ("Commission") aka First 5 LA."

3. APPLICATION

This policy applies to all strategic partners being considered and/or applying to provide programs and/or services to or in partnership with the Commission. A strategic partner is defined as an existing governmental, not-for-profit or for-profit entity which has specific resources needed by the Commission and which has the demonstrated resources ability or level of expertise to implement specific activities in cooperation with the Commission that are consistent with the Commission's Strategic Plan in a manner that is more cost effective and expeditious. A strategic partner is selected based on a detailed and well-documented assessment of whether other possible service providers have the same specific resources needed by the Commission rather than by going out to bid to solicit the specific expertise required.

4. RESPONSIBILITIES

The Commission, the Executive Director Chief Executive Officer and staff and the Director of the department seeking a strategic partner are responsible for implementing this policy.

5. PROCEDURES

To ensure that First 5 LA activities are aligned with the strategic plan goals, the Board of Commissioners works with Commission staff to develop a set of prioritized initiatives, programs and activities and proportionate allocations. Once a project or initiative allocation is determined, planning and implementation activities commence, at which point an assessment of resources required is determined. Upon the written proposal of either the

Revised: 4/12/2012
Chief Administrative Officer or Chief Program Officer, the Chief Executive Officer may
determine that entering into a strategic partnership is in the best interest of First 5 LA,
subject to review by the Commission and compliance with this policy. The following steps are
to be taken when identifying and procuring strategic partners. The decision to choose and
contract with a specific strategic partner shall be made by the Commission in an open
meeting, except where the strategic partnership under consideration is for a total amount of
funding less than $25,000 in a fiscal year, in which case the decision may be made by the
Chief Executive Officer. The Chief Executive Officer may refer any strategic partnership
decision within his/her authority to the Commission for decision. Proposed strategic
partnerships shall not be divided into multiple smaller amounts to avoid consideration by the
Commission. Each decision to enter into a strategic partnership shall require that either the
Commission or the Chief Executive Officer make any one of the following specific written
findings of justification:

1. That the proposed Strategic Partner can provide specific resources needed by First 5 LA to
implement an approved program or initiative in a manner or on a scale that makes the
strategic partnership more cost-effective than resources that would be obtained through a
competitive solicitation; or

2. That the proposed Strategic Partner can implement an approved program or initiative
more expeditiously than resources that would be obtained through a competitive
solicitation; or

3. That the proposed Strategic Partner can provide a demonstrated level of ability or
expertise that is only available in the community through the proposed strategic
partnership; or

4. That working with the Strategic Partner provides significant and unique opportunities to
leverage First 5 LA funds to produce additional funding for the program or service.

The Commission or the Chief Executive Officer shall be further required to find that the
proposed strategic partnership is consistent with the adopted Strategic Plan.

All such findings, and the factual justifications for the findings, shall be made in writing and
written evidence of the findings shall be maintained in the publicly-accessible project file with
the executed strategic partnership agreement. Each written decision to approve a strategic
partnership shall state clearly that the strategic partnership approval includes the
authorization to dispense with a competitive bidding process and award the strategic
partnership through a sole-source procurement or other specified process.

5.1.—Through assessment identify organizations and entities which have specific resources
needed by the Commission that align with the goals and objectives outlined in the
First 5 LA Strategic Plan. The strategic partners should offer First 5 LA an
opportunity to leverage resources and build economies of scale.

5.2.—Commission staff recommends a Strategic Partner to the Executive Director for review
and approval.
5.3. Once approved, Commission staff works with the strategic partner on developing the Scope of Work, budget and on negotiating the contract.

5.4. Commission staff prepares a recommendation to the Board to enter into an agreement with the identified strategic partner along with a report describing the result of the assessment and reasons why the specific partner was selected. The assessment process must document that the strategic partner has the specific resources needed by the Commission. It must also document why the strategic partner was selected instead of other possible service providers, if any. The assessment process must also document why the strategic partner could implement specific activities in a manner that is more cost-effective and expeditious.

6. CONFLICT OF INTEREST

The Commission shall not select a strategic partner who has a conflict of interest, or with whom a Commissioner or staff member has a conflict of interest, except as permitted by applicable law. A conflict of interest exists when one has the opportunity to advance or protect one's own interest or private interest of others, with whom one has a relationship, in way detrimental to the interest, or potentially harmful for the integrity or fundamental mission of the Commission. No Commissioner or staff member or consultant shall make, participate in making, or in any way use his or her official position to influence the making of a decision to make a strategic partnership decision for this Commission when he or she knows or has reason to know he or she has a financial interest that could be materially impacted by the decision. Decision-makers must recognize that even the perception or temptation of a conflict of interest may give rise to the disqualification of a proposer or the termination of a contract. Commission staff shall consult with legal counsel regarding potential conflicts of interest at the earliest opportunity.
Los Angeles County Children and Families First-Proposition 10 Commission

Finance Department
Procurement Policy

1. POLICY STATEMENT

First 5 LA shall procure goods and services on the open market through a fair and uniform procurement policy allows for a free and open competition among vendors and, when used properly, that delivers quality materials and services from responsible vendors in the most cost-effective manner.

2. PURPOSE

This policy establishes a uniform procedure for the procurement of services and materials by the "Los Angeles County Children and Families First – Proposition 10 Commission ("Commission") aka First 5 LA."

3. APPLICATION

These procedures apply to all Commission departments, employees and individuals/consultants authorized to do business on behalf of the Commission.

4. RESPONSIBILITIES

The Executive Director Chief Executive Officer, Division Chiefs and Department Directors are responsible for implementing this policy, and formulating and complying with appropriate procedures and guidelines.

5. PROCEDURES

Unless a specific exception to this policy applies, the Commission shall procure goods and services with a value in excess of $5,000 from the lowest responsible bidder after the issuance of Requests for Proposal ("RFP"), written solicitation, or other method deemed appropriate for a formal bidding process. Purchases or procurements shall not be divided into smaller units to avoid the requirements of this policy. RFP's or other method for bidding shall be written to include the scope of work, specifications and terms of the proposed purchase or contract. Each RFP or other appropriate method shall provide sufficient details to assist prospective bidders in calculating an accurate, unconditioned and stable bid. Each RFP or other method used shall provide explicitly that the Commission reserves the right to reject all bids and re-advertise for bids, and that failure to comply with bid specification shall be grounds for disqualification of bids. Each bidder or proposer shall be required to honor the price and specifications quoted for a minimum of sixty (60) calendar days following submission of the bid. The Executive Director Chief Executive Office or Commission may waive any irregularity
in bids. The Executive-Director Chief Executive Officer and user department director shall approve all RFP’s or other method used prior to issuance.

5.1 Purchase Requests (PR) are required prior to all purchases or service agreements regardless of the dollar amount. The PR should be properly completed, executed and delivered to the finance department. Proper supporting documentation must be included such as invoices and receipts. The department incurring the expense shall initiate, complete and execute the PR.

5.2 Purchases or services over $5,000 dollars require the solicitation of at least three (3) RFP's actual bids or other proposals from method used to qualified prospective bidders and receipt by the Commission of responsive competitive bids (less fewer than 3 received is acceptable) for comparable goods or services prior to the procurement of the goods or services. The sole exception is when single-source or two-source procurement is justified as provided below or there are less than three (3) qualified suppliers available. Each such exception shall be documented in writing for the approval of the Executive-Director Chief Executive Officer prior to the formal procurement.

Exceptions are as follows:

The competitive bid requirement of this policy shall not apply under the following circumstances:

a. The supplies, equipment or services to be procured are unique because of their quality, durability, availability or fitness for a particular use;

b. Such supplies, equipment or services are available from only one source;

c. The Executive-Director Chief Executive Officer has determined in writing that exigent or emergency circumstances require the immediate purchase of specific supplies, services or equipment, which determination shall be immediately transmitted to the Commission and maintained in the Commission’s files;

d. Personal services contracts of less than $25,000 annually in the aggregate to any one service provider.

e. Personal services contracts of $25,000 or more annually in the aggregate if the Executive-Director Chief Executive Officer issues a written finding prior to the award of contract that the proposed contractor is so uniquely qualified for the particular project that competitive bidding would not be in the best interests of the Commission. Such findings should be infrequently made and shall be transmitted to the Commission.

5.3 Justification for using other than the competitive bid solicitation process, or the selection of other than the lowest competitive bidder, for every procurement over $5,000 shall be approved in writing by the Chief Executive Officer and maintained in the project file.

Revised: 4/12/2012
5.3 The Commission's policy against Conflict of Interest apply to all RFP’s or other methods used and proposals.

5.4 The Commission shall solicit bids or proposals through a broad array of communication media, designated to attract a range of competitive bidders. At a minimum, each RFP or other solicitation shall be posted on the Commission’s website for a minimum of 10 business days and transmitted to identified potential bidders.

5.4 Each RFP or other method issued by the Commission shall contain a sample of the Commission’s standard applicable contract for goods or services, with a statement notifying the bidder that the selected bidder shall be expected to execute the contract without substantive alteration.

5.5 If two (2) or more bids received are for the same total amount or unit price, the Commission may accept any one of such bids or may accept the lowest bid made by negotiation with the bidders after bid opening.

The sole exception is when single-source or two-source procurement is justified as provided below or there are less than three (3) qualified suppliers available. Each such exception shall be documented in writing for the approval of the Executive Director prior to the formal procurement.

Exceptions are as follows:

The competitive bid requirement of this policy shall not apply under the following circumstances:

f. The supplies, equipment or services to be procured are unique because of their quality, durability, availability or fitness for a particular use;

g. Such supplies, equipment or services are available from only one source;

h. The Executive Director has determined in writing that exigent or emergency circumstances require the immediate purchase of specific supplies, services or equipment;

i. Personal services contracts of less than $25,000 annually in the aggregate to any one service provider;

j. Personal services contracts of $25,000 or more annually in the aggregate if the Executive Director issues a written finding prior to the award of contract that the proposed contractor is so uniquely qualified for the particular project that competitive bidding would not be in the best interests of the Commission.

5.6 Justification for using other than the three bid process for procurement over $5,000 shall be approved in writing by the Executive Director.

Revised: 4/12/2012
5.7 The Executive Director shall approve selection of a bid that is not the lowest qualified supplier or lowest cost of goods supplier from the minimum three bid process.

5.8 Each RFP or other method issued by the Commission shall contain a sample of the Commission's standard applicable contract for goods or services, with a statement notifying the bidder that the selected bidder shall be expected to execute the contract without substantive alteration.

a. Purchases of goods or services less than $5,000 may be accomplished through a vendor invoice, purchase agreement or other standard form.

5.9 All Commission contracts to vendors or contractors for $25,000 or more in the aggregate in any fiscal year shall be presented to the Commission on a consent calendar for approval prior to execution on behalf of the Commission. The Chief Executive Officer may approve any contract less than $25,000 in the aggregate in a fiscal year.

5.10 All Commission contracts shall require that contractors submit scopes of work, budgets, and corresponding monthly invoices or quarterly reports that specify the units and/or unit costs of goods and/or specific services provided during the contract term. Commission staff shall not approve any budget or invoice that does not comply with this requirement. Each invoice submitted shall clearly and consistently specify the initiative, program or internal department associated with that invoice.

5.11 Pursuant to Public Contracts Code Section 3410, when purchasing food, the Commission shall give preference to United States-grown produce and United States processed foods when there is a choice and when it is economically feasible to do so, at the discretion of the Chief Executive Officer or his/her designee.

5.12 The Commission shall purchase recycled products whenever recycled products are available at the same or lesser price, and shall require contractors to comply with Public Contracts Code Sections 22150-22154 regarding the use and reporting of post-consumer materials.