



MEMORANDUM

Date: August 30, 2018

File No.: 8201

To: Barbara A. Lee, Director
Department of Toxic Substances Control
1001 I Street, 25th Floor
Sacramento, CA 95814

From: Department of General Services
Office of Audit Services

Subject: **AUDIT REPORT: DELEGATED PURCHASING PROGRAM**

This report presents the results of our compliance audit of the California Department of Toxic Substances Control's (DTSC) delegated purchasing program. As required by Public Contract Code Section 10333, the Department of General Services (DGS) conducts an audit at least once in each three-year period of each state agency to which purchasing authority has been delegated by the department. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of DTSC's purchasing authority delegation agreements with DGS, which include dollar threshold limits for various categories of procurements. The state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (Non-IT), 3 (IT), and F (FI\$Cal). As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing the conduct of competitive solicitations, use of leveraged procurement agreements, solicitation of certified small businesses (SB) and disabled veteran business enterprises (DVBE), establishment of fair and reasonable pricing for acquisitions of less than \$5,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers.

Based on the results of our fieldwork conducted over the period December 13, 2017 through July 20, 2018, we concluded that DTSC is adequately conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreements.

However, during our review we identified a number of areas for improvement within DTSC's delegated purchasing program. These areas included our concern that policies and procedures were not always ensuring full compliance with SCM F provisions governing the: (1) properly completed Purchase Order that accurately referenced the purchasing authority number, bidder instructions, general provisions, and terms and conditions (SCM F, 1.A1.5, 4.B3.0, 4.B3.1, 5.I2.5); (2) ensuring the procurement file is complete by obtaining and documenting, in the procurement file, the seller's permit, Office of Small Business and Disabled Veteran Business Services (OSDS) certification for the SB/DVBE supplier, bidder declaration form, DVBE declaration form, and Certification of Compliance with State IT Policies (SCM F, 4.B3.3, 4.D3.1, 3.A4.7, 3.A3.5, 3.A3.6, 2.E5.0); and, (3) obtaining the required price quotes and documenting the evaluation results, documenting of Non-Competitive Bid (NCB) when NCB method is used, and documenting in the procurement file a DVBE program language waiver when the DVBE program language is not included in the solicitation (SCM F, 4.C2.1, 4.D2.3, 4.D6.0, 6.2.1, 3.A3.1).

Further, we also identified areas for improvement within purchases placed with Leverage Procurement Agreements (LPA). To ensure full compliance with SCM F, the DTSC should: (1)

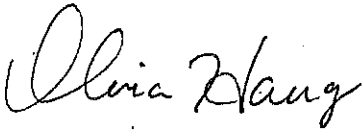
properly reference the LPA number on the Purchase Order; and, (2) retain a complete copy of the LPA, LPA User instructions, LPA contract cover page, and LPA contract price pages (SCM F, 5.A1.0, 5.A1.5, 5.A1.7, 5.A3.1).

We are pleased with the prompt actions taken by DTSC to address findings identified during our audit fieldwork. However, we did not perform effectiveness tests to determine whether the corrective actions are functioning as intended. DTSC's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2017/18 fiscal year. Our transaction tests included the review of 32 delegated procurements.

We greatly appreciated the cooperation and assistance provided by DTSC's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5054, or Christine Pham at (916) 376-5060.



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