



MEMORANDUM

Date: May 17, 2010

File No. 9174

To: Maziar Movassaghi, Acting Director
Department of Toxic Substances Control
1001 I Street, P.O. Box 806
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From: Department of General Services
Office of Audit Services

Subject: AUDIT REPORT: CONTRACTING PROGRAM

This report presents the results of our audit of the Department of Toxic Substances Control's (DTSC) contracting program. On April 16, 2007, the Director of the Department of General Services (DGS) signed Exemption Letter No. 40.04 which granted the DTSC's request to process contracts without DGS review and approval. In brief, subject to a number of limitations, the exemption allows various types of contracts under \$75,000 to be processed without DGS review and approval during the four-year period of April 1, 2007 through March 31, 2011. As a condition of the exemption, two audits are required to be performed of the DTSC's contracting program during the four-year exemption period. Based on the DTSC's request, the DGS Office of Audit Services (OAS) agreed to conduct the first audit required under the terms of the exemption.

The objective of our audit was to determine compliance with the terms and conditions of Exemption Letter No. 40.04. In general, the exemption requires that the DTSC maintain an adequate and effective system of internal control over contracting and that the system be sufficient to ensure compliance with the State's contracting laws, policies, and procedures. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Based on the results of our fieldwork conducted over the period March 26, 2009 through July 22, 2009, we concluded that the DTSC is conducting its contracting program in compliance with the terms and conditions of its exemption. The DTSC's contracting policies and procedures are sufficient to provide reasonable assurance of compliance with the State's contracting laws, policies, and procedures.

During our review we identified a number of areas for improvement within the DTSC's contracting program. These areas included our concern that policies and procedures were not ensuring full compliance with State Contracting Manual (SCM) provisions governing the: (1) obtaining of contractor certifications including those related to nondiscrimination program compliance (SCM 1, Section 4.08.A.5) and maintenance of a drug-free workplace (SCM 1, Section 4.08.A.6); (2) entering of contract awards into the State's centralized database of contract and purchase transactions (SCM 2, Section 8.1.1); and, (3) preparation of a performance evaluation form within 60 days of the completion of a consulting services contract of \$5,000 or more (SCM 1, Section 3.02.5).

Prior to the completion of our audit, we verified that appropriate actions had been or were being taken to address the above issues. Therefore, they are not further discussed in this report. However, the next audit required under the terms of the exemption, which is due on January 31, 2011, will include follow-up work to confirm that appropriate actions have been taken to ensure full compliance with the State's contract requirements.

To determine compliance, we reviewed policies and procedures, tested a sample of contracts awarded during the 2008/09 fiscal year, interviewed parties involved and performed other tests as deemed necessary.

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

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Dennis Miras, Audit Supervisor, at (916) 376-5064.



RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

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