



# MEMORANDUM

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**Date:** December 15, 2020 File No.: 1165

**To:** **Andrew Sturfels**, Deputy Director  
Department of General Services - Administration Division  
707 3<sup>rd</sup> Street, 8<sup>th</sup> Floor  
West Sacramento, CA 95605

**From:** **Department of General Services**  
**Office of Audit Services**

**Subject:** **AUDIT REPORT: CONTRACTING PROGRAM**

Attached is the final report on our compliance audit of the Department of General Services (DGS), Office of Business and Acquisition Services' (OBAS) contracting program. The objective of our audit was to determine compliance with the terms and conditions of Public Contract Code (PCC) Section 10351. In general, these provisions require that OBAS 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.

OBAS' written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and commitments made to address our recommendations.

As part of its operating duties, our office is responsible for following up on audit recommendations and normally requires a six-month status report on the implementation of each. However, since as a condition of OBAS' exemption from DGS' approval of its contracts under \$150,000 two audits are required to be performed of its contracting program during each four-year exemption period, and the fact that corrective actions taken to date are deemed adequate enough to sufficiently address current findings and recommendations, no status report will be necessary. Instead, issues raised will be a point of emphasis during any effectiveness tests performed as part of the first biennial audit to determine that corrective actions are indeed functioning as intended. We applaud OBAS for its efforts in swiftly addressing our concerns.

We sincerely appreciated all the cooperation and assistance provided by OBAS' personnel.

If you need further information on or assistance with the report, please call / e-mail me at (916) 376-5064 / [Dennis.Miras@dgs.ca.gov](mailto:Dennis.Miras@dgs.ca.gov), or Lucy Wong, Management Auditor, at (916) 376-5049 / [Lucy.Wong@dgs.ca.gov](mailto:Lucy.Wong@dgs.ca.gov).

*Dennis M Miras*

DENNIS M MIRAS, CIA  
Manager, Office of Audit Services

Attachment

cc: Rachel Grant Kiley, Chief, OBAS  
Bruce Betts, Section Manager, OBAS  
Jaime Tovar, Section Manager, OBAS  
Melanie Zbur, Section Manager, OBAS  
Andy Won, Deputy Director, OAS  
Jennifer L. Bollinger, Chief Counsel & Deputy Director, OLS

**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**DEPARTMENT OF GENERAL  
SERVICES - OFFICE OF BUSINESS  
AND ACQUISITION SERVICES  
(OBAS)**

**AUDIT OF  
CONTRACTING PROGRAM  
REPORT NO. 1165**

**OFFICE OF AUDIT SERVICES**

**DECEMBER 2020**



**DEPARTMENT OF GENERAL SERVICES  
OFFICE OF BUSINESS AND ACQUISITION SERVICES**

**AUDIT OF CONTRACTING PROGRAM  
REPORT NO. 1165**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: December 15, 2020

TO: **Andrew Sturmfels**, Deputy Director  
Department of General Services - Administration Division

This report presents the results of our audit of the Department of General Services (DGS), Office of Business and Acquisition Services' (OBAS) contracting program. On June 26, 2020, we received your request for our Office of Audit Services (OAS) to perform an audit of OBAS' contracting program pursuant to its efforts to secure an exemption from DGS' Office of Legal Services (OLS) from its approval of contracts under one hundred fifty thousand dollars (\$150,000). OAS agreed to conduct the audit of OBAS' contracting program prior to its request for contract approval delegation.

As outlined within Public Contract Code (PCC) Section 10351, OLS shall exempt from its approval contracts under \$150,000 that OBAS awards if it demonstrates the following:

- (1) Designates an agency officer as responsible and directly accountable for the agency's contracting program.
- (2) Establishes written policies and procedures and a management system that will ensure the state agency's contracting activities comply with applicable provisions of law and regulations and that it has demonstrated the ability to carry out these policies and procedures and to implement the management system.
- (3) Establishes a plan for ensuring that contracting personnel are adequately trained in contract administration and contract management.
- (4) Agrees to conduct an audit every two years of the contracting program and reports to DGS as it may require.
- (5) Establishes procedures for reporting to DGS and the Legislature on such contracts as the Legislature may require in the Budget Act.

The objective of our audit was to determine compliance with the terms and conditions of PCC Section 10351. In general, these provisions require that OBAS 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.

While overall we concluded that OBAS is conducting its contracting program in compliance with the provisions of PCC Section 10351, and that its contracting policies and procedures are sufficient to provide reasonable assurance of compliance with the state's contracting laws, policies, and procedures, we did identify the following areas for improvement. The implementation of the recommendations presented in this report will assist OBAS in addressing these issues:

- A complete file is not being maintained for all small dollar service contracts under \$10,000.
- Pest management contracts are not being sent to the Office of Risk and Insurance Management (ORIM) for approval.

During our review we also identified other matters requiring attention that we discussed with OBAS' contract management personnel. Since the degree of noncompliance noted was not significant to OBAS' overall contracting program, and we were assured that appropriate actions had been or are being taken to address our concerns, these issues are not further detailed in this report.

We are pleased with the commitment shown to improve compliance with the State's contracting requirements. As noted above, when advised of areas for improvement during our audit fieldwork, OBAS' management took prompt actions to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. OBAS' management has the ongoing responsibility for ensuring that its contracting program policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to each of our recommendations as well as our evaluation of the response are included in this report.

We sincerely appreciated the cooperation and assistance provided by OBAS' personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Lucy Wong, Management Auditor, at (916) 376-5049.

*Dennis M Miras*

DENNIS M MIRAS, CIA  
Manager, Office of Audit Services

Staff: Lucy Wong, Management Auditor

cc: Rachel Grant Kiley, Chief, OBAS  
Bruce Betts, Section Manager, OBAS  
Jaime Tovar, Section Manager, OBAS  
Melanie Zbur, Section Manager, OBAS  
Andy Won, Deputy Director, OAS  
Jennifer L. Bollinger, Chief Counsel & Deputy Director, OLS



**DEPARTMENT OF GENERAL SERVICES  
OFFICE OF BUSINESS AND ACQUISITION SERVICES  
(OBAS)**

**CONTRACTING PROGRAM AUDIT**

**FINDINGS AND RECOMMENDATIONS**

The following presents our detailed findings and recommendations developed based on our review of the Department of General Services (DGS), Office of Business and Acquisition Services' (OBAS) contracting program for compliance with the terms and conditions of Public Contract Code (PCC) Section 10351. This report presents information on areas of noncompliance with policies governing the: maintenance of complete files for all small dollar service contracts; and, the proper approval of pest management contracts.

This information was developed based on our fieldwork conducted over the period of July 13, 2020 through December 8, 2020. In addition to this written report, as findings were observed and developed during our audit fieldwork, OBAS' contracting program management personnel were promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our December 8, 2020 formal audit exit conference, OBAS was provided a detailed written summary of issues noted during our review.

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 types of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2019-20 fiscal year.

**SMALL DOLLAR SERVICE CONTRACTS**

OBAS has not fully implemented the policies and procedures specified in its own Contract Services Section (CSS) Service Order Desk Manual (Chapter 8, page 8), which require that all documents used as part of the evaluation be included within the Service Order Checklist package. Further, page 9 of the Desk Manual calls for the acquisition analyst to upload a PDF copy of the entire contract file onto the OBAS shared drive.

Our tests of service orders processed by OBAS revealed that complete files are not being maintained for all small dollar service contracts under \$10,000. Specifically, of the 20 transactions sampled, 14 (70%) of the service orders included in our sample tests were found to be missing either required supporting documentation (i.e. service order file checklists, FI\$Cal PO or STD. 213 Agreement forms, etc.), fair and reasonable acquisition method pricing determination (as required by State Contracting Manual (SCM), Volume FI\$Cal, § 6.9.4), or both.

It is clear that current policies and procedures are not being consistently enforced nor are fully operating as intended. However, it should be noted that upon being made aware of our results OBAS updated its desk manuals to strengthen its protocols.

**Recommendation**

1. Follow and enforce recently updated and implemented policies and procedures which will ensure that complete files, documentation and pricing determination are maintained for all small dollar service contracts.

**HAZARDOUS ACTIVITIES CONTRACTS**

Existing policies and procedures do not require that pest management contracts be sent to the Office of Risk and Insurance Management (ORIM) for approval as required by State Contracting Manual (SCM), Volume 1, Section 3.12, B.1.

OBAS was unaware of this requirement. Nevertheless, upon being made aware OBAS immediately communicated with ORIM to establish precisely which types of hazardous activities contracts require their approval and new language was added to their applicable desk manuals to ensure compliance.

**Recommendation**

2. Monitor for and enforce as needed compliance with the above referenced SCM requirements to ensure that all hazardous activities contracts are approved by ORIM.

**CONCLUSION**

Our findings and recommendations are presented to aid OBAS in administering its contracting program. OBAS should address the reported issues to assist in ensuring compliance with applicable state laws, policies and procedures.

December 8, 2020

Dennis M. Miras  
Manager, Office of Audit Services  
Department of General Services 707 3rd Street, 8th Floor  
West Sacramento, A 95605

Dear Mr. Miras:

Thank you for the opportunity to respond to the draft audit for Department of General Services (DGS), Office of Business and Acquisition Services (OBAS) compliance with the state's contracting laws, policies, and procedures.

OBAS does not oppose any of the findings in the audit and addresses each one as follows:

1. Small Dollar Service Contracts/Orders. Service Order File Checklists are not being completed to ensure all required documents are maintained in the contract file and to identify and document the Fair and Reasonable Technique used.

Response: OBAS added language in the applicable desk manuals requiring that the OBAS Acquisition Analyst (AA) document the Fair and Reasonable technique used and that all required documentation be included in the contract file. This documentation will be placed in the Service Order Package and audited by the OBAS Supervisor prior to approving the contract. Additionally, the OBAS Section Managers will perform random audits to ensure this practice is being followed.

2. ORIM Approval for Hazardous Activities Contracts. Pest management contracts are not being sent to ORIM for approval.

Response: OBAS Added language in the applicable desk manuals requirements that contracts including the application of chemicals and handling of hazardous substances as indicated in SCM Vol I section 3.12 will be sent to ORIM for review and approval prior to contract execution.

OBAS appreciates the efforts of the Office of Audit Services, in its role as an oversight entity. These recommendations will be a tremendous asset to OBAS as we continue to improve our business processes. If you need additional information of clarification, please contact Rachel Grant Kiley, OBAS Chief at (916)617-3697.

Sincerely,



Andrew Sturmfels  
Deputy Director



**DEPARTMENT OF GENERAL SERVICES  
OFFICE OF BUSINESS AND ACQUISITION SERVICES  
(OBAS)**

**EVALUATION OF OBAS' RESPONSE**

We have reviewed the response by the Department of General Services (DGS), Office of Business and Acquisition Services (OBAS) to our draft report. The response to the recommendations is satisfactory and we appreciate the efforts taken or being taken by OBAS to improve its contracting program.

As part of its operating duties, our office is responsible for following up on audit recommendations and normally requires a six-month status report on the implementation of each. However, since as a condition of OBAS' exemption from DGS' approval of its contracts under \$150,000 two audits are required to be performed of its contracting program during each four-year exemption period, and the fact that corrective actions taken to date are deemed adequate enough to sufficiently address current findings and recommendations, no status report will be necessary. Instead, issues raised will be a point of emphasis during any effectiveness tests performed as part of the first biennial audit to determine that corrective actions are indeed functioning as intended. We applaud OBAS for its efforts in swiftly addressing our concerns.