Department of Toxic Substances Control

Linda S. Adams
Secretary for
Environmental Protection

Maziar Movassaghi
Acting Director
1001 "I" Street
P.O. Box 806
Sacramento, California 95812-0806

Arnold Schwarzenegger
Governor

MEMORANDUM

TO: Linda Adams
Secretary for Environmental Protection
California Environmental Protection Agency

FROM: Maziar Movassaghi
Acting Director

DATE: December 31, 2009

SUBJECT: REVIEW OF INTERNAL CONTROL SYSTEMS

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the attached report describing the internal review and risk assessment of critical programmatic and business functions for the biennial period ended December 2009.

As statutorily required, the Department of Toxic Substances Control (DTSC/Department) is in compliance with Government Code Section 12439. DTSC works with the State Controller's Office to re-establish any positions abolished in error and annually submits a justification to the Department of Finance requesting that abolished positions be re-established. DTSC is diligent in attempting to refill vacant positions within six months; however, several of the Department's classifications are difficult to fill and it takes longer than six months to recruit and hire for these vacant positions.

Attached is the status of previous audit findings as well as a section of current identified issues/risks. The current issues/risks section was developed through various meetings with DTSC's Executive Team focusing on concerns issues and significant risks the Department is facing or will be facing in the near future.

If you have any questions regarding this report, please contact Odette Madriago, Acting Chief Deputy Director, at (916) 322-0504 or omadriag@dtsc.ca.gov.

Attachment(s)

Electronic cc's:

Director of Finance	FISMAhotline@dof.ca.gov
Legislature	Katarina.Tarr@asm.ca.gov
Bureau of State Audits	MargaritaF@bsa.ca.gov
Governor's Office	Scott.Reid@gov.ca.gov
State Library	RFontaine@library.ca.gov

Executive Summary

Working as part of the California Environmental Protection Agency (Cal/EPA), the Department of Toxic Substances Control (DTSC) is responsible for restoring the safety and health of communities and the cleanup of sites contaminated by toxic substances from the legacy of California's industrial past; for ensuring that hazardous waste generated in California's present industrial economy is managed safely and does not pose threats to people or the environment; and for pollution prevention to ensure a safe and healthy future for California.

DTSC's mission is to provide the highest level of safety, and to protect public health and the environment from toxic harm.

DTSC's vision is to be a global leader in environmental excellence using sound science, promoting green technology and seeking continuous improvement, for a healthy, sustainable, and prosperous California.

As required by Government Code Section 13405 all state agencies are to conduct a review of their systems of internal control and prepare a report every two years. DTSC Executive staff and managers initially performed this review in the fall of 2007 and have continued review of the organization through the development of DTSC's Strategic Plan and Performance Measures. DTSC prepared this report to meet the requirements of Government Code Section 13405.

EXECUTIVE LEADERSHIP TEAM

The Executive Leadership Team is comprised of the top managers of DTSC and is responsible for the current DTSC organization and for addressing the overall operating needs of DTSC. In 2007, the Department of Finance conducted interviews with various members of the Executive Leadership Team in preparation for DTSC's 2007 Financial Integrity and State Managers' Accountability (FISMA) Report. Since that time, the Executive Leadership Team as well as the supervisors and managers within DTSC have met and conducted a "Strengths, Weaknesses, Opportunities and Threats Analysis" (SWOT) as part of its 2008-2013 Strategic Plan and updated the SWOT for the 2009-2014 Strategic Plan.

DTSC built upon issues and recommendations from these prior efforts to identify the most significant issues/risks that currently, or will in the very near future, impact DTSC's ability to meet our mandated activities and maintain our standing within and outside California. The following issues/risks were identified not necessarily as control deficiencies, but issues/risks that could negatively impact DTSC's ability to effectively and efficiently achieve DTSC's mission and goals.

DTSC HIGHLIGHTS

DTSC is a leader in research and innovation and a major contributor to the well-being of environmental, social, and economic systems within which it operates.

The focus on innovation is one way that DTSC is working to increase its long-term sustainability and stability. An example of this is the California Green Chemistry Initiative, which is a part of the DTSC 2009-14 Strategic Plan. The Initiative is a systematic scientific and engineering approach that seeks to reduce the use of toxic chemicals and the generation of hazardous wastes by changing how society designs, manufactures, and uses chemicals in processes and products. Focus will shift to designing chemicals, processes, and goods that have less or no adverse effects throughout their life cycle. A panel of the highly respected scientists and researchers assisted in the development of the initiative. Additionally, an expert Green Ribbon Science Panel provides advice to DTSC on scientific matters, chemical policy recommendations, and implementation strategies regarding the initiative, and ensures that implementation efforts are based on a strong scientific foundation.

Strategic Planning and Performance Metrics

DTSC's Performance Management system provides focus on DTSC's mission through performance measures at all levels of the organization, while the strategic plan deploys the vision of the organization ensuring the customer requirements are met now and in the future. Recognizing the need to "get ahead" of hazardous and toxic substances in the environment represents a new emphasis and should enable DTSC to maintain its value to the state and ultimately its sustainability. DTSC is identifying and developing core competencies that will be required to implement the Green Chemistry initiative through the strategic planning process.

DTSC regularly updates an External Advisory Group composed of representatives of DTSC's major stakeholders in California, with information on the Department's strategic plan. The External Advisory Group also serves as a forum for an interchange of information and advice, promotes innovation, and monitors environmental trends. DTSC is committed to transparency, and has set up a Performance Review Panel to review the Department's strategic plan and performance measure metrics.

Each Performance Manager has an annual Performance Agreement with the appropriate Deputy Director. The Performance Agreement serves as a regular monitoring tool for progress. The agreements are formally reviewed quarterly and revised annually as needed. The review of the Performance Agreements ensures regular review and adjustments to strategic plan implementation based against actual performance.

PLANNING FOR THE FUTURE:

Issue #1: Succession Planning Management

Many experienced and knowledgeable employees, estimated at 30 to 40 percent of the workforce, are expected to retire within the next five years. As a first step to address succession planning, the Office of Human Capital and Workplace Innovation was established to foster workforce development, strategic planning, and workplace innovation. A major focus of the Office has been identifying strategies to address employee retirement and retention, and recruiting new employees.

The Office of Human Capital and Workplace Innovation is taking the following actions to address the loss of 30 to 40 percent of DTSC's workforce:

Employee Recognition: Facilitating a small cross functional group of stakeholders, to design, develop, and implement a robust employee recognition program that supports the DTSC "teams" culture, and is sensitive to individual recognition preferences. This program will include a variety of low-cost applications for peer, team, leader, stakeholder, and customer recognition.

New Employee On-Boarding: Facilitating a cross-functional team to design, develop, and implement a comprehensive employee on-boarding program that will include new employee orientation and career development planning.

Workforce Gap Analysis: Partnering with a number of programs to facilitate workforce gap analyses to determine immediate attrition risks and develop specific mitigation strategies, e.g., open examinations, focused recruitment, and development planning. This service is a core line of business for the Office of Human Capital and Workplace Innovation.

Leadership Development: Developing a proposal for a multi-faceted, state-of-the-art leadership development program. The competency-based proposal includes development opportunities for leaders in each stage of their careers, from new supervisors, to senior and executive levels; and leverages a variety of learning methods including classroom, mentors, coaches, study groups, communities of practice, "brown-bag" seminars, and job aids.

Recruitment and Retention: The Office of Human Capital and Workplace Innovation has added resources to DTSC's recruitment unit, and initiated actions to increase recruitment activities, leverage on-line HR Modernization Examinations, improve the validity and reliability of DTSC examinations, and plan strategically to meet workforce needs. Retention strategies will be taught as a regular offering of the leadership development program cited above.

Risk:

DTSC may not be able to replace the retiring employees or retain employees, or effectively and efficiently achieve the Department's mission and goals.

Recommendation:

Continue the efforts described above of the Office of Human Capital and Workplace Innovation to address the retirement, recruitment, and retention issues.

Issue #2: DTSC's Ability to Attract Technical and Scientific Expertise

DTSC's vision is to be a global leader in environmental excellence. DTSC's work requires staff with expertise in the fields of chemistry, toxicology, science and engineering. Our staff are working in new areas of science including nanotechnology, the toxic effects of products, and green chemistry. Our toxicology and chemistry classifications require staff to have advanced degrees in their field of study. DTSC also has difficulty recruiting and retaining criminal investigators due to the higher salaries paid to criminal investigator classifications used by other California State agencies.

Historically, salaries paid to scientists were commensurate with the salaries paid to engineers. However, as a result of bargaining, the engineers received salary increases from 2003 to 2008 to bring State engineering salaries into parity with salaries paid by non-state governmental entities. As a result, the morale of our scientists is low and the situation has created tension between employees. For the near term, the furloughs have exacerbated the morale issues.

As part of a Department reorganization, the Office of Human Capital and Workplace Innovation was established to determine how to address DTSC's response to various employee issues, including the salary issues for scientists and engineers and employee retention that impair the success of DTSC's mission and goals.

DTSC is mindful that given the current economy, there are limited opportunities for this issue to be resolved in the near future.

Risk:

DTSC has lost knowledgeable and experienced employees to higher paying employers and will have difficulty recruiting staff with the technical expertise that is needed.

Recommendation:

Continue efforts by the Office of Human Capital and Workplace Innovation to increase internal communication with DTSC's employees on issues that concern them. Maintain ongoing contact with the Department of Personnel Administration (DPA) so that DTSC

is able to provide data and information on employee compensation issues to DPA when it is needed.

Issue #3: Stable and Predictable Future Funding Sources

DTSC needs stable and predictable funding sources for the future to allow for growth and funding of new programs such as the Green Chemistry Initiative. DTSC is funded for the most part by two special funds: the Toxic Substances Control Account and the Hazardous Waste Control Account. For the past several years, both funds annual revenues have been insufficient to cover the annual appropriations. Recent actions by DTSC have alleviated the revenue/appropriation gap for the Hazardous Waste Control Account. DTSC shifted funding for toxics in products from the Hazardous Waste Control Account to the Toxic Substances Control Account.

The downturn in the economy has the potential to significantly reduce DTSC's revenue collections for fiscal years 2009-10 and 2010-11. Revenues are dependent upon the amount of hazardous waste generated and disposed and the number of businesses employing 50 or more employees. DTSC is projecting a decline in the generation and disposal of hazardous waste and the number of businesses and thus expects a decrease in revenue. As an offset, due to the multi-billion dollar shortfall in General Fund, the mandated three day a month furlough has reduced DTSC's special fund expenditures.

Risk:

Without a stable funding source it is difficult to effectively plan future operations for achieving the DTSC's mission and goals.

Recommendation:

Plan now to develop future funding sources. Ensure that DTSC maximizes its current billing and collection efforts of its billable and reimbursable activities.

Prior Findings Status Summary

The Department of Finance, Office of State Audits and Evaluations (Finance) conducted an internal control review of DTSC in 2005. The November 2005 report noted areas where controls were working as intended. The report also identified areas were controls needed improvement. The table below summarizes the findings and their current status.

Summary of 2005 Internal Control Review of DTSC by Finance

CONTROL SECTION	STATUS
Fixed Assets	Pending FI$CAL implementation
Cash Safeguards	Resolved
Accounts Receivable	Three Issues Resolved /Corrective Action Plan in place for remaining Issues
Encumbrances	Corrective Action Plan in place
Purchasing	Corrective Action Plan in place
Cash Disbursement	Resolved
Personnel/Payroll	Corrective Action Plan in place
Information Technology	Resolved
Information Technology	Corrective Action Plan in place

DTSC has a Corrective Action Plan (Plan) in place to address prior unresolved audit findings and is monitoring the Plan on a quarterly basis.