STATE AND CONSUMER SERVICES AGENCY

DEPARTMENT OF GENERAL SERVICES

AUDIT OF THE SECRETARY OF STATE

FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 8121

OFFICE OF AUDIT SERVICES

MARCH 2008

SECRETARY OF STATE
COMPLIANCE AUDIT
REPORT NO. 8121

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STATE OF CALIFORNIA

DEPARTMENT OF GENERAL SERVICES

AUDITOR'S REPORT

DATE: July 9, 2009

TO: **THE HONORABLE DEBRA BOWEN**
Secretary of State

This report presents the results of our compliance audit of the business management functions and services of the Secretary of State's office (SOS). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619. The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the DGS. As applicable, the scope of our audits of State agencies includes, but is not limited to, compliance with policies governing contracting, purchasing, fleet administration, small business and disabled veteran business usage, driver safety and insurance, records and forms management, surplus property and real estate. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

While in most areas we concluded that the SOS is conducting its business management functions and services in accordance with State requirements, we identified the following areas for improvement. The implementation of the recommendations presented in this report will assist the SOS in addressing these areas.

- Delegated purchasing program policies and procedures are not ensuring full compliance with State requirements governing those types of procurements. The areas for improvement noted during our review primarily related to the administrative aspects of the program, including the maintenance on-file of complete supporting documentation for each transaction.
- The SOS's driver safety and insurance program is not ensuring that employees who use their own vehicle to conduct State business complete and annually update a vehicle certification form. Further, policies and procedures are not ensuring that frequent drivers attend a defensive driver training course every four years.
- Records retention schedules are not being completed and updated in a timely manner.
- Accurate records are not being maintained on the assignment of DGS charge cards.

During our review we also identified other matters requiring attention that we discussed with the SOS's management but are not included in this report. These matters included our concern that policies and procedures were not ensuring that the office's forms management program was centrally directed and controlled. Prior to the completion of our audit fieldwork, we verified that appropriate actions had been or were being taken to address this issue. Therefore, it is not further discussed in this report.

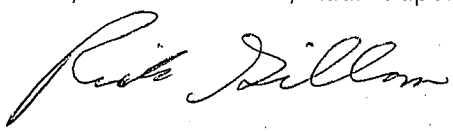
It should be noted that when advised of areas for improvement during our audit fieldwork the SOS's management took immediate action to begin addressing a number of our concerns. Although we were not able to verify the effectiveness of some of these actions prior to the

completion of our audit fieldwork, we were pleased with the commitment shown to improve compliance with State requirements.

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

We greatly appreciated the cooperation and assistance provided by the SOS'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
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Daniel Abbott, Internal Auditor

SECRETARY OF STATE
COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our review of the business management functions and services of the Secretary of State's office (SOS) for compliance with policies set forth in the State Administrative Manual (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS). This report presents information on areas of noncompliance with policies governing the: conduct of delegated purchases; completion of vehicle certification forms; attendance of a defensive driver training course by frequent drivers; maintenance of up-to-date records retention schedules; and, control of DGS charge cards.

This information was primarily developed during our fieldwork conducted over the months of November 2007 through March 2008. The audit was discontinued in March 2008 due the need to reassign staff to a high priority assignment, which delayed the finalization of audit work and conduct of the audit's closing conference until November 2008. However, as findings were observed and developed during our fieldwork, the SOS's management was promptly advised of any areas of concern so that they could begin taking corrective action.

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 2006/07 and 2007/08 fiscal years.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that the SOS has implemented a delegated purchasing program that ensures compliance with the State's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers and providing procurement opportunities to certified small businesses. However, our tests of a sample of 32 delegated information technology or non-information technology purchases, including 11 leveraged procurement agreement transactions, disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The State's purchasing requirements are contained in State Contracting Manual Chapters II and III. Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted included:

- competitive delegated purchase procurement files that in some instances lacked: (1) small business certification status verification information; (2) completed bidder declaration forms GSPD-05-105 or 106, which assist in the evaluation of the appropriate use of subcontractors and small businesses and disabled veteran business enterprises (DVBE); (3) documentation that a commercially useful function analysis was performed prior to award of a purchase to a small business bidder; (4) information on the waiver of the DVBE requirement within the bidder solicitation; (5) documentation that the Department of Fair Employment and Housing was notified of purchase awards in excess of $5,000; and, (6) a copy of the supplier's seller's permit.

- leveraged procurement agreement transaction files not containing complete documentation of the purchasing process including files that lacked information on price verification and best value determination activities and the offers solicited and received from suppliers for the applicable procured product.

It should be noted that we are aware that the SOS has taken actions to improve its delegated purchasing program subsequent to the period tested during our audit. We were advised that these actions included, beginning in October 2007, the implementation of an automated contract and procurement workflow system, which includes the use of a procurement file documentation checklist to assist in ensuring compliance with State purchasing requirements. Although we did not verify the effectiveness of the new system, our review of the checklist disclosed that it adequately addressed the issues noted in our report.

Recommendation

1. Maintain quality assurance processes that assist in ensuring full compliance with the requirements of the delegated purchasing program.

DRIVER SAFETY AND INSURANCE PROGRAM

The SOS needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents. Collectively, such accidents cost the State millions of dollars each year including liability to other parties, repairs to State vehicles, workers' compensation and lost work time of employees. For maximum containment of these costs, each State agency is expected to actively participate in the State's driver safety program. The following areas need strengthening:

- ***Vehicle Authorizations*** – current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle, STD. 261, certification form is completed and annually updated by employees who use their own vehicle to conduct State business. Specifically, at the time of our audit tests, a current STD.261 was not available for 6 of 14 employees included in our sample tests who used their own vehicle on State business. The SOS's travel policies provide that managers and supervisors are to monitor their employees for the proper and timely completion of STD. 261s. As shown by the results of our review, these policies have not been effective.

  SAM Section 0753 requires that a STD. 261 be completed and annually updated by each employee who uses his or her own vehicle to conduct State business. In addition, this section provides that an employee's travel expense claim for private vehicle mileage should not be approved by a supervisor prior to verification that a current STD. 261 is on-file for the employee. The completion of a STD. 261 accomplishes the objective of having the employee certify in writing that the vehicle used will always be:

  - Covered by liability insurance for the minimum amount prescribed by law;
  - Adequate for work performed;
  - Equipped with safety belts; and,
  - In safe mechanical condition.

- ***Defensive Driver Training*** – our review of the training records for a sample of 14 frequent drivers found that 9 of them had not attended a defensive driver training course within the last four years. SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver training course at least once every four years. Although the department's training office maintains a database that includes records on driver training attendees, the responsibility for ensuring that employees attend a driver training course rests with managerial/supervisory personnel. As shown by the results of our tests, these employees are not consistently enforcing this requirement.

Recommendations

2. Implement policies and procedures that ensure the completion and annual update of a STD. 261 certification form by employees who use their own vehicle to conduct State business. This process should include an annual notification to managers and supervisors of their responsibility for ensuring the completion and updating of the form.

3. Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on State business attend an approved defensive driver training course at least once every four years.

RECORDS MANAGEMENT

The SOS's records management policies and procedures are not ensuring the completion and maintenance of up-to-date records retention schedules. Specifically, at the time of our review, only 1 (Political Reform Division) of the 7 operating units (Executive Office and six operating divisions) had up to date records retention schedules on-file. In most instances, the remaining schedules had last been updated in the early 2000s. As provided in SAM Sections 1665 through 1672, records retention schedules must be updated at least once every five years after the conducting of a records inventory and appraisal process. Up-to-date records retention schedules provide evidence of a cost effective and efficient records management program. Business services management and staff advised us that other operating responsibilities and priorities have impacted the SOS's ability to maintain updated records retention schedules.

At the time of our review, we were advised that the Records Management Coordinator was actively attempting to update the schedules. However, we were unable to verify the success of these efforts prior to the completion of our audit fieldwork.

Recommendation

4. Develop an action plan that provides for the completion and updating of records retention schedules to ensure compliance with SAM Sections 1665 through 1672.

CONTROL OF DGS CHARGE CARDS

The SOS has not established policies and procedures which ensure that accurate records are maintained on the assignment of DGS charge cards. Specifically, at the time of our audit testing, a charge card process had not been established that ensured the maintenance of a complete and accurate charge card control log and the performance of annual inventory and

reconciliation procedures for the approximately 150 cards used by the SOS. Our sample tests of the charge card control logs maintained by business services staff disclosed that it contained numerous inaccuracies related to the physical location of the cards. For example, we found that 2 of the 5 employees included in our sample tests did not have in their physical possession the card shown as assigned to them per the control log. Further, we were unable to physically locate in stock 4 of 20 cards shown in the control log as unissued to employees.

To assist in ensuring accountability for DGS charge cards, systems of internal control must be in-place that ensure the maintenance of accurate records of the cards. SAM Section 4108.1 requires State agencies to execute proper management and oversight of the charge cards and identify internal control procedures that must be addressed by each agency. Further, the State Fleet Handbook provides various internal procedures that must be in place to assist in ensuring accountability for the cards. These procedures include requirements for the maintenance of a central charge card control log, periodic performance of annual inventory and reconciliation activities and immediate cancellation of surplus cards.

Recommendation

5. Implement policies and procedures which ensure that accountability is maintained for DGS charge cards. The process should provide for the maintenance of a central control log that contains accurate information on all charge cards issued to the SOS. Further, operating procedures should contain provisions that ensure compliance with State Fleet Handbook provisions including those governing the conduct of annual inventory and reconciliation procedures.

CONCLUSION

Our findings and recommendations are presented to aid the SOS in administering its business management functions and services. The SOS should address the reported issues to assist in ensuring compliance with applicable State laws, policies and procedures.

DEBRA BOWEN | SECRETARY OF STATE | STATE OF CALIFORNIA
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July 6, 2009

Mr. Rick Gillam, CPA, CIA
Chief, Office of Audit Services
Department of General Services
707 3rd Street, 4th Floor
West Sacramento, CA 95605

Dear Mr. Gillam:

The Secretary of State's office (SOS) has reviewed the Department of General Services (DGS) discussion draft audit report (No. 8121) regarding the SOS's compliance with state business management policies. The SOS is pleased to provide the following response to the reported findings. The SOS would like to thank the DGS auditors for the professionalism demonstrated while performing the audit.

Secretary of State Debra Bowen has established a well-defined tone-at-the-top culture, ensuring that considerable importance is placed on complying with applicable laws, rules and regulations, along with instituting an ongoing comprehensive risk management and mitigation program. As a result, the following is reported in the draft audit report, " ... the SOS's management took immediate action to begin addressing a number of our concerns."

DGS Finding - Delegated Purchasing Program:

Recommendation: Maintain quality assurance processes that assist in ensuring full compliance with the requirements of the delegated purchasing program.

SOS Response: The SOS has put in place a number of quality assurance measures that will ensure compliance with the delegated purchasing program requirements. More to the point, as of November 2007, the SOS has fully implemented the Acquisitions & Service Tracking Reporting Online System (ASTROS), which is an electronic workflow of office forms. ASTROS provides the SOS with the ability to route forms electronically for approval and track approval status online. In addition, ASTROS allows the SOS to easily collect the required information for acquisition statutory reporting such as small business, disabled veterans business enterprise (DVBE), recycling and consulting service data.

DGS Finding – Driver Safety and Insurance Program:

Recommendation: Implement policies and procedures that ensure the completion and annual update of a STD. 261 certification form by employees who use their own

vehicle to conduct State business. This process should include an annual notification to managers and supervisors of their responsibility for ensuring the completion and updating of the form.

SOS Response: In accordance with SAM Sections 0753 and 0754, the SOS will request that all SOS employees that are planning or expected to use their privately owned vehicle to conduct official State business update their STD 261 certifications of "Authorization to use Privately owned Vehicles on State Business". The SOS will ensure that all supervisors and managers are informed of their responsibility in verifying that staff complete and update the above-mentioned form on an annual basis. To further strengthen controls, the SOS Accounting Office travel desk will maintain a record of all certifications, and before an employee is reimbursed for a mileage claim, the travel desk will ensure that the employee has on file a completed and updated STD 261.

Recommendation: Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.

SOS Response: Upgrading the database of the Office of Training and Performance Enhancements and establishing a precise criteria for 'frequent drivers' in the agency's administrative manual, will greatly enhance the SOS's ability to ensure compliance with SAM Section 0751. In connection with an enhanced training database, the SOS will have a greater opportunity to identify those specific employees that must complete the defensive training course and send out continuous communications to those SOS employees and managers alerting them of upcoming defensive driver classes.

DGS Finding – Records Management:

Recommendation: Develop an action plan that provides for the completion and updating of records retention schedules to ensure compliance with SAM Sections 1665 through 1672.

SOS Response: The SOS has developed an action plan to ensure the completion of the agency-wide retention schedule project, which will bring the SOS in full compliance with SAM Sections 1665 through 1672. As an added measure, the internal auditor will monitor the progress of the retention schedule project and submit regular status reports to senior management.

DGS Finding – Control of DGS Charge Cards:

Recommendation: Implement policies and procedures that ensure accountability is maintained for DGS charge cards. The process should provide for the maintenance of a central control log that contains accurate information on all charge cards issued to the SOS. Further, operating procedures should contain provisions that ensure compliance with State Fleet Handbook provisions including those governing the conduct of annual inventory and reconciliation procedures.

SOS Response: The SOS has conducted an agency-wide verification and reconciliation of all DGS charge cards in order to establish a precise inventory and accounting record of all charge cards entrusted to the SOS's office. In addition, the SOS has developed enhanced policies and procedures to provide strict oversight in improving control and assignment of the cards. Finally, the SOS will ensure periodic inventory and reconciliation activities are accomplished with the Office of Fleet Administration through the internal audits review plan.

We appreciate the opportunity to review and comment on the discussion draft report. Please contact Daniel Abbott, the Secretary of State's Internal Auditor, at (916) 651-9482 if there is a need to discuss this response.

Sincerely,

Janice Lumsden

Janice Lumsden
Deputy Secretary of State, Operations

cc: Dora Mejia, Chief, Management Services Division
Shannon Kauffman, Business Services Manager
Shigeko Shibata, Accounting Officer
Daniel Abbott, Internal Auditor

SECRETARY OF STATE
COMPLIANCE AUDIT

EVALUATION OF SOS'S RESPONSE

We have reviewed the response by the Secretary of State's office (SOS) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by the SOS to improve its business management functions and services.