STATE AND CONSUMER SERVICES AGENCY

DEPARTMENT OF GENERAL SERVICES

AUDIT OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 8123

OFFICE OF AUDIT SERVICES

SEPTEMBER 2008

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
COMPLIANCE AUDIT
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STATE OF CALIFORNIA

DEPARTMENT OF GENERAL SERVICES

AUDITOR'S REPORT

DATE: July 28, 2009

TO: **LYNN L. JACOBS**, Director
Department of Housing and Community Development

This report presents the results of our compliance audit of the business management functions and services of the Department of Housing and Community Development (HCD). 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 HCD 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 HCD in addressing these areas.

- Delegated purchasing program policies and procedures are not ensuring full compliance with State requirements governing those types of procurements. The types of exceptions noted during our audit included procurement files lacking documentation that competition was achieved for non-IT goods transactions of $5,000 or more and fair and reasonable pricing established for transactions of less than $5,000.
- The HCD's driver safety and insurance program is 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.

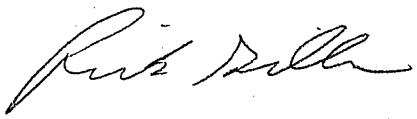
During our review we also identified other matters requiring attention that we discussed with the HCD's management but are not included in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork the HCD'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 HCD'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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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
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 Department of Housing and Community Development (HCD) 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; attendance of a defensive driver training course by frequent drivers; and, maintenance of up-to-date records retention schedules.

This information was developed based on our fieldwork conducted over the period March 14, 2008 through September 24, 2008. 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 2007/08 and 2008/09 fiscal years.

DELEGATED PURCHASING PROGRAM

The HCD's procurement quality assurance process is not ensuring full compliance with delegated purchasing program requirements. Specifically, our tests of a sample of 63 delegated information technology (IT) or non-IT procurements, including 22 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 delegated purchasing requirements are contained in State Contracting Manual (SCM) Volumes II and III. It should be noted that most of the instances of non-compliance involved the procurement of non-IT goods. Overall, except for some relatively minor administrative issues, we determined that IT procurements, which were the highest dollar value transactions, were adequately conducted in compliance with State requirements. 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 involved procurement transaction files that did not include:

- documentation that competition was achieved for non-IT goods transactions of $5,000 or more through the obtaining of at least two responsible bids (SCM 4.C1.1);
- information that either two price quotations were received or fair and reasonable pricing established for transactions of less than $5,000 (SCM 4.C1.0);
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM 3.3.2);
- documentation that the Department of Fair Employment and Housing was notified of purchase awards in excess of $5,000 (SCM 12.B3.0);
- a copy of the supplier's seller's permit (SCM 4.B9.5);

- a properly completed Purchasing Authority Purchase Order, STD. 65, which referenced current terms and conditions and the procurement method used to award the purchase order.

In addition, we noted that the HCD's policies and practices allow STD. 65s to be used to procure small dollar value non-IT services. As provided in SCM 2.B1.6, non-IT services must be acquired in accordance with SCM Volume 1, which governs the contracting for non-IT and consultant services contracts. In brief, SCM Volume 1 provides for the use of a Standard Agreement, STD. 213, form or a Short Form Contract, STD. 210, form to acquire services. Due to the different procurement requirements between procuring goods and services, including different general terms and conditions, a STD. 65 should not be used to procure non-IT services.

Recommendations

1. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.

2. Discontinue the use of Purchasing Authority Purchase Order, STD. 65, forms to contract for non-IT services.

DEFENSIVE DRIVER TRAINING

Our review of the training records for a sample of 72 frequent drivers found that 31 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. It is our understanding that 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.

For maximum containment of vehicle accident costs, each State agency is expected to actively participate in the State's driver safety and insurance program. Collectively, such accidents cost the State millions of dollars each year including liability to other parties, repairs to State vehicles, worker's compensation and lost work time of employees. A primary administrative control process within the driver safety and insurance program is the timely attendance of driver training courses by employees.

Recommendation

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 HCD'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 2 of the 28 records retention schedules on-file at the HCD had been updated within five years. 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 advised us that operating unit staff turnover and department reorganizations have impacted the HCD's ability to maintain updated records retention schedules.

At the time of our review, the Business Services Officer had began taking action to ensure that operating unit records management coordinators were adequately trained in the State's records management process. We were advised that a records inventory and appraisal process in compliance with State requirements would start after the completion of the training.

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.

CONCLUSION

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

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
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July 20, 2009

MEMORANDUM FOR: Rick Gilliam, Chief
Office of Audit Services
Department of General Services
707 3rd Street, 4th Floor
West Sacramento, CA 95605

FROM: Lynn L. Jacobs, Director
Department of Housing and Community Development

SUBJECT: Audit Report: Compliance with State Business Management Policies

Thank you for the opportunity to review and respond to the draft of the audit report prior to the issuance of the final report on July 28, 2009. The responses from the Department of Housing and Community Development (HCD) to the recommendations made by the Department of General Services (DGS) are included below:

Delegated Purchasing Program

Recommendation

1. Implement additional quality assurance policies and practices to assist in ensuring full compliance with the requirements of the delegated purchasing program.

HCD Response #1

HCD agrees with the DGS recommendation. Although HCD policies require multiple bids, these were not always documented. HCD has implemented policies and practices that will ensure the files are fully documented and that all purchasing requirements are met. More specifically, documentation will be maintained to demonstrate that competitive bids are obtained for purchase orders over $5,000. Further, HCD will document how "fair and reasonable" is determined for purchase orders under $5,000, and will check the appropriate boxes on the STD 65: the seller's permit, terms and conditions, and procurement method.

On the HCD 619 form, comments in the "Notes" box will indicate:

- How "fair and reasonable" was determined.
- If DVBE requirements were waived on bidder solicitations.
- That the Department of Fair Employment and Housing was notified of purchases over $5,000.

Finally, these policies and procedures will be communicated to appropriate staff responsible for purchasing, and periodic supervisory reviews will occur to ensure compliance.

It should be noted that HCD will continue to use the STD 65 as an internal document for services such as room rental, conferences and sponsorships. The electronic file version of the STD 65 is integrated with the Accounting Branch for billing and payment processes.

Use of STD 65

Recommendation

2. Discontinue use of STD 65 forms to contract for non-Information Technology services.

HCD Response #2

HCD agrees with the DGS recommendation and, in July 2008, stopped using the STD 65 for non-Information Technology services.

Defensive Driver Training

Recommendation

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.

HCD Response #3

HCD agrees with the DGS recommendation. To ensure compliance with SAM Section 0751, HCD will ensure that defensive driver training is scheduled at least two times each fiscal year.

The HCD Training Office, within the Personnel Management Branch, will coordinate with DGS to schedule the training either on-site at HCD Headquarters or at the DGS training facility in West Sacramento. Two such training sessions, which provided training to 54 HCD frequent drivers, have been held since the audit was completed. Periodic reminders will be sent to employees and to their supervisors announcing upcoming training and of the requirement for training every four years.

In addition, the Personnel Management Branch will also emphasize this requirement to managers and supervisors of frequent drivers and remind them via email of their responsibility to ensure compliance. A tracking system is being developed to assist in

this effort and will be completed and operational by September 2009. HCD is confident that these measures will obtain full compliance with SAM Section 0751.

Note: On April 15, 2009, HCD provided on-site classroom defensive driver training through a DGS vendor. HCD had scheduled classes for August 19, 2008; however, the sessions were cancelled by DGS due to Executive Order, S-09-08, which took effect on July 31, 2008.

Records Management

Recommendation

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

HCD Response #4

HCD agrees with the DGS recommendation. HCD will aggressively pursue updating the record retention schedules and will complete the updates by September 2009. Appropriate staff have been provided with Records Retention Schedule Guidelines to ensure that updates are completed correctly and consistent with SAM.

If you have any questions, or would like to discuss any of this information, please call me or Elliott Mandell, Chief Deputy Director, at (916) 445-4775.

cc: Marjorie Berte, Undersecretary, BT&H Agency
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Jeff Sears, Chief, Personnel Management Branch

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
COMPLIANCE AUDIT

EVALUATION OF HCD'S RESPONSE

We have reviewed the response by the Department of Housing and Community Development (HCD) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by the HCD to improve its business management functions and services.