# STATE AND CONSUMER SERVICES AGENCY

# DEPARTMENT OF GENERAL SERVICES

## AUDIT OF THE CALIFORNIA DEPARTMENT OF TRANSPORTATION

FOR COMPLIANCE WITH STATE BUSINESS MANAGEMENT POLICIES
REPORT NO. 8120

OFFICE OF AUDIT SERVICES

AUGUST 2008

CALIFORNIA DEPARTMENT OF TRANSPORTATION
COMPLIANCE AUDIT
REPORT NO. 8120

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# STATE OF CALIFORNIA

# DEPARTMENT OF GENERAL SERVICES

# AUDITOR'S REPORT

DATE: October 28, 2009

TO: **RANDELL IWASAKI**, Director
California Department of Transportation

This report presents the results of our compliance audit of the business management functions and services of the California Department of Transportation (Caltrans). 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, real estate and prompt payment of suppliers. To avoid duplication of work, our review of Caltrans' operations did not include detailed testing of the department's contracting program. At the time of our review, Caltrans' Audits and Investigations Office was auditing the contracting program. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

While in most areas we concluded that Caltrans 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 Caltrans 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: (1) fair and reasonable pricing was established for transactions of less than $5,000; (2) a commercially useful function analysis was performed prior to award of a purchase to a small business bidder; and, (3) the applicable contract's cover page and pricing page(s) were obtained and reviewed for leverage procurement agreement transactions.
- Caltrans' 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.
- Sufficient documentation is not being maintained on the process used to dispose of surplus personal property.

During our review we also identified other matters requiring attention that we discussed with Caltrans' management but are not included in this report. These matters included our concern that policies and procedures were not ensuring that records retention schedules were being completed and updated in a timely manner. Prior to the completion of our audit, 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 Caltrans' 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 Caltrans' 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

Staff: Dennis Miras, Audit Supervisor
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cc: Susan Hogg, Deputy Director, Administration
William Fackenthall, Chief, Division of Procurement and Contracts
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# CALIFORNIA DEPARTMENT OF TRANSPORTATION
## 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 California Department of Transportation (Caltrans) 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 by employees; attendance of a defensive driver training course by frequent drivers; and, disposal of surplus personal property.

This information was developed based on our fieldwork conducted over the period August 2, 2007 through August 5, 2008. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, Caltrans' management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at the August 2008 audit exit conference, Caltrans 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 type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2007/08 fiscal year.

### DELEGATED PURCHASING PROGRAM

Overall, we concluded that Caltrans 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 60 delegated information technology (IT) or non-IT procurements, including 33 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. 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 always include:

- information that either two price quotations were received or fair and reasonable pricing established for transactions of less than $5,000 (SCM II 4.C1.0 and SCM III Section 3.C2.0);
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM II Section 3.3.2 and SCM III Section 2.C1.0);
- documentation that a commercially useful function analysis was performed prior to award of a purchase to a small business bidder (SCM II Section 3.2.6 and SCM III Section 2.B2.0);
- a copy of the supplier's seller's permit (SCM II Section 4.B9.5 and SCM III Section 3.B8.5); and,

- copies of the contract cover page and pricing page(s) for leverage procurement agreement transactions (SCM II Section 6.A4.1 and SCM III Section 5.A4.1).

Recommendation

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.

## DRIVER SAFETY AND INSURANCE PROGRAM

Caltrans 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 a form authorizing an employee to use their own vehicle to conduct State business is completed and annually updated. Caltrans' uses a form entitled "Authorization to Use Privately-Owned Vehicles on State Business", Form FA-0205A, to obtain the authorization. At the time of our audit tests, an authorization form was not available for 9 of 15 employees included in our sample tests who used their own vehicle on State business. Caltrans' travel policies provide that managers and supervisors are to monitor their employees for the proper and timely completion of the authorization forms. As shown by the results of our review, these policies have not been effective.

  SAM Section 0753 requires that a privately-owned vehicle authorization form 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 authorization form is on-file for the employee. The completion of the authorization form 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 a sample of 57 frequent drivers found that 21 of them had not attended a defensive driver training course within the last four years. Of the 21 employees that had not attended training, 12 employees were in positions that required them to be in the enrolled in the Department of Motor Vehicles "Pull Notice Program" as a mechanism for management review and monitoring of the employee's driving record status, which indicates the high frequency of their driving activities. SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver

training course at least once every four years. At Caltrans, employees who drive on official State business at least once a week or fifty times a year are considered frequent drivers.

Although the department's Division of Training 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 private-vehicle authorization 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.

## DISPOSAL OF SURPLUS PERSONAL PROPERTY

Policies and procedures have not been implemented which ensure that sufficient documentation is maintained on the process used to dispose of surplus personal property. Specifically, our review of 15 Property Survey Reports, STD. 152s, processed by the Headquarters' Property Control Unit and 22 reports processed by four district offices disclosed numerous instances where complete documentation was not maintained on the process used to dispose of surplus property items identified on the reports. In general, documentation was not available on which Caltrans employee supervised a property item's disposal and the manner and date the disposal occurred.

To assist in ensuring the proper disposal of surplus property, the STD. 152's instructions require that information be provided on the manner and date of disposal. Further, the officer supervising the disposal is to sign the STD. 152. SAM Section 3520.9 also requires that a supervisor certify in writing that the disposition has been accomplished. The certification may be made on the STD. 152 or attached to that report.

**Recommendation**

4. Implement policies and procedures which ensure that complete documentation is maintained on the process used to dispose of surplus personal property.

## CONCLUSION

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

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*Flex your power!*
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OCT 27 2009

October 26, 2009

Mr. Rick Gillam
Chief, Office of Audit Services
Department of General Services
707 3rd Street, 4th Floor
West Sacramento, CA 95605 IMS-Code: Z-1, MS 104

Dear Mr. Gillam:

On October 12, 2009, the California Department of Transportation (Caltrans) received a copy of the Department of General Services, Office of Audit Services draft report on the "Audit of the California Department of Transportation for Compliance with State Business Management Policies" (Draft Report). Caltrans appreciates the opportunity to comment on the Draft Report's findings.

Overall, we agree with the findings and have planned and taken corrective actions to address the findings, which are outlined in the attachment. If you have any questions or concerns, please contact William Fackenthall, Chief, Division of Procurement and Contracts, at (916) 227-6100, or Randy Weissman, Chief, Office of Health and Safety Services, at (916) 227-2642.

Sincerely,

Audrey McKim for
RANDELL H. IWASAKI
Director

Attachment:
(1) Detailed Response to the Draft Report

c: Gerald Long, Deputy Director, Audits and Investigations
William Fackenthall, Chief, Division of Procurement and Contracts
Clark Paulsen, Chief, Division of Accounting
Judy O'Day, Chief, Division of Human Resources
Randy Weissman, Chief, Office of Health and Safety Services

California Department of Transportation

Response to the Draft Report Entitled
"Audit of the California Department of Transportation for
Compliance with State Business Management Policies"
Issued by the Department of General Services, Office of Audit Services

October 26, 2009

1. Delegated Purchasing Program

Delegated Purchasing Program policies and procedures are not ensuring full compliance with State requirements governing procurements. The types of exceptions noted during our audit included procurement files lacking documentation that: (1) fair and reasonable pricing was established for transactions less than $5,000; (2) a commercially useful function analysis was performed prior to award of a purchase to a small business bidder; and (3) the applicable contract's cover page and pricing page(s) were obtained and reviewed for leverage procurement agreement transactions..

Recommendations:

- 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.

Caltrans' Response:

We concur with the finding and we have taken the following corrective actions:

1. As part of our final review of purchase orders, we now require that each purchase order under $5,000 documents fair and reasonable pricing using a checklist. We have updated the manager's checklist of items that need to be in the purchasing documentation file to ensure that fair and reasonable pricing information is documented. Checklist revision items include *price comparison, verification of established catalog/market pricing, prices set by law or regulation, historical comparison, and cost/benefit analysis.*

2. Prior to final review of the purchase orders, the commercially useful function will be verified using the Department of General Services' e-Procurement system to ensure the proposed awardee is registered for the type of business in which they are bidding. Analysts have been instructed to print a copy of the vendor's profile for documentation.

3. As part of our final review of purchase orders, we now require that each purchase order for Leveraged Procurement Agreements is documented with

the contractors pricing and cover pages. Additionally, we have updated the manager's checklist of items that need to be in the purchasing documentation file to include and ensure that the contractor's pricing and cover pages are documented.

Corrective actions related to this recommendation have been fully implemented.

2. Driver Safety and Insurance Program

Caltrans' 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.

Recommendations:

- Implement policies and procedures that ensure the completion and annual update of a private-vehicle authorization 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.

- 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.

Caltrans' Response:

We concur with the finding and have taken and planned the following corrective actions:

1. On August 11, 2008, Caltrans issued a notice to all departmental employees articulating the requirement of completing a vehicle certification form annually and instructing employees and supervisors to comply with the policy.

2. An annual memo will be sent to all employees reminding them to complete a vehicle certification form at the beginning of the fiscal year.

3. Caltrans has updated the Safety Manual to clarify the definition of frequent driver and notified all employees by issuing two Safety Bulletins.

4. All defensive driving training is now being tracked.

Corrective actions related to these recommendations have been fully implemented.

3. Disposal of Surplus Personal Property

Sufficient documentation is not being maintained on the process used to dispose of surplus personal property.

Recommendations:

- Implement policies and procedures, which ensure that complete documentation is maintained on the process used to dispose of surplus personal property.

Caltrans' Response:

We concur with the finding and this issue is being addressed by a task team formed to make improvements to the Property Control Manual after the exit conference held in August 2008. The task team has revised the process and procedures for disposal of surplus property and is in the process of developing a training course for Property Survey Board members, which will be released during the first quarter of 2010.

Complete corrective action planned by March 31, 2010.

# CALIFORNIA DEPARTMENT OF TRANSPORTATION
## COMPLIANCE AUDIT

## EVALUATION OF CALTRANS' RESPONSE

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