



MEMORANDUM

Date: April 23, 2018

File No.: 7128

To: Colonel Robert Spano, Director of Staff
California Military Department
9800 Goethe Road
Sacramento, CA 95827

From: Department of General Services
Office of Audit Services

**Subject: AUDIT REPORT: COMPLIANCE WITH STATE BUSINESS
MANAGEMENT POLICIES**

Attached is the final report on our compliance audit of the business management functions and services of the California Military Department (CMD). 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 Department of General Services (DGS).

CMD's 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 being taken to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit a status report on the implementation of each to us by October 23, 2018. To the extent that it is practicable, supporting documentation should include: sample copies of updated and newly developed policies and procedures implemented; sample copies and/or descriptions of more stringent controls established; updated Standard Operating Procedures and CAL-Card training slides; revised organizational chart showing the newly established position and hired Defensive Driver Training and DMV Pull Notice coordinator; a copy of the September 1, 2018 Annual State Agency Defensive Driver Training Report submitted; documentary support showing enrollment into the DMV Pull Notice Program of employees who drive on state business as a condition of employment; status update and newly implemented policies and procedures over CMD's Fleet Administration Program; and, monthly & quarterly meeting agendas/minutes to support reminders & communications made related to vehicle rental exceptions.

The necessity of any further status reports and/or corrective action will be determined at that time. Please transmit your status report and corrective action support to: DGS - Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605 or preferably via e-mail to Dennis.Miras@dgs.ca.gov.

We greatly appreciated the cooperation and assistance provided by CMD's personnel.

If you need further information or assistance on this report, please call / e-mail me at (916) 376-5064 / Dennis.Miras@dgs.ca.gov, or Monica De La Rosa, Management Auditor, at (916) 376-5050 / Monica.DeLaRosa@dgs.ca.gov.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Attachment

cc: Brigadier General Dana Hessheimer, Director of Joint Staff
Colonel Richard Rabe, Vice Chief of Staff, Joint Staff
Colonel David Hawkins, Director of J4-Logistics
Marlene Carrillo, J4-State Logistics Manager
KC Campbell, Chief, Human Resources
LTC Karstan Jack, J4-Logistics Deputy Director
LTC Jonathan Shiroma, Director, State Personnel Programs
Colonel Ronald Vestman, J8-State Comptroller
Gerald Martin, J8-Deputy Comptroller
Brigadier General Frank Emanuel, J9-Director, Facilities and Infrastructure
CW4 Thomas Clarke, Chief, Procurement Branch
Rowena Dorsey, Audit Director, Internal Review Office

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA MILITARY
DEPARTMENT**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 7128**

OFFICE OF AUDIT SERVICES

DECEMBER 2017

**CALIFORNIA MILITARY DEPARTMENT
COMPLIANCE AUDIT
REPORT NO. 7128**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: April 23, 2018

TO: **Colonel Robert Spano**, Director of Staff
California Military Department

This report presents the results of our compliance audit of the business management functions and services of the California Military Department (CMD). 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 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 (SB) and disabled veteran business enterprises (DVBE) usage, driver safety and insurance, surplus property and real estate. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Our review disclosed the following areas of noncompliance with state requirements that should be addressed by CMD's management. The implementation of the recommendations presented in this report will assist CMD in addressing these areas.

- Participation policies and procedures governing SB and DVBE usage are not ensuring that vendors are certified with DGS' Office of Small Business and DVBE Services when reported on the annual Contracting Activity Report (STD 810).
- The CMD'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. Policies and procedures are also not ensuring that frequent drivers attend a defensive driver training course every four years, appoint a person to track course enrollment and completion, and submit the annual State Agency Defensive Driver Training Report to DGS. Further, current systems are not ensuring that all employees who operate vehicles on official business as a condition of employment are enrolled in the DMV Pull-Notice Program.
- The CMD's fleet administration program is not ensuring full compliance with state policies and procedures, including requirements for: (1) ensuring all fleet assets are reported in the DGS' Fleet Asset Management System (FAMS); (2) updating fleet asset usage information into FAMS on a monthly basis; (3) ensuring long term rentals over 30 calendar days or four consecutive weeks are approved by DGS and included on CMD's State Fleet Annual Acquisition Plan; and (4) ensuring the SCO Justification Form is completed for rental car transactions that exceed the daily or weekly contracted rate or include fuel charges.

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

We are pleased with the commitment shown to improve compliance with state requirements. It should be noted that when advised of areas for improvement during our audit fieldwork, CMD's 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. The CMD's management has the ongoing responsibility for ensuring that its business management 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 is included in this report.

We greatly appreciated the cooperation and assistance provided by CMD's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Monica De La Rosa, at (916) 376-5050.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Staff: Monica De La Rosa, Management Auditor

cc: Brigadier General Dana Hessheimer, Director of Joint Staff
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CW4 Thomas Clarke, Chief, Procurement Branch
Rowena Dorsey, Audit Director, Internal Review Office

CALIFORNIA MILITARY DEPARTMENT

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 Military Department (CMD) 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 and procedures governing the: accurate reporting of all procurement methods; annual certification and authorization to use privately owned vehicles on state business; attendance of a defensive driver training course by frequent drivers; enrollment in the employer pull notice program; reporting of fleet asset management activities; approval of long term rentals; and, completion of supervisory approved justification forms for car rental overcharges.

This information was developed based on our fieldwork conducted over the period April 18, 2017 through December 14, 2017. 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 2016/17 fiscal year.

SB AND DVBE PARTICIPATION PROGRAMS

The CMD has not implemented policies and procedures that ensure accurate reporting from all procurement methods within the Contract Activity Report (STD 810) for vendors certified as small business (SB), micro business (MB), and disabled veteran business enterprise (DVBE) entities. Our review of 32 vendors reported on the STD 810 indicated 17 (53%) were either not certified with DGS' OSDS (Office of Small Business & Disabled Veteran Business Enterprise Services) or were incorrectly classified as SB, MB, or DVBE. State Contracting Manual (SCM) Volume I, 7.15 requires annual reporting of SB and DVBE participation in contracts.

Recommendation

1. Update policies and procedures to ensure SB and DVBE dollars are accurately accounted for and that reported SB and DVBE dollars on the STD 810 report are from certified vendors only.

DRIVER SAFETY AND INSURANCE PROGRAM ¹

The CMD 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:

¹ These three conditions previously existed and were included in our Summary of Findings presented to CMD on July 13, 2011

CALIFORNIA MILITARY DEPARTMENT
Findings and Recommendations, Cont'd

- **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 4 (29%) of the 14 employees included in our sample tests who used their own vehicle on state business. Further, three of four employees completed forms only after audit request. The CMD's travel policies provide that managers/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 entirely 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 audit revealed that the department is not requiring frequent drivers to attend a defensive driver training course every 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. Further, per DGS Management Memo 11-04, the department has not submitted the Annual State Agency Defensive Driver Training Report or assigned a person to track course enrollment, completion, and compiling of records for the annual report.
 - **DMV Pull Notice Program** – our audit revealed that the department is not ensuring that employees who drive on state business as a condition of employment are enrolled in the DMV Pull Notice Program. SAM Section 0751 requires agencies to participate in the DMV Pull Notice Program if they have employees who operate vehicles on official business as a condition of employment for Class A, B, or Class C drivers' licenses with special certificates.

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/supervisors of their responsibility for ensuring the completion and updating of the form. Have employees that will use their own vehicle to conduct state business sign and update the STD 261 certification form prior to traveling.
3. Implement policies and procedures that require employees who frequently drive on state business attend an approved defensive driver training course at least once every four years. Have all frequent drivers attend a defensive driver training course for those that have not taken it within the last four years. Assign an individual to monitor compliance with the department's defensive driver training program and begin submitting the required annual report.

CALIFORNIA MILITARY DEPARTMENT
Findings and Recommendations, Cont'd

4. Implement policies and procedures that require employees who drive as a condition of employment with a Class A, B, or Class C drivers' licenses with special certificates be enrolled in the DMV Employer Pull Notice Program. Assign staff to monitor compliance with this program.

FLEET ADMINISTRATION

The CMD has not implemented adequate and effective policies and procedures that ensure compliance with the state's fleet administration program requirements. Specifically, CMD, which at the time of our review had a fleet totaling approximately 241 owned and leased vehicles, was not updating information into the DGS Office of Fleet and Asset Management's (OFAM) Fleet Asset Management System on a monthly basis, including fuel and utilization data for owned vehicles (see Management Memo 13-01). The information provided through this web-based portal is used to support information requests from the legislature and to prepare mandated reports for the state and federal government.

In addition, CMD has not implemented policies and procedures that ensure the adequate control of rental car usage compliance. Our tests revealed three employees renting vehicles for more than 30 calendar days or four consecutive weeks without proper authorization. SAM Section 4117.2 requires departments to obtain approval through the State's Annual Fleet Acquisition Plan for long term rentals.

Furthermore, policies and procedures are not ensuring the SCO Justification Form is being completed for those rental car transactions that exceed the daily or weekly contracted rate or include fuel charges. DGS Travel Bulletin 16-02 requires employees to obtain supervisory approval prior to renting a vehicle larger than the intermediate size or when refueling occurs at the rental car site using the SCO Justification Form, which needs to accompany the invoice to the State Controller's Office.

Recommendations

5. Update information into the Fleet Asset Management System on a monthly basis, including fuel and utilization data for owned vehicles.
6. Update policies and procedures to ensure employees do not rent vehicles longer than 30 calendar days or 4 consecutive weeks without prior approval from DGS OFAM. Include any approved long term rentals on the department's Annual Fleet Acquisition Plan and periodically remind employees of the requirements in place for rental car vehicles.
7. Update policies and procedures to ensure the SCO Justification Form is completed and submitted with the invoice to the State Controller's Office for those rental car transactions that exceed the daily or weekly contracted rate or contain fuel charges. Inform staff of the need to complete the form prior to rental.

CONCLUSION

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



MILITARY DEPARTMENT
OFFICE OF THE ADJUTANT GENERAL
9800 Goethe Road
Sacramento, California 95826-9101

NGCA-JSZ

12 April 2018

MEMORANDUM FOR Dennis M. Miras, Manager, DGS Office of Audits Services

SUBJECT: *Response to Audit Report: Compliance with State Business Management Policies*

1. This memorandum is in response to the Department of General Services (DGS) Draft Audit Report, Compliance with State Business Management Policies, dated March 21, 2018. Listed below are the findings and our corresponding response.

Finding 1: Small Business and DVBE Participation Programs

The California Military Department (CMD) has not implemented policies and procedures that ensure accurate reporting from all procurement methods within the Contract Activity Report (STD 810) for vendors certified as small business, micro business, and disabled veteran business enterprise (DVBE) entities.

Response:

Our J8-State Comptroller implemented the following corrective actions in response to this finding:

a. The Purchasing and Contracting Branch staff received an informal out-brief of the findings in May 2017. More stringent controls were established to ensure accurate verification reporting for small business, micro business, and DVBE owned businesses on all California Purchase Card (CAL-Card) transactions.

b. The Purchasing and Contracting Branch updated its Standard Operating Procedures to specifically address proper verification of small business, micro business, and DVBE through the Office of Small Business and Disabled Veteran Business Enterprises Resources. The update also included procedure on the STD 810-D, State Department's Contractor DVBE Subcontracting Consolidation Report to ensure compliance with reporting requirements. Upon final payment, contractors must submit a DVBE Subcontracting Report to include all DVBEs that performed work for them.

c. The CAL-Card training slides were updated to emphasize proper verification of small business, microbusiness, and DVBE vendors through the Office of Small Business and Disabled Veteran Business Enterprises Resources.

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SUBJECT: Response to Audit Report: Compliance With State Business Management Policies

d. Prior to submitting the final small business/DVBE Participation Programs report (STD 810) to DGS, a second qualified person reviews and verifies proper certification of all vendors and makes necessary corrections for accurate reporting.

Finding 2: Driver Safety and Insurance Program

The CMD needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents, specifically:

a. *Vehicle Authorizations*-Current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle on State Business, STD 261 Form (STD 261), is completed and annually updated by employees who use their own vehicles to conduct state business.

b. *Defensive Driver Training*-the department is not requiring frequent drivers to attend a defensive driver training course every four years. Also, the department has not submitted the Annual State Agency Defensive Driver Training Report or assigned a person to track course enrollment and completion and to compile records for the annual report.

c. *Department of Motor Vehicle (DMV) Pull Notice Program*-the department is not ensuring that employees who drive on state business as a condition of employment are enrolled in the DMV Pull Notice Program.

Response:

a. *Vehicle Authorization*-The J8-State Comptroller will brief the CMD's leader quarterly on the requirement to maintain current STD 261. It will send out an annual memorandum reminder to employees to have current STD 261 and that Travel Expense Claims cannot be approved without the valid form. The reminder memorandum for 2017 was emailed to all employees on January 4, 2018.

b. *Defensive Driver Training*- Our State Personnel Programs will hire an additional position to start in July 2018 to serve as the Defensive Driver Training and DMV Pull Notice coordinator. The position will ensure that frequent drivers attend a defensive driver course, track training enrollment and completion, and submit the Annual State Agency Defensive Driver Training Report timely.

c. *DMV Pull Notice Program*-The new DMV Pull Notice Coordinator will enroll employees who drive on state business as a condition of employment in the DMV Pull Notice Program. The coordinator will monitor drivers' records and report problem drivers to their supervisors.

Finding 3: Fleet Administration

The CMD has not implemented adequate and effective policies and procedures that ensure compliance with the state's fleet administration program requirements, specifically:

- a. The CMD was not updating information into the DGS' Fleet Asset Management System (FAMS) on a monthly basis, including fuel and utilization data for owned vehicles.
- b. CMD has not implemented adequate control of rental car usage compliance. Three employees rented vehicles for more than 30 days without proper authorizations.
- c. Policies and procedures are not ensuring employees are completing the California State Controller's Office Justification Form for rental car transactions that exceed the daily or weekly contracted rate or include fuel charges.

Response:

a. Facilities are required to report their monthly utilization data to two J4-State Logistics staff, who then upload the data into the FAMS. The staff have had problems accessing the new FAMS 3.0 due to technical issues, but they will continue to work with the DGS to resolve the problem. Additionally, a working group consisting of J4-State Logistics and division fleet and state property coordinators will meet monthly to discuss fleet management issues, stress new policies, and engage divisions not complying with state regulations

b. We agree with the long term rental vehicle finding. To comply with the State Administrative Manual 4120.50, we will implement a policy requiring that rental vehicles for 30 or more days must have justifications and J4-State Logistics' and J8-State Comptroller's approvals then forwarded through the CMD fleet coordinator to DGS for approval.

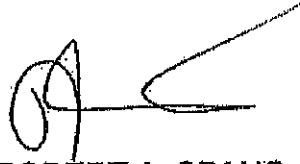
c. A CMD State Travel Handbook is posted in the intranet, J8-State Comptroller's Sharepoint, and is available to all employees. Page 14 of the handbook requires a State Controller's Rental Car Justification Form and supervisor's approval of vehicle rentals larger than the intermediate size. Furthermore, J8-State Comptroller will remind resource advisors, managers, and senior leaders of this requirement during the monthly resource advisor and quarterly Principal Budget Advisory Committee meetings to ensure employees are completing the form as needed.

2. We appreciate the constructive recommendations made by the audit. We are committed in improving our management and operation practices while protecting the public's well-being.

NGCA-JSZ

SUBJECT: Response to Audit Report: Compliance With State Business Management Policies

3. If you have additional questions, please contact Rowena Dorsey at (916) 854-3686 or email at rowena.p.dorsey.nfg@mail.mil.

A handwritten signature in black ink, consisting of a stylized 'R' followed by a horizontal line and a sharp upward-pointing stroke.

ROBERT A. SPANO
Colonel, California Army National Guard
Director of Staff

**CALIFORNIA MILITARY DEPARTMENT
(CMD)**

COMPLIANCE AUDIT

EVALUATION OF CMD'S RESPONSE

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

As part of its operating duties, we are responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. To the extent that it is practicable, supporting documentation should include: sample copies of updated and newly developed policies and procedures implemented; sample copies and/or descriptions of more stringent controls established; updated Standard Operating Procedures and CAL-Card training slides; revised organizational chart showing the newly established position and hired Defensive Driver Training and DMV Pull Notice coordinator; a copy of the September 1, 2018 Annual State Agency Defensive Driver Training Report submitted; documentary support showing enrollment into the DMV Pull Notice Program of employees who drive on state business as a condition of employment; status update and newly implemented policies and procedures over CMD's Fleet Administration Program; and, monthly & quarterly meeting agendas/minutes to support reminders & communications made related to vehicle rental exceptions.