



# MEMORANDUM

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**Date:** August 6, 2019

File No.: 9123

**To:** **The Honorable Fiona Ma, CPA**  
California State Treasurer  
915 Capitol Mall, Suite 110  
Sacramento, CA 95814

**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 State Treasurer's Office (STO). 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).

STO'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 the recommendations to us by February 6, 2020.

To the extent that it is practicable, supporting documentation should include: Sample copies of recent contracts containing the "or upon approval..." language; sample copies of the quarterly email reminders sent to all division and executive directors addressing the Authorization to Use Privately Owned Vehicle (STD. 261) certification form requirement; and, the most-recent copy of the training office quarterly report listing those employees who have attended and those who still need to attend the defensive driver training course.

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

We sincerely appreciate all the cooperation and assistance provided by STO's personnel.

Fiona Ma, CPA

August 6, 2019

If you need further information or assistance on this report, please call / e-mail me at (916) 376-5064 / [Dennis.Miras@dgs.ca.gov](mailto:Dennis.Miras@dgs.ca.gov) or, Maricela Bautista, Management Auditor, at (916) 376-5066 / [Maricela.Bautista@dgs.ca.gov](mailto:Maricela.Bautista@dgs.ca.gov).

*Dennis M Miras*

DENNIS M MIRAS, CIA  
Manager, Office of Audit Services

Attachment

cc: Rebecca Grajski, Director, Administration Division  
Christopher Sneed, Chief, Management Services  
Kim Petelle, Manager, Fiscal Services  
Moulay Billouche, Manager, Business Services  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
STATE TREASURER'S OFFICE**

**FOR COMPLIANCE WITH STATE  
BUSINESS MANAGEMENT POLICIES  
REPORT NO. 9123**

**OFFICE OF AUDIT SERVICES**

**APRIL 2019**



**STATE TREASURER'S OFFICE**

**COMPLIANCE AUDIT  
REPORT NO. 9123**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: August 6, 2019

TO: **THE HONORABLE FIONA MA, CPA**  
California State Treasurer

This report presents the results of our compliance audit of the business management functions and services of the State Treasurer's Office (STO). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619 and Public Contract Code Section 10333. 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, fleet administration, small business and disabled veteran business enterprises usage, driver safety and insurance, surplus property, real estate, and the delegated purchasing program. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

While in most areas we concluded that STO 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 STO in addressing these issues:

- Contracting program policies and procedures are not ensuring approvals are obtained prior to the contract start date.
- STO'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. Additionally, policies and procedures are also not ensuring that frequent drivers attend a defensive driver training course at least once every four years.

During our review we also identified other matters requiring attention, but did not pose a significant risk to the business management functions, which were discussed with STO's management and are not further detailed 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, STO'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. STO'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 STO's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Maricela Bautista, at (916) 376-5066.

*Dennis M Miras*

DENNIS M MIRAS, CIA  
Manager, Office of Audit Services

Staff: Maricela Bautista, Management Auditor

cc: Rebecca Grajski, Director, Administration Division  
Christopher Sneed, Chief, Management Services  
Kim Petelle, Manager, Fiscal Services  
Moulay Billouche, Manager, Business Services  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



# STATE TREASURER'S OFFICE 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 State Treasurer's Office (STO) 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: timely approval of contracts; annual certification and authorization to use privately owned vehicles on state business; and, attendance of a defensive driver training course by frequent drivers.

This information was developed based on our fieldwork conducted over the period September 10, 2018 through April 26, 2019. In addition to this written report, as findings were observed and developed during our audit fieldwork, STO's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our April 26, 2019 audit exit conference, STO 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 2017-18 fiscal year.

### **CONTRACTING PROGRAM**

Overall, we determined that STO was conducting its contracting program in compliance with state requirements. However, our sample tests of various types<sup>1</sup> of contracts processed by STO disclosed one area for improvement that needs to be addressed to fully comply with the state's service contracting requirements. The state's contracting requirements are primarily contained in State Contracting Manual (SCM) Volume 1.

***Timely Approval*** – current policies and procedures are not ensuring that contracts are approved timely. Our review of a sample of 35 contracts indicated that 12 (34%) were not processed in a manner that ensured each was approved prior to the commencement date shown on the contract.

We noted that contract approvals were up to 37 days late and further identified four instances whereby services were rendered prior to the contract being fully executed; however, all payments were found to have been made after the contract approval date.

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<sup>1</sup> The types of contracts tested for compliance included both contracts subject to DGS review and approval (generally contracts of an amount of \$50,000 or more) and those delegated to STO to directly execute (generally contracts of an amount under \$50,000).

While it was difficult to determine the primary cause for the delays in processing the sampled contracts, we ultimately concluded that this condition resulted from new contracts, amendments and renewals not being assessed and requested in a sufficiently timely enough manner to process and execute.

Public Contract Code Sections 10295 and 10335 provide that contracts are of no effect unless and until approved by DGS. The state's policies related to the approval and commencement of contracted work are presented in SCM Volume 1, Section 4.09. The basic state policy is that no contractor should start work until receiving a copy of the formally approved contract.

### **Recommendation**

1. Reinforce existing policies and procedures to ensure the approval of contracts prior to the commencement date shown on the contract. Further, emphasize to contract users the importance of submitting contract requests with sufficient lead time for adequate processing, review and approval.

### **DRIVER SAFETY AND INSURANCE PROGRAM**

STO 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 for damages, repairs to state vehicles, workers' compensation claims and lost productivity 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 additional attention:

**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 31 (71%) of 44 employees included in our sample tests who used their own vehicle on state business. STO'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 review of a sample of 44 frequent drivers found that 15 (34%) 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.

**Recommendations**

2. Strengthen policies and procedures that ensure the completion and annual update of a STD. 261 certification form by employees prior to using 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.
3. Periodically reemphasize to operating unit managers/supervisors of 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.

**CONCLUSION**

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



**OFFICE OF THE TREASURER**

P. O. BOX 942809  
SACRAMENTO, CA 94209-0001



July 30, 2019

Dennis M. Miras, CIA  
Manager, Office of Audit Services  
Department of General Services  
707 3rd Street  
West Sacramento, California 95605

Dear Mr. Miras,

Response to Audit Report: Compliance with State Business Management Policies

The State Treasurer's Office (STO) submits this letter in response to the Department of General Services (DGS) compliance review of the STO's business management policies. The STO appreciates DGS's review and the opportunity to respond to its findings. Please reference the enclosed Attachment A for detailed responses.

The STO agrees with DGS's findings, and has taken or will take immediate steps to correct these items.

Thank you for the opportunity to respond to your draft report. If you have any questions, or require additional information, please do not hesitate to contact me at (916) 653-3382, or by email at [csneed@treasurer.ca.gov](mailto:csneed@treasurer.ca.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Chris Sneed", written over a light blue horizontal line.

Christopher Sneed  
Chief of Management Services

Enclosure

cc: Rebecca Grajski, Director, Administration Division  
State Treasurer's Office

**FINDING No. 1 – Contracting program policies and procedures are not ensuring approvals are obtained prior to the contract start date.**

**Cause:** “While it was difficult to determine the primary cause for the delays in processing the sampled contracts, we ultimately concluded that this condition resulted from new contracts, amendments and renewals not being assessed and requested in a sufficiently timely enough manner to process and execute.”

**Department’s Response:** Due to emergency requests from client programs, and/or due to unforeseen circumstances, the STO Contracting Office has not always had adequate time to process all contracts prior to the requested start date. It is important to note that the STO did not authorize the vendor to begin their work prior to the approved contract date (approved by DGS or the STO). In addition, the STO has begun including the "or upon approval..." language on all of its contracts to alleviate any confusion.

**FINDING No. 2 – STO’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. Additionally, policies and procedures are also not ensuring that frequent drivers attend a defensive driver training course at least once every four years.**

**Cause:** Not identified

**Department’s Response:** The STO has established a quarterly reminder email schedule to be sent to all its Division Directors and Executive Directors addressing the annual vehicle certification form requirement. Additionally, the STO’s training office will also provide quarterly training reports listing all employees who have or need to attend the defensive driver training course to ensure the STO is fully compliant with SAM Section 0751.

**STATE TREASURER'S OFFICE  
(STO)**

**COMPLIANCE AUDIT**

**EVALUATION OF STO'S RESPONSE**

We have reviewed the response by the State Treasurer's Office (STO) to our draft report. The response to the recommendations is satisfactory and we appreciate the efforts taken or being taken by STO 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 recent contracts containing the "or upon approval..." language; sample copies of the quarterly email reminders sent to all division and executive directors addressing the Authorization to Use Privately Owned Vehicle (STD. 261) certification form requirement; and, the most-recent copy of the training office quarterly report listing those employees who have attended and those who still need to attend the defensive driver training course.