

Date: May 28, 2020

File No.: 0124

To: **The Honorable Alex Padilla**
Secretary of State
1500 11th Street
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 Secretary of State (SOS). 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).

SOS' 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 taken or proposed and commitments made to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. Therefore, please submit the status report to us by November 30, 2020.

To the extent that it is practicable, any proof-of-practice and supporting documentation should be specific and include excerpts and/or copies of the following: all updated procurement and contracting policies and procedures; enhanced and expanded checklists implemented as additional tools to assist with meeting contracting and delegated purchasing program requirements; updated invoice processing policies and procedures; instructions and training material relative to date stamping and timely processing of invoices; examples of e-mails/reminders sent out to all staff regarding STD. 261 certifications; updated travel manual and procedures addressing STD. 261 requirements; samples of quarterly email reminders sent out to all Division chiefs, Executive staff, and SOS employees covering STD. 261 and defensive driver training responsibilities; training syllabi/agendas outlining STD. 261 and defensive driver training discussed during new employee orientation; updated travel policies and procedures requiring the use of the Statewide Travel Program as well as the proper completion of the SCO Justification Form; sample e-mail or other means used to distribute recently developed State Fleet Card policies and procedures; annual certification due to OFAM by June 30th; and, updated and disseminated surplus personal property program policies and procedures.

The necessity of any further actions or additional support will be determined at that time. Please transmit your proof-of-practice documentation and/or status report 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 sincerely appreciated all the cooperation and assistance provided by SOS' personnel.

If you need further information on or assistance with 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: Lizette Mata, Deputy Secretary of State, Operations
Shannon Kauffman, Business Operations Manager
Daniel Abbott, Chief, Internal Audit Office
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
SECRETARY OF STATE**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 0124**

OFFICE OF AUDIT SERVICES

MARCH 2020

**SECRETARY OF STATE
COMPLIANCE AUDIT
REPORT NO. 0124**

TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR'S REPORT	1
FINDINGS AND RECOMMENDATIONS	4
DELEGATED PURCHASING PROGRAM	4
PROMPT PAYMENT OF INVOICES	5
CONTRACTING PROGRAM	6
DRIVER SAFETY AND INSURANCE PROGRAM	7
FLEET MANAGEMENT AND TRAVEL SERVICES PROGRAMS	8
DISPOSAL OF SURPLUS PERSONAL PROPERTY	10
CONCLUSION	11
SOS' RESPONSE	12
EVALUATION OF SOS' RESPONSE	16

STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: May 28, 2020

TO: **The Honorable Alex Padilla**
Secretary of State

This report presents the results of our compliance audit of the business management functions and services of the Secretary of State (SOS). 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 the delegated purchasing program, contracting, fleet administration, small business and disabled veteran business enterprises usage, driver safety and insurance, 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 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 SOS in addressing these issues:

- SOS' delegated purchasing authority practices are not in full compliance with several applicable state requirements governing these types of procurements. Specifically, SOS' policies and procedures were not always ensuring compliance with state requirements governing the: (1) listing of purchasing authority numbers on purchase orders (POs); (2) proper classification of procurements; (3) referencing of General Provisions on all POs; (4) retention of copies of suppliers' sellers permits; (5) notification to the Department of Fair Employment and Housing of purchase awards in excess of \$5,000; (6) inclusion of solicitations, bidder instructions, and general provisions in the procurement files; (7) inclusion of small business (SB) and disabled veteran business enterprises (DVBE) option document support, vendor certification, DVBE program requirements, and signed Bidder Declaration for certified SB/DVBE vendors within the procurement files; (8) completion of Commercially Useful Function (CUF) evaluations and determination of SB/DVBE status; and, (9) verification that contractors are not on any prohibited lists.

In addition, leveraged procurement agreement (LPA) transaction files did not always: contain references to the LPA terms and conditions from the PO; document either the complete LPA itself or the location of the complete LPA; include LPA contract pricing pages; and, ensure purchases were made in accordance with the applicable LPA terms and conditions.

- Invoice processing policies and procedures are not ensuring prompt payment.
- Contracting program policies and procedures are not ensuring full compliance with state contracting requirements. The types of exceptions noted during our audit included: (1) consultant contractor evaluations (STD. Form 4) not being completed; (2) no verification prior to contract award that a corporation is in good standing to do business in California; (3) solicitations not containing the location of public bid openings and date stamping of proposals when received not permanently affixed; (4) documentation missing of a firm's agreement with various mandated contractor certification clauses; (5) no presence of at least two price quotes or establishment and documentation of fair and reasonable pricing for small dollar contracts; and, (6) no verification that small and disabled veteran businesses are certified with the state.
- SOS' 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.
- Fleet and Travel policies and procedures are not ensuring: employees who travel to conduct state business make all travel arrangements through DGS' Statewide Travel Program; compliance with the State Fleet Card Program; and, completion of a justification form when renting a vehicle at a rate higher than the contracted rate.
- 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, but did not pose a significant risk to the business management functions, which were discussed with SOS' 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, SOS' 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. SOS' 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 sincerely appreciated the cooperation and assistance provided by SOS' 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
Larisa Samoylovich, Management Auditor

cc: Lizette Mata, Deputy Secretary of State, Operations
Shannon Kauffman, Business Operations Manager
Daniel Abbott, Chief, Internal Audit Office
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

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 (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: delegated purchasing program; prompt payment of invoices; contracting for services; driver safety and insurance program; fleet and travel management practices; and, disposition of surplus personal property.

This information was developed based on our fieldwork conducted over the period of October 16, 2019 through March 19, 2020. In addition to this written report, as findings were observed and developed during our audit fieldwork, SOS' management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our March 19, 2020 audit exit conference, SOS 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 2018-19 and 2019-20 fiscal years.

DELEGATED PURCHASING PROGRAM

While we concluded that SOS has implemented a delegated purchasing program that ensures compliance with the state's primary procurement requirements, our tests of a sample of 47 transactions, including 11 leveraged procurement agreement (LPA) transactions, disclosed a number of areas for improvement that need to be addressed to fully comply with delegated purchasing requirements. When a department is transacting in FI\$Cal (Financial Information System for California), as SOS currently does, the state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volume F.

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 weaknesses involving the following purchasing practices (applicable criteria provided):

- Purchasing authority number not listed on the purchase order (SCM F, 1.A1.5)
- Procurements incorrectly classified (SCM F, 2.B2.0)

- *General provisions not referenced on the purchase orders (SCM F, 4.B3.1 and 4.D4.0)
- Sellers' permits not maintained in the procurement files (SCM F, 4.B3.3)
- Purchases over \$5,000 not reported to the Department of Fair Employment and Housing (DFEH) (SCM F, 9.E4.0)
- *Solicitations, including bidder instructions, and general provisions not found in the procurement files (SCM 4.B3.0 – 4.B3.1 and 4.D1.0)
- Small business (SB) and disabled veteran business enterprises (DVBE) Option document support not present within the procurement files, including SB/DVBE vendor certification (SCM F, 4.D3.1)
- *DVBE program requirements not in the procurement files (SCM F, 4.B1.4)
- Commercially Useful Function (CUF) evaluation and determination not completed for all SB/DVBE contractors, subcontractors and suppliers that bid on or participated in a state contract (SCM F, 3.A2.6 – 3.A2.8)
- Signed Bidder Declarations for certified SB/DVBE vendors not located in the procurement files (SCM F, 3.A4.7)
- Documentation not included that the FTB (Franchise Tax Board) and CDTFA (California Department of Tax and Fee Administration) websites are checked to verify that contractors are not on any prohibited lists (SCM F, 2.B4.5)
- LPA documentation:
 - References to LPA terms and conditions from associated purchase orders are not included at the time an order is placed (SCM F, 5.A1.10)
 - The complete LPA or the location of the complete LPA is not being documented in the procurement file (SCM F, 5.A1.0 and 5.A1.5)
 - LPA contract pricing pages not maintained (SCM F, 5.A1.0 and 5.A1.5)
 - Purchases are not all made in accordance with applicable LPA terms and conditions (SCM F, 5.A1.0 and 5.A1.5)

While it was difficult to determine the primary causes of all the aforementioned exceptions, responsible staff not being fully aware of all applicable requirements and simple oversight while processing these types of transactions were found to be contributing factors.

Recommendation

1. Strengthen existing, implement additional, and disseminate all policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address each of the issues noted above.

PROMPT PAYMENT OF INVOICES

SOS' current invoice processing policies and procedures are not ensuring the prompt payment of vendor invoices. In reviewing a sample of 20 invoices processed for payment during late 2019, we found seven (35%) SB/DVBE invoices which were not processed in a manner that ensured payment in accordance with the state's prompt payment requirements.

Specifically, these invoices were not paid within 45 calendar days of receipt by SOS and were up to 38 days late (averaged 27 days late). Further, late payment penalty fees due to six of these vendors were not paid as required. Unpaid penalties totaled nearly \$1,600, ranged from \$129 to \$600 per invoice, and averaged \$267 each.

Government Code Section 927, et seq., and SAM Sections 8474 through 8474.4 contain the state's policies related to the prompt payment of businesses. These policies include a requirement that vendor invoices be paid within 45 calendar days of receipt and the automatic payment of penalties when applicable. The 45-day timeline allows state agencies 30 days to perform their payment approval function and the State Controller's Office (SCO) 15 days to perform its audit and warrant generation process. The failure to promptly pay invoices restricts the state's efforts in getting businesses to provide goods and services to the state.

The accounting office explained that understaffing within the Accounts Payable Unit and confusion as to when exactly the above referenced 45-day timeline begins attributed to this condition. It should be noted that an invoice is to be paid within 45 days of receipt by SOS, regardless of whether the accounting office or the program unit receives the invoice first.

Recommendation

2. Implement policies and procedures that ensure the timely processing of vendor invoices and payment of applicable penalty fees as required by state policy. As part of this process, operating unit management should be reminded of the importance of promptly forwarding invoices and payment approvals to Accounting for payment. Additionally, ensure that all invoices are date stamped upon receipt by the department.

CONTRACTING PROGRAM

Overall, we determined that SOS was conducting its contracting program in compliance with state requirements. However, our sample tests of the various types¹ of contracts processed disclosed a number of areas for improvement that need to be addressed to fully comply with the state's service contracting requirements. The state's contracting requirements are primarily contained in SCM Volume 1.

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 weaknesses involving the following contracting practices (applicable criteria provided):

¹ 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 SOS to directly execute (generally contracts of an amount under \$50,000).

- *Consultant services contractor evaluations are not being performed (SCM 1, 3.02.5).
- *Documentation is not being maintained which demonstrates verification is made prior to contract award that a corporation is in good standing to do business in California (SCM 1, 5.30).
- Solicitations do not contain the location of public bid openings and date stamping of when proposals are received are not permanently retained (SCM 1, 503 (C)).
- *General Terms and Conditions do not incorporate by reference certain mandated contractor certification clauses (SCM 1, 4.8 (A.1.d.4)).
- Fair and reasonable cost justification is not being documented or two price quotes obtained when entering into small dollar contracts under \$10,000 (SCM 1, 5.90).
- The verification of SB/DVBE contractors with the DGS Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS) is not being documented (SCM 1, 8.14 & 8.20).

Staff's unawareness of all applicable contracting rules and regulations as well as oversight while processing these kinds of transactions contributed to the above conditions.

Recommendation

3. Improve existing, institute additional, and broadcast all policies and procedures which will ensure full compliance with state service contracting requirements. These activities should address each of the issues noted above.

DRIVER SAFETY AND INSURANCE PROGRAM

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 all 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 six (46%) of 13 employees included in our sample tests prior to using their own vehicle on state business.

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
- In safe mechanical condition

Presently, the Workforce Development Section, in conjunction with Accounting, coordinate to periodically send out applicable requirements and reminders to operating unit management and frequent drivers in an attempt to achieve compliance. It is clear that these procedures are not entirely functioning as desired.

- ***Defensive Driver Training** – our review of a sample of 15 frequent drivers found that seven (47%) 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 clear that current policies and procedures are not being consistently enforced nor are fully operating as intended.

Recommendations

4. Strengthen current 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 periodic notification(s) to managers/supervisors regarding their responsibilities for ensuring the completion and updating of the form.
5. Periodically reemphasize to operating unit managers/supervisors their responsibilities for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.

FLEET MANAGEMENT AND TRAVEL SERVICES PROGRAMS

SOS needs to strengthen its oversight of the department's fleet and travel services programs. Specifically, the following areas need further attention:

- **Statewide Travel Program** – Current travel policies and procedures are not ensuring that all employees who travel overnight to conduct state business secure their hotel needs through the state's travel program. While SOS appears to always utilize DGS' Statewide Travel Program (STP) for airfare and car rentals, our audit analyses revealed five (36%) of 14 employees that sought reimbursement for lodging had not booked their hotel stays through either the CalTravelStore or Concur Travel.

DGS Management Memo 14-03 and SAM Section 4117 require agencies to make all travel arrangements (airfare, hotel, commercial car rental, and rail) through DGS' STP. This program provides for government travelers' needs by obtaining the most economical rates and fares available through the use of contracted travel-related services. It offers comprehensive travel services through Concur Travel, an online booking tool that is the primary means for booking all reservations. The STP also offers traditional call-in service through the CalTravelStore, the state's onsite contracted travel agency.

This condition exists primarily due to travelers being unaware of the above requirements and/or booking under the premise that they are saving the state money by reserving directly with the hotel establishment. While meaning well, they may actually be preventing SOS from obtaining the most cost-effective, pre-negotiated, and leveraged travel rates offered by not utilizing STP's centralized travel management services.

- **State Fleet Card Program** – SOS has not implemented adequate and effective policies and procedures that ensure the adequate control of state fleet cards. Fleet cards are primarily used by state employees to purchase fuel for vehicles used for official state business. In brief, Management Memo 12-08, dated December 26, 2012, was issued by DGS to establish controls that would help prevent abusive fleet card practices, including but not limited to fraud and abuse.

The State Fleet Card Program requires that participating departments comply with a number of requirements including: (1) implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM (Office of Fleet and Asset Management) an annual certification that the department has executed required procedures; and, (4) requiring card users to sign an agreement addressing compliance with usage policies and procedures.

SOS was unaware of these requirements.

It should be noted that while SOS did eventually develop extensive policies and procedures over the use and control of state fleet cards, and which were provided to the audit team towards the very end of field work, we were not able to satisfactorily establish that these were disseminated to all prospective users throughout SOS nor that requirements (3) and (4) above, were being met.

- ***Rental Car Usage Compliance** – SOS' policies and procedures are not ensuring that an SCO Justification Form is being completed for those rental car transactions that exceed the daily or weekly contracted rate. Our review of 17 transactions revealed four (24%) car rentals that exceeded the state contracted rate; however, a justification form was not on file as required by current travel notices. DGS Travel Bulletin 20-01 requires employees to obtain supervisory approval prior to renting a vehicle larger than the intermediate size by using the SCO Justification Form, which then needs to accompany the invoice to SCO for payment.

Recommendations

6. Reinforce and communicate existing travel policies and procedures to ensure that all employees required to travel on state business secure all of their travel needs through either Concur Travel or the CalTravelStore, including booking of their hotel stays. Further, continue to require the itinerary when processing travel expense claims.
7. Distribute recently developed policies and procedures that will ensure the adequate control of State Fleet Cards in accordance with DGS Management Memo 12-08. This process should ensure compliance with State Fleet Card Program requirements, which include submitting the annual certification to OFAM and requiring all card users to sign an agreement addressing compliance with usage policies and procedures.
8. Update current policies and procedures to ensure the SCO Justification Form is completed and submitted with the invoice when rental car transactions exceed the daily or weekly contracted rate. Management personnel and their staff should be reminded of the need to complete the form and obtain prior supervisory approval as warranted.

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 six Property Survey Reports (STD. 152) disclosed that none had documentation certifying the disposal of the state-owned personal property. In general, documentation was not available on which SOS 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.

Responsible personnel had been unaware of these requirements.

Recommendation

9. Update surplus personal property program policies and procedures which ensure that complete documentation is maintained on the status of and process used to dispose of surplus personal property. Be sure to communicate all related revisions to all pertinent staff involved in the process.

CONCLUSION

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

* This condition previously existed and was included in our audit report to SOS dated February 2015



May 20, 2020

Mr. Dennis M Miras; CIA
Manager, Office of Audit Services
707 3rd Street, 4th Floor
West Sacramento, CA 95605

Dear Mr. Miras:

The Secretary of State's office (SOS) has reviewed the Department of General Services (DGS) compliance audit of State business management policies report (#0124) regarding our compliance with state business management functions and services policies. The SOS is pleased to provide the following response to the reported findings. The SOS would like to thank the DGS auditors for their time and professionalism shown while onsite at the SOS performing the audit.

Secretary of State Alex Padilla has a well-defined culture, ensuring the importance placed on complying with applicable laws, rules, and regulations. In accordance with that, SOS management took immediate action to begin to address DGS's concerns as they were coming to light during the audit process. Please find our comments below in response to the findings of the audit:

DELEGATED PURCHASING PROGRAM

Recommendation: Strengthen existing, implement additional, and disseminate all policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program.

SOS Response: The SOS has updated all existing procurement and contracting policies and procedures. We will continue to update as needed and disseminate updates to the SOS Contracting and Procurement staff. Additionally, we have added additional process reviews and implemented additional tools, such as checklists and secondary reviews, to ensure full compliance with the requirements of the delegated purchasing program.

PROMPT PAYMENT OF INVOICES

Recommendation: Implement policies and procedures that ensure the timely processing of vendor invoices and payment of applicable penalty fees as required by state policy. As part of this process, operating unit management should be reminded of the importance of promptly forwarding invoices and payment approvals to Accounting for payment. Additionally, ensure that all invoices are date stamped upon receipt by the department.

SOS Response: The SOS has updated invoice processing policies and procedures to ensure the prompt payment of vendors. Additionally, staff have been further trained on invoicing processing procedures, including date stamping upon receipt of invoice by the SOS.

CONTRACTING PROGRAM

Recommendation: Improve existing, institute additional, and broadcast all policies and procedures which ensure full compliance with state service contracting requirements. The activities should address each of the issued noted above.

SOS Response: The SOS has updated all existing procurement and contracting policies and procedures, which have also been shared with Contracts staff. Additionally, we have implemented additional tools, such as updated and expanded checklists and instituted new processes for bid receipts.

DRIVERS SAFETY AND INSURANCE PROGRAM

Recommendation: Strengthen current 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 periodic notification(s) to managers/supervisors regarding their responsibilities for ensuring the completion and updating of the form.

SOS Response: The SOS is putting into practice the following:

- a. SOS Accounting sent an email to remind employees a STD. 261 is required to be on file to claim personal mileage. An annual reminder is sent to all staff. This information is located on the intranet.
- b. SOS Accounting will update existing procedures and the travel manual located in the intranet to require that a copy of the STD. 261 be on file prior to employees using their own vehicle to conduct state business.
- c. The SOS has established a quarterly reminder email scheduled to be sent to all Division chiefs and Executive staff addressing the annual vehicle certification form requirement.
- d. The SOS HR unit will discuss the annual vehicle certification form (STD. 261) during new employee orientation.
- e. The SOS is also looking into software tools which could be utilized to increase the ease of completion required forms by SOS staff.

Recommendation: Periodically reemphasize to operating unit managers/supervisors their responsibilities 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: The SOS has established a quarterly reminder email scheduled to be sent to all Division chiefs and staff addressing the defensive driver training. The SOS HR unit will discuss the defensive driver training during new employee orientation.

FLEET MANAGEMENT AND TRAVEL SERVICES PROGRAMS

Recommendation: Reinforce and communicate existing travel policies and procedures to ensure that all employees required to travel on state business secure all of their travel needs through either Concur Travel or the CalTravelStore, including booking of their hotel stays. Further, continue to require the itinerary when processing travel expense claims.

SOS Response: SOS's travel policies and procedures has been updated to encompass all of these requirements and are available to all staff on the SOS Intranet. Additionally, SOS will send annual reminders to all staff of the SOS travel policies and procedures.

Recommendation: Distribute recently developed policies and procedures that will ensure the adequate control of State Fleet Cards in accordance with DGS Management Memo 12-08. This process should ensure compliance with State Fleet Card Program requirements, which include submitting the annual certification to OFAM and requiring all card users to sign an agreement addressing compliance with usage policies and procedures.

SOS Response: SOS's State Fleet Card policies and procedures have been distributed to all SOS Fleet Card users. Additionally, all SOS Fleet Card users have signed the required certification use agreement and will continue renew this certification use agreement annually.

Recommendation: Update current policies and procedures to ensure the SCO Justification Form is completed and submitted with the invoice when rental car transactions exceed the daily or weekly contracted rate. Management personnel and their staff should be reminded of the need to complete the form and obtain prior supervisory approval as warranted.

SOS Response: As previously mentioned, SOS's travel policies and procedures have been updated to effectively communicate the need for the SCO Justification Form completion and prior approval as recommended above.

DISPOSAL OF SURPLUS PERSONAL PROPERTY

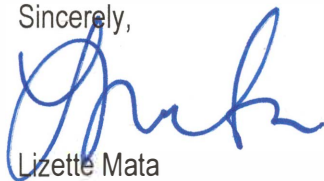
Recommendation: Update surplus personal property program policies and procedures which ensure that complete documentation is maintained on the status of and process used to dispose of surplus personal property. Be sure to communicate all related revisions to all pertinent staff involved in the process.

SOS Response: The SOS will update and disseminate policies and procedures to ensure compliance with compliance with SAM Section 3520 through 3520.11. The SOS staff responsible of disposing of surplus personal property will be trained on all internal and external policies and procedures regarding the proper process. This training will include the Property Survey Report (STD. 152) and Transfer of Location of Equipment (STD. 158).

Mr. Miras
May 20, 2020
Page 4

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,



Lizette Mata
Deputy Secretary of State, Operations

cc: Daniel Abbott, Internal Auditor
Shannon Kauffman, Business Operations Manager

SECRETARY OF STATE (SOS)

COMPLIANCE AUDIT

EVALUATION OF SOS' RESPONSE

We have reviewed the response by the Secretary of State (SOS) to our draft report. The response to the recommendations is satisfactory and we appreciate the efforts taken or being taken by SOS 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, proof-of-practice and supporting documentation should be specific and include excerpts and/or copies of the following: all updated procurement and contracting policies and procedures; enhanced and expanded checklists implemented as additional tools to assist with meeting contracting and delegated purchasing program requirements; updated invoice processing policies and procedures; instructions and training material relative to date stamping and timely processing of invoices; examples of e-mails/reminders sent out to all staff regarding STD. 261 certifications; updated travel manual and procedures addressing STD. 261 requirements; samples of quarterly email reminders sent out to all Division chiefs, Executive staff, and SOS employees covering STD. 261 and defensive driver training responsibilities; training syllabi/agendas outlining STD. 261 and defensive driver training discussed during new employee orientation; updated travel policies and procedures requiring the use of the Statewide Travel Program as well as the proper completion of the SCO Justification Form; sample e-mail or other means used to distribute recently developed State Fleet Card policies and procedures; annual certification due to OFAM by June 30th; and, updated and disseminated surplus personal property program policies and procedures.