



MEMORANDUM

Date: May 10, 2024 File No.: 3123

To: **Stephanie Clendenin**, Director
Department of State Hospitals
1215 O Street, MS-6
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 Department of State Hospitals (DSH). 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).

DSH'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 taken or proposed and the 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 on your department's official letterhead the status report to us by November 12, 2024.

To the extent that it is practicable, proof-of-practice and supporting documentation should explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our recommendations, consistent with DSH's individual formal written responses to our draft report.

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 email to Dennis.Miras@dgs.ca.gov.

We sincerely appreciated the cooperation and assistance provided by DSH's personnel.

If you have any questions, please contact me at (916) 376-5064 / Dennis.Miras@dgs.ca.gov, or Susan Mitchel, Management Auditor, at (279) 799-3810 / Susan.Mitchel@dgs.ca.gov.

Dennis M Miras

DENNIS M. MIRAS, CIA
Manager, Office of Audit Services

Attachment

cc: Sean Hammer, Deputy Director, Administrative Services Division, DSH
Douglas Hock, Chief, Office of Audits, DSH
Robert Horsley, Chief Operating Officer, Business Management Branch, DSH
Dominique Williams, Chief, Business Management Branch, DSH

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
DEPARTMENT OF STATE HOSPITALS**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 3123**

OFFICE OF AUDIT SERVICES

MARCH 2024

**DEPARTMENT OF STATE HOSPITALS
(DSH)**

**COMPLIANCE AUDIT
REPORT NO. 3123**

TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR'S REPORT	1
FINDINGS AND RECOMMENDATIONS	3
DRIVER SAFETY AND INSURANCE PROGRAM	3
DISPOSAL OF SURPLUS PERSONAL PROPERTY	5
CONCLUSION	6
DSH'S RESPONSE	7
EVALUATION OF DSH'S RESPONSE	11

STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: May 10, 2024

TO: **Stephanie Clendenin, Director**
Department of State Hospitals

This report presents the results of our compliance audit of the business management functions and services of the Department of State Hospitals (DSH). 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 (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by DGS.

As applicable, the scope of this audit included, but was not limited to, compliance with policies and procedures governing contracting, fleet and travel services administration, small business and disabled veteran business enterprise (DVBE) usage, driver safety and insurance, surplus property, and real estate. Unless otherwise noted, our audit efforts were primarily focused on the following major operations: DSH - Sacramento (HQ), DSH – Atascadero, DSH – Coalinga, DSH – Metropolitan, DSH – Napa, and DSH – Patton.

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

- DSH'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 not ensuring that all drivers attend a defensive driver training course at least once 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, but that did not pose a significant risk to the business management functions, which were discussed with DSH'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, DSH'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. DSH'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 our recommendations as well as our evaluation of the response are included in this report.

We sincerely appreciated the cooperation and assistance provided by DSH's personnel.

If you need further information on or assistance with this report, please contact me at (916) 376-5064/Dennis.Miras@dgs.ca.gov, or Susan Mitchel, Management Auditor, at (279) 799-3810/Susan.Mitchel@dgs.ca.gov.

Dennis M Miras

DENNIS M. MIRAS, CIA,
Manager, Office of Audit Services

Staff: Susan Mitchel, Management Auditor

cc: Sean Hammer, Deputy Director, Administrative Services Division, DSH
Douglas Hock, Chief, Office of Audits, DSH
Robert Horsley, Chief Operating Officer, Business Management Branch, DSH
Dominique Williams, Chief, Business Management Branch, DSH

DEPARTMENT OF STATE HOSPITALS

COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our review of the business management functions and services of the Department of State Hospitals (DSH) 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: annual certification and authorization to use privately owned vehicles on state business; attendance of a defensive driver training course by all drivers; and disposition of surplus personal property.

This information was developed based on our fieldwork conducted over the period of December 14, 2022 through March 4, 2024. In addition to this written report, as findings were observed and developed during our audit fieldwork, DSH's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our March 4, 2024 audit exit conference, DSH 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 2021-2022 through 2023-24 fiscal years.

DRIVER SAFETY AND INSURANCE PROGRAM

DSH 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 vehicles to conduct state business. Specifically, at the time of our audit tests, a current STD. 261 was not available for 11 (52%) of 21 employees included in our sample tests prior to using their own vehicles on state business.

State Administrative Manual (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
- **Defensive Driver Training** – our review of a sample of 34 drivers revealed that 17 (50%) 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.

In general, current policies and procedures not consistently enforced nor fully operating as intended were found to be contributing factors to the above conditions. Further, it appears supervisors/managers/staff do not have reliable systems in place to prioritize these periodic activities as they become due.

Recommendation

1. 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 vehicles 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.

2. Periodically reemphasize and/or otherwise provide reminders to operating unit managers/supervisors of 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.

DISPOSAL OF SURPLUS PERSONAL PROPERTY

Policies and procedures have not been properly maintained which ensure that sufficient documentation is preserved on the process used to dispose of surplus personal property. Our tests of a sample of 48 surplus personal property disposals¹ processed during the period of April 1, 2022 through September 30, 2022 disclosed a number of areas for improvement that need to be addressed to fully comply with state-owned surplus personal property requirements.

The types of exceptions noted included the following weaknesses involving property disposal practices (applicable criteria provided) [applicable exception/deviation rate noted and DSH Location]:

- No DGS approved Property Survey Report (STD. 152) on file. (SAM Section 3520) [79% - 24 DSH-Metropolitan (DSH-M) and 14 DSH-Coalinga]
- Property disposal not approved by the Property Survey Board. (SAM Section 3520.2) [50% - 24 DSH-M]
- No completed certification of disposition or back-up documentation on file (e.g.: date and method of disposal; name of the certified official who supervised the disposal, etc.). As a result, we were unable to verify the date of disposition; if it was completed timely; and/or who the items were donated to. (SAM Section 3520.9 and STD. 152 Instructions) [50% - 24 DSH-M]
- No DGS - OFAM (Office of Fleet and Asset Management) approval for the disposal of a vehicle. (SAM Sections 4111 and 4112) [25% - 1 of 4 DSH-Atascadero]
- DSH does not maintain suspense files or logs so that an agency official can monitor for timely disposition of surplus personal property. (SAM Section 8640)

¹ Surplus personal property disposals tested consisted of three from DSH-Atascadero, 15 from DSH-Coalinga, 24 from DSH- Metropolitan, one from DSH-Napa, and five from DSH-Patton

It appears that these above noted conditions exist due to a general lack of: established policies and procedures to follow; experience, knowledge, and awareness of all applicable requirements; Headquarters oversight; and staff turnover within DSH-M's business services office.

Recommendation

3. Strengthen existing, implement additional, and disseminate all surplus personal property program policies and procedures which will ensure that complete documentation is maintained on the approval, status, and method used to dispose of surplus personal property departmentwide. These measures should include, but not be limited to, the: retention of all required documentation; timely and authorized disposal of all property being surplus; manner and date of disposals be certified in writing; training and oversight; and monitoring of all Std. 152s "in-process".

CONCLUSION

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

Office of the Director
1215 O St.
Sacramento, California 95814
www.dsh.ca.gov



May 6, 2024

Dennis M. Miras
Manager, Office of Audit Services
Department of General Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

Subject: Department of State Hospitals (DSH) Response to DGS Audit Report:
Compliance with State Business Management Policies

Dear Mr. Miras:

Thank you to you and your staff for the effort put forward in conducting the compliance audit of the business management functions and services of the DSH. The Department recognizes the value in reviewing our practices and examining prospects to improve upon them.

We appreciate the opportunity to respond to your recommendations. Our responses are offered below, organized in the same manner as the report provided.

DRIVER SAFETY AND INSURANCE PROGRAM

Recommendation 1: *Strengthen current policies and procedures that ensure the completion and annual update of a certification form by employees prior to using their own vehicles 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.*

DSH is in the process of updating its policy and procedures including amending Policy Directive (PD) and Operational Procedure (OP) 2700, Statewide Fleet Management Program, to include supervisory responsibilities to obtain and maintain a signed Authorization to Use Privately-Owned Vehicles on State Business (STD 261) prior to approving Travel Expense Claims (TEC) with a personal mileage reimbursement component. By adding in this requirement from SAM section 0753, the process will be better operationalized statewide. The updated policy will include annual tracking and functional oversight of the STD 261 in the Fleet and Asset Management

Section (FAMS) to ensure forms are signed timely for new employees and resigned annually. Specifically, FAMS will conduct an annual review to verify current signatures and supervisor approval have been obtained in accordance with the DSH Travel Guide, Section 4007. "Before an employee is authorized to use a privately-owned vehicle to conduct State business, a form STD. 261, "Authorization to Use Privately-Owned Vehicles on State Business," located in the Forms section of the DSH Insite website, must be completed and submitted annually to the immediate supervisor for approval. This form certifies that the vehicle is adequate for the work to be performed, covered by minimum insurance and meets safety standards (SAM 0753). The supervisor shall verify that the employee has a current STD. 261 on file before he/she approves the TER for mileage reimbursement."

In addition, FAMS has experienced staff turnover and will take this opportunity to improve our succession planning and procedural documents for training and onboarding new staff.

Recommendation 2: *Periodically reemphasize and/or otherwise provide reminders to operating unit managers/supervisors of 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.*

DSH is in the process of updating its policy and procedures to ensure compliance with this recommendation. Specifically, OP 2700 will be amended to include a requirement for managers and FAMS to maintain a log of accidents that occur and keep copies of the STD 270s and 274s. A template has been developed to capture the staff name, date of the accident, date the STD 270 and STD 274 were sent to ORIM. This template will be attached to OP 2700.

FAMS, in collaboration with the Organizational Development Unit, will also complete an annual Defensive Driver Training (DDT) certificate verification in accordance with SAM section 0751. Updated policy and procedures will include specifically identified supervisory responsibilities to initiate and annually review defensive driver training records, a requirement to establish and maintain a centralized driver's qualification file for each State Driver that will house a copy of their current defensive driver training certificate, and a requirement to establish and maintain timely statewide defensive driver training compliance reporting capability.

Please note, for Recommendations 1 and 2, DSH will work with the Office of Communications and Accounting to send at minimum yearly reminders to employees regarding compliance with PD and OP 2700 and Travel guidelines.

DISPOSAL OF SURPLUS PERSONAL PROPERTY

Recommendation 3: *Strengthen existing, implement additional, and disseminate all surplus personal property program policies and procedures which will ensure that complete documentation is maintained on the approval, status, and method used to dispose of surplus personal property departmentwide. These measures should include but not be limited to, the: retention of all required documentation; timely and authorized disposal of all property being surplus; manner and date of disposals be certified in writing; training and oversight; and monitoring of all Std. 152s “in-process”.*

DSH is in the process of updating its policies and procedures to be in accordance with the SAM 3520. DSH will continue to provide reminders to affected programs and staff including requirements via monthly Asset Management meetings, and regular Hospital Administrator meetings for surplus property disposal and adding as a routine discussion item at the Hospital Administrator Expanded Monthly meeting, the monthly Fleet Coordinator meeting, and the monthly Asset Management meeting.

FAMS has taken a proactive approach to meeting this recommendation as they have gained access to all hospital accounts in the DGS CA Property Reuse Program database and is in the process of reviewing the submitted STD 152s to determine areas of improvement. An asset disposal training is in development and will be presented at an upcoming monthly asset meeting. The presentation will be provided to staff as a reference and training tool. Emphasis will be on completing the STD 152 accurately and disposing of the asset(s) in a timely manner as soon as the STD 152 has been approved by DGS.

FAMS will also conduct site visits at all facilities to document where surplus IT and non-IT assets are stored before disposal. Spot checks of disposed items will be conducted and compared to STD 152 forms, FI\$Cal, and other inventory records for consistency.

Again, thank you for the time and effort of your staff and for the opportunity to respond to the recommendations. It is a critical priority for DSH to be in compliance with applicable State laws, policies, and procedures. The Department has made the updating and development of new policies and procedures a top priority and I am confident that staff will establish attainable timelines within the corrective action plan to implement the recommendations contained within the audit report.

Should you have any questions or need clarification of the responses provided herein, you may contact Sean Hammer, Deputy Director of Administrative Services Division at (916) 654-3591 or via email at sean.hammer@dsh.ca.gov.

Sincerely,



STEPHANIE CLENDENIN
Director

cc: Sean Hammer, Deputy Director, Administrative Services Division, DSH
Douglas Hock, Chief, Office of Audits, DSH
Robert Horsley, Chief Operating Officer, Business Management Branch, DSH
Dominique Williams, Chief, Business Management Branch, DSH
Susan Mitchel, Associate Management Auditor, Office of Audit Services, DGS

DEPARTMENT OF STATE HOSPITALS (DSH)

EVALUATION OF DSH'S RESPONSE

We have reviewed the response by the Department of State Hospitals (DSH) to our draft audit report. The response to the recommendations is satisfactory and we appreciate the efforts taken and/or planned by DSH 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 explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our recommendations, consistent with DSH's individual formal responses to our draft audit.