



MEMORANDUM

Date: February 26, 2019 File No.: 9120

To: Selvi Stanislaus, Executive Officer
Franchise Tax Board
P.O. Box 115
Sacramento, CA 95741-0115

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 Franchise Tax Board (FTB). 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).

FTB'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 measures taken to address our recommendation and no additional corrective actions or status reports are necessary.

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

If you have any questions, please call / e-mail me at (916) 376-5064 / Dennis.Miras@dgs.ca.gov, or Melissa Hambridge, Management Auditor, at (916) 376-5062 / Melissa.Hambridge@dgs.ca.gov.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Attachment

cc: Jeanne Harriman, Chief Financial Officer
Denise Mellor, Chief, Administrative Service Division
Michael Banuelos, Director, Procurement Bureau
Paul Ogden, Director, Business and Human Resources Bureau
Andrea VanWallegghem, Director, Internal Audit Bureau

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
FRANCHISE TAX BOARD
(FTB)**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 9120**

OFFICE OF AUDIT SERVICES

DECEMBER 2018

**FRANCHISE TAX BOARD
COMPLIANCE AUDIT
REPORT NO. 9120**

TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR'S REPORT.....	1
FINDINGS AND RECOMMENDATIONS.....	3
DRIVER SAFETY AND INSURANCE PROGRAM.....	3
CONCLUSION.....	4
FTB'S RESPONSE.....	5
EVALUATION OF FTB'S RESPONSE.....	7

STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: February 26, 2019

TO: **Selvi Stanislaus**, Executive Officer
Franchise Tax Board

This report presents the results of our compliance audit of the business management functions and services of the Franchise Tax Board (FTB). 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 fleet administration, small business (SB) and disabled veteran business enterprises (DVBE) usage, driver safety and insurance, records management, surplus property and real estate. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Our review disclosed the following area of noncompliance with state requirements that should be addressed by FTB's management. The implementation of the recommendation presented in this report will assist FTB in addressing this issue.

- The FTB'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.

During our review we also identified other matters requiring attention that we discussed with FTB'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 of improvement during our audit field work, FTB'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. FTB'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 recommendation as well as our evaluation of the response is included in this report.

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

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Melissa Hambridge, at (916) 376-5062.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Staff: Melissa Hambridge, Management Auditor
Monica De La Rosa, Management Auditor

cc: Jeanne Harriman, Chief Financial Officer
Denise Mellor, Chief, Administrative Service Division
Michael Banuelos, Director, Procurement Bureau
Paul Ogden, Director, Business and Human Resources Bureau
Andrea VanWalleghem, Director, Internal Audit Bureau

FRANCHISE TAX BOARD (FTB)

COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed finding and recommendation developed based on our review of the business management functions and services of the Franchise Tax Board (FTB) for compliance with the 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 the policies governing the: annual certification and authorization to use privately owned vehicles on state business.

This information was developed based on our fieldwork conducted over the period of July 19, 2018 through October 18, 2018. In addition to this written report, as finding were observed and developed during our audit fieldwork, FTB's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our December 17, 2018 formal audit exit conference, FTB 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 and 2018/19 fiscal years.

DRIVER SAFETY AND INSURANCE PROGRAM¹

FTB needs to strengthen its driver safety and insurance program to assist in preventing and controlling the cost 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. For maximum containment of these costs, each state agency is expected to actively participate in the state's driver safety program. The following area needs 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 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 11 (38%) of the 29 employees included in our sample tests who used their own vehicle to conduct state business. FTB's travel polices provide that managers/supervisors are to monitor their employees for the proper and timely completion of STD. 261s. As shown by the results our review, these policies have not been entirely effective.

¹ This condition previously existed and was included in our audit report to FTB dated November 2014

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 mileage should not be approved by a supervisor prior to the 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.

Recommendation

1. Strengthen existing policies and procedures to 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 and having employees sign and update the SDT. 261 certification form prior to traveling.

CONCLUSION

Our one finding and recommendation is presented to aid FTB in administering its business management functions and services. FTB should address the reported issue to assist in ensuring compliance with applicable state laws, policies and procedures.



STATE OF CALIFORNIA
Franchise Tax Board

02.08.19

To: Dennis Miras, Manager
Office of Audit Services
Department of General Services

From: Selvi Stanislaus

Subject: Response to Department of General Services Draft Report: Compliance With State Business Management Policies No. 9120

Memorandum

Thank you for the opportunity to respond to the Department of General Services Report No. 9120, which addresses recommendations to the Franchise Tax Board (FTB) resulting from its compliance audit of the business management functions and services of the FTB. The following response addresses the Department of General Services recommendation regarding FTB's operations.

RECOMMENDATION: Strengthen existing policies and procedures to ensure the completion and annual update of 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 and having employees sign and update the STD. 261 certification form prior to traveling.

FTB's Response:

FTB has implemented the following:

An email below was sent to all FTB managers/supervisors on December 20, 2018. A similar reminder email will be sent to all FTB managers/supervisors annually on or around September 1, to coincide with the date that FTB typically sends the annual Defensive Driver Compliance Report to DGS's Office of Risk and Insurance Management.

EMAIL MESSAGE TO ALL FTB SUPERVISORS and MANAGERS:

Background

Many of our internal processes and procedures are regularly audited by our overseers to ensure that we are in compliance with state policies and mandates.

DGS Audit

Recently, the Department of General Services (DGS) audited several of our internal processes, including those related to our compliance of Defensive Driver Training and the required completion of the form Std. 261 for those who use a privately owned vehicle for state business. The Std. 261 is used to show, among other things, that the employee possesses a valid driver license in the state they reside, that the vehicle is insured at certain minimum levels, and that the vehicle is in safe mechanical condition. The Std. 261 is to be completed by the employee (and the information verified by the supervisor) prior to allowing the employee to operate a privately owned vehicle on official state time AND by December 31 of each year. There is also a requirement that individuals who drive a privately owned vehicle on state time, for state business, attend an approved defensive driver training course at least once every 4 years.

Audit Finding

The audit found that not all employees who had driven a privately owned vehicle on state time had a valid/current Std. 261 on file at the time they drove on state business- when Travel Expense Claims were compared to the Std. 261 on file.

FTB Required Remedy

In order to remedy this audit finding, we are sending this reminder to all supervisors (and will do so periodically) of the requirements for the Std. 261 (see Policy File 5035 - Privately Owned Vehicles). We also need to remind all supervisors and managers that Travel Expense Claims where an employee's private vehicle is being used for state business cannot be approved without a valid Std. 261 on file for that employee.

Action Items for All Supervisors/Managers

- Please review Policy File 5035 - Privately Owned Vehicles and insure that each of your employees who drive a privately owned vehicle for state business complete and submit the required Std. 261 to you by December 31st, 2018.
- Before you approve a Travel Expense Claim for your employee that includes reimbursement for mileage, insure that a current/valid Std. 261 is on file for that employee.

Thank you for your cooperation in helping us comply with Policy File 2035 and State Administrative Manual 0753. If you have any questions or need clarification regarding any of the above requirements, feel free to contact me directly at 916.845.7285 or paul.ogden@ftb.ca.gov

In closing, FTB is committed to administering our business management functions and services properly and we welcome the recommendation to further that end.



Executive Officer

**FRANCHISE TAX BOARD
(FTB)**

COMPLIANCE AUDIT

EVALUATION OF FTB'S RESPONSE

We have reviewed the response by the Franchise Tax Board (FTB) to our draft report. The response to our recommendation is satisfactory and we appreciate the actions taken by FTB to improve its business management functions and services.