



MEMORANDUM

Date: March 20, 2017

File No.: 6120

To: Christine Baker, Director
Department of Industrial Relations
455 Golden Gate Avenue, 9th Floor
San Francisco, CA 94102

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 Industrial Relations (DIR). 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).

The DIR's written response to our draft report is included in the attached final report. This report also includes our evaluation of the response. We are pleased with the actions being taken to address our recommendations.

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

If you need further information or assistance on this report, please call me at (916) 376-5064, or Christopher Harris, Management Auditor, at (916) 376-5059.

Dennis M Miras

DENNIS M MIRAS, CIA
Supervisor, Office of Audit Services

Attachment

cc: Cliff Okamoto, Chief of Administration
Matthew Shiroma, Service Delivery Manager
James Culbeaux, Chief Information Officer
Teresa Christensen, Business Services Manager

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
DEPARTMENT OF
INDUSTRIAL RELATIONS**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 6120**

OFFICE OF AUDIT SERVICES

FEBRUARY 2016

**DEPARTMENT OF INDUSTRIAL RELATIONS
COMPLIANCE AUDIT
REPORT NO. 6120**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: March 20, 2017

TO: **CHRISTINE BAKER**, Director
Department of Industrial Relations

This report presents the results of our compliance audit of the business management functions and services of the Department of Industrial Relations (DIR). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619. The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by DGS. As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing contracting, 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 DIR 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 DIR in addressing these areas.

- The DIR's driver safety and insurance program is not ensuring that: 1) frequent drivers attend a defensive driver training course once every four years, 2) employees who use their own vehicle to conduct state business complete and annually update a vehicle certification form, and 3) an annual defensive driver training report is submitted to DGS.
- The DIR is not reporting all motor vehicle accidents to the DGS' Office of Risk and Insurance Management (ORIM) within 48 hours of the accident. Further, supervisors are not always completing a report containing an evaluation of the cause of an accident.
- The DIR's fleet administration program is not ensuring compliance with state policies and procedures for establishing controls that would help prevent abusive fleet card practices.

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

We are pleased with the commitment shown to improve compliance with state requirements. It should be noted that when advised of areas for improvement during our audit fieldwork, DIR's management took prompt actions to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. The DIR'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.

Christine Baker

March 20, 2017

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 DIR's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Christopher Harris, at (916) 376-5059.

Dennis M Miras

DENNIS M MIRAS, CIA
Supervisor, Office of Audit Services

Staff: Christopher Harris, Management Auditor

cc: Cliff Okamoto, Chief of Administration
Matthew Shiroma, Service Delivery Manager
James Culbeaux, Chief Information Officer
Teresa Christensen, Business Services Manager

DEPARTMENT OF INDUSTRIAL RELATIONS 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 Industrial Relations (DIR) 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: attendance of defensive driver training by frequent drivers; annual certification and authorization to use privately owned vehicles on state business; annual submission of a defensive driver training report; timely reporting of all motor vehicle accidents; supervisory evaluation of the cause of motor vehicle accidents; and, adequate control of state fleet cards.

This information was developed based on our fieldwork conducted over the period October 19, 2015 through February 23, 2016. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, DIR's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our March 2016 audit exit conference, DIR 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 2015/16 fiscal year.

DRIVER SAFETY AND INSURANCE PROGRAM

The DIR 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 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 of 20 employees included in our sample tests who used their own vehicle on state business. Specifically, seven were expired and completed during testing and four had no record of a STD. 261. The DIR'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 effective.

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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 the 20 frequent drivers identified above also found that nine of them 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. At DIR, the responsibility for ensuring that employees attend a driver training course rests with managerial/supervisory personnel. As shown by the results of our tests, these employees are not enforcing this requirement.

In addition, DIR has not been submitting a defensive driver training report that is due to DGS by September 1 of each year (Management Memo 11-04). The report contains defensive driver training information for the preceding fiscal year, including data on the number of employees required to take the training for the reporting fiscal year and the number of employees completing the training.

Recommendations

1. Implement policies and procedures that ensure the completion and annual update of a STD 261 certification form by employees who use their own vehicle to conduct state business. This process should include an annual notification to managers/supervisors of their responsibility for ensuring the completion and updating of the form.
2. Periodically reemphasize to operating unit managers and supervisors 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.
3. Submit a defensive driver training report to DGS by September 1 of each year.

REPORTING AND REVIEW OF VEHICLE ACCIDENTS

The DIR has not implemented policies and procedures which ensure that all motor vehicle accidents are reported to the DGS' Office of Risk and Insurance Management (ORIM) in a timely fashion. Specifically, during our review of DIR's accident reporting process for the first eleven months of the 2015 calendar year, we noted 17 accident reports on file at DIR that had been submitted to ORIM up to 41 days late; another three had not been submitted at all. To allow it to effectively administer the state's motor vehicle self-insurance program, SAM Section

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2430 provides that a Report of Vehicle Accident, STD. 270, form be submitted to ORIM within 48 hours of an accident.

We also determined that a report containing a supervisor's evaluation of an accident's cause was not on-file for 8 of the 23 accidents that were tested. SAM Section 2440 requires that the supervisor of an employee involved in an accident prepare a Review of State Driver Accident (Supervisor's), STD. 274, report, take appropriate action, and forward copies of the report to both ORIM and the agency's safety coordinator.

It should be noted that, although having the responsibility for tracking accident reports, at the time of our review, DIR's fleet management coordinator's responsibilities did not include monitoring to ensure compliance with the state's motor vehicle accident reporting requirements. The DIR's operating units are responsible for compliance with the state's accident reporting requirements.

Recommendation

4. Implement policies and procedures which ensure that a motor vehicle accident report is submitted to ORIM within 48 hours of an accident and that supervisors complete a report containing an evaluation of the cause of the accident. This process should include the annual notification of managers and supervisors of their accident reporting and review responsibilities. Further, if deemed feasible, policies should provide that the fleet management coordinator monitor to ensure compliance with the state's motor vehicle accident reporting requirements.

FLEET ADMINISTRATION

The DIR has not implemented 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 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. The DIR's business services management/staff was not aware of the State Fleet Card Program requirements.

Recommendations

5. Implement policies and procedures that ensure the adequate control of State Fleet Cards. This process should ensure compliance with State Fleet Card Program requirements including: (1) implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM 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.

CONCLUSION

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

DEPARTMENT OF INDUSTRIAL RELATIONS

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March 13, 2017

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Subject: DIR Comments Prior to Issuance of Final Report
Ref: DIR – Compliance with State Business Management Policies - DIR

Dennis M Miras:

The Department of Industrial Relations appreciates this opportunity to comment on the draft report of the DGS compliance audit of DIR's business management functions and services. DGS auditor Christopher Harris was very professional in his conduct and thorough in his audit. We have no exceptions with Christopher's report, and our comments address the solutions that DIR put in place to implement Christopher's recommendations.

- **Vehicle Authorizations** – as noted in the audit findings several Authorization to Use Privately Owned Vehicle, STD 261's for the audit sample were expired or not on file, and DIR corrected this lapse during the audit.

Going forward our Fleet Administration Program maintains a central repository for STD 261's at DIR and provides a 30-day advance notice to operational managers of STD 261's expiring. The Program also maintains centrally a record of all current STD 261's and provides this information to managers, who approve employee's travel expense claims. Additionally, Fleet provides the list of all DIR employees with a current STD 261 to the Travel Services Unit in Accounts Payable. Travel Services Unit also verifies compliance before approving SCO payment of an employee's request for reimbursement for a personal vehicle mileage claim. The Travel Services Unit advises anyone not on the list that the travel claim is in suspense until the employee submits a current 261.

- **Defensive Driver Training** – as noted in the audit findings several frequent drivers in the audit sample had no submitted evidence of attending a defensive driver-training course within the last four years, and DIR corrected this lapse during the audit. Additionally, DIR was not submitting their defensive driver training report that is due to DGS by September 1 of each year, and DIR put this report on our annual report checklist.

Going forward our Fleet Administration Program maintains a central repository of all defensive driver training taken by DIR employees, who travel frequently. The Program provides a 30-day advance notice to operational managers of employees' expiring defensive driver training certificates. Expiration of defensive driver training results in a recommendation to operational managers to revoke Fleet Car assignments and disapprove use of a private vehicle for business travel. DIR tracks due date of the defensive driver report due date and submits the report in a timely manner.

- **Reporting and Review of Vehicle Accidents** – as noted in the audit findings motor vehicle accidents were not reported to the DGS' Office of Risk and Insurance Management (ORIM) in a timely manner. Review of State Driver Accident

(Supervisor's), STD 274 were not on file for all accidents. The audit noted that DIR operational management is responsible for ensuring compliance in this area.

Going forward our Fleet Administration Program regularly reminds local resources of the need to promptly report accidents, perform reviews of the accident, and submit completed STD 274 to ORIM and to DIR Fleet Administration within 48 hours. Fleet reminds the local resources that accidents involving personal vehicles approved for business travel are included in this reporting requirement. Our Fleet Administration Program is also working with DMV to be alerted of any accidents reported that involve a DIR State-assigned vehicle.

Fleet Administration (gas cards) – as noted in the audit findings DIR was managing gas cards as a fleet card asset and needed to evolve the program into a State Fleet Card Program.

Going forward DIR Business Services now operates a Gas Card Program. A supervisor is now the assigned Fleet Card Coordinator to administer the program. A subordinate employee is now the Fleet Card Liaison performing the technical tasks of the program. The Fleet Card Coordinator monitors and audits the use of the program, maintains approved, written procedures, and submits to OFAM the annual certification that DIR has executed procedures. The Fleet Card Liaison manages all card user signed agreement centrally and ensures that no one without a signed agreement in place has use of a Fleet card.

Again, DIR appreciates the opportunity to improve our operations that this audit presented. We are proud of how well DIR's performance measured in the other areas covered by this audit and worked to bring this function's performance up to a similar level as other areas audited.

Best regards,

Matthew T Shiroma

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Cc: Christine Baker, Director
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James Culbeaux, Chief Information Officer
Teresa Christensen, Business Services Manager

**DEPARTMENT OF INDUSTRIAL RELATIONS
COMPLIANCE AUDIT**

EVALUATION OF DIR'S RESPONSE

We have reviewed the response by the Department of Industrial Relations (DIR) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by DIR to improve its business management functions and services.