



# MEMORANDUM

**Date:** December 21, 2009

**To:** Leslie Lopez, Acting Secretary  
State and Consumer Services Agency  
915 Capitol Mall, Suite 200  
Sacramento, CA 95814

**From:** Ronald L. Diedrich, Acting Director  
Department of General Services

**Subject:** REVIEW OF SYSTEMS OF INTERNAL CONTROL

In accordance with the Financial Integrity and State Managers Accountability Act of 1983 (FISMA), Government Code Sections 13400 through 13407, I am submitting the attached report describing the review of our systems of internal control for the biennial period ended December 31, 2009. Specifically, the Department of General Services' (DGS) systems of internal accounting and administrative control have been reviewed by its Office of Audit Services (OAS) in accordance with Section 20060 of the State Administrative Manual. All material weaknesses, if any, in the systems of internal control have been disclosed. The OAS' report covers the period January 1, 2008 through December 21, 2009.

The OAS' audit did not disclose any significant internal control problems or weaknesses which would be considered pervasive and pose an unacceptable risk in their effects on the department's overall systems of internal control. However, the OAS did issue reports that contained findings and recommendations that needed to be addressed by management to assist in bringing various systems of internal accounting and administrative control into compliance with FISMA. The attached OAS' report includes the corrective actions that have been taken or are being taken to address the recommendations made in those reports. The report also includes actions taken to address recommendations contained in reports issued by the Bureau of State Audits on DGS' operations. The OAS tracks each recommendation until resolution.

In addition, the DGS is continuing to monitor two financial issues that were not included in the OAS' comprehensive internal audit program, but are being actively managed within the department's risk management process. These issues, which involve concerns with the financial condition of the Architecture Revolving Fund (ARF) and two funds used for Division of the State Architect (DSA) operations, were disclosed within DGS' financial statement audit Management Representation Letter that was issued on February 25, 2009 and are updated in the following sections.

- **Issue No. 1, ARF Deficit** – as disclosed in the DGS' financial statements, the ARF (Fund 0602) has a cumulative deficit balance of \$21.2 million as of June 30, 2009. The ARF deficit is the result of a combination of factors starting with a policy decision made in 2002 to not increase the 2002-03 fiscal year service rates. Significant additional factors include charging practices, under-recovery of full costs against completed projects, cost increases

related to the annual employer's retirement contribution adjustment, the loss of billable positions resulting from the 2003-04 personal services reductions, increases in salaries and wages resulting from collective bargaining agreements, and construction cost escalations that have surpassed the cost of living adjustment factor included in the annual project rate adjustments.

**Corrective Action:** In accordance with Chapter 268, Statutes of 2008, Control Section 4.70, DGS is working with the Department of Finance (DOF) to allocate and collect at least half of the deficit incurred by client agencies over the next five years. The remaining deficit will be collected through a surcharge that will be assessed on all new non-federal and non-bond funded projects where funds are deposited into the ARF. As noted in the aforementioned section, the recovery plan was expected to correct the deficit by the end of the 2012-2013 fiscal year. However, due to the economic crisis and the suspension of projects, it is unlikely the target date will be met.

To preclude future deficits, the DGS has implemented changes to policies and procedures to ensure that the financial condition of ARF projects is adequately and effectively managed. As part of this process, DGS has taken action to ensure that: (1) pre-planning service costs are appropriately recovered; (2) project expenditures are closely monitored; (3) expenditure alerts (early notification of project overrun) are addressed in a timely manner; (4) transaction controls preclude project overruns; and, (5) client agencies are promptly notified when additional funds are needed for a project. The DGS also expanded its project management training for project directors, managers and staff to include their responsibilities for closely monitoring the financial condition of a project.

- **Issue No. 2, DSA Fund Deficits** – the DSA is funded by the Disability Access Account (Fund 0006) and the Public School Planning, Design, Construction Revolving Fund (Fund 0328). Fund 0006 was projecting a deficit fund balance due to a decrease in revenues from services rendered and Fund 0328 was projecting a deficit fund balance due to a \$60 million General Fund loan from earned revenue reserve funding.

**Corrective Action:** Fund 0006 was projecting a deficit fund balance beginning in the 2010-11 fiscal year. However, a proposed 2009-10 mid-year rate increase will allow the fund to maintain its positive balance. Fund 0328 was projecting a deficit beginning in the 2009-10 fiscal year. However, a partial repayment of the \$60 million General Fund loan will allow the fund to remain solvent. The General Fund loan was made in the 2008-09 fiscal year.

To assist in improving the administration of its operations, the DSA has contracted with a vendor to perform a comprehensive organizational assessment of its operations. The 18 month assessment began in May 2009 and includes an evaluation of the fiscal activities of both funds. Further, DOF's Office of State Audits and Evaluations is auditing Fund 0328. The audit began in July 2009 and includes an in-depth review of fund usage, fees charged and the appropriateness of the fund's balance. The DSA will take prompt action to address any recommendations to improve operations provided by the review/audit teams.

As statutorily required, DGS is in compliance with Government Code Section 12439. The DGS' compliance includes the implementation of policies and procedures which ensure that vacant positions that continue to be needed for program operations are closely monitored by the DGS' executive management and human resources staff to ensure that the positions are filled within six-months, unless one of the exempting conditions provided in statute will prevent a position's abolishment at the end of that period of time. During this biennial period, the OAS also audited DGS' compliance with Government Code Section 12439 as part of its review of systems of internal control for personnel and payroll (Report No. 8163, dated November 2009). The audit verified that the department's personnel operations complied with that statute.

Leslie Lopez

-3-

December 21, 2009

If you have any questions, please contact me at (916) 376-5012, or Rick Gillam, Audit Chief, at (916) 376-5058.

A handwritten signature in black ink, appearing to read "Ron Diedrich". The signature is written in a cursive style with a large initial "R".

Ronald L. Diedrich, Acting Director  
Department of General Services

Attachment

---

**STATE AND CONSUMER SERVICES AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**REVIEW OF SYSTEMS  
OF INTERNAL CONTROL**

**DEPARTMENT OF GENERAL SERVICES  
REPORT NO. 0165**

**OFFICE OF AUDIT SERVICES**

**DECEMBER 2009**

**DEPARTMENT OF GENERAL SERVICES  
REVIEW OF SYSTEMS OF INTERNAL CONTROL  
REPORT NO. 0165**

**TABLE OF CONTENTS**

	<u>PAGE</u>
AUDITOR'S FISMA REPORT.....	1
INTRODUCTION.....	2
BACKGROUND.....	2
ORGANIZATIONAL STRUCTURE.....	2
MISSION/GOALS.....	3
CONTROL ENVIRONMENT.....	3
VACANT POSITIONS.....	4
RISK ASSESSMENT.....	4
EVALUATION OF RISKS AND CONTROLS.....	5
CONCLUSION.....	5
AUDITOR'S OPINION.....	7
INTRODUCTION.....	8
BACKGROUND.....	8
SYSTEMS OF INTERNAL CONTROL.....	8
OBJECTIVE AND SCOPE OF REVIEW.....	9
METHODOLOGY.....	9
AUDIT ACTIVITIES – ACCOUNTING AND ADMINISTRATIVE CONTROLS.....	10
ACCOUNTING CONTROLS.....	10
ADMINISTRATIVE CONTROLS.....	11
CONCLUSION.....	12
APPENDICES.....	13

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

DATE: December 21, 2009

TO: **RONALD L. DIEDRICH**, Acting Director  
Department of General Services

This report presents the results of our review of the Department of General Services' (DGS) systems of internal control. Per statute, this report is required to be submitted by the DGS' Director to the Agency Secretary on a biennial basis but no later than December 31 of each odd-numbered year. Copies of the audit report are also to be forwarded to the Governor's Office, Legislature, Bureau of State Audits, California State Library and Department of Finance. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Financial Integrity and State Manager's Accountability Act of 1983 (FISMA) provides that the Director of Finance is responsible for establishing a system of reporting and a general framework to guide State agencies in conducting biennial internal reviews of their systems of internal accounting and administrative control. As provided in its Audit Charter, the Office of Audit Services (OAS) is responsible for conducting internal audit activities to ensure compliance with FISMA. Toward this end, to provide an opinion on the DGS' systems of internal control, the OAS aggregated the results of individual assessments of internal controls completed during the period January 1, 2008 through December 21, 2009, including those issued by external audit agencies.

As with its previous biennial FISMA reports, the OAS continues to report that its audit efforts did not disclose any significant internal control problems or weaknesses which would be considered pervasive and pose an unacceptable risk in their effects on the department's overall systems of internal control. However, the OAS and the Bureau of State Audits issued reports that contained findings and recommendations that needed to be addressed by management to assist in bringing various systems of internal accounting and administrative control into compliance with FISMA. In the Appendices to this report, information is provided on all of the internal accounting and administrative control audit reports issued since December 31, 2007, which was the date of our last report on internal controls, and the corrective actions that have been taken or are being taken to address the recommendations made in those reports. The OAS tracks each recommendation until resolution.

The Department of Finance's Office of State Audits and Evaluations (OSAE) has issued a template entitled "*Required FISMA Report Components*", which departments are required to use to prepare the biennial report. The following section contains the components required by OSAE. The remaining sections of our report beginning on Page 7 disclose additional detailed information on the OAS' audit of the department's internal control processes.

**AGENCY NAME:** State and Consumer Services  
**DEPARTMENT NAME:** General Services  
**ORGANIZATION CODE:** 1760

## INTRODUCTION

In accordance with FISMA, the OAS submits this report on its review of the systems of internal control for the DGS for the biennial period ended December 31, 2009. The report covers the period January 1, 2008 through December 21, 2009. The OAS' last report on DGS' internal control systems was issued on December 31, 2007.

## BACKGROUND

DGS serves as business manager for the State of California, with more than 4,000 employees and a budget in excess of \$1 billion. DGS helps State government to better serve the public by providing a variety of services to State agencies through innovative procurement and acquisition solutions, creative real estate management and design, environmentally friendly transportation and funding for the construction of safe schools. The DGS' role in government is unique due to the: (1) nature of its services, i.e., similar to a private business; (2) variety of services offered including such major activities as publishing, real estate, fleet and procurement; (3) multiple funds utilized including the largest internal service fund in the State; and, (4) broad variety of clients using the department's services including the Governor's Office, Legislature, other State agencies, constitutional officers and local government entities.

### **Organizational Structure**

The DGS' operations are overseen by a Director and two Chief Deputy Directors. The DGS includes the following divisions:

- ***Real Estate Services Division*** – provides comprehensive real estate services to all State agencies.
- ***Procurement Division*** – oversees State procurement policies and provides purchasing services, helping departments achieve their missions.
- ***Division of the State Architect*** – provides design and construction oversight for K-12 schools and community colleges.
- ***Administration Division*** – provides services to internal and external clients. Support services include maintaining budgetary resources, uniform and consistent financial and human resources support, risk and insurance management expertise, information security and privacy, and other research and business functions needed by clients.
- ***Office of Administrative Hearings*** – consists of two divisions and six regional offices statewide. The General Jurisdiction Division provides the adjudicatory and alternative dispute resolutions services to more than 1,000 State, local and county agencies, while the Special Education Division provides adjudicatory, mediation and settlement services throughout the state to school districts and parents of children with special education needs.
- ***Office of Legal Services*** – provides leadership, information and training to State agencies in the State contracting process.
- ***Information Technology Services Division*** – provides technical and business support critical to DGS' operations.
- ***Interagency Support Division*** – provides a wide range of support services through several independent offices: (1) the Office of Fleet and Asset Management which oversees the State fleet, providing transportation services and managing State and federal surplus

property; (2) the Office of Public School Construction which serves as staff to the State Allocation Board, facilitates the processing of school district applications and makes funding available to qualifying school districts; and, (3) the Office of State Publishing which provides printing and communication solutions.

### **Mission/Goals**

Recently, DGS developed its Strategic Plan for 2009-2013, which is available on the department's website. The plan is comprised of the following elements: vision of success; core values; vision statement; mission statement; goals; and, strategies. The DGS' vision is *Excellence in the Business of Government*, while its mission is to deliver results by providing timely, cost-effective services and products that support its customers.

The DGS' goals included in the plan are defined as issue-oriented statements that reflect realistic priorities and help the organization chart its future direction by focusing actions toward clearly defined purposes and policy intention. They address priorities that will be relevant for at least the next three years. The plan contains four goal statements and detailed strategies for meeting those goals. The goal statements are as follows: (1) We are customer centered; (2) We deliver efficient and effective results; (3) We work as one enterprise; and, (4) We are a strong organization.

### **Control Environment**

According to a generally accepted framework for use in evaluating internal control systems<sup>1</sup>, the control environment sets the tone of an entity, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, organizes and develops its people; and the attention and direction provided.

The DGS recognizes the importance of maintaining an adequate and effective control environment over its operations. Toward this end, the department has taken numerous actions to ensure that its governance process includes the: promoting of appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and, coordinating the activities of and communicating information among executive and operating management.

The DGS' commitment to maintaining an adequate and effective control environment is shown by the inclusion of a set of Core Values as part of the previously discussed Strategic Plan. The Core Values are the human factors that drive the conduct of DGS' organization and that function as a guide to the development and implementation of all policies and actions. They are a summary of the operating philosophies that will be used in fulfilling the department's mission and vision. The DGS operates from the following Core Values that drive its business:

- **Integrity** – we do the right things for the right reasons.
- **Accountability** – we hold ourselves and each other responsible for all we do.

---

<sup>1</sup> *The Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



- **Communication** – we listen and share information openly and honestly with the goal of mutual understanding and transparency.
- **Excellence** – we strive for the best for each other and our customers.
- **Innovation** – we cultivate ideas and implement improvements throughout our organization.
- **Teamwork** – we value our organizational diversity and work together to achieve great results.

### VACANT POSITIONS

During this biennial period, the OAS audited DGS' compliance with Government Code Section 12439 as part of its review of systems of internal control for personnel and payroll (See Appendix I, Report No. 8163, dated November 2009). The audit verified that the department's personnel operations complied with Government Code Section 12439, which addresses the abolishment of positions vacant for six consecutive monthly pay periods within one fiscal year or between two consecutive fiscal years. The DGS' compliance includes the implementation of policies and procedures which ensure that vacant positions that continue to be needed for program operations are closely monitored by the DGS' executive management and human resources staff to ensure that the positions are filled within six-months, unless one of the exempting conditions provided in statute will prevent a position's abolishment at the end of that period of time.

### RISK ASSESSMENT

The DGS has not developed and implemented a formal enterprise-wide risk management process. However, executive management is fully aware of their responsibility for understanding, managing and monitoring operating risks. The previously discussed Strategic Plan provides an example of the department's commitment to managing risks. The plan's goals and strategies provide direction to achieve DGS' mission. In support of the overall Strategic Plan and in continuance of the strategic management process, each DGS division and office is creating detailed business plans that identify objectives and contain action plans that align with the department's goals. DGS divisions and offices are using the plans to guide operations, prioritize workload and allocate resources. As part of DGS' continuous improvement process, each office will also provide regular status reports. Ultimately, the division and office plans will contain performance measurements that will provide the necessary information to evaluate the progress and improve services to better serve customers.

Although DGS does not have a formal risk management process, as part its responsibilities, the OAS establishes risk-based audit plans to determine the priorities of its internal audit activities. The OAS provides an independent, objective assurance and consulting function designed to add value and improve the DGS' operations. The OAS helps the DGS accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

In brief, to align the internal audit activity's priorities, scope of work, and use of resources with the DGS' enterprise risk management framework, as part of its audit planning process, the OAS performs a risk analysis of each of the offices within DGS and incorporates that analysis when determining audit priorities. Matters considered in establishing audit priorities include: (1) the date and results of the last audit; (2) financial exposure; (3) potential loss and risk; (4) requests by management; (5) major changes in operations, programs, systems, and controls; and, (6) opportunities to achieve operating benefits. The OAS' audit plans are flexible so that

adjustments may be made as a result of changes in management strategies, external conditions, major risk areas, or revised expectations about achieving the organization's objectives.

It should be noted that a recent quality assurance review verified that the OAS' operations are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The review included an assessment of the OAS' planning and risk assessment processes<sup>2</sup>.

### **EVALUATION OF RISKS AND CONTROLS**

In accordance with the International Standards for the Professional Practice of Internal Auditing and to meet FISMA reporting and review requirements, the OAS has implemented a long-standing and on-going comprehensive internal audit program that includes reviews of the DGS' systems of internal accounting and administrative controls. To provide an opinion on the DGS' systems of internal control, the OAS aggregated the results of individual assessments of internal controls completed during the period January 1, 2008 through December 21, 2009, including those issued by external audit agencies. In the Appendices to this report, information is provided on all of the internal accounting and administrative control audit reports issued since December 31, 2007, which was the date of our last report on internal controls.

### **CONCLUSION**

As provided on Page 7 of this report, in our opinion, there is reasonable assurance that the systems of internal control at the DGS for the period ended December 21, 2009 were adequate to achieve reliable information, effective and efficient operations, safeguarding of assets, and compliance with applicable laws, regulations and contracts.

Our biennial audit did not disclose any significant internal control problems or weaknesses which would be considered pervasive and pose an unacceptable risk in their effects on the department's overall systems of internal control. However, the OAS and the Bureau of State Audits issued reports that contained findings and recommendations that needed to be addressed by management to assist in bringing various systems of internal accounting and administrative control into compliance with FISMA. The Appendices to this report include the corrective actions that have been taken or are being taken to address the recommendations made in those reports. The OAS tracks each outstanding recommendation until resolution.

The following sections of this report contain detailed information on our internal auditing coverage for the period January 1, 2008 through December 21, 2009.

If you need further information or assistance on this report, please contact me at (916) 376-5058.



RICK GILLAM, CPA, CIA  
Chief, Office of Audit Services

<sup>2</sup> Quality Assurance Review – Self-Assessment with Independent Validation Report, dated September 2008. The independent validation was performed by the Department of Finance's Office of State Audits and Evaluations.

cc: Scott Harvey, Chief Deputy Director  
Stephen Amos, Chief Deputy Director  
Teresa Bierer, Deputy Director, Administration Division  
Erika Sperbeck, Chief, Office of Fiscal Services

**DEPARTMENT OF GENERAL SERVICES  
REVIEW OF SYSTEMS OF INTERNAL CONTROL**

**AUDITOR'S OPINION**

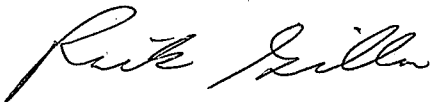
We have completed the program of internal auditing coverage of the systems of internal control at the Department of General Services (DGS) for the period January 1, 2008 through December 21, 2009. The internal auditing work was performed in accordance with the International Standards for the Professional Practice of Internal Auditing and included such tests and appraisals of the component policies, procedures, systems, and processes as were considered necessary for the department.

Based on the results of our audit tests and programs, we can continue to report that our audit efforts did not disclose any significant internal control problems or weaknesses which would be considered pervasive and pose an unacceptable risk in their effects on the department's overall systems of internal control.

In the Appendices to this report, information is provided on all of the internal accounting and administrative control audit reports issued since December 31, 2007, which was the date of our last report on internal controls. In some cases, these reports presented findings and recommendations that, while not considered to be significant control problems or weaknesses, needed to be addressed by management to assist in bringing various systems of internal accounting and administrative control into compliance with the Financial Integrity and State Manager's Accountability Act of 1983 (Sections 13400 through 13407, Government Code). Based on our review of auditee responses and status reports, we determined that management has a strong commitment to addressing reported areas for improvement.

In conclusion, in our opinion, there is reasonable assurance that the systems of internal control at the DGS for the period ended December 21, 2009 were adequate to achieve reliable information, effective and efficient operations, safeguarding of assets, and compliance with applicable laws, regulations and contracts.

Controls cannot prevent all problems because they would not be cost-effective. Moreover, the effectiveness of controls change over time. Limitations which may hinder the effectiveness of an otherwise adequate system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by an audit.



RICK GILLAM, CPA, CIA  
Chief, Office of Audit Services

# **DEPARTMENT OF GENERAL SERVICES REVIEW OF SYSTEMS OF INTERNAL CONTROL**

## **INTRODUCTION**

This audit by the DGS' Office of Audit Services (OAS) was conducted to comply with State requirements. Specifically, in accordance with State Administrative Manual (SAM) Section 20060, the Department of General Services (DGS) is required to conduct an internal review on the adequacy of its systems of internal accounting and administrative control. As provided in its Audit Charter, the OAS performs the internal control review in accordance with the International Standards for the Professional Practice of Internal Auditing. The resulting audit report is to be attached to a transmittal letter that is to be submitted by the DGS' Director to the Agency Secretary by December 31 of each odd-numbered fiscal year. Copies of the transmittal letter and audit report are also forwarded to the Governor's Office, Legislature, Bureau of State Audits, California State Library and Department of Finance.

## **BACKGROUND**

To ensure that State agency internal control systems are in place and operative, the Legislature enacted the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA) (Sections 13400 through 13407, Government Code). FISMA provides that State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

FISMA also requires that the head of each State agency submit a report on the adequacy of his/her agency's systems of internal control on a biennial basis but no later than December 31 of each odd-numbered year. Further, FISMA requires that the Director of Finance establish a system of reporting and a general framework to guide agencies in performing evaluations on their systems of internal control. SAM Section 20060 was implemented to provide this system and framework.

## **SYSTEMS OF INTERNAL CONTROL**

The International Standards for the Professional Practice of Internal Auditing published by The Institute of Internal Auditors, Inc. (IIA) provide that internal auditors must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

1. Reliability and integrity of financial and operational information.
2. Effectiveness and efficiency of operations.
3. Safeguarding of assets.
4. Compliance with laws, regulations and contracts.

**DEPARTMENT OF GENERAL SERVICES**  
**Introduction, Cont'd**

---

Internal accounting and administrative controls make-up the systems of internal control within an agency. These systems contain the methods that provide reasonable assurance that measures adopted by State agency heads fulfill the areas specified for evaluation by the IIA. According to FISMA, the elements of a satisfactory system of internal accounting and administrative control shall include, but not be limited to, the following:

1. A plan of organization that provides segregation of duties appropriate for proper safeguarding of State agency assets.
2. A plan that limits access to State agency assets to authorized personnel who require these assets in the performance of their assigned duties.
3. A system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.
4. An established system of practices to be followed in the performance of duties and functions in each of the State agencies.
5. Personnel of a quality commensurate with their responsibilities.
6. An effective system of internal review.

**OBJECTIVE AND SCOPE OF REVIEW**

The objective of our review was to determine if the DGS has established and maintained systems of internal control that are adequate to provide reasonable assurance that the primary objectives of internal control specified by the IIA and discussed above are achieved.

The scope of our review involved the study and evaluation of the DGS' systems of internal control for the period January 1, 2008 through December 21, 2009. To develop our opinion on the overall internal control system, we relied on the results of audit reports issued subsequent to our previous biennial internal control report dated December 31, 2007.

**METHODOLOGY**

To determine the sufficiency of the DGS' systems of internal control, we reviewed all reports on DGS operations that involved a study and evaluation of systems of internal accounting and/or administrative control that were completed subsequent to December 31, 2007, including those issued by external audit agencies. A summary of those reports, which includes reported findings and auditee responses, is presented in the Appendices to this report. The summary includes information on seven reports issued by the OAS (Appendix I) and three reports issued by the Bureau of State Audits (Appendix II).

The following section entitled "Audit Activities – Accounting and Administrative Controls" contains further information on the objectives, scope and methodology of the individual reviews of the systems of internal control at the DGS.

# DEPARTMENT OF GENERAL SERVICES

## REVIEW OF SYSTEMS OF INTERNAL CONTROL

### AUDIT ACTIVITIES – ACCOUNTING AND ADMINISTRATIVE CONTROLS

The following sections provide information on reports issued on the Department of General Services' (DGS) systems of internal accounting and administrative control. Since our previous biennial report on internal controls dated December 31, 2007, ten reports have been issued on various systems of internal accounting and administrative control within the DGS. In some cases, these reports presented findings and recommendations that, while not considered to represent significant internal control problems or weaknesses, needed to be addressed by management.

For this report, we have separately categorized the audit activities between reviews of systems of accounting and administrative controls. While there is not a clear distinction between what is an accounting control and what is an administrative control, accounting controls primarily comprise the methods and procedures directly associated with the safeguarding of assets and assuring the reliability of accounting data. Administrative controls primarily comprise the methods and procedures that are concerned with operational efficiency and adherence to management policies.

#### **ACCOUNTING CONTROLS**

Our assessment of the DGS' systems of internal accounting controls is primarily based on the results of our ongoing reviews of the adequacy and effectiveness of controls over transaction cycles either administered by the Office of Fiscal Services (OFS) or the Office of Human Resources (OHR). A transaction cycle is defined as the route by which a type of transaction flows from inception to final reporting. The OFS administers the following transaction cycles: budget; cash receipts; receivables; purchasing; cash disbursements; revolving fund; fixed assets; and, financial reporting. The OHR administers the department's personnel and payroll transaction cycle.

Our review of the transaction cycles primarily involves determining whether sufficient policies and procedures have been implemented to provide reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and, (3) financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual (SAM). Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. These actions should result in material errors and improper or illegal acts being prevented or detected and corrected within a timely period by employees in the normal course of performing assigned duties.

The Office of Audit Services (OAS) has implemented an audit plan that includes a goal of reviewing all transaction cycles within a four-year period. During the period covered by this report, the OAS completed an assessment of the DGS' systems of internal accounting control for the budget and personnel and payroll transaction cycles.

We concluded that, as applicable, the OFS and OHR have established adequate and effective systems of internal accounting control over the budget and personnel and payroll transaction

## **DEPARTMENT OF GENERAL SERVICES**

### **Audit Activities – Accounting and Administrative Controls, Cont'd**

---

cycles. The DGS' systems of internal accounting control administered by those offices provide reasonable assurance that assets are safeguarded, transactions are properly executed and recorded, and financial operations are conducted in compliance with SAM requirements.

To determine the adequacy and effectiveness of the systems of internal accounting control, we reviewed policies and procedures, interviewed parties involved, observed operations, tested records and transactions and performed other tests as deemed necessary. An audit guide issued by the Department of Finance was used to assist us in our evaluation of the systems of internal accounting control.

Appendix I to this report provides information on the audit reports issued to the OFS on its budgeting operations (Report No. 8168) and the OHR on its personnel and payroll operations (Report No. 8163). The personnel and payroll report identified findings that, while not considered to be significant control problems or weaknesses, needed to be addressed by management to assist in bringing various systems of internal accounting control into compliance with the Financial Integrity and State Manager's Accountability Act of 1983. Appendix I also provides information on two limited scope audits that were conducted during this biennial reporting period which involved a review of internal accounting controls: Review of Travel Related Expenses Using CAL-Card (Report No. 9177) and Review of the Telecommunications Division's Systems of Internal Control for Sensitive Property Items (Report No. 8162). The results of the referenced audits provide sufficient information on the DGS' material systems of internal accounting control to allow us to come to a conclusion on the adequacy and effectiveness of those systems.

#### **ADMINISTRATIVE CONTROLS**

Our assessment of DGS' systems of internal administrative controls is primarily based on cyclical operational audits performed by the OAS of DGS' offices that have statewide service and/or control responsibilities and/or special reviews of a specific operation or program requested by DGS' executive management and approved by the Director and a Chief Deputy Director. The overall objective is to have at least two operational audits in-progress within the department at any one time. Currently, the DGS has thirteen offices that perform activities which if not properly performed present a risk that the department may not be providing efficient and effective centralized business management functions and services to other State agencies.

In addition, an external audit agency, the Bureau of State Audits (BSA), completed three audits that were included in our assessment of DGS' systems of internal administrative controls. According to its most recent external peer review dated October 6, 2008, the system of quality control of the BSA in effect for the period July 1, 2007 through June 30, 2008 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards. Therefore, in the OAS' professional judgment, the BSA's work can be relied on for internal audit purposes.

Appendix I to this report provides information on the three audit reports issued by the OAS during the period of our review, while Appendix II provides information on the three reports issued by the BSA. Although the reports contained reportable areas for improvement, none of the reported issues either represent or are representative of a significant problem or weakness within the DGS' systems of internal control. Appendix I also includes status information on an audit report (Report No. 5101) on Division of the State Architect (DSA) operations that was included in our previous biennial report on internal controls. As of December 2009, the DSA



**DEPARTMENT OF GENERAL SERVICES**

**Audit Activities – Accounting and Administrative Controls, Cont'd**

---

had not fully addressed a number of our recommendations, which are continuing to be tracked until resolution. Therefore, updated status information is presented in this report.

Our analyses of auditees' written responses and status reports disclosed that appropriate actions appear to have been or are being taken to address reported findings. In most cases, the auditee has indicated that recommendations have been or are being implemented.

**CONCLUSION**

The DGS' management has consistently responded to audit findings in a positive manner. In almost all instances, written responses to OAS and/or external auditor reports have indicated that prompt actions would be taken to address reported problems or weaknesses in systems of internal accounting and administrative control. This provides an indication of management's significant commitment to improving policies and procedures.

DEPARTMENT OF GENERAL SERVICES  
REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
BY THE OFFICE OF AUDIT SERVICES  
OVER THE PERIOD  
JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
<b>INTERNAL ACCOUNTING CONTROLS:</b>						
TD – Telecom- munications Division	8162	03/08	Systems of Internal Control for Sensitive Property Items	The TD has established adequate and effective systems of internal control over its sensitive property items. The TD's systems of internal control provide reasonable assurance that its sensitive property items are adequately safeguarded in accordance with State and DGS property management requirements. Specifically, we found that the TD's internal control system for sensitive property includes: (1) a central property unit responsible for overseeing the division's property management processes, including property item receipts, decals, transfers, surveys and physical inventories; (2) written operating policies and procedures, including detailed security policies governing laptop computers; (3) the maintenance of a property register containing detailed information on each sensitive property item, including date acquired, description, identification number and cost; (4) the tagging of sensitive property items as State property; (5) the maintenance of a physical security system, including monitoring activities through the use of a system of interior and exterior cameras; and, (6) the conduct of biennial physical inventories.	Not applicable. There were no reportable findings and recommendations.	Not applicable. There were no reportable findings and recommendations.

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
OFS – Office of Fiscal Services	8168	03/08	Systems of Internal Accounting Control for the Budget Cycle	The OFS has established adequate and effective systems of internal accounting control over the budget function. Our review included the verification that amounts appropriated in the final 2007/08 Budget Bill/Act were accurately recorded in DGS' financial control records. Specifically, we verified that the total amount appropriated for the support of DGS' operations was accurately recorded on the department's various financial planning, reconciliation and control documents, including a departmental Budget Report that tracks expenditures, encumbrances and allotments. For the 2007/08 fiscal year, \$979,445,000 was appropriated for the support of DGS' operations, with \$718,655,000 of that amount payable from the SRF. Based on our sample tests, we also verified that Budget Change Proposal augmentations approved for the 2006/07 fiscal year were allocated to the appropriate DGS office/program.	Not applicable. There were no reportable findings and recommendations.	Not applicable. There were no reportable findings and recommendations.
ISD – Interagency Support Division	9177	06/09	Review of Travel Related Expenses Using CAL-Card	This was a limited review that primarily addressed the use of the CAL-Card program for travel related expenses by State and local governmental entities during the 2008 calendar year. Except for DGS transactions, our review was limited in scope and did not include	Not applicable. There were no reportable findings and recommendations.	Not applicable. There were no reportable findings and recommendations.

- 14 -

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
BY THE OFFICE OF AUDIT SERVICES  
OVER THE PERIOD  
JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
OHR – Office of Human Resources	8163	11/09	Systems of Internal Control for Personnel and Payroll	<p>in-depth transaction testing to verify the accuracy of the CAL-Card usage data. The only relevant information involving DGS' systems of internal accounting control relates to DGS' usage. We did not develop any concerns with the DGS' use of CAL-Card to pay for travel related expenses. The expenses totaled only \$1,604 and complied with State policies.</p> <p>Overall, we found that OHR has implemented sufficient policies and procedures for five of the seven control objectives evaluated during our review. Specifically, OHR has established adequate and effective systems of internal control for: (1) initiating and processing personnel/payroll transactions; (2) separating duties involved in the personnel/payroll function; (3) approving and certifying personnel/payroll transactions by authorized personnel only; (4) recording payroll expenditures correctly, staying within budget and allocating costs to the correct fund and program; and, (5) following State policies and procedures regarding employee leave. Further, except for a need for improvement in the process used to calculate lump sum pay due to separating employees, we found that OHR is maintaining adequate clearance</p>		The first status report on this audit is due on May 24, 2010.

-15-

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				<p>procedures for separating employees.</p> <p>We identified the following areas for improvement related to policies and procedures used to process salary overpayments and advances and to calculate lump sum pay due to separating employees.</p> <ul style="list-style-type: none"> <li>Salary overpayment policies and procedures are not ensuring that amounts owed by current and separated employees are promptly collected by the department.</li> <li>Current policies and procedures are not ensuring that supervisory personnel verify the accuracy of lump sum pay calculations for separating</li> </ul>	<p>The OHR supplied a very detailed and complete response to this issue. In brief, the OHR is implementing a number of new procedures to address this finding. The actions being taken include: (1) developing new written procedures; (2) working with Office of Fiscal Services staff in improving collection processes; (3) tracking outstanding receivables monthly; (4) assigning a person to serve as the lead on reconciling and tracking receivables; (5) improving the hiring process to reduce the need for some receivables; and, (6) educating program supervisors and managers on the importance of the timely completion and approval of timesheets to address late dock issues. Reducing the number of outstanding receivables by 25% by the end of this fiscal year is also in the Personnel Transaction Unit's (PTU) Strategic Plan.</p> <p>The procedures for separating employees who have lump sum pay are being reviewed and necessary changes are being made. The lump sum calculation worksheet will be revised to</p>	

- 16 -

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				<p>employees. Because of the complexity of its calculation and the importance of its accuracy, the performance of a supervisory review of each lump sum payment calculation is a necessary control procedure.</p> <ul style="list-style-type: none"> <li>• Policies and procedures have not been implemented which ensure that salary advances are recovered in a timely manner.</li> </ul>	<p>include the personnel specialist and supervisor signatures and date of review. Supervisors and specialists will also be reminded of the required second review of the lump sum calculation during monthly all staff meetings.</p> <p>The PTU manager met with the PTU analyst to review the procedures already in place. Feedback from the review was provided to the analyst and the necessary changes have been made, which has resulted in new procedures that are in draft format. PTU management has implemented most of the changes in the procedures even though they have not been finalized. This includes the monitoring of monthly outstanding salary advances by a personnel supervisor. Reducing the number of outstanding salary advances by 25% by the end of this fiscal year is also in PTU's Strategic Plan.</p>	

**INTERNAL ADMINISTRATIVE CONTROLS:**

PD – Procurement Division	8177	08/08	Contractor Compliance	This audit of Office Depot, Inc. primarily addressed compliance with the pricing and commercially useful function provisions of Contract No. 1S-06-75-55, which was entered into to provide office supplies to the State of California and local governmental agencies. As discussed in the Conclusion section of the report, although the
---------------------------------	------	-------	--------------------------	--

These issues are being tracked on a quarterly basis until resolution. The last status report as of September 30, 2009 indicated that, although progress has been made, the issues contained in our report have yet to be fully addressed. The status of actions being taken is summarized below.

\* Summarized from the auditee's written response to a draft audit report.  
 \*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				<p>focus of our audit was on Office Depot's compliance with Contract provisions, we observed a number of issues that needed to be addressed related to PD's internal acquisition and contract management functions.</p> <p>The OAS is tracking the following general acquisition and contract management issues that were discussed in the Conclusion section of the report:</p> <ul style="list-style-type: none"> <li>• Implementation of policies and procedures that require the completion of a specific worksheet or other document to capture the results of PD's commercially useful function (CUF) assessment that is performed during the acquisition process.</li> <li>• Implementation of additional contract administration practices which: (1) include the use of Contract Management Plans; (2) provide for the additional training and supervision of staff; and, (3) ensure that key activities and decisions are fully documented in the contract file.</li> </ul>	<p>A worksheet has been developed to capture the four tests prescribed by statute and document CUF compliance for both prime and subcontractor bidders to a State contract. The worksheet is scheduled for full implementation by early January 2009.</p> <p>The PD is taking these recommendations very seriously and is working on: (1) finalizing its Contract Management Plan; (2) developing advanced training for contract administrators within its California Procurement Academy; and, (3) finalizing new procedures for maintaining contract files. Further, PD is exploring new internal policies for providing professional oversight of contracts including contract administrator workload assignments to better reflect the complexity of contracts, more frequent meetings of</p>	<ul style="list-style-type: none"> <li>• <b>CUF Assessment</b> – The PD's Contract Management Unit is now using a CUF evaluation worksheet. Policy staff is currently reviewing the form. The worksheet's use will require management vetting before implementing the document as a standard form for PD and external departments use. Date of implementation has not been determined.</li> <li>• <b>Contract Administration</b> – PD continues work on: (1) finalizing two Contract Management Plan (CMP) templates. One template will be used for the straightforward statewide contracts that require minimal administration – e.g. monthly usage reporting. The other CMP template will address the more complex contracts. The PD is currently rolling out the CMP templates on a pilot basis. Three recently awarded contracts have been identified for its use (paper contract, open office panel system, and vehicles). Full implementation for distributing the CMP templates to the Contract Management Units is anticipated for January 2010. Contract administrators have instituted quarterly contractor meetings to review supplier performance and contract issues on a routine basis; (2) as to the training of contract administrators, the PD indicated that it did not have a plan for implementation, but will</li> </ul>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
BY THE OFFICE OF AUDIT SERVICES  
OVER THE PERIOD  
JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
					the Contract Management Team, and peer review of documents.	work to develop a plan during the December quarterly reporting period; (3) finalizing new procedures for maintaining contract files – Initial discussions have taken place during this reporting period to develop and/or revise the current contract filing system. Because this effort includes both hard copy and electronic filing systems, the PD anticipates a preliminary plan by the next reporting period and implementation by 2 <sup>nd</sup> quarter of 2010.
ORIM – Office of Insurance and Risk Management	7185	12/08	Operations	<p>This was an operational review of the Natural Gas Services Program (NGS), which is administered within ORIM. Although overall we concluded that ORIM has established adequate and effective policies and procedures for the payment of NGS' gas suppliers and utility companies and the associated cost recovery activities from program customers, we identified the following areas for improvement in NGS' operations.</p> <ul style="list-style-type: none"> <li>Written operating procedures have not been developed to govern NGS' program and administrative operations.</li> </ul>	<p>NGS will develop an action plan to accomplish the documentation of processes. This task will of necessity be subordinated to on-going operational performance. NGS is currently developing a formal allocation of responsibilities in this process, associated with a schedule for completion.</p>	<p>A status report dated August 3, 2009 indicated that the written operating procedures and crisis recovery plan issues had not been fully addressed. The second status report on this audit is due February 16, 2010. The status of actions being taken is summarized below.</p> <ul style="list-style-type: none"> <li><b>Written Operating Procedures –</b> A complete set of written operating procedures has been developed of the Monthly Billing Cycle Process and Procedures. Additional operating procedures have been created for several other NGS processes and are in varying stages of development. The loss of 14% of available staff time to the furlough process has sharply limited available staff time resources for these efforts.</li> </ul>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.



DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				<ul style="list-style-type: none"> <li>• Current recordkeeping policies and procedures are not ensuring that adequate data is always maintained to support NGS' transactions.</li> <li>• ORIM's operating practices do not provide that its Office Chief review NGS Transaction Confirmation (TC) agreements involving the purchase of under \$6 million of natural gas.</li> <li>• ORIM has not developed a formal crisis recovery plan for NGS to assist in ensuring the maintenance of ongoing operations if the NGS Program Manager and/or the contracted natural gas services advisor were for some reason to become unavailable to perform and/or administer program functions and activities.</li> </ul>	<p>Recordkeeping policies and practices are now in place and will be formally documented as part of the previously discussed written operating procedures process.</p> <p>NGS has instituted a process in which all TC's, regardless of amount, are reviewed monthly by the ORIM's Office Chief.</p> <p>Under current budget and staff conditions, development of a crisis recovery plan is difficult, if not impossible. However, the NGS and ORIM will continue to work on the development of a plan. There are two key personnel whose roles have no backup currently available. Because of the highly specialized nature of a natural gas risk management program, with no other similar departmental or State programs to draw on, skill and experience of replacement staff and consultants must be developed internally within the program, while still maintaining a high level of accuracy and service in the monthly cycle.</p> <p>A plan to train backup for the NGS Program Manager is in development, but currently requires the sacrifice of an essential working staff position. This is not possible given the critical need to maintain the monthly NGS processes. Backing up the key outside consultant also requires an additional State position</p>	<ul style="list-style-type: none"> <li>• <i>Crisis Recovery Plan</i> – no progress has been made due to the budget and staff conditions that were cited in the original response.</li> </ul>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
OSP – Office of State Publishing	9141	11/09	Information Security	<p>This was a review of the systems of internal control maintained over hard copy media containing confidential, sensitive or personal information that is stored or processed for destruction by the State Records Center (SRC). The SRC's operations are overseen by the OSP. We concluded that the SRC has established adequate systems of internal control over hard copy media containing confidential, sensitive or personal information. The SRC's systems of internal control provide reasonable assurance that hard copy media (primarily paper) under its control is adequately safeguarded in accordance with State and DGS information security requirements. Specifically, we found that the SRC has implemented sufficient policies and procedures governing the role of its staff in ensuring information security, including the training of employees in their security responsibilities and implementation of procedures which ensure that agency information assets are not accessible to former employees. Further, the SRC has implemented sufficient policies and procedures</p>	<p>with NGS at the staff level, the creation of the Manager backup (program assistant manager), and the identification of alternative gas purchasing services.</p> <p>Not applicable. There were no reportable findings and recommendations.</p>	<p>Not applicable. There were no reportable findings and recommendations.</p>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				governing the physical security of its facilities, including controlling the physical access by facility staff and outsiders to information assets that are in storage or being processed for destruction.		
DSA – Division of the State Architect	5101	12/07	Operations	<p>Although this report was issued in the prior biennial reporting period ending December 31, 2007, we have again included it within this period's evaluation of systems of internal control due to some of the issues not being fully addressed as of December 2009. Although most of the issues contained in our report have been fully addressed by the DSA, the following reported areas for improvement in the DSA's plan review and retainer contracts operations have not been fully addressed and are still being tracked until resolution.</p> <ul style="list-style-type: none"> <li><b>Plan Review</b> – our review of the plan review function found that: (1) formal quality control review procedures have not been implemented for the various types of review disciplines; (2) published expected timelines for completion of the plan review process are often not being met by the regional offices; and, (3) the DSA's project management system,</li> </ul>	<p>The DSA's supervisors will be performing the quality assurance role in each of its offices. The issue of timely plan review has been improved significantly by hiring additional staff and increasing the use of Retainer Contract Consultants to provide plan review services in all three disciplines on an as needed basis. Staff has also been directed to keep eTracker entries up to date and the use of that system has improved during the last six months.</p>	<p>These issues are being tracked on a quarterly basis until resolution. The last status report as of September 30, 2009 indicated that, although progress has been made, some of the issues contained in our report have yet to be fully addressed. The status of actions being taken is summarized below.</p> <p>In May 2009, the DSA contracted for a comprehensive organizational assessment of its operations. This 18 month assessment includes within its scope the outstanding issues noted in our report.</p> <p>The DSA organizational assessment provided by the contractor will:</p> <ul style="list-style-type: none"> <li>identify the best throughput process to use as a standard for ensuring timely plan review services;</li> <li>develop performance metrics for monitoring staff plan review productivity, efficiency, and accuracy;</li> <li>verify compliance with the plan review policies and procedures that</li> </ul>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.

DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF INTERNAL CONTROL  
 BY THE OFFICE OF AUDIT SERVICES  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

OFFICE REVIEWED	REPORT NUMBER	REPORT DATE	AUDIT OF	FINDINGS	RESPONSE BY AUDITEE *	STATUS **
				<p>eTracker, is not being maintained in an accurate and complete manner.</p> <ul style="list-style-type: none"> <li>• <b>Retainer Contracts</b> – our review of the retainer contracting function found that: (1) a consistent methodology is not being used by the regions in calculating Estimate of Value of Services' (EVS) costs for the various plan review disciplines. Further, the rationale for the various rates used in conjunction with the EVS calculation could not be adequately supported or explained by region staff; and, (2) the hourly rates used to estimate costs by classification for negotiation purposes have not been updated in many years and may not reflect current conditions.</li> </ul>	<p>The DSA is starting a thorough fiscal analysis of the division's operating budget that will include the EVS process. These activities will address the audit findings.</p>	<p>ensure a list of required documents are provided to clients in a timely manner; and;</p> <ul style="list-style-type: none"> <li>• provide plan review written policies and procedures to ensure that quality control reviews are being performed by the supervisors in each discipline and that project information is input into e-Tracker completely, accurately, and timely.</li> <li>• for retainer contracts, address the EVS and other factors such as rates, processes, and procedures. One of the deliverables of the organizational assessment is expected to be written recommendations on changes to the policies and procedures to establish consistency in the calculation and rates of the EVS process and to ensure the rates reflect the industry standards.</li> </ul>

\* Summarized from the auditee's written response to a draft audit report.

\*\* Status is based on a written report received from the auditee.



SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
California Highway Patrol: It Followed State Contracting Requirements Inconsistently, Exhibited Weaknesses in Its Conflict-of-Interest Guidelines, and Used a State Resource Imprudently.	2007-111	01/08	<p>The Bureau of State Audits (BSA) addressed recommendations to the Department of General Services (DGS) resulting from its audit of the California Highway Patrol's (CHP) purchasing and contracting practices and its use of State resources.</p> <p>In summary, the BSA concluded that neither CHP nor DGS has always followed the State's procurement requirements. For DGS, this conclusion was based on the BSA's review of handgun and patrol car electronic purchases conducted by DGS' Procurement Division (PD) for the CHP in May 2006 and June 2005, respectively.</p> <p>In the report's summary, the BSA also expressed concern that DGS has not finalized a settlement agreement with a motorcycle manufacturer, BMW Corporation, regarding buyback provisions within two voided contracts with a BMW motorcycle dealer.</p>	<p>The BSA report contained five recommendations within two chapters. The following identifies each recommendation and DGS' original response.</p> <p style="text-align: center;"><b>CHAPTER 1</b></p> <p><b>RECOMMENDATION # 1: General Services should verify that the lists of bidders that state agencies supply it reflect potential bidders that are able to bid according to the requirements specified in the bid.</b></p> <p><b>DGS RESPONSE # 1:</b> The verification of bidder list information by buyers represents existing procedure and best practices at the DGS. By January 15, 2008, the PD will issue instructions to acquisition staff reemphasizing the necessity of verifying that potential bidders listed by State agencies are able to bid according to the requirements specified in the bid.</p> <p><b>RECOMMENDATION # 2: To ensure that state agencies use the sole-brand procurement method appropriately and not in a manner to avoid the stricter justification requirements for noncompetitive procurements, General Services</b></p>	<p>As noted below, the BSA's recommended actions have been fully addressed.</p> <p>The following information was contained in a March 18, 2008 status report to the BSA. This recommendation has been fully implemented. The verification of bidder list information by buyers represents existing procedure and best practices at DGS. On January 18, 2008, DGS' PD issued instructions to acquisitions staff reemphasizing the requirement to verify that potential bidders provided by State agencies are able to bid according to the requirements in the bid. Further, PD management held meetings with acquisitions staff during February 2008 to emphasize the importance of verifying potential bidders' lists to ensure adequate competition for the requirements specified in the bid. The handgun procurement discussed in BSA's report was used as a case study to illustrate the need to conform to this requirement.</p> <p>The following information was contained in a November 10, 2009 status report to the BSA. This recommendation has been fully implemented. The recommendation was primarily addressed in April 2008 with the implementation of additional policies on</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
				<p>should study the results from its review procedures related to sole-brand purchases. Based on the results of its study, General Services should assess the necessity of incorporating specific information on sole-brand purchases into its existing procurement reporting process to evaluate how frequently and widely the sole-brand purchase method is used.</p> <p><b>DGS RESPONSE # 2:</b> Within the next 60 days, the PD's Purchasing Authority Management Section will develop a survey plan which includes provisions for contacting State departments that have delegated purchasing authority regarding the frequency of their sole-brand procurements. By September 1, 2008, the DGS will determine whether a process should be established for State departments to report their use of sole-brand procurements to the PD.</p>	<p>overseeing the conduct of transactions that resulted in the limiting of competitive bidding (LCB). On April 15, 2008, the PD disseminated a broadcast to departments announcing a change to the State's policies on conducting LCB procurements to make them more closely align with the more restrictive procurement policies governing the conduct of non-competitively bid transactions. Specifically, the State's policies were revised to require that all LCB procurements valued at greater than \$25,000 be submitted to the DGS for review and approval, regardless of whether the DGS/PD or the submitting department would be conducting the transaction. The implementation of these policies ensures that higher risk LCB transactions are reported to the DGS and properly overseen for compliance with the State's competitive procurement requirements:</p> <p>At the time of our one-year status report in January 2009, the DGS' intent was to also establish a quarterly reporting requirement for departments to report LCB purchasing data for transactions of \$25,000 or less to the PD. However, prior to developing the new reporting requirement, the PD determined that the State's new electronic State Contract and Procurement Registration System (eSCPRS) had the ability to provide LCB transaction data, which alleviated the need for an additional quarterly reporting requirement. The eSCPRS is</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
				<p><b>RECOMMENDATION # 3:</b> To ensure that state procurements are competitive whenever possible, General Services should revise Section 3555 to require that state agencies address all of the factors listed in that section when submitting justification statements supporting their purchase estimates for noncompetitive or sole-brand procurements. In addition, if General Services believes that the law exempting provisions in the administrative manual and the contracting manual related to competitive procurement requires clarification to ensure that the requirements in those publications are regulations with the force and effect of law, General Services should seek legislation making that clarification.</p> <p><b>DGS RESPONSE # 3:</b> The PD has assigned staff to promptly review and determine if a revision to SAM Section 3555 to require agencies to submit</p>	<p>a module within the State's web-based eProcurement system that was implemented in March 2009. State buyers are required to enter information, including the acquisition method such as LCB, into eSCPRS for purchases of a dollar value over \$5,000. As deemed necessary, this information is being used for program monitoring and audit purposes.</p> <p>The following information was contained in a July 17, 2008 status report to the BSA. This recommendation has been fully implemented. On March 21, 2008, SAM Section 3555 was revised to require that State agencies address all of the factors listed in that section when submitting justification statements supporting their purchase estimates for sole-brand procurements. Specifically, the word "shall", revised from "should", was added to Section 3555 which has the effect of requiring State agencies to fully address the following when conducting limited competitive bid procurements.</p> <ul style="list-style-type: none"> <li>• The unique performance factors of the product specified.</li> <li>• Why are these specific factors required?</li> <li>• What other products have been examined and rejected and why?</li> </ul> <p>In addition, on April 15, 2008, PD disseminated a broadcast to departments explaining the need to provide adequate justification to support</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.



SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **	
				<p>specific justification statements and supporting information is necessary to improve the State's purchasing program. At the time of the two purchases, PD buyers developed or worked with departments to obtain additional information to justify a purchase that may not have been included in the department's original purchase request package. That practice has been revised to require that purchase requests submitted without adequate information in support of limited or non-competitive bidding be returned to the originating agency.</p>	<p>limited competitive bid procurements. The broadcast announced the change to State policy on limiting of competitive bidding (LCB) procurements and related revisions to SAM Section 3555 and State Contracting Manual Volume 2. The new policy includes provisions for departments to complete and maintain on-file an LCB statement justifying each sole-brand procurement.</p> <p>The PD has also issued additional direction to its staff for the internal processing of requests to limit competitive bidding. Specifically, on January 22, 2008, PD issued new procedures for staff to follow when evaluating agency purchase estimates/requisitions that include a justification for an LCB procurement. The procedures include provisions for the: (1) prompt return to departments of LCB purchase requests submitted without adequate supporting information; (2) completion of a specific justification form which contains detailed information on the need for an LCB purchase; (3) use of a new approval routing form, which mirrors the routing form used for Non-Competitive Bids (NCB) purchase requests, that requires requests in excess of \$500,000 to be reviewed and approved by both PD's Assistant Deputy Director and Deputy Director; and, (4) maintenance of a complete record of LCB justifications received and processed by PD.</p>	<p>As to the second part of the</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
--------------	---------------	-------------	---------------------	----------------------------------	-----------

recommendation, DGS has concluded that sufficient enforcement authority exists in current statute; therefore, additional clarifying legislation is not necessary to allow it to enforce provisions in the administrative manual and the contracting manual related to competitive procurement. Government Code Section 14615.1 specifically states that the State Administrative Manual and the State Contracting Manual are exempt from the Administrative Procedure Act. Thus, the Legislature impliedly found that provisions in these manuals have the force and effect of law, as if they are regulations.

CHAPTER 2

**RECOMMENDATION #1: General Services should continue negotiating with BMW Corporation regarding the cancelled contracts for motorcycles to develop a settlement agreement that is in the State's best interests.**

**DGS RESPONSE # 1:** BMW Corporation (BMW Motorrad USA) was not a party to either of the voided contracts that were with a BMW motorcycle dealership. Pursuant to the Invitation for Bid, BMW provided a "written commitment" that it "will complete and fulfill the requirements of the contract/purchase order in the event of a default" on the part of the dealer. Without that written commitment, the

The following information was contained in a March 18, 2008 status report to the BSA. This recommendation has been fully implemented. The negotiation process with BMW has concluded and was not successful in obtaining a settlement agreement regarding the motorcycle buyback program. The remainder of DGS' update repeated the original response.

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
--------------	---------------	-------------	---------------------	----------------------------------	-----------

contractor's bid would have been rejected. Since the contract was void as a matter of law, it became impossible for the contractor to perform under the voided contract. Demands for reimbursement of the contract were made to both the contractor and BMW. The contractor refused to acquiesce to the demand and another demand was made to BMW because of the contractor's failure to perform.

Settlement was, however, reached with the contractor at the same time discussions were occurring with BMW. In the settlement with the contractor, the contractor agreed to pay the State \$100,000. The settlement released all obligations under the contract with the contractor. Therefore, since under the settlement agreement all parties were released of their obligations under the void contract, there was no further cause of action against BMW as a result of the settlement.

As discussed in the BSA's report, the DGS attempted to continue discussions with BMW regarding the contract's buyback provisions but they were not pursued to resolution in a timely manner. In October 2007, DGS contacted the BMW Corporation and inquired as to BMW's current interest in buying back existing motorcycles. On January 3, 2008, BMW informed DGS that it had no interest in initiating a buyback program.

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
				<p><b>RECOMMENDATION # 2: General Services should ensure that all of its employees involved in making decisions on contracts complete the necessary transmittals and affidavits and that the agency retains these documents in the procurement files as evidence of conflict-of-interest screening.</b></p> <p><b>DGS RESPONSE # 2:</b> In January 2006, the PD implemented policies that require all project team members to complete conflict of interest affidavits for each individual acquisition. These affidavits are also required to be reviewed and approved by the project's supervisor. Further, if required for the specific purchase request, a conflict of interest transmittal form is to be approved by applicable PD management personnel.</p> <p>During its review the BSA developed concerns with the lack of a formal method to ensure that all applicable employees complete the conflict of interest forms and that completed forms are maintained within the purchase files. To ensure that conflict of interest affidavits are completed and included in the purchase files, the PD recently added a section to its purchase file index form, which staff is required to complete, to document that an affidavit has been completed and included within the purchase file. By January 31, 2008, the PD will revise the file index form to also include a notation related to the</p>	<p>The following information was contained in a March 18, 2008 status report to the BSA. This recommendation has been fully implemented. In January 2006, PD implemented policies that require all project team members to complete conflict of interest affidavits for each individual acquisition. These affidavits are also required to be reviewed and approved by the project's supervisor. Further, if required for the specific purchase request, a conflict of interest transmittal form is to be approved by applicable PD management personnel.</p> <p>During its review BSA developed concerns with the lack of a formal method to ensure that all applicable employees complete the conflict of interest forms and that completed forms are maintained within the purchase files. To ensure that conflict of interest affidavits are completed and included in the purchase files, prior to the completion of BSA's review, PD added a section to its purchase file index form, which staff is required to complete, to document that an affidavit has been completed and included within the purchase file. Subsequent to BSA's review, PD also revised the file index form to include a notation related to the completion of the conflict of interest transmittal form.</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
Electronic Waste: Some State Agencies Have Discarded Their Electronic Waste Improperly, While State and Local Oversight Is Limited	2008-112	11/08	<p>The BSA addressed a recommendation to the DGS resulting from its audit of State agency compliance with laws and regulations governing the recycling and disposal of e-waste.</p> <p>In summary, BSA found that the five State agencies examined as part of its audit appear to have in some instances improperly thrown electronic devices, or e-waste, in the trash. According to BSA, the lack of proactive guidance from oversight agencies, coupled with some State employees' lack of knowledge about proper e-waste management practices, contributed to the instances of improper disposal. In addition to DGS, the Department of Toxic Substances Control (DTSC) and the California Integrated Waste Management Board (CIWMB) have oversight responsibilities related to the State's e-waste recycling and disposal program. The DGS' Office of Surplus Property Reutilization (OSPR) is responsible for reviewing and approving all State agency dispositions of State-owned personal property, which can include e-waste devices such as computers and televisions.</p>	<p>The BSA report contained one recommendation addressed to DGS. The following identifies the recommendation and DGS' original response.</p> <p><b>RECOMMENDATION:</b> <i>To help state agencies' efforts to prevent their e-waste from entering landfills, Toxic Substances Control, the Waste Management Board, and General Services should work together to identify and implement methods that will communicate clearly to state agencies their responsibilities for handling and disposing of e-waste properly and that will inform the agencies about the resources available to assist them. This report identifies five specific approaches that the State could use to implement this recommendation. One approach is to have General Services, in consultation with Toxic Substances Control and the Waste Management Board, amend applicable sections of the State Administrative Manual to include e-waste among the items that state agencies are required to recycle.</i></p> <p><b>DGS RESPONSE:</b> The DGS will collaborate with the DTSC and CIWMB to seek additional methods to clearly</p>	<p>completion of the conflict of interest transmittal form.</p> <p>As noted below, the BSA's recommended actions have been fully addressed.</p> <p>The following information was contained in a November 10, 2009 status report to the BSA. This recommendation has been fully implemented. Over the last year, the DGS has actively worked with Toxic Substances Control and the Waste Management Board to seek additional methods to clearly communicate to State agencies their responsibilities for properly handling and disposing of e-waste and the resources available to assist them. As part of that process, the agencies held numerous meetings to discuss the BSA's findings and to develop actions to improve program compliance by State departments. Subsequently, the agencies collaborated to take the following actions to increase the knowledge of program requirements.</p> <ul style="list-style-type: none"> <li>In April 2009, the agencies provided department directors with information on the results of the BSA's audit and emphasized the need for departments to properly manage e-waste.</li> <li>In May 2009, the agencies jointly</li> </ul>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
				<p>communicate to State agencies their responsibilities for properly handling and disposing of e-waste and the resources available to assist them. After consultation with DTSC and CIWMB, the DGS will amend applicable sections of the State Administrative Manual to ensure that they clearly require the recycling or disposal of e-waste in accordance with applicable laws, regulations and policies.</p>	<p>presented a comprehensive training session on the recycling and disposal of e-waste that was attended by approximately 200 State agency personnel. The training targeted inventory and surplus property managers, business services personnel, recycling coordinators, building service managers, and others who make decisions about the disposition of electronic equipment. The training session's web cast was archived so that the video could be used as a training tool for new inventory and surplus property managers.</p> <ul style="list-style-type: none"> <li>• In May 2009, after receiving input from the DGS and the Waste Management Board, Toxic Substances Control distributed an informational poster on e-waste for mounting by State agencies in locations where those types of items may be handled and disposed of by staff, such as in property control offices.</li> <li>• In June 2009, after receiving input from the Toxic Substances Control and the Waste Management Board, the DGS amended State Administrative Manual Section 3520.9 to add language which clearly states that State agencies must dispose of irreparable and unusable e-waste using the services of an authorized recycler.</li> <li>• In June 2009, after receiving input</li> </ul>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
					<p>from the Toxic Substances Control and the Waste Management Board, DGS revised the standard form used by State agencies to receive DGS approval to dispose of surplus personal property to include a new disposition code that specifically addresses the disposal of e-waste items. The form also includes the following capitalized phrase in bold type: <i>Do not dispose of any electronic equipment in a landfill.</i></p> <p>As part of its continuing efforts to fully contribute to the State operating in an environmentally friendly manner, DGS will continue to actively monitor the disposition of State agency e-waste personal property items to ensure recycling or disposal in accordance with applicable laws, regulations and policies. The monitoring process includes OSPR ensuring that e-waste items are only approved for disposal if the requesting department indicates that the property will be disposed of with an e-waste salvage dealer or recycler.</p>
California Department of Education: Although It Generally Provides Appropriate Oversight of the Special Education Hearings and Mediation Process, a Few Areas Could Be Improved	2008-109	12/08	<p>The BSA addressed recommendations to the California Department of Education (Education) involving the DGS' Office of Administrative Hearings (Administrative Hearings) role in the special education hearings and mediations process.</p> <p>In general, BSA observed that Education appropriately oversees its interagency agreement with Administrative Hearings</p>	<p>The BSA report contained three recommendations addressed to Education. However, the DGS commented on the report's findings based on the BSA's request. The following provides DGS' original response to the areas for improvement identified by the BSA.</p> <p>Administrative Hearings remains firmly</p>	<p>Education has performed two monitoring site visits at the Administrative Hearings to verify compliance. Education has noted that adequate actions have been taken to address the BSA's concerns. The following information is summarized from a July 8, 2009 status report provided to the BSA by Education. The concerns of the BSA appear to have</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
			<p>to administer the hearings and mediations process for special education cases. However, BSA recommended three additional actions that should be taken by Education to ensure that Administrative Hearings complies with state and federal law as well as with the specifications of the interagency agreement entered into by the parties.</p>	<p>committed to fully complying with Education's established standards for managing the special education hearings and mediations process. The following sections briefly identify the actions that have been or are being taken related to the areas for improvement identified by the BSA.</p> <ul style="list-style-type: none"> <li>• <b>Complete and Accurate Reporting</b> – Administrative Hearings has taken action to ensure that that its quarterly reports and program database contain accurate and complete information. In fact, after one additional revision was made in mid-November 2008 upon the recommendation of BSA staff, the first quarterly report submitted to Education for the 2008/09 fiscal year fully complied with all reporting requirements, including containing information on the 10 items referenced in the audit report. Administrative Hearings has also recently provided additional training to support staff responsible for data entry that included a discussion of the relevance and importance of the data being accurately and completely recorded into the case management and calendaring system database.</li> <li>• <b>Training Documentation</b> – Administrative Hearings has improved its record keeping to</li> </ul>	<p>been fully addressed.</p> <p>To ensure that Administrative Hearings' quarterly reports contain accurate and complete information, Education utilizes a monitoring checklist. This monitoring checklist assisted Education in determining that Administrative Hearings' reports for the second and third quarters of 2008-09 included all the required data elements.</p> <p>Similar to a previous site visit on January 22, 2009, on June 3, 2009, Education compared information in Administrative Hearings' electronic Practice Manager System with hard copy files. Out of a sample of 20 cases, Education found only one exception in which an incorrect date was recorded; Administrative Hearings immediately corrected this error upon notification. Education will continue to conduct periodic follow-up reviews of reported data, and will expand review procedures as deemed necessary to further ensure the accuracy and completeness of required information.</p> <p>The interagency agreement between Education and Administrative Hearings requires Administrative Hearings to</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.



DEPARTMENT OF GENERAL SERVICES  
 REVIEW OF SYSTEMS OF INTERNAL CONTROL

SCHEDULE OF REVIEWS OF DGS' INTERNAL OPERATIONS  
 BY THE BUREAU OF STATE AUDITS  
 OVER THE PERIOD  
 JANUARY 1, 2008 THROUGH DECEMBER 21, 2009

REPORT TITLE	REPORT NUMBER	REPORT DATE	OVERVIEW OF REPORT*	RECOMMENDATIONS & DGS RESPONSE *	STATUS **
				<p>ensure that sufficient documentation is maintained showing that its administrative law judges have received all required training. As part of this process, Administrative Hearings has hired an executive assistant within its Special Education Division whose responsibilities include the collection and maintenance of all training records, including training requests, sign-in sheets and certificates of completion.</p> <ul style="list-style-type: none"> <li> <p><b>Timely Hearing Decisions</b> – Administrative Hearings continually strives to issue hearing decisions within required timelines and has increased its on-time decision rate to approximately 93 percent. To attempt to further improve the timeliness of the decision making process, Administrative Hearings has recently reemphasized to all of its Administrative Law Judges the importance of timely hearing decisions. The office has also implemented processes which ensure that compliance is continually monitored by executive and program management.</p> </li> </ul>	<p>maintain sufficient documentation showing that administrative law judges (ALJs) have received all required training. On June 3, 2009, Education reviewed Administrative Hearings' training records for 10 ALJs and a sample of training courses. Based on this review, Education determined that Administrative Hearings is maintaining sufficient documentation of ALJ training. During follow-up site visits in the future, Education will continue to review ALJ training records and course documentation to ensure that training requirements are being met.</p> <p>Administrative Hearings compliance with the mandated timelines is a standing item on all monitoring meeting agendas. Education will continue to monitor Administrative Hearings to ensure that it consistently issues hearing decisions within the timeline established in federal regulations and state law.</p>

\* Summarized from the DGS' written response to a draft audit report received from the Bureau of State Audits.

\*\* Status is based on a written report provided to the Bureau of State Audits.