

Date: November 18, 2011 File No.: 0122

To: Cliff Rechtschaffen, Acting Director
Department of Conservation
801 K Street
Sacramento, CA 95814

From: Department of General Services
Office of Audit Services

Subject: **AUDIT REPORT: COMPLIANCE WITH STATE BUSINESS
MANAGEMENT POLICIES**

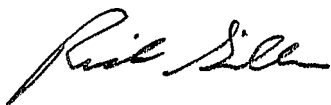
Attached is the final report on our compliance audit of the business management functions and services of the Department of Conservation (DOC). The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS).

The DOC's written response to a draft copy of this report is included in the report. The report also includes our evaluation of the response. We are pleased with the actions being taken to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit a status report on the implementation of the recommendations to us by May 21, 2012. The necessity of any further status reports will be determined at that time. Please transmit your status report to: DGS Office of Audit Services, 707 3rd Street, 4th Floor, West Sacramento, CA 95605, IMS Code: Z-1, MS 104.

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

If you have any questions, please call me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.



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

Attachment

cc: Tom Gibbs, Deputy Director
Betsy Tribble, Business Services Officer
Gregory Lee, Accounting Administrator

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

**AUDIT OF THE
DEPARTMENT OF
CONSERVATION**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 0122**

OFFICE OF AUDIT SERVICES

SEPTEMBER 2010

**DEPARTMENT OF CONSERVATION
COMPLIANCE AUDIT
REPORT NO. 0122**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: November 18, 2011

TO: **CLIFF RECHTSCHAFFEN**, Acting Director
Department of Conservation

This report presents the results of our compliance audit of the business management functions and services of the Department of Conservation (DOC). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619. The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the DGS. As applicable, the scope of our audits of State agencies includes, but is not limited to, compliance with policies governing contracting, fleet administration, small business and disabled veteran business usage, driver safety and insurance, records and forms management, surplus property, real estate and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Our review disclosed the following areas of noncompliance with State requirements that should be addressed by the DOC's management. The implementation of the recommendations presented in this report will assist the DOC in improving these areas.

- Contracting program policies and procedures are not ensuring full compliance with State contracting requirements. The types of exceptions noted during our audit included: (1) contracts not being processed in a timely manner; (2) documentation not being maintained that the Department of Fair Employment and Housing was notified of a contract award; (3) contract agreements not referencing the current version of the State's General Terms and Conditions; (4) documentation not being maintained that a contract was entered into the State's centralized database for contract and purchase transactions; (5) contracts that included hazardous activities not being submitted to the DGS Office of Risk and Insurance Management for review of insurance requirements; and, (6) bid solicitation documents not containing information on the waiver of the Disabled Veteran Business Enterprise participation requirement.
- The DOC's driver safety and insurance program is not ensuring that employees who use their own vehicle to conduct State business complete and annually update a vehicle certification form.
- The DOC's forms management program is not being centrally directed and coordinated.
- Invoice processing policies and procedures are not ensuring the prompt payment of vendors.

During our review we also identified other matters requiring attention that we discussed with the DOC's management but are not included in this report. These matters included our concerns that business management policies and procedures were not ensuring the verification of the accuracy of car rental charges, maintenance of records to support the dollar amounts reported

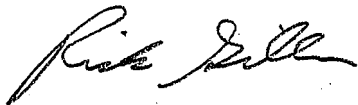
for contracting activities with small businesses and disabled veteran business enterprises, and attendance by frequent drivers of a defensive driver training course every four years. Prior to the completion of our audit, we verified that appropriate actions had been or were being taken to address these issues. Therefore, they are not further discussed in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork the DOC's management indicated that appropriate action would be taken to address our concerns. We were pleased with the commitment shown to improve compliance with State requirements.

Your response to each of our recommendations as well as our evaluation of the response are included in this report.

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

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.



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

Staff: Andy Won, Audit Supervisor
Monica De La Rosa
Mary Berkowitz

cc: Tom Gibbs, Deputy Director
Betsy Tribble, Business Services Officer
Gregory Lee, Accounting Administrator

DEPARTMENT OF CONSERVATION COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our review of the business management functions and services of the Department of Conservation (DOC) for compliance with policies set forth in the State Administrative Manual (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS). This report presents information on areas of noncompliance with policies governing the: timely approval of contracts; completion of vehicle certification forms by employees; administration of a forms management program; and, prompt payment of vendors.

This information was developed based on our fieldwork conducted over the period October 22, 2009 through September 2, 2010. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, the DOC's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our September 2010 audit exit conference, the DOC was provided a detailed written summary of issues noted during our review.

To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2009/10 fiscal year.

CONTRACTING PROGRAM

Our sample tests of various types¹ of contracts processed by the DOC's divisions disclosed a number of areas for improvement that need to be addressed to fully comply with the State's service contracting requirements. The State's contracting requirements are primarily contained in State Contracting Manual (SCM) Volume 1. Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted included:

- contracts not being processed in a timely manner, i.e., contracts being approved after the agreement's commencement date (SCM 4.09);
- documentation not being maintained that the Department of Fair Employment and Housing was notified of a contract award in excess of \$5,000 (SCM 4.08.A.1d);
- contract agreements not referencing the current version of the State's General Terms and Conditions for service contracts (SCM 2.07);
- documentation not being maintained that a contract was entered into the State's centralized database for contract and purchase transactions (SCM 2, 8.1.1);

¹ The types of contracts tested for compliance included both contracts subject to DGS review and approval (generally contracts of an amount of \$50,000 or more) and those delegated to the DOC to directly execute (generally contracts of an amount under \$50,000).

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- contracts that included hazardous activities not being submitted to the DGS Office of Risk and Insurance Management for review of insurance requirements (SCM 3.12); and,
- bid solicitation documents not containing information on the waiver of the Disabled Veteran Business Enterprise participation requirement (SCM 8.12.A.1);

At the time of our review, the DOC's contracting program allowed for each division to process its own contracts with limited oversight by the Contract Management Unit located within the Administrative Services Office. Although this type of decentralized contracting program is allowable, based on our experience, for it to be successful a department must maintain a quality assurance program that includes detailed and up-to-date written contracting policies and procedures and a training program for contract analysts. Further, if feasible, the contract process should be actively overseen by a central contract unit through, at a minimum, periodically monitoring the adequacy of the contracting process performed by operating unit personnel. The referenced documents and activities were not in place at the DOC, which contributed to the exceptions noted above.

Recommendation

1. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the State's contracting requirements. This process should address the issues noted above.

VEHICLE AUTHORIZATIONS

Current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle, STD. 261, certification form is completed and annually updated by employees who use their own vehicle to conduct State business. Specifically, at the time of our audit tests, a current STD. 261 was not available for any of the eight employees included in our sample tests who used their own vehicle on State business. The DOC's travel policies provide that managers/supervisors are to monitor their employees for the proper and timely completion of STD. 261s. As shown by the results of our review, these policies have not been effective.

SAM Section 0753 requires that a privately-owned vehicle authorization form be completed and annually updated by each employee who uses his or her own vehicle to conduct State business. In addition, this section provides that an employee's travel expense claim for private vehicle mileage should not be approved by a supervisor prior to verification that a current authorization form is on-file for the employee. The completion of the authorization form accomplishes the objective of having the employee certify in writing that the vehicle used will always be:

- Covered by liability insurance for the minimum amount prescribed by law;
- Adequate for work performed;
- Equipped with safety belts; and,
- In safe mechanical condition.

For maximum containment of vehicle accident costs, each State agency is expected to actively participate in the State's driver safety program. Collectively, such accidents cost the State millions of dollars each year including liability to other parties, repairs to State vehicles, workers'

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Findings and Recommendations, Cont'd

compensation and lost work time of employees. A primary administrative control process within the driver safety and insurance program is the completion of STD. 261s by employees.

Recommendation

2. Implement policies and procedures that ensure the completion and annual update of a STD 261 certification form by employees who use their own vehicle to conduct State business. This process should include an annual notification to managers/supervisors of their responsibility for ensuring the completion and updating of the form.

FORMS MANAGEMENT

The DOC's forms management program is not being centrally directed and coordinated. This condition has resulted in both an up-to-date public use forms inventory listing not being maintained and the use of forms that do not contain necessary identification attributes. Although an individual within the Administrative Services Office has been designated as the department's Forms Management Coordinator, in actuality, this employee spends very little time on activities related to the forms program.

In brief, as provided in SAM Chapter 1700, departments are responsible for establishing and maintaining an active, continuing program for the economical and efficient management of forms. The assignment of a staff member, i.e., forms management coordinator, to actively direct the forms management program is of key importance to the program's success. As provided by State policy, the forms management coordinator is to have responsibilities for such activities as: (1) inventorying and establishing an ongoing system of controls for forms ordered and maintained by the agency; (2) ensuring that new and revised forms meet applicable standards; and, (3) ensuring the discontinuance of obsolete forms.

Recommendation

3. Implement policies and procedures that provide for the central direction and coordination of the forms management program.

PROMPT PAYMENT OF VENDORS

In reviewing a sample of 22 vendor invoices processed for payment during the period April through June 2010, we found that 15 were not processed in a manner that ensured payment in accordance with the State's prompt payment requirements. Specifically, the invoices were not paid within 45 calendar days of receipt by the DOC. Further, a penalty fee was not added to the amount due a vendor in 6 applicable instances. We were advised that workload and turnover issues within the DOC's Accounting Office impacted the ability of staff to promptly process invoices. Apparently, the penalty fees were not paid due to oversight by accounts payable staff.

Government Code Section 927, et seq., and SAM Sections 8474 through 8474.4 contain the State's policies related to the prompt payment of businesses. These policies include a requirement that vendor invoices be paid within 45 calendar days of receipt and the automatic payment of penalties when applicable. The 45 day timeline allows State agencies 30 days to perform their payment approval function and the State Controller's Office 15 days to perform its

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audit and warrant generation process. The failure to promptly pay invoices restricts the State's efforts in getting businesses to provide goods and services to the State.

Recommendation

4. Implement policies and procedures that ensure the prompt payment of vendor invoices and payment of applicable penalty fees.

CONCLUSION

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



DEPARTMENT OF CONSERVATION


Managing California's Working Lands

DIRECTOR'S OFFICE

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TO: DGS Office of Audit Services
707 3rd Street, 4th Floor
Z-1, MS 104
West Sacramento, CA 95605

FROM: Cliff Rechtschaffen, Acting Director 
Department of Conservation

DATE: November 14, 1011

SUBJECT: AUDIT REPORT: COMPLIANCE WITH STATE BUSINESS
MANAGEMENT POLICIES

Thank you for the opportunity to review the draft report of the above audit prior to your release of the final report on November 16, 1011. Following are our comments:

FINDINGS AND RECOMMENDATIONS

Prompt Payment Of Vendors

We concur with the findings. In addition to what was described as reasons why this occurred, the Department was facing a cash flow issue that was a result of the merging of the Division of Recycling into the Department of Resources Recycling and Recovery (CALRecycle). Invoices were processed by the Accounting Office but were not sent to the Controller's Office due to the lack of sufficient funds. The Department has since made changes to the clearing account that no longer affects our cash flow. There is still a shortage of staff, but they are now more experienced, and procedures are now in place to ensure prompt payment.

Contracting Program

The Department's Contracting Unit in the Administrative Services Office had an individual who had years of Department history and knowledge in dealing with contracts who retired and left no road map for those picking up the workload. Now that the Department has a new person assigned to process Contracts and who has worked with the Auditors while they were here, she has been addressing items that were brought to our attention. The Department is making great strides in handling the Department's contracts to ensure they are being processed in a timely manner, not after the fact, and also informing the contract liaisons of current versions of the State's General Terms and Conditions. The Department has developed a new route

slip that ensures those contracts that need to go to the DGS Office of Risk and Insurance Management's Legal Office get routed appropriately. And, a centralized computer log has been developed to indicate when contracts were sent for approval. The Department continues to improve the process and inform contract liaisons of any new process or DGS requirements.

Vehicle Authorizations

The Department will designate July as the month to ensure that the Authorization to Use Privately Owned Vehicle, STD 261s, are completed. The Administrative Services Office will send out reminders to supervisors and managers to have staff complete the forms and will keep a centralized file in the office to ensure that the forms are completed.

Forms Management

The Department is working on policies and procedures for the centralization and coordination of the forms management program. The Department is slowly working to assign a number to all forms that are in existence (if they are still in use) and get the units and programs trained so that if any new forms are developed they must come through the Administrative Services Office for a number so we can remain compliant.

Again, thank you for the opportunity to provide comments. If you have any questions or need additional information, please contact Tom Gibbs, Deputy Director, at 322-1080.

**DEPARTMENT OF CONSERVATION
COMPLIANCE AUDIT**

EVALUATION OF DOC'S RESPONSE

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