



MEMORANDUM

Date: January 17, 2020

File No.: 9127

To: **Jacob Appelsmith**, Director
Department of Alcoholic Beverage Control
3927 Lennane Drive
Sacramento, CA 95834

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 Alcoholic Beverage Control (ABC). 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).

ABC's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and commitments made to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. Therefore, please submit the status report to us by July 17, 2020.

To the extent that it is practicable, any proof-of-practice and supporting documentation should be specific and include excerpts and/or copies of the following: updates to and new instructions provided within the procurement and contracting manual, including the revised contract checklist; indications (ie: screen shots, menu of classes available, syllabi, etc.) that the Defensive Driver Training (DDT) has been added to the department-wide online learning management system (LMS); and, LMS notifications sent to supervisors related to the monitoring for compliance with DDT requirements.

No further actions or support are necessary relative to the Property Survey Board finding and recommendation. We applaud ABC for its efforts in swiftly addressing this issue.

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, 8th Floor, West Sacramento, CA 95605 or preferably via e-mail to Dennis.Miras@dgs.ca.gov.

Jacob Appelsmith, Director

January 17, 2020

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

If you need further information or assistance on this report, please call / e-mail me at (916) 376-5064 / Dennis.Miras@dgs.ca.gov, or Melissa Hambridge, Management Auditor, at (916) 376-5062 / Melissa.Hambridge@dgs.ca.gov.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Attachment

cc: Randall Deems, Chief, Administration Division
Pattye Nelson, Chief, Business Management Branch
Wendy Jackson, Manager, Administrative Services

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
DEPARTMENT OF ALCOHOLIC
BEVERAGE CONTROL**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 9127**

OFFICE OF AUDIT SERVICES

OCTOBER 2019

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
COMPLIANCE AUDIT
REPORT NO. 9127**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: January 17, 2020

TO: **Jacob Appelsmith**, Director
Department of Alcoholic Beverage Control

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

While in most areas we concluded that ABC is conducting its business management functions and services in accordance with state requirements, we identified the following areas for improvement. The implementation of the recommendations presented in this report will assist ABC in addressing these issues:

- Contracting program policies and procedures are not ensuring that price quotes are obtained or establishment and documentation of fair and reasonable pricing occurs for small dollar contracts and service orders.
- DGS approval is not being secured prior to renting parking spaces and storage units.
- ABC's driver safety and insurance program is not ensuring that frequent drivers attend a defensive driver training course at least once every four years.
- ABC does not have a duly appointed Property Survey Board responsible for approving all Property Survey Reports (STD.152) and ensuring the best interests of the state are served.

During our review we also identified other matters requiring attention, but did not pose a significant risk to the business management functions, which were discussed with ABC's management and are not further detailed in this report.

We are pleased with the commitment shown to improve compliance with state requirements. It should be noted that when advised of areas for improvement during our audit fieldwork, ABC's management took prompt actions to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. ABC's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

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

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

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

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Staff: Melissa Hambridge, Management Auditor

cc: Randall Deems, Chief, Administration Division
Patty Nelson, Chief, Business Management Branch
Wendy Jackson, Manager, Administrative Services

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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 Alcoholic Beverage Control (ABC) 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 over: documenting cost justification when contracting for small dollar services; obtaining prior DGS approval when renting parking spaces and storage units; frequent drivers attending defensive driver training; and, appointing a Property Survey Board.

This information was developed based on our fieldwork conducted over the period April 11, 2019 through October 30, 2019. In addition to this written report, as findings were observed and developed during our audit fieldwork, ABC's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our October 30, 2019 audit exit conference, ABC 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 2018-19 fiscal year.

FAIR AND REASONABLE COST JUSTIFICATION

ABC has not implemented policies and procedures which ensure that quotes are obtained or that fair and reasonable cost justification is documented when entering into small dollar contracts and service orders. State Contracting Manual (SCM), Volume 1, Section 5.90 states "Contracts under \$10,000 are not required to be advertised or competitively bid. State agencies may obtain one price quotation from a responsible supplier that provides a reasonable price; if, however, there is reason to believe a response from the single supplier is not fair and reasonable, then the state agency must obtain at least two price quotations from responsible suppliers. State agencies should retain documentation establishing how the price was determined to be fair and reasonable." We found that neither fair and reasonable cost justification nor price quotes were documented for any of the seven transactions tested of small dollar contracts and service orders under \$10,000.

Recommendation

1. Implement policies and procedures which ensure that either quotes are obtained or fair and reasonable cost justification is documented when procuring for services under \$10,000.

LEASING OF PARKING AND STORAGE SPACE

Prior approval from DGS' Real Estate Services Division (RESD) is not being obtained when contracting out for parking and storage space. Our testing of ABC's delegated and small dollar value contracts revealed three such agreements; two for parking spaces and the third for a storage unit. Government Code, Section 11005.3 states, "Any state department, board, or commission may lease any real property for the use of the state agency for storage, warehouse, or office purposes provided that the lease term does not exceed three years and the annual rental does not exceed \$50,000. Prior approval to engage in any lease activity shall first be obtained from DGS and the lease agreement shall be subject to approval by the department." It appears that ABC was unaware of the above requirement.

Recommendation

2. Implement policies and procedures which ensure that prior approval is obtained from DGS RESD when engaging in any lease activity, including for parking, storage, and warehouse space.

DEFENSIVE DRIVER TRAINING¹

ABC needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents. Collectively, such accidents cost the state millions of dollars each year, including liability to other parties for damages, repairs to state vehicles, workers' compensation claims and lost productivity of employees. For maximum containment of these costs, each state agency is expected to actively participate in the state's driver safety program. The following area needs additional attention:

Defensive Driver Training – our review of a sample of 14 frequent drivers found that five (36%) had not attended a defensive driver training course within the prior four years from the time they drove on state business. SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver training course at least once every four years.

It appears that ABC does not have sufficient checks and balances in place to track employees who drive frequently to ensure that all attend and successfully complete an approved defensive driver training course as required.

¹ This condition previously existed and was included in our audit report to ABC dated April 2006

Recommendations

3. Strengthen existing controls designed to monitor frequent drivers' compliance with successful completion of an approved defensive driver training course at least once every four years.
4. Periodically reemphasize to operating unit managers/supervisors of their responsibility for ensuring that employees who frequently drive on state business attend an approved defensive driver training course as required.

PROPERTY SURVEY BOARD

ABC does not have an appointed and documented Property Survey Board. SAM Section 3520.2 states "Each agency will have a duly appointed Property Survey Board that is responsible for determining that, when disposing of surplus property, the decision to do so serves the best interest of the state. To the extent possible, there will be a sufficient number of members on the Board to insure representation by both business management and program responsibilities. At least two Board members must approve all Property Survey Reports (STD. 152)." ABC was unaware of this requirement.

Recommendation

5. Formally appoint and memorialize in writing a Property Survey Board and require at least two members to approve all STD. 152 reports.

CONCLUSION

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

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

3927 Lennane Drive, Suite 100
Sacramento, CA 95834
(916) 419-2500



January 6, 2020

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

Dear Mr. Miras:

In response to Department of General Services (DGS) compliance audit Report No. 9127, the Department of Alcoholic Beverage Control (ABC) agrees there are areas of non-compliance with DGS guidelines. Our responses to recommendations made by DGS are included below:

Fair and Reasonable Cost Justification**DGS Recommendation**

1. Implement policies and procedures which ensure that either quotes are obtained or fair and reasonable cost justification is documented when procuring for services under \$10,000.

ABC Response # 1

ABC concurs with this recommendation and is in the process of updating its procurement and contracting manual. Part of this update will include revisions to the contract checklist for fair and reasonable cost determination in the form of either price quotes or market research in accordance with the applicable volume of the State Contracting Manual.

Leasing of Parking and Storage Space**DGS Recommendation**

2. Implement policies and procedures which ensure that prior approval is obtained from DGS Real Estate Services Division (RESA) when engaging in any lease activity, including for parking, storage, and warehouse space.

ABC Response # 2

ABC concurs that it was not aware of the requirement in Government Code Section 11005.3 to obtain prior approval from DGS RESD before entering into contracts for parking spaces for state vehicles at locations near or adjacent to office space or storage space for excess evidence. ABC will include instruction in our procurement and contracting manual as well as add as a pre-approval requirement on our contract checklist.

Defensive Driver Training

DGS Recommendation

3. Strengthen existing controls designed to monitor frequent drivers' compliance with successful completion of an approved defensive driver training course at least once every four years.
4. Periodically reemphasize to operating unit managers/supervisors of their responsibility for ensuring that employees who frequently drive on state business attend an approved defensive driver training course as required.

ABC Response # 3

ABC's Professional Standards/Training Unit will add Defensive Driver Training to its department-wide online learning management system. Through ABC's learning management system, this training will be assigned to all employees who utilize state vehicles or personal vehicles on state time and the importance of the training will be emphasized to all managers and supervisors as part of the process to identify and follow-up with all employees required to take the Defensive Driver Training.

ABC Response # 4

ABC will instruct and advise supervisors of their responsibility to ensure that their employees are in compliance. This will also be emphasized through the notifications supervisors will receive to identify employees that require training and follow-up on any employees that are not in compliance, which will be generated by the learning management system described above.

Property Survey Board

DGS Recommendation

5. Formally appoint and memorialize in writing a Property Survey Board and require at least two members to approval all STD 152 reports.

ABC Response # 5

Attached is the current Property Survey Board designation letter which will be kept up-to-date by the support staff in the Administrative Services Unit as personnel changes and/or assignments change.

If you have any questions or would like to discuss in further detail, please contact Randall Deems, Chief, Administration Division at (916) 419-2510 or Pattye Nelson, Chief, Business Management Branch at (916) 419-2519.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jacob A. Appelsmith". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Jacob A. Appelsmith
Director

Attachment

Memorandum

To: File

Date: 12/17/19

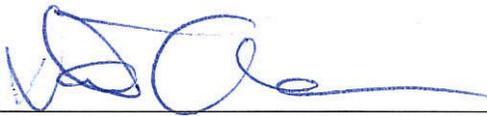
From: Business Management Branch
Administrative Services Unit
Department of Alcoholic Beverage Control

Subject: Property Survey Board

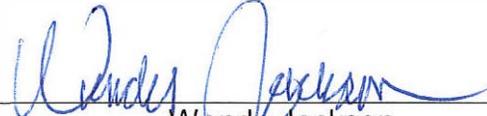
As required by SAM section 3520.2, the Department of Alcoholic Beverage Control authorizes the following staff, whose signatures appear below, to sign the Property Survey Report (STD 152) and Transfer of Location of Equipment (STD 158).



Melanie Pruitt
Office Technician



Marco Cuellar
Associate Governmental
Program Analyst



Wendy Jackson
Staff Services Manager I



Pattye Nelson
Chief, Business Management
Branch



Mechelle Schultz
Staff Services Analyst
(For fleet assets only)

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
(ABC)**

COMPLIANCE AUDIT

EVALUATION OF ABC'S RESPONSE

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

As part of its operating duties, we are responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. To the extent that it is practicable, any proof-of-practice and supporting documentation should be specific and include excerpts and/or copies of the following: updates to and new instructions provided within the procurement and contracting manual, including the revised contract checklist; indications (ie: screen shots, menu of classes available, syllabi, etc.) that the Defensive Driver Training (DDT) has been added to the department-wide online learning management system (LMS); and, LMS notifications sent to supervisors related to the monitoring for compliance with DDT requirements.

No further actions or support are necessary relative to the Property Survey Board finding and recommendation. We applaud ABC for its efforts in swiftly addressing this issue.