



MEMORANDUM

Date: August 17, 2022 File No.: 2120

To: **Nicolas Maduros**, Director
California Department of Tax and Fee Administration
450 N 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 California Department of Tax and Fee Administration (CDTFA). 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).

CDTFA'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 to us on your department's official letterhead the status report by February 17, 2023.

To the extent that it is practicable, proof-of-practice and supporting documentation should explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our recommendations, consistent with CDTFA's individual formal responses to our draft report.

The necessity of any further actions or additional support will be determined at that time. Please transmit your proof-of-practice documentation and/or 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.

We sincerely appreciate all the cooperation and assistance provided by CDTFA's personnel.

If you need further information on or assistance with this report, please call/e-mail me at (916) 376-5064/Dennis.Miras@dgs.ca.gov, or Rhonda Parker, Management Auditor, at (279) 799-3779/Rhonda.Parker@dgs.ca.gov.

Dennis M Miras

DENNIS M. MIRAS, CIA
Manager, Office of Audit Services

Attachment

cc: Trista Gonzalez, Chief Deputy Director, CDTFA
Jason Mallet, Chief Financial Officer, CDTFA
Sharon Louie, Deputy Director, Administration Division, CDTFA
Chris Lee, Chief, Internal Audits Bureau, CDTFA

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA DEPARTMENT OF TAX
AND FEE ADMINISTRATION**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 2120**

OFFICE OF AUDIT SERVICES

JULY 2022

**CALIFORNIA DEPARTMENT OF TAX
AND FEE ADMINISTRATION
(CDTFA)**

**COMPLIANCE AUDIT
REPORT NO. 2120**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: August 17, 2022

TO: **Nicolas Maduros**, Director
California Department of Tax and Fee Administration

This report presents the results of our compliance audit of the business management functions and services of the California Department of Tax and Fee Administration (CDTFA). 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 this audit included, but was not limited to, compliance with policies and procedures governing CDTFA's contracting, fleet and travel services administration, small business and disabled veteran business enterprise usage, driver safety and insurance, surplus property, and real estate programs. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

While in most areas we concluded that CDTFA 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 CDTFA in addressing these issues:

- Travel services policies and procedures are not ensuring that employees who travel to conduct state business make all travel arrangements through DGS' Statewide Travel Program.
- CDTFA's driver safety and insurance program is not ensuring that frequent drivers attend a defensive driver training course at least once every four years and that the State Agency Defensive Driver Training Report is submitted to DGS annually.

During our review we also identified other matters requiring attention, but that did not pose a significant risk to the business management functions, which were discussed with CDTFA'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, CDTFA'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. CDTFA's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

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

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

If you need further information on or assistance with this report, please call/e-mail me at (916) 376-5064/Dennis.Miras@dgs.ca.gov, or Rhonda Parker, Management Auditor, at (279) 799-3779/Rhonda.Parker@dgs.ca.gov.

Dennis M Miras

DENNIS M. MIRAS, CIA
Manager, Office of Audit Services

Staff: Rhonda Parker, Management Auditor

cc: Trista Gonzalez, Chief Deputy Director, CDTFA
Jason Mallet, Chief Financial Officer, CDTFA
Sharon Louie, Deputy Director, Administration Division, CDTFA
Chris Lee, Chief, Internal Audits Bureau, CDTFA

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

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 California Department of Tax and Fee Administration (CDTFA) 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: use of the state's travel program to reserve lodging for state business travel; attendance of a defensive driver training course by frequent drivers; and submission of an annual defensive driver training report.

This information was developed based on our fieldwork conducted over the period of October 13, 2021 through July 15, 2022. In addition to this written report, as findings were observed and developed during our audit fieldwork, CDTFA's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our July 15, 2022 audit exit conference, CDTFA 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 2019-20 through 2021-22 fiscal years.

TRAVEL SERVICES PROGRAM

CDTFA needs to strengthen its administration over its travel services program. Current travel policies and procedures are not ensuring that all employees who travel overnight to conduct state business secure their hotel needs through the state's travel program. While the department appears to always utilize DGS' Statewide Travel Program (STP) for airfare and car rentals, our audit analyses revealed 30 (71%) of 42 employees that sought reimbursement for lodging had not booked their hotel stays through either the CalTravelStore or Concur Travel.

DGS Management Memo 14-03 and SAM Section 4117 require agencies to make all travel arrangements (airfare, hotel, commercial car rental, and rail) through DGS' STP. This program provides for government travelers' needs by obtaining the most economical rates and fares available through the use of contracted travel-related services. It offers comprehensive travel services through Concur Travel, an online booking tool that is the primary means for booking all reservations. The STP also offers traditional call-in service through the CalTravelStore, the state's onsite contracted travel agency.

This condition exists primarily due to travelers being unaware of the above requirements and/or booking under the premise that they are saving the state money by reserving directly with the hotel establishment. Additionally, limited management and administrative oversight of travel bookings to ensure only the CalTravelStore or Concur Travel are utilized were found to be contributing factors.

Apparently, most of these travelers (many of whom are new hires) had been misinformed and misguided, leading to their misunderstanding that it was actually acceptable to book directly with hotels rather than utilize STP. As a result, the department may be missing out from obtaining the most cost-effective, pre-negotiated, and leveraged travel rates offered by not utilizing STP's centralized travel management services.

If a hotel is found to be offering a cheaper rate directly to travelers than what is reflected in Concur, travelers are to contact STP for assistance, book their stay through Concur, then call the hotel to request that the lower rate be honored. By doing so allows STP to work with the hotel directly to properly "load" the state rate in Concur so that it is reflected there moving forward.

Recommendation

1. Update existing, implement additional, and disseminate all travel policies and procedures to ensure that all employees required to travel on state business secure all their travel needs through either Concur Travel or the CalTravelStore, including booking of their hotel stays. Department travel liaisons should have active roles as travel managers/coordinators and lend their expertise on and interface with all travel-related matters. CDTFA is further encouraged to work with STP whenever issues arise so that STP staff can facilitate the addition of more hotel vendors that offer government rates.

DRIVER SAFETY AND INSURANCE PROGRAM

CDTFA needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents. Collectively, such accidents cost the state millions of dollars each year, including liability to other parties, repairs to state vehicles, workers' compensation, and lost work time of employees. For maximum containment of these costs, each state agency is expected to actively participate in the state's driver safety program. The following areas need strengthening:

- **Defensive Driver Training** – our review of a sample of 62 drivers who claimed reimbursement for private car usage revealed that 20 (32%) had not attended a defensive driver training (DDT) course within the last four years. It should be noted that 18 of these 20 employees did subsequently complete the course as a result of the auditor's inquiry.

SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver training course at least once every four years.

- **Annual State Agency DDT Report** – CDTFA has not always submitted a timely and accurate defensive driver training report that is due to DGS by September 1 of each year (Management Memo 11-04). The report contains defensive driver training information for the preceding fiscal year, including data on the number of employees required to take the training for the reporting fiscal year and the number of employees completing the training. At the time of our audit, CDTFA's policies and procedures did not indicate who was responsible for preparing and submitting this report.

It is clear that the current measures of checks and balances are not being consistently enforced nor fully operating as intended over the above, two areas.

Recommendations

2. Periodically remind operating unit staff/supervisors/managers of their responsibilities for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.
3. Submit the Annual State Agency Defensive Driver Training Report to DGS by September 1 of each year.

CONCLUSION

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



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Secretary, Government Operations Agency

NICOLAS MADUROS
Director

August 15, 2022

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:

The California Department of Tax and Fee Administration (CDTFA) would like to thank the Department of General Services (DGS) for its recommendations as a result of the compliance audit of the business management functions and services of the California Department of Tax and Fee Administration (CDTFA).

CDTFA agrees with the findings and recommendations described in DGS' report. DGS' recommendations are summarized below, followed by CDTFA's response, and noted actions.

Travel Services Program

Recommendations:

1. Update existing, implement additional, and disseminate all travel policies and procedures to ensure that all employees required to travel on state business secure all their travel needs through either Concur Travel or the CalTravelStore, including booking of their hotel stays.
2. Department travel liaisons should have active roles as travel managers/coordinators and lend their expertise on and interface with all travel-related matters.
3. CDTFA is further encouraged to work with STP whenever issues arise so that STP staff can facilitate the addition of more hotel vendors that offer government rates.

CDTFA's Response:

CDTFA agrees with the recommendations and has updated all internal travel materials and begun communicating DGS' guidelines to all CDTFA team members to conform with the State Travel Policy requirement. The Accounting Branch - Travel Services Unit's corrective action plan is as follows:

1. Emailed all CDTFA team members on March 28, 2022, clearly stating that all travel arrangements – including hotels – are required to be booked through the CalTravelStore or Concur Travel website.
2. Published a new Travel Bulletin TB 22–004 May 16, 2022, to all CDTFA team members on State Travel Policy and procedures, highlighting the requirements of MM 14-03 and SAM 4117.
3. Updated training material for the New Employee Orientation effective May 2022.
4. Incorporated the policy in training provided to CDTFA team members on statewide travel policy.
5. Will email reminders to CDTFA team members on various policies including the State Travel Policy and procedures twice a year: once at the beginning of the fiscal year (July/August) and another at the beginning of the calendar year (January).
6. The Accounting Branch – Travel Services Unit will audit all travel expense claims from CDTFA team members to ensure that travel arrangements (airfare, rental car, rail, and hotel) are booked through the CalTravelStore or Concur Trave website. A log is maintained to monitor and track team members that fail to comply with the State Travel Policy to provide additional training and guidance on the requirements of MM 14-03.

Driver Safety And Insurance Program

Recommendations:

1. Periodically remind operating unit staff/supervisors/managers of their responsibilities for ensuring that employees who frequently drive on state business attend an approved defensive driver training course at least once every four years.
2. Submit the Annual State Agency Defensive Driver Training Report to DGS by September 1 of each year.

CDTFA's Response

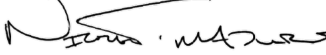
1. CDTFA employees are responsible for taking mandatory training annually. The Defensive Driver Training (DDT) requirement, including who is required to take the training and how often, will be reiterated to all employees as a part of the annual mandatory training communications. All team members are responsible for knowing and adhering to the DDT requirements. The Training and Employee Development (TED) Unit maintains the department's DDT course records, runs reports via the Learning Management System (LMS), verifies the DDT status of all CDTFA employees, and works with Training Coordinators and Management to ensure compliance. The TED team will continue to monitor and communicate with Training Coordinators and Management to ensure current and new employees take the DDT as required. Additionally, CDTFA is in the process of developing and releasing a Defensive Driver Policy with expected completion in Winter 2022.

August 15, 2022

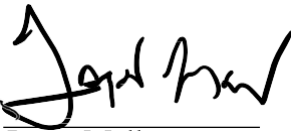
2. The HRB Management will ensure timely submission of the Annual State Agency DDT Report, including the upcoming report, this year.

CDTFA appreciates DGS's perspective and will strive to identify measures to ensure continued compliance with statewide policy and guidelines.

Regards,



Nick Maduros
Director



Jason Mallet
Chief Financial Officer



Sharon Louie
Deputy Director, Administration

NM:nm

Cc: Ms. Trista Gonzalez
Mr. Christopher Lee
Ms. Ester Cabrera-Diaz
Ms. Kirsten Clark
Ms. Adetola Adedipe
Mr. Andy Luu
Ms. Natsayi Mugobogobo

**CALIFORNIA DEPARTMENT OF TAX
AND FEE ADMINISTRATION
(CDTFA)**

EVALUATION OF CDTFA'S RESPONSE

We have reviewed the response by the California Department of Tax and Fee Administration (CDTFA) to our draft audit report. The response to the recommendations is satisfactory and we appreciate the efforts taken and/or planned by CDTFA 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, proof-of-practice and supporting documentation should explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our recommendations, consistent with CDTFA's individual formal responses to our draft report.