



MEMORANDUM

Date: July 3, 2018

File No.: 8123

To: Jan Lynn Owen, Commissioner
Department of Business Oversight
1515 K Street, Suite 200
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 Business Oversight (DBO). 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 DBO'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 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 each to us by December 3, 2018. To the extent that it is practicable, supporting documentation should include: a copy of the June 11th reminder delivered to all employees and their supervisors; a sample copy of the updated New Employee Orientation checklist; and, a copy of the Internal Audit Unit's final report on their follow-up audit over the effectiveness of new controls and processes implemented to address the recommendations made related to DBO's driver safety and insurance program.

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.

We greatly appreciated the cooperation and assistance provided by DBO'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 Maricela Bautista, Management Auditor, at (916) 376-5066 / Maricela.Bautista@dgs.ca.gov.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Jan Lynn Owen, Commissioner

July 3, 2018

Attachment

cc: Lisa Crowe, Chief Deputy Commissioner
Michael Miller, Deputy Commissioner of Administration
Von Chitambira, Internal Audit Manager
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
DEPARTMENT OF BUSINESS
OVERSIGHT
(DBO)**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 8123**

OFFICE OF AUDIT SERVICES

FEBRUARY 2018

DEPARTMENT OF BUSINESS OVERSIGHT

**COMPLIANCE AUDIT
REPORT NO. 8123**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: July 3, 2018

TO: **Jan Lynn Owen**, Commissioner
Department of Business Oversight

This report presents the results of our compliance audit of the business management functions and services of the Department of Business Oversight (DBO). 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, purchasing, fleet administration, small business (SB) and disabled veteran business enterprises (DVBE) usage, driver safety and insurance, 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 area of noncompliance with state requirements that should be addressed by DBO's management. The implementation of the recommendation presented in this report will assist DBO in addressing this issue.

- e The DBO'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 vehiclee certification form.e

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

We are pleased with the commitment shown to improve compliance with state requirements. It should be noted that when advised of areas for improvement during our audit fieldwork, DBO'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. DBO'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 recommendation as well as our evaluation of the response is included in this report.

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

If you need further information or assistance on this report, please contact me at (916) 376-5064, or Maricela Bautista, at (916) 376-5066.

Dennis M Miras

DENNIS M MIRAS, CIA
Manager, Office of Audit Services

Staff: Maricela Bautista, Management Auditor

cc: Lisa Crowe, Chief Deputy Commissioner
Michael Miller, Deputy Commissioner of Administration
Von Chitambira, Internal Audit Manager
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

DEPARTMENT OF BUSINESS OVERSIGHT (DBO)

COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed finding and recommendation developed based on our review of the business management functions and services of the Department of Business Oversight (DBO) 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: annual certification and authorization to use privately owned vehicles on state business.

This information was developed based on our fieldwork conducted over the period August 29, 2017 through February 2, 2018. In addition to this written report, as findings were observed and developed during our audit fieldwork, DBO's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our February 2, 2018 formal audit exit conference, DBO 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 2016/17 and 2017/18 fiscal years.

DRIVER SAFETY AND INSURANCE PROGRAM

The DBO 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. 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 strengthening:

- **Vehicle Authorizations** – current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle, STD. 261, certification form is completed and annually updated by employees who use their own vehicle to conduct state business. Specifically, at the time of our audit tests, a current STD. 261 was not available for 82 (50%) of the 164 employees included in our sample tests who used their own vehicle on state business. DBO'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 entirely effective.

DEPARTMENT OF BUSINESS OVERSIGHT
Findings and Recommendations, Cont'd

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.

Recommendation

1. Strengthen existing policies and procedures to 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 and having employees sign and update the STD 261 certification form prior to traveling.

CONCLUSION

Our one finding and recommendation is presented to aid DBO in administering its business management functions and services. The DBO should address the reported issue to assist in ensuring compliance with applicable state laws, policies and procedures.

DEPARTMENT OF BUSINESS OVERSIGHT*Ensuring a Fair and Secure Financial Services Marketplace for all Californians***Jan Lynn Owen****Commissioner of Business Oversight**

June 25, 2018

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

Dear Mr. Miras:

The Department of General Services (DGS) recently concluded a compliance audit of the Department of Business Oversight's (DBO) business management functions and services performed under the authority granted by Government Code Sections 14615 and 14619.

The review disclosed one area of noncompliance with state requirements, which will require additional departmental action:

- s DBO's driver safety and insurance program is not ensuring that employees who uses their own vehicles to conduct state business complete and annually update a vehicles certification form (STD 261). s

DBO reminds supervisors annually of their responsibility to collect and maintain STD 261 forms on behalf of their employees prior to travel, in order to ensure that vehicles 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. DBO delivered the most recent reminder to all employees and their supervisors on June 11, 2018.

In response to the audit finding, DBO added two new controls:

- 1.s Divisional deputies must verify with their management teams that all teams have complied 45 days after the email reminder to update STD 261s was sent out.s
- 2.s DBO's New Employee Orientation checklist now includes a requirement for supervisors to obtain a completed STD 261 from employees who will use their own vehicles to conduct state business.s

DBO's Internal Audit Unit will conduct a follow-up audit beginning approximately September 11, 2018, 90 days after the most recent reminder, in order to determine if any changes to the process need to be made in order to ensure compliance going forward.

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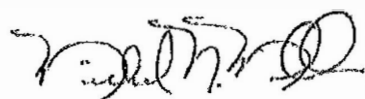
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Thank you again for your diligence in auditing our business processes. We look forward to working together in the spirit of continuous improvement.

Sincerely,

Jan Lynn Owen
Commissioner

By

A handwritten signature in black ink, appearing to read "Michael Miller", written over a light blue horizontal line.

Michael Miller
Deputy Commissioner, Administration

**DEPARTMENT OF BUSINESS OVERSIGHT
(DBO)**

COMPLIANCE AUDIT

EVALUATION OF DBO'S RESPONSE

We have reviewed the response by the Department of Business Oversight (DBO) to our draft report. The response to the recommendations is satisfactory and we appreciate the efforts taken or being taken by DBO 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, supporting documentation should include: a copy of the June 11th reminder delivered to all employees and their supervisors; a sample copy of the updated New Employee Orientation checklist; and, a copy of the Internal Audit Unit's final report on their follow-up audit over the effectiveness of new controls and processes implemented to address the recommendations made related to DBO's driver safety and insurance program.