State of California
DEPARTMENT OF TRANSPORTATION

Business Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: STEVE PRICE
Deputy District 5 Director
Maintenance and Operations

Date: April 17, 2008

File: P3030-639

Original Signed By

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: District 5 Maintenance Review

Attached for your information is Audits and Investigations' (A&I) final report for District 5's Maintenance Review. This review was performed as a management service for your consideration in the oversight role of the Maintenance and Operations Unit.

We thank you and your staff for its assistance during our review. A&I's review is an independent internal review intended to provide you with feedback for your management's consideration.

If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: Richard Krumholz, District 5 Director
Jackie Parker, Deputy District 5 Director, Administration
Reed Russell, Maintenance Manager, North Region
Karen Shields, Regional Administrative Officer, North Region
Jim Edson, Maintenance Manager, South Region
Beverlee Bacchilega, Regional Administrative Officer, South Region

P3030-639
District 5 Maintenance Review
April 2008

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

DISTRICT 5 - MAINTENANCE REVIEW

SUMMARY

Audits and Investigations (A&I) has completed a maintenance review of District 5 (District). The purpose of the review was to assess whether accounting and administrative procedures were being followed, that fiscal data was being entered properly into the accounting system, and that proper measures were in effect to safeguard the Department of Transportation's (Department) assets. The review was performed as a management service to you for your consideration in your oversight role of the Maintenance and Operations Unit.

Our examination of the accounting records and control procedures was based on the District's compliance with the Department's Accounting Manual, State Administrative Manual (SAM), and departmental policies and procedures. The scope of our review covered personnel time and payroll records, overtime and warrant distribution procedures, petty cash, purchases, damage reports, bulk fuel, chemicals, and other records and tests as deemed necessary.

Our review disclosed that the accounting records and control procedures followed by the District's Maintenance and Operations Unit were generally in compliance with the Department's Accounting Manual, SAM, and departmental policies and procedures, except as follows:

- Weakness in Compliance with Bulk Fuel Variances
- Weakness in Inventory Control of Chemicals

OBJECTIVES

The objectives of the maintenance review were to assess whether accounting and administrative procedures were being followed, fiscal data was being entered properly into the accounting system, and proper measures were in effect to safeguard the Department's assets.

SCOPE AND METHODOLOGY

The scope of our review included personnel time and payroll records, overtime and warrant distribution procedures, petty cash, purchases, damage reports, bulk fuel, chemicals, and other records and tests as deemed necessary. Our review did not include a review of cookhouses and bunkhouses, as none exist in this District. Our methodology consisted of interviewing personnel, reviewing records, and performing other analytical procedures and tests as we considered necessary.

The period of the review focused on District transactions and operations from January 1, 2007, through August 31, 2007.

DISTRICT 5 - MAINTENANCE REVIEW

RESULTS

The maintenance review disclosed that the District's Maintenance and Operations Unit followed accounting and administrative procedures, entered fiscal data properly into the accounting system, and took proper measures to safeguard the Department's assets. However, we identified the following deficiencies where internal controls can be improved:

- Weakness in Compliance with Bulk Fuel Variances
- Weakness in Inventory Control of Chemicals

For detailed information, please see the Attachment.

We hope this review proves useful in your oversight role of the District's Maintenance and Operations Unit. If you have any questions, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107.

Original Signed By

GERALD A. LONG
Deputy Director
Audits and Investigations

October 26, 2007
(Last Day of Field Work)

Attachment

Audit Team:

Ken Craig, Chief, Internal Audits
Zilan Chen, Audit Supervisor
Mohammad Eslamian, Auditor

DISTRICT 5 - MAINTENANCE REVIEW

ATTACHMENT

Finding 1 – Weakness in Compliance with Bulk Fuel Variances

Background:

The District 5 (District) Maintenance and Operations Unit has bulk fuel sites throughout the District in both the North and South Regions. The bulk fuel process is not automated, and the district manually tracks its bulk fuel usage.

A monthly Recapitulation of Bulk Fuel, Form FA-0095, is prepared to compare fuel amounts on record to the actual measurement using dipsticks.

Issue:

We reviewed all of the Recapitulation Forms for the ten fuel locations in the District's North Region for August 2007, and found that five of the locations had unexplained variances over the acceptable two percent level. In addition, we found that the actual dipstick measurement of fuel before and after delivery is not taken on a regular basis at one of the maintenance stations we visited.

Caltrans Policies & Procedures Covering Bulk Fuel, PP 83-2, requires that overages/shortages exceeding the two percent allowable variance be investigated and corrective action taken. In addition, it requires that dipstick checks of all tanks be made monthly and, if inventory problems occur, that a daily dipstick check be considered. In addition, SAM 20050 requires that State entities establish and maintain internal controls to ensure the proper safeguarding of assets.

Uninvestigated variances could indicate that assets are not properly safeguarded, and increases the risk that the District will not detect losses.

Recommendation

We recommend the District investigate and resolve variances in excess of two percent for all fuel tanks, and ensure dipstick measurements are being taken before and after fuel deliveries.

Finding 2 – Weakness in Inventory Control of Chemicals

Background:

The Santa Barbara and Salinas Maintenance Stations store chemicals that are supplied to highway landscape workers in the District. Usage of chemicals is entered into the Integrated

ATTACHMENT

Maintenance Management System (IMMS) by supervisors who are the custodians of the chemicals.

Issue:

We took an inventory of all the chemicals in the Santa Barbara chemical storage room, compared it to the IMMS report, and found that the physical inventory count for 4 of 26 (15 percent) chemicals in the room was different from the balances shown in IMMS. In addition, we found an improper segregation of duties, which allows the same person making purchase requests for the chemicals to also be in charge of the usage and the inventory taking. This is an internal control weakness.

SAM Section 20050 requires State entities to establish and maintain internal and administrative controls to ensure the proper safeguarding of assets. Specifically, the elements of a satisfactory system of internal controls include the following:

- A plan of organization that provides segregation of duties appropriate for proper safeguarding of State assets.
- A system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- An effective system of internal review.

Inadequate internal controls over chemical supplies could result in the loss, theft, and/or misappropriation of State resources.

Recommendation

We recommend that District maintenance management:

- Establish proper segregation of duties and a system of independent checks of the chemical inventory and the inventory records.
- Adjust inventory records to reflect the amounts counted and document the reason for any adjustment.
- Document inventory procedures and inform the responsible individuals of their required duties.