DGS
GENERAL SERVICES

MEMORANDUM

Date: July 1, 2010 File No.: 9120

To: Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board
400 R Street, 5th Floor
Sacramento, CA 95811

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 Victim Compensation and Government Claims Board (Board). 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 Board'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 January 7, 2011. 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 Board's personnel.

If you have any questions, please call me at (916) 376-5058, or Dennis Miras, Audit Supervisor, at (916) 376-5064.

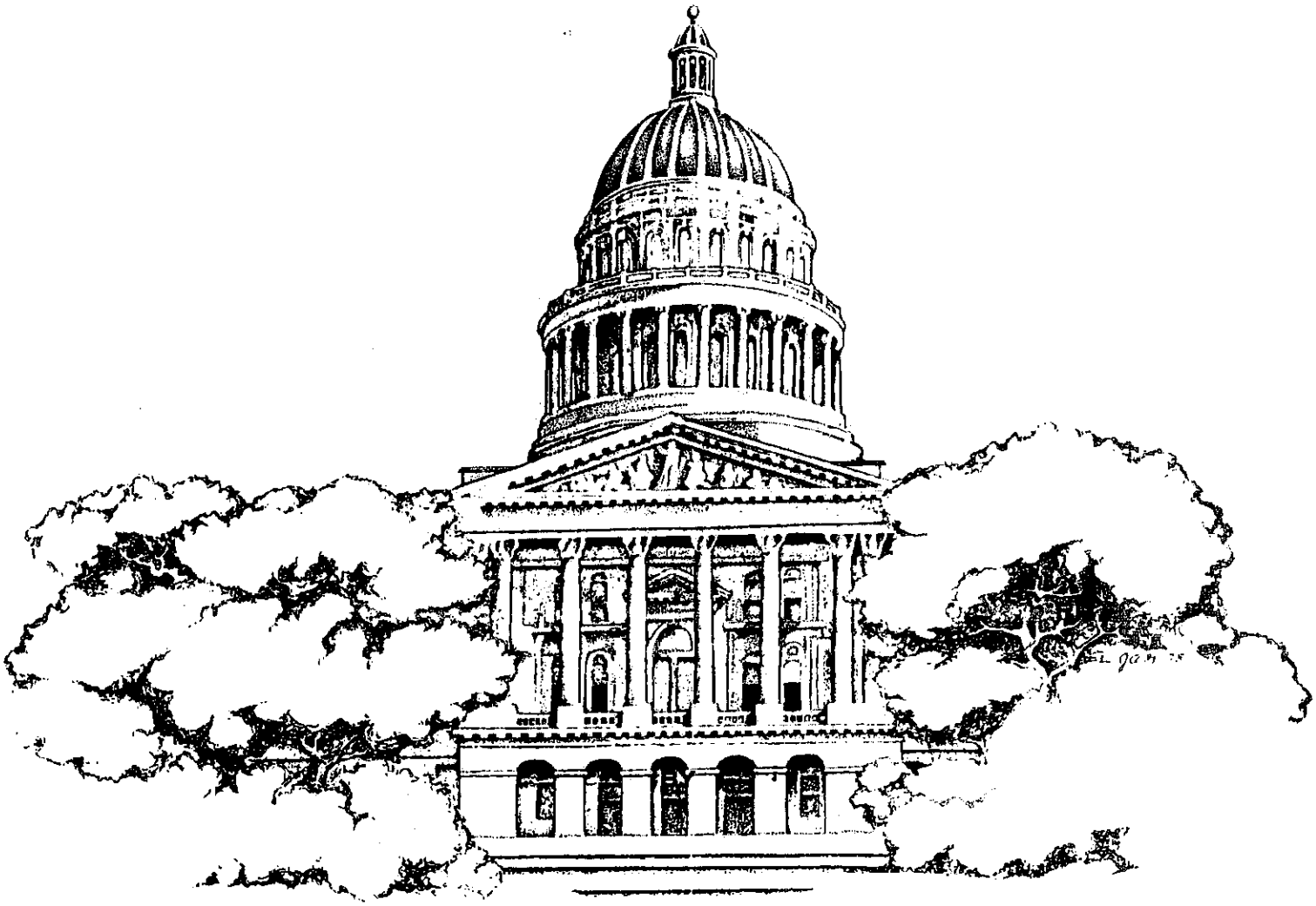
RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

cc: Patty Harris, Chief Deputy Executive Officer
Blanche Harbridge-Wright, Deputy Executive Officer, Administration Division
Cindy DeYoung, Business Services Manager, Business Services Section
Bettzan Mar, Assistant Deputy Executive Officer, Fiscal Services Division
Amy Cheung, CPA, Chief, Office of Audits and Investigations

STATE OF CALIFORNIA

DGS

DEPARTMENT OF GENERAL SERVICES



STATE AND CONSUMER SERVICES AGENCY

DEPARTMENT OF GENERAL SERVICES

AUDIT OF VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD

FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 9120

OFFICE OF AUDIT SERVICES

JUNE 2009

VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD
COMPLIANCE AUDIT
REPORT NO. 9120

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STATE OF CALIFORNIA

DEPARTMENT OF GENERAL SERVICES

AUDITOR'S REPORT

DATE: July 1, 2010

TO: **JULIE NAUMAN**, Executive Officer
Victim Compensation and Government Claims Board

This report presents the results of our compliance audit of the business management functions and services of the Victim Compensation and Government Claims Board (Board). 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, purchasing, 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.

While in most areas we concluded that the Board 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 the Board in addressing these areas.

- Delegated purchasing program policies and procedures are not ensuring full compliance with State requirements governing those types of procurements. The types of exceptions noted during our audit included procurement files lacking documentation that: (1) procurements were entered into the State's centralized database for contract and purchase transactions; (2) a copy of a seller's permit was obtained from a supplier prior to finalizing a purchase; and, (3) the applicable contract's cover page and pricing page(s) were obtained and reviewed for leverage procurement agreement transactions.
- The Board'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. Further, policies and procedures are not ensuring that frequent drivers attend a defensive driver training course every four years.

During our review we also identified other matters requiring attention that we discussed with the Board's management but are not included in this report. These matters included our concern that the Board's forms management program was not being centrally directed and coordinated. We also observed that sufficient documentation was not being maintained on the process used to dispose of surplus personal property. 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 Board's management took immediate action to begin addressing our concerns. Although we

were not able to verify the effectiveness of some of these actions prior to the completion of our audit fieldwork, 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 Board's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Dennis Miras, Audit Supervisor, at (916) 376-5064.

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

Staff: Dennis Miras, Audit Supervisor
Christopher Harris
Michael Rossow

cc: Patty Harris, Chief Deputy Executive Officer
Blanche Harbridge-Wright, Deputy Executive Officer, Administration Division
Cindy DeYoung, Business Services Manager, Business Services Section
Bettzan Mar, Assistant Deputy Executive Officer, Fiscal Services Division
Amy Cheung, CPA, Chief, Office of Audits and Investigations

VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD
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 Victim Compensation and Government Claims Board (Board) 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: conduct of delegated purchases; completion of vehicle certification forms by employees; and, attendance of a defensive driver training course by frequent drivers.

This information was developed based on our fieldwork conducted over the period January 27, 2009 through June 11, 2009. 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 Board's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our June 2009 audit exit conference, the Board 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 2007/08 and 2008/09 fiscal years.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that the Board has implemented a delegated purchasing program that ensures compliance with the State's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers. However, our tests of a sample of 20 delegated information technology (IT) or non-IT procurements, including 10 leveraged procurement agreement transactions, disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The State's delegated purchasing requirements are contained in State Contracting Manual (SCM) Volumes 2 and 3. 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 involved procurement transaction files that did not always include:

- documentation that a procurement was entered into the State's centralized database for contract and purchase transactions (SCM 2, Section 8.1.1 and SCM 3, Section 7.1.1);
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2, Section 3.3.2 and SCM 3, Section 2.C1.0);
- a copy of the supplier's seller's permit (SCM 2, Section 4.B9.5 and SCM 3, Section 3.B8.5);
- a properly completed Purchasing Authority Purchase Order, STD. 65, that accurately referenced the procurement method used to award the purchase order (SCM 2, Section 8.3.6 and SCM 3, Section 7.3.2); and,

- copies of the contract cover page and pricing page(s) for leverage procurement agreement (LPA) transactions (SCM 2, Section 6.A4.1 and SCM 3, Section 5.A4.1). Further, a number of the LPA transaction files did not contain information on the criteria used to determine best value (SCM 2, Section 6.A4.0 and SCM 3, Section 5.A4.0) and documentation supporting that multiple offers were solicited for the purchase (SCM 2, Section 6.A3.0 and SCM 3, Section 5.A3.0).

It should be noted that we are aware that the Board has taken actions to improve its delegated purchasing program subsequent to the completion of our audit fieldwork. As part of this process, in October 2009, the Board's Business Services Section completed an update of its Purchasing Manual that included revisions that addressed the areas for improvement identified during our audit. Although we are pleased with the prompt actions being taken to address our concerns, we did not verify their effectiveness prior to the completion of our audit.

Recommendation

1. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.

DRIVER SAFETY AND INSURANCE PROGRAM

The Board 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:

- ***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 all eleven employees included in our sample tests who used their own vehicle on State business. It is our understanding that the Board'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.

- ***Defensive Driver Training*** – our review of the 11 frequent drivers identified above also found that 9 of them had not attended a defensive driver training course within the last four years. 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 is our understanding that the responsibility for ensuring that employees attend a driver training course rests with managerial/supervisory personnel. As shown by the results of our tests, these employees are not consistently enforcing this requirement.

Subsequent to the completion of our fieldwork, we were advised by the Board that action had been taken to address our concerns with the adequacy of its driver safety and insurance program. We are pleased with the prompt action taken to improve operations. However, we did not test the effectiveness of the new operating processes prior to the completion of our audit.

Recommendations

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.

3. Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on State business attend an approved defensive driver training course at least once every four years.

CONCLUSION

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

C A L I F O R N I A
VCGCB
Victim Compensation & Government Claims Board

STATE OF CALIFORNIA
ARNOLD SCHWARZENEGGER, Governor

BILL LEONARD
Secretary
State and Consumer Services Agency
Chairperson

JOHN CHIANG
State Controller
Board Member

MICHAEL A. RAMOS
San Bernardino County District Attorney
Board Member

JULIE NAUMAN
Executive Officer

Memorandum

Date: June 25, 2010

To: Rick Gilam, CIA
Chief, Office of Audit Services
Department of General Services
707 – 3rd Street
Sacramento, CA 95605

From: Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board

Subject: AUDIT REPORT: COMPLIANCE WITH STATE BUSINESS MANAGEMENT POLICIES

The Victim Compensation and Government Claims Board (VCGCB) has reviewed the Department of General Services (DGS) discussion draft regarding compliance with State business management policies. The following is our response to the reported findings.

DGS Recommendation on Delegated Purchasing Program

Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program.

VCGCB Response

The VCGCB has established a number of quality assurance policies and procedures that will ensure compliance with the delegated purchasing program requirements.

- The VCGCB Purchasing Procedure Manual has been enhanced to clearly detail the policies and procedures of the State's purchasing process.
- A Request for Purchase form and process has been established which requires that additional justifications, management approval, and executive level authorizations be provided prior to proceeding with the purchase. The Request for Purchase form has two components: IT purchases and Non-IT purchases. This will enable to VCGCB to easily identify the purchase type and determine if specific criteria has been met based on IT and Non-IT purchasing requirements.
- A new database has been created to track specific criteria identified in the finding as well as additional criteria to streamline the collection and review of information.

VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD
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DGS Recommendation on Driver Safety and Insurance Program

1. 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 annual notification to managers/supervisors of their responsibility for ensuring the completion and updating of the form.

2. Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on State business attend an approved defensive driver training course at least once every four years.

VCGCB Response

The VCGCB has established a number of quality assurance policies and procedures that will ensure compliance with the driver safety and insurance program requirements.

- Implemented a tracking system through the Accounting Section which is tied directly to CalATERS Travel Expense Claims. The tracking system collects information about employees who travel and/or use their own vehicle to conduct State business. This information is used to determine eligible employees and to monitor completion of the form on an annual basis.
- The VCGCB New Employee form collects information about new employees who will be traveling on State business to ensure the STD. 261 is completed as appropriate.
- The VCGCB Training Section has instituted a training module and follow up training requirements to ensure employees are provided approved defensive driver training course at least once every four years.
- Manager/supervisors have been reminded of their responsibility to ensure that their employees complete and update the STD. 261, and ensure that they complete the defensive driver training course. Managers/supervisors will be periodically reminded of the importance of ensuring these procedures are followed.

The VCGCB is pleased to report that these changes in our processes and procedures continue to produce positive results.

We appreciate the time and energy that your staff put into reviewing our processes and developing their recommendations. The VCGCB understand their intent is to assist the VCGCB in effectively conducting business according to the laws and regulations of the State of California.

Sincerely,

Julie Nauman
Executive Officer

cc: Patty Harris, Chief Deputy Executive Officer
Blanche Harbridge-Wright, Deputy Executive Officer, Administration Division
Cindy DeYoung, Business Services manager, Business Services Section
Bettzan Mar, Assistant Deputy Executive Officer, Fiscal Services Division
Amy Cheung, CPA, Chief, Office of Audits and Investigations

EVALUATION OF BOARD'S RESPONSE

We have reviewed the response by the Victim Compensation and Government Claims Board (Board) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by the Board to improve its business management functions and services.