DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

AUDIT OF ADMINISTRATIVE SERVICES PROVIDED TO BUSINESS, TRANSPORTATION AND HOUSING AGENCY

FINAL REPORT

OCTOBER 12, 2010

Memorandum

Date: October 12, 2010

To: Office of the Commissioner

Attention: Commissioner J. A. Farrow

From: **DEPARTMENT OF CALIFORNIA HIGHWAY PATROL**
Office of Inspector General

File No.: 010.13424.A13471

Subject: FINAL 2009 AUDIT REPORT OF ADMINISTRATIVE SERVICES PROVIDED TO BUSINESS, TRANSPORTATION AND HOUSING AGENCY

In accordance with the Institute of Internal Auditors, *International Standards for the Professional Practice of Internal Auditing* §2440, issued by the Institute of Internal Auditors, Government Code §13887(a)(2), and the California Highway Patrol (CHP) Audit Charter, I am issuing the 2009 Command Audit Report of administrative services provided to Business, Transportation and Housing Agency (BTH). The audit focused on the CHP's operational polices regarding the administration of several fiscal processes and services provided to BTH.

The audit revealed the command has adequate operations. However, some issues were observed. This report presents suggestions for management to improve on some operations. In doing so, operations would be strengthened and the command would ensure it is operating in compliance with policies and procedures. We have included our specific findings, recommendations, and other pertinent information in the report. The Administrative Services Division agreed with all of the findings and plans to take corrective action to improve operations.

Administrative Services Division will be required to provide a 30 day, 60 day, six month, and one year response on its corrective action plan implementation. If identified issues are resolved and addressed during any phase of the above reporting period, no future action is required on their behalf. The Office of Inspector General anticipates conducting a follow-up review within one year from the date of the final report.

Additionally, in accordance with the *International Standards for the Professional Practice of Internal Auditing* and Government Code §13887(a)(2), this report, the response, and any follow-up documentation is intended for the Office of the Commissioner; Assistant Commissioner, Staff; Office of Inspector General; Office of Legal Affairs; and Administrative Services Division. Please note this report restriction is not meant to limit distribution of the report, which is a matter of public record pursuant to Government Code §6250 et seq.

In accordance with the Governor's Executive Order S-20-09 to increase government transparency, the final audit report, including the response to the draft audit report, will be posted on the internet website of the CHP, and on the Office of the Governor webpage, located on the State Government website.

The Office of Inspector General would like to thank management and staff of the Administrative Services Division for their cooperation during the audit. If you need further information, please contact me at (916) 843-3160.

R. J. JONES, Captain
Interim Inspector General

cc: Assistant Commissioner, Staff
Administrative Services Division
Office of Legal Affairs
Office of Inspector General, Audits Unit

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

AUDIT OF ADMINISTRATIVE SERVICES PROVIDED TO BUSINESS, TRANSPORTATION AND HOUSING AGENCY

OFFICE OF INSPECTOR GENERAL, AUDITS UNIT

OCTOBER 12, 2010

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Executive Summary

As requested by the Business Transportation and Housing Agency (BTH), on September 2, 2009, the Office of the Commissioner directed the Office of Inspector General, Audits Unit to perform a review and evaluation of the systems and internal controls of the California Highway Patrol (CHP) for processes and administrative services provided to the BTH. This request was initiated pursuant to the Financial Integrity and State Manager's Accountability Act of 1983, the provisions of which are stated in Government Code Sections 13400 through 13407.

The objective of the audit was to determine if the CHP complied with operational policies regarding the administration of several fiscal processes and services provided to BTH. Additionally, this review provided managers with reasonable, but not absolute assurance that CHP operations were being properly executed. The audit period was from January 1, 2008 through June 30, 2009. However, primary testing was conducted during the later part of the fiscal year to provide a current evaluation of internal controls. The audit included examining and testing of recorded transactions to determine compliance with established policies, procedures, and good business practices.

During the audit of operational policies of the CHP regarding the processes and administrative services provided to the BTH as of October 25, 2009, areas were identified where internal controls were in place and working as intended, and other areas were identified where internal controls could be improved to reduce the risk of errors, irregularities, and material misstatements.

Based on the audit of the accounting and administrative controls of the CHP, the audit determined the CHP has multiple internal controls in place. However, although the controls are adequate, issues were observed. The following is a summary of the identified findings:

Contracts:

- The scope of work for the contract between BTH and CHP is too general.

X Numbers:

- The CHP does not always complete the CHP 78X, X Number Service Order, forms.

Please refer to the Findings and Recommendations Section for detailed information.

INTRODUCTION

As requested by Business Transportation and Housing Agency (BTH), on September 2, 2009, the Office of the Commissioner directed the Office of Inspector General, Audits Unit, to perform a review and evaluation of the systems and internal controls of the California Highway Patrol (CHP) for processes and administrative services provided to BTH. This request was initiated pursuant to the Financial Integrity and State Manager's Accountability Act of 1983, the provisions of which are stated in Government Code Sections 13400 through 13407.

OBJECTIVE AND SCOPE

The objective of the audit was to determine if the CHP has complied with operational policies regarding the processes and administrative services provided to BTH. Additionally, this review provided managers with reasonable, but not absolute assurance that CHP operations were being properly executed. The audit period was from January 1, 2008 through June 30, 2009. However, primary testing was conducted during the later part of the fiscal year to provide a current evaluation of internal controls. The audit included examining and testing of recorded transactions to determine compliance with established policies, procedures, and good business practices.

METHODOLOGY

Sample selection of items to be audited were primarily random or judgmental. Whenever possible, the use of risk assessment was used to select a sample containing the highest probability of risk to the command.

There were no prior audit reports or findings of the systems and internal controls of the CHP for processes and administrative services provided to the BTH.

OVERVIEW

Cash Disbursements:
Internal controls related to cash disbursements appear adequate. The auditor determined policies and procedures are in place to ensure cash disbursements are authorized and for appropriate purposes. Additionally, cash disbursements, ledger accounts, journals, and bank accounts are posted accurately, promptly, and periodically reconciled.

Personnel and Payroll:
Internal controls related to personnel and payroll functions appear adequate. Policies and procedures were found to be in place to ensure personnel and payroll transactions are approved and certified by authorized personnel; payroll expenditures are recorded correctly, stayed within

budget, and allocated to the correct fund and program; leave balances were accurate and monitored; and employee appointments were proper and supported.

Revolving Fund:
Internal controls related to the revolving fund appear adequate. The auditor determined policies and procedures are in place to ensure the revolving fund usage is authorized and for proper purposes; advances are administered appropriately; and reimbursements and reconciliations are accurate and timely.

Cash Receipts:
Internal controls related to cash receipts appear adequate. The auditor determined policies and procedures are in place to collect, safeguard, and deposit cash receipts; separation of duties exist to ensure funds are safeguarded; and cash receipt transactions are correctly recorded in the accounting records and accountability is maintained.

Contracts:
Internal controls related to contracts appear adequate but could be improved. The auditor determined policies and procedures are in place to ensure contracts are approved by responsible persons and approvals are documented; accompanied by the required supporting documents and contain the required language; followed competitive bid requirements and avoided contract splitting; monitored to ensure compliance with provisions; accomplished the contracting objectives; and annual reports are completed in a timely manner. However, the contract between BTH and CHP lacked detailed language providing clear and concise direction as required by the State Contracting Manual within the scope of work portion of the contract. Detailed language providing clear and concise direction is key to a satisfactory contract and one of the elements of a valid contract.

X Number Contracts:
Internal controls related to X Number contracts appear adequate but could be improved. The auditor determined policies and procedures are in place to ensure X Number contracts are approved by responsible persons and documented; accompanied by the required supporting documents and contained the required language; followed competitive bid requirements and avoid contract splitting; contracts are monitored to ensure compliance with provisions; contract administration accomplished contracting objectives; and annual reports were completed in a timely manner. However, five out of eight CHP 78X, X Number Service Order, forms did not contain a service start or end date.

Budgeting:
Internal controls related to budgeting appear adequate. The auditor determined procedures are in place to ensure that budget changes are properly approved, recorded, and used for authorized purposes; and the final approved budget is recorded accurately and timely.

Financial Reporting:
Internal controls related to financial reporting appear adequate. The auditor determined policies and procedures including the use of the California State Accounting and Reporting System (CALSTARS) are followed; supervision of the planning, preparing, and compiling of financial statements are in place and adequate; and financial statements are promptly and accurately prepared.

Purchasing:
Internal controls related to purchasing appear adequate. The auditor determined purchases are justified, reasonable, and consistent with laws; and regulations and assets are safeguarded when received. We also found policies and procedures are in place to control the purchase of goods and services; ensured proper approvals, documentation, and reporting to accounting records; and substantiated payments of purchases are accurate and made in a timely manner. Additionally, separation of duties appeared adequate.

Lease Agreement:
Internal controls related to Lease Agreement appeared adequate.

This audit revealed the CHP has adequate operations, nevertheless, issues were discovered, which if left unchecked could have a negative impact on the command and CHP operations. These issues should be addressed by management to maintain compliance with appropriate laws, regulations, policies, and procedures. The issues and appropriate recommendations are presented in this report.

As a result of changing conditions and the degree of compliance with policies and procedures, the efficiency and effectiveness of operations change over time. Specific limitations that may hinder the efficiency and effectiveness of an otherwise adequate operation include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, fraud, and management overrides. Establishing compliant and safe operations and sound internal controls would prevent or reduce these limitations; however, an audit may not always detect these limitations.

FINDINGS AND RECOMMENDATIONS

FINDING 1: **The scope of work for the contract between Business Transportation and Housing Agency (BTH) and California Highway Patrol (CHP) is too general.**

Condition: The contract between BTH and CHP lacked detailed language providing clear and concise direction as required by the State Contracting Manual within the scope of work portion of the contract. Detailed language providing clear and concise direction is key to a satisfactory contract and one of the elements of a valid contract. The current contract between the BTH and CHP states the CHP agrees to provide administrative and labor relations support services for BTH.

Criteria: State Contracting Manual, Volume 1, Chapter 2, Paragraph 2.05 states, "Elements of a valid contract requires the scope of work to be performed to be adequate (Note: The adequacy of the scope is the key to a satisfactory contract.)"

Recommendations: The Contract Services Unit should ensure the scope of work of the contract between BTH and CHP is adequate (i.e., detail language providing clear and concise direction).

FINDING 2: **The CHP does not always complete the CHP 78X, X Number Service Order, forms.**

Condition: A review of eight X Number contract documents revealed five X Number contract documents did not record service start and end dates on the CHP 78X form. However, the dates were entered into the contracts database.

Criteria: Government Code (GC), Section 13403(a)(6) articulates that an element of a satisfactory system of internal accounting and administrative control, shall include, an effective system of internal review.

Highway Patrol Manual 11.1, Administrative Procedures Manual, Chapter 23, Delegation of X Number Contract Authority, paragraph 2.b. states,

> "b. <u>CHP 78X, X Number Service Order</u>. A copy of the completed CHP 78X must be kept on file with any supporting documentation, e.g., special approval electronic mail (e-mail), memorandums, email request for X Number. This information shall be made available for audit purposes."

Recommendations: The CHP should maintain a completed X Number contract file in accordance with GC and departmental policy by ensuring all CHP 78X forms record the service start and end dates.

Conclusion

Based on the audit of accounting and internal controls of the California Highway Patrol (CHP), the CHP has adequate systems and internal controls in place for processes and administrative services provided to BTH. However, some issues were observed. This report presents suggestions for management to improve on some operations. In doing so, internal controls would be strengthened and the CHP would operate more effectively and efficiently.

ANNEX

A

Memorandum

Date: September 9, 2010

To: Office of Inspector General

From: **DEPARTMENT OF CALIFORNIA HIGHWAY PATROL**
Administrative Services Division

File No.: 070.A12369.6-0224log

Subject: RESPONSE TO DRAFT 2009 AUDIT REPORT OF ADMINISTRATIVE SERVICES PROVIDED TO BUSINESS, TRANSPORTATION AND HOUSING AGENCY

The draft 2009 audit report dated August 19, 2010, identified two findings:

FINDING 1 – The scope of work for the contract between the Business Transportation and Housing Agency (BTH) and the California Highway Patrol (CHP) is too general.

The CHP agrees with this finding.

PLANNED CORRECTIVE ACTION: Business Services Section (BSS) is communicating with BTH regarding amending the contract to include specific responsibilities. An amendment will be prepared and executed once agreement has been reached on scope details.

FINDING 2 – The CHP does not always complete the CHP 78X, X Number Service Order, forms.

The CHP agrees with this finding.

PLANNED CORRECTIVE ACTION: Immediately upon knowledge of this finding, BSS emphasized to X Number requestors the importance of including "start" and "end" dates on the CHP 78X. Since this communication, there have been no observed instances in which the dates were not included. The X Number coordinator continues to monitor the forms for compliance.

We appreciate the opportunity to respond to the draft audit report. If you have any questions, or require further information, please contact Karen Smith, BSS commander, at (916) 843-3601.

2L Anderson

for J. T. UYEDA, Chief

cc: Office of the Assistant Commissioner, Staff