

CALIFORNIA LOTTERY

Audit Report

FLEET SERVICES AUDIT

July 1, 2009, through June 30, 2012



JOHN CHIANG
California State Controller

July 2014



JOHN CHIANG
California State Controller

July 16, 2014

California Lottery Commission
700 North Tenth Street
Sacramento, CA 95811
Attn: Nathaniel Kirtman III, Chairperson

Dear Commissioners:

The State Controller's Office (SCO) conducted an audit of the California Lottery's (Lottery) Fleet Services. The audit period was July 1, 2009, through June 30, 2012. The purpose of our audit was to determine whether the Lottery's controls over its fleet of vehicles are adequate and whether the Lottery's monitoring procedures are adequate to ensure that the Fleet Services complies with sound financial and program management practices.

Based on our audit, we identified the following conditions:

- Vehicle disposal forms were not maintained;
- Proper purchase order and vehicle repair approvals were not maintained;
- Vehicles were underutilized;
- Driver forms were missing or incomplete; and
- Executive Order was not complied with.

A draft report was presented to the Lottery on May 1, 2014. Paula D. LaBrie, Acting Director, responded to findings on behalf of the Lottery in a letter dated May 19, 2014, included as the attachment of this report. The Lottery agreed with the findings. The SCO incorporated the Lottery's responses into the final report. During the response period, the Lottery provided additional information to the SCO in regards to the findings. The final report has been modified to reflect the additional information provided.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Gregory Ahern, Commissioner
California Lottery Commission
Rowena Libang-Bobila, Commissioner
California Lottery Commission
Connie M. Perez, Commissioner
California Lottery Commission
John Smolin, Commissioner
California Lottery Commission
Paula D. Labrie, Acting Director
California Lottery
Terry Murphy, Deputy Director, Operations Division
California Lottery
Roberto Zavala, Chief Internal Auditor
California Lottery

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) Fleet Services for the period of July 1, 2009, through June 30, 2012.

Based on our audit, we identified the following conditions:

- Vehicle disposal forms were not maintained;
- Proper purchase order and vehicle repair approvals were not maintained;
- Vehicles were underutilized;
- Driver forms were missing or incomplete; and
- Executive Order was not complied with.

Background

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that "... the Controller shall suggest plans for the improvement and management of revenues."

Proposition 37, the California State Lottery Act of 1984 (Lottery Act), amended the California Constitution to authorize the establishment of a statewide lottery, to create the California Lottery Commission, and to give the commission broad powers to oversee the operation of a statewide lottery.

Pursuant to Government Code section 8880.46.6, the SCO may conduct other special post-audits of the Lottery, as the State Controller deems necessary. The Controller or his/her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the California Lottery Commission.

The Fleet Management Unit (FMU) of the Lottery's Operations Division manages the Lottery's fleet of vehicles, located throughout the State. As of June 2012, the FMU was responsible for the management of 227 vehicles. The FMU is responsible for managing all details related to these vehicles, including the purchasing, disposition, maintenance, and assignment of vehicles; monitoring of drivers; record-keeping for the entire fleet; managing accident reports and citations; and interfacing with government agencies such as the Department of General Services, the Department of Motor Vehicles, and the State Controller's Office.

Objectives, Scope, and Methodology

The scope of the audit was the period of July 1, 2009, through June 30, 2012. The purpose of the audit was to determine whether the Lottery is maintaining effective financial and program management practices over Fleet Services. The objectives of the audit included, but were not limited to, determining whether the Lottery:

- Has adequate internal controls over the Lottery's fleet of vehicles to safeguard against any losses to the State;
- Is abiding with state laws, rules, and regulations, as well as Lottery's policies and procedures in regard to its fleet services; and
- Is ensuring that the acquisition, disposal, maintenance, and monitoring of the fleet are legal and proper.

Audit procedures included, but were not limited to, the following:

- Reviewing the California State Lottery Act, the State Administrative Manual, the Government Code, Department of General Services Fleet Handbook, and any other applicable rules and regulations related to fleet management;
- Reviewing work performed by any external audit organization, the Lottery's Internal Audit Unit, or any other Lottery unit;
- Interviewing and observing individuals involved in the Fleet Services and other Lottery Units;
- Analyzing and evaluating processes and procedures related to the Fleet Management Unit;
- Obtaining an understanding of the components of internal controls sufficient to conduct the audit; and
- Performing tests of procedural compliance and propriety of the Lottery's processes and procedures relative to the Fleet Services.

We conducted this performance audit in accordance with generally accepted government auditing standards. We did not audit the Lottery's financial statements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on our audit of the Lottery's Fleet Services for the period of July 1, 2009, through June 30, 2012, we identified the following conditions:

- Vehicle disposal forms were not maintained;
- Proper purchase order and vehicle repair approvals were not maintained;
- Vehicles were underutilized;

- Driver forms were missing or incomplete; and
- Executive Order was not complied with.

The conditions are detailed in the Findings and Recommendations section of our report.

Views of Responsible Officials

The SCO issued a draft report to the Lottery on May 1, 2014. Paula D. LaBrie, Acting Director, responded to the findings in a letter dated May 19, 2014, included as the attachment of this report. Ms. LaBrie stated that the Lottery agrees with all of the findings.

Restricted Use

This report is intended for the information and use of the California Lottery, the California Lottery Commission, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

July 16, 2014

Findings and Recommendations

FINDING 1— Vehicle disposal forms were not maintained

We selected 20 vehicles for testing of compliance with the Lottery's disposal policies and procedures. We noted the following:

- Eleven California Lottery Vehicle Inspection Reports were not provided for our review;
- Two Department of Motor Vehicles Power of Attorney (REG 260) forms were not provided for our review; and
- Nine Certificate of Title\Vehicle Registration transfer forms were not provided for our review.

The Lottery is required to complete and maintain various reports, forms, and checklists when it disposes of vehicles. All vehicle disposal forms should be properly filed and readily available. Vehicle inspection forms document and substantiate a vehicle's condition at the time of disposal. Other forms, such as Power of Attorney and DMV Certificate of Title forms, are evidence of release and/or transfer of liability from the Lottery to the new owner and should be completed and retained in the Lottery's files. The absence of these forms could put the State's assets at risk if the Office of Risk and Insurance Management is not notified in a timely manner that these vehicles are no longer the State's responsibility.

The Fleet Management Unit Desk Manual, Chapter 4 states that the resources required for disposal of vehicles include CSL Vehicle Inspection Checklist, Driver/Vehicle Transfer form (CSL-1113), Property Survey Report (STD-152), and DMV Power of Attorney form (REG-260).

Recommendation

In order to minimize the potential of loss and abuse of State resources, the Lottery should ensure that all forms releasing the Lottery from liability are completed and retained. The Lottery should comply with its policies and procedures to ensure that all applicable forms are completed in a timely manner.

Lottery's Response

The Lottery agrees with the finding.

We are pleased that the SCO noted only minor exceptions with the Lottery's retention of documentation on surveyed vehicles.

With respect to the Power of Attorney (POA) forms, eleven were not available at the time of SCO field work. However, as of the date of this response, the Lottery located 9 of the 11 forms. The POA form is an official California, Department of Motor Vehicles (DMV) form used to complete the transfer of ownership or registration for a specific vehicle.

Beginning in October 2010, the Lottery began utilizing a Consignment Agreement form provided by the Lottery's Auction Company as a

replacement to the POA form. The Auction Company transfers title at the time of sale by completing the Notice of Release of Liability form once the vehicle is sold and submits the form to the DMV. In addition, the Auction Company also handles the DMV title transfer form.

SCO's Comment

The Lottery agrees with the finding. The SCO modified the finding to reflect the nine Power of Attorney forms that were provided by the Lottery during the response period.

FINDING 2— Proper purchase order and vehicle repair approvals were not maintained

The Lottery did not obtain and/or retain documentation showing proper approvals as follows:

- Of the 14 accident reports we tested, two were lacking prior approvals for repairs over \$2,000; and
- Of the five vehicle purchase orders (STD 65) we tested, three were not signed by the Lottery's Director.

Chapter 20 of the Fleet Management Unit Desk Manual, states "If driver has a repair costing over \$2,000, their Cal-Card limit must be temporarily increased. This requires written approval from FMU and adherence to this process."

Chapter 3 of the Fleet Management Unit Desk Manual requires that STD 65 be completed and submitted to the Lottery Director for signature.

Recommendation

The Lottery should ensure that all purchases are properly approved before they are made. Doing so will help to ensure that the Lottery's assets are safeguarded from abuse or misuse.

Lottery's Response

The Lottery agrees with the finding.

With respect to approving purchase orders, if the Lottery Director is unavailable, it is standard practice to have a designated executive available to sign approval documents on behalf of the Lottery Director, including purchase orders. We determined that the Deputy Director of Finance appropriately signed on behalf of the Director the purchase order in question. This practice is being reviewed to ensure the delegation is formally documented and communicated to staff.

After reviewing the repairs in question, the Lottery determined them to be appropriate; however, they were not documented. These repairs were pre-approved over the phone or by email for employees working in field offices. That said, verbal pre-approvals will be first documented in the Fleet Database comments section and followed-up by an email.

SCO's Comment

The Lottery agrees with the finding.

**FINDING 3—
Vehicles were
underutilized**

Three of the 27 vehicles selected for testing were not assigned drivers or were listed as “Vacant.” Upon our review of mileage logs, we found that three vehicles were underutilized, based on Lottery policies. The three vehicles were used for fewer than 6,000 miles, or 80% of available workdays, within a six-month period.

The Lottery Fleet Utilization Criteria and Vehicle Reduction Plan, dated March 24, 2010, states that in order to maintain an efficient and productive fleet, Lottery vehicles are “to be used 80 percent of available days in a six-month period or driven 6,000 miles in the same period.”

Recommendation

The Lottery should adhere to the vehicle-use policies in order to ensure that its vehicles are effectively used to achieve the maximum benefit to the State.

The FMU should periodically analyze vehicle usage to determine whether the fleet should be reduced to avoid underutilizing state resources and to provide the best value to the Lottery.

Lottery’s Response

The Lottery agrees with the finding.

As part of managing its fleet, the Lottery will adhere to its vehicle-use policies and continue evaluating and reassigning underutilized vehicles as business needs dictate. After carefully reviewing the vehicles in question, they appear to run the risk of underutilization when classified as pool vehicles. The Lottery will pay close attention to its pool vehicles.

Of the three underutilized vehicles, one vehicle assigned to the Lottery’s Van Nuys District Office appears to have been utilized effectively through January 2011, at which time it was reclassified as a pool vehicle until it was sold on October 21, 2013.

The second vehicle in question was reclassified as a pool vehicle after the employee who was assigned the vehicle, retired. Currently, this vehicle is assigned to an employee.

After identifying a Lottery District Office in need of a vehicle, the third vehicle in question was reassigned from its pool classification to a District Office.

SCO’s Comment

The Lottery agrees with the finding.

**FINDING 4—
Driver forms
were missing or
incomplete**

We selected 27 of the Lottery's fleet of 227 vehicles for testing. We noted the following:

- Two automobile maintenance logs (STD 271) were not provided for our review;
- Seven automobile maintenance logs (STD 271) were not completed by drivers for each maintenance service and/or repair;
- Two monthly travel logs (STD 273), along with their fuel receipts, were missing; and
- Eleven fleet gas card receipt forms (CSL 1023) were not completed or not provided in the vehicle driver's file for our review.

In addition, we noted that two out of 14 accident reports (STD 270) and five accident-investigation reports (CSL 0938) reviewed were not completed within 48 hours of the incident.

Lottery Vehicle Operator Handbook Section I states, in part:

Drivers are responsible for vehicle maintenance, including correct fluid levels, and tire pressure. Maintenance records may be found in the STD 271 Automobile Maintenance Book, which is located in the glove box of each vehicle.

Lottery Vehicle Operator Handbook Section L states, in part:

Lottery drivers are responsible for submitting a "physical" Monthly Travel Log STD. 273 form to the District Office Fleet Liaison. Please attach fuel receipts to the travel log prior to submission. Fuel receipts must include the vehicle license plate number... The Monthly Travel Log, STD. 273 is required for each Lottery vehicle and due to the District Office Fleet Liaison by the 5th of each month.

Fleet Management Unit, Desk Manual, Chapters 5 and 6 state, in part:

The Lottery uses Voyager fuel cards for each of its fleet vehicles... Since fuel cards are assigned to a specific vehicle, the cancellation of cards occurs when a vehicle is disposed. Chapter 6: The purpose of the fuel card management process is to verify that all fuel card purchases are legitimate and in accordance with Lottery guidelines. Questionable transactions are identified and sent to Lottery Sales Managers to review and approve or disapprove. Any transactions that are not approved are tracked to resolution by FMU.

Fleet Management Unit, Desk Manual, Chapter 9 states, in part:

If driver is involved in an accident while operating a Lottery vehicle, paperwork must be submitted to FMU within 48 hours of the accident. Reports or forms that must be completed and submitted include:

- Vehicle Accident Report (STD-270)
- Vehicle Accident Investigation Report (CSL-0938)

All driver forms and reports should be completed, submitted on time, and maintained in order to ensure that the Lottery has the most up-to-date information on its fleet. The required documentation helps ensure that state vehicles are properly maintained and operationally safe.

Recommendation

The Lottery should ensure that vehicle operators complete and submit all required forms in a timely manner. The Lottery should implement a level of review to inspect vehicle forms, reports, and files for accuracy and completeness.

Lottery's Response

The Lottery agrees with the finding.

The Lottery performs periodic District Office vehicle inspections of which the latest occurred in 2012. The next scheduled inspection will occur in 2014. These inspections utilize a checklist, and stress the importance of following procedures, including the availability of required documents upon request. During this year's upcoming inspection the Lottery will work with its Supervisors and Managers by communicating the findings of the inspections and stress the importance of timely, complete, accurate and accessible documentation.

SCO's Comment

The Lottery agrees with the finding.

FINDING 5— Executive Order was not complied with

The Lottery did not comply with the Governor's Executive Order S-14-09 dated July 17, 2009, which prohibits the purchase of new vehicles by state agencies for non-emergency use. During our review, we noted that four of the Lottery's purchase orders were dated between August 2009 and September 2009, for the purchase of 54 non-emergency vehicles totaling approximately \$1.4 million.

Recommendation

The Lottery should ensure that it keeps abreast of, and abides by, current laws, rules, and regulations.

Lottery's Response

The Lottery agrees with the finding.

The Lottery strives to comply with all current laws, rules and regulations including Executive Orders. Moreover, vehicle procurements are carefully considered and presented to the Lottery Commission for their consideration. This particular procurement was addressed to the Lottery Commission for consideration and approved on March 25, 2009.

SCO's Comment

The Lottery agrees with the finding.

**Attachment—
California Lottery’s
Response to Draft Report**



May 19, 2014

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Fleet Services Audit

Dear Mr. Finlayson:

The California Lottery (Lottery) offers the following comments regarding your recently concluded audit of the Lottery's Fleet Services. The purpose of the audit was to determine whether the Lottery's monitoring procedures are adequate to ensure that the Fleet Services complies with sound financial and program management practices.

As stated in the report dated May 1, 2014, the specific objectives of the audit, for the period July 1, 2009, through June 30, 2012, were to determine whether the Lottery has internal controls in place to ensure that:

- Has adequate internal controls over the Lottery's fleet of vehicles to safeguard against any losses to the State;
- Is abiding with state laws, rules, and regulations, as well as Lottery's policies and procedures in regard to its fleet services; and
- Is ensuring that the acquisition, disposal, maintenance, and monitoring of the fleet are legal and proper.

We thank you for the opportunity to respond to the draft audit report. As of July 2012, the Lottery owned and operated 229 vehicles. Although no significant internal control issues were identified, the audit identified opportunities to improve current practices and procedures in record retention, approval documentation, and vehicle use.

The Operations Division is updating Fleet Services procedures to ensure required documentation is completed and retained; monitoring vehicle mileage to ensure use standards are met, and communicating changes to all stakeholders and documenting in the Lottery Fleet Manual.

The Lottery offers the following responses to your findings and recommendations, as stated in the draft report dated May 1, 2014.

Finding 1

Vehicle disposal forms were not maintained.

Recommendation

In order to minimize the potential of loss and abuse of State resources, the Lottery should ensure that all forms releasing the Lottery from liability are completed and retained. The Lottery should comply with its policies and procedures to ensure that all applicable forms are completed in a timely manner.

Response

The Lottery agrees with the finding.

We are pleased that the SCO noted only minor exceptions with the Lottery's retention of documentation on surveyed vehicles.

With respect to Power of Attorney (POA) forms, eleven were not available at the time of SCO field work. However, as of the date of this response, the Lottery located 9 of the 11 forms. The POA form is an official California, Department of Motor Vehicles (DMV) form used to complete the transfer of ownership or registration for a specific vehicle.

Beginning in October 2010, the Lottery began utilizing a Consignment Agreement form provided by the Lottery's Auction Company as a replacement to the POA form. The Auction Company transfers title at the time of sale by completing the Notice of Release of Liability form once the vehicle is sold and submits the form to the DMV. In addition, the Auction Company also handles the DMV title transfer form.

The Lottery will update applicable policies and procedures to reflect current processes. These changes will be communicated to designated Lottery personnel. In addition, the Lottery will utilize a checklist to ensure all vehicle protocols are performed annually. In the event of noncompliance, items will be reported to management for corrective action.

Finding 2

Proper purchase order and vehicle repair approvals were not maintained.

Recommendation

The Lottery should ensure that all purchases are properly approved before they are made. Doing so will help to ensure that the Lottery's assets are safeguarded from abuse or misuse.

Response

The Lottery agrees with the finding.

With respect to approving purchase orders, if the Lottery Director is unavailable, it is standard practice to have a designated executive available to sign approval documents on behalf of the Lottery Director, including purchase orders. We determined that the Deputy of Finance appropriately signed on behalf of the Director the purchase order in question. This practice is being reviewed to ensure the delegation is formally documented and communicated to staff.

After reviewing the repairs in question, the Lottery determined them to be appropriate; however, they were not documented. These repairs were pre-approved over the phone or by email for employees working in field offices. That said, verbal pre-approvals will be first documented in the Fleet Database comments section and followed-up by an email.

Finding 3

Vehicles were underutilized.

Recommendation

The Lottery should adhere to the vehicle-use policies in order to ensure that its vehicles are effectively used to achieve the maximum benefit to the State.

Response

The Lottery agrees with the finding.

As part of managing its fleet, the Lottery will adhere to its vehicle-use policies and continue evaluating and reassigning underutilized vehicles as business needs dictate. After carefully reviewing the vehicles in question, they appear to run the risk of underutilization when classified as pool vehicles. The Lottery will pay close attention to its pool vehicles.

Of the three underutilized vehicles, one vehicle assigned to the Lottery's Van Nuys District Office appears to have been utilized effectively through January 2011, at which time it was reclassified as a pool vehicle until it was sold on October 21, 2013.

The second vehicle in question was reclassified as a pool vehicle after the employee who was assigned the vehicle, retired. Currently, this vehicle is assigned to an employee.

After identifying a Lottery District Office in need of a vehicle, the third vehicle in question was reassigned from its pool classification to a District Office.

Finding 4

Driver forms were missing or incomplete.

Recommendation

The Lottery should ensure that vehicle operators complete and submit all required forms in a timely manner. The Lottery should implement a level of review to inspect vehicle forms, reports, and files for accuracy and completeness.

Response

The Lottery agrees with the finding.

The Lottery performs periodic District Office vehicle inspections of which the latest occurred in 2012. The next scheduled inspection will occur in 2014. These inspections utilize a checklist, and stress the importance of following procedures, including the availability of required documents upon request. During this year's upcoming inspection the Lottery will work with its Supervisors and Managers by communicating the findings of the inspections and stress the importance of timely, complete, accurate and accessible documentation.

Finding 5

Executive Order was not complied with.

Recommendation

The Lottery should ensure that it keeps abreast of, and abides by, current laws, rules, and regulations.

Response

The Lottery agrees with the finding.

The Lottery strives to comply with all current laws, rules and regulations including Executive Orders. Moreover, vehicle procurements are carefully considered and presented to the Lottery Commission for their consideration. This particular procurement was addressed to the Lottery Commission for consideration and approved on March 25, 2009.

If you have any additional questions, please contact the Audit Chief, Roberto Zavala at (916) 822-8358.

Sincerely,



Paula D. LaBrie
Acting Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>