

# **CALIFORNIA STATE LOTTERY**

Audit Report

## **FLEET MANAGEMENT AUDIT**

*July 1, 2014, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

September 2020



**BETTY T. YEE**  
California State Controller

September 21, 2020

Alva Vernon Johnson, Director  
California State Lottery  
700 North Tenth Street  
Sacramento, CA 95811

Dear Mr. Johnson:

We audited the California State Lottery's (Lottery) management of fleet vehicles for the period of July 1, 2014, through June 30, 2017. The purpose of the audit was to determine whether the Lottery is maintaining effective systems of internal controls over its management of fleet vehicles.

Our audit found that the Lottery:

- Did not maintain adequate controls over the monitoring of Voyager fuel card purchases, resulting in unallowable and/or questioned transactions (Findings 1 and 3);
- Did not maintain adequate controls over vehicle repairs to determine whether repairs were properly documented and appropriate (Finding 2); and
- Did not maintain adequate controls over fleet vehicle car wash purchases (Finding 3).

If you have any questions, please contact Andrew Finlayson, Bureau Chief, Division of Audits, by telephone at (916) 324-6310 or by email at [afinlayson@sco.ca.gov](mailto:afinlayson@sco.ca.gov).

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/as

cc: Gregory Ahern, Chair

California State Lottery Commission

Nathaniel Kirtman III, Commissioner

California State Lottery Commission

Keetha Mills, Commissioner

California State Lottery Commission

Peter Stern, Commissioner

California State Lottery Commission

Tiffany Donohue, Deputy Director, Operations Division

California State Lottery

Roberto Zavala, Deputy Director, Internal Audits

California State Lottery

James Shannon, Audit Manager, Internal Audits

California State Lottery

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# Audit Report

## Summary

We audited the California State Lottery's (Lottery) management of fleet vehicles for the period of July 1, through June 30, 2017. The purpose of the audit was to determine whether the Lottery is maintaining effective systems of internal controls over its management of fleet vehicles.

Our audit found that the Lottery did not maintain adequate controls over Voyager fuel card purchases, vehicle repairs, and fleet vehicle car wash purchases, further details of these findings are described in the Conclusion and Findings and Recommendations sections of this report.

## Background

On November 6, 1984, California voters passed Proposition 37, the California State Lottery Act of 1984 (Lottery Act), which authorized the creation of a state-operated lottery. The Lottery Act is found in Chapter 12.5, section 8880 et seq., of the Government Code. The Lottery Act created the California State Lottery Commission (Commission) and gave it broad powers to oversee the Lottery's operations. The purpose of the Lottery Act is to provide supplemental monies to benefit public education without the imposition of additional or increased taxes.

The Lottery has eight divisions: Executive, Finance, Human Resources, Operations, Corporate Communications, Security and Law Enforcement, Information Technology Services, and Sales and Marketing. As of June 1, 2020, the Lottery has 883 budgeted positions; staff are located at Lottery Headquarters, two distribution centers, and nine district offices.

The Fleet Management Unit (FMU) of the Lottery's Operations Division manages the Lottery's fleet of vehicles located throughout the state. The FMU is responsible for the purchasing, disposition, maintenance, and assignment of vehicles. In addition, the FMU is responsible for the monitoring of drivers; use of Voyager fuel cards; recordkeeping for the entire fleet; managing accident reports and vehicle citations; and interfacing with government agencies such as the Department of General Services, the Department of Motor Vehicles, and the State Controller's Office (SCO).

Pursuant to Government Code (GC) section 8880.46.6, the SCO may conduct special audits of the Lottery, as the 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 Commission.

GC 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, GC section 12411 stipulates that "the Controller shall suggest plans for the improvement and management of revenues."

## Objectives, Scope, and Methodology

Our objectives were to determine whether:

- The Lottery complied with applicable laws, rules, regulations, policies, and procedures as they relate to the management of its fleet vehicles;
- The Lottery maintained adequate safeguards against loss and abuse of state vehicles; and
- Transactions related to acquisition, disposal, maintenance, and monitoring of the Lottery's fleet vehicles were accurate and properly authorized and recorded.

The audit period was July 1, 2014, through June 30, 2017.

To achieve our objectives, we:

- Reviewed the *State Administrative Manual*, the Lottery's policies, procedures, and applicable laws, rules, and regulations as they relate to the management of the Lottery's fleet of vehicles;
- Interviewed and observed individuals involved with the Lottery's processes and procedures for the management of the Lottery's fleet of vehicles;
- Gained an understanding of and evaluated internal controls over the management of the Lottery's fleet of vehicles;
- Performed tests of procedural compliance of the acquisition, disposal, maintenance, and monitoring of the Lottery's fleet of vehicles. We:
  - Selected three of 17 (\$1,227,865 out of \$3,261,589) vehicle purchase orders to verify that vehicle acquisitions were in accordance with the Lottery's policies and procedures;
  - Selected four of 40 vehicles purchased to verify that vehicles were properly registered, reported, and recorded in the Lottery's database;
  - Selected 10 of 97 (\$26,186 out of \$220,798) disposed vehicles to verify that vehicles were properly disposed in accordance with the Lottery's policies and procedures;
  - Selected 149 of 5,082 (\$245,379 out of \$1,646,991) vehicle-related CAL-Card transactions to verify that costs were appropriate, and in accordance with the Lottery's policies and procedures;
  - Selected 70 of 57,509 (\$3,025 out of \$2,705,531) Voyager fuel card transactions to verify that charges were appropriate and in accordance with the Lottery's policies and procedures; and
  - Selected 19 of 353 vehicle mileage logs for one month to verify that miles per gallon (mpg) appeared reasonable.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. We limited our review of internal control to gaining an understanding of the Lottery's management of fleet vehicles. We did not audit the Lottery's financial statements.

**Conclusion**

Our audit determined that the Lottery:

- Did not maintain adequate controls over the monitoring of Voyager fuel card purchases, resulting in unallowable and/or questioned transactions (Findings 1 and 3);
- Did not maintain adequate controls over vehicle repairs to determine whether repairs were properly documented and appropriate (Finding 2); and
- Did not maintain adequate controls over fleet vehicle car wash purchases (Finding 3).

**Follow-Up on Prior Audit Findings**

We last performed an audit of Fleet Services for the period of July 1, 2009, through June 30, 2012; our report was issued on July 16, 2014. Based on work performed in the current audit, we noted that the Lottery has not fully implemented appropriate corrective actions in response to the prior audit findings (see Finding 2).

**Views of Responsible Officials**

We issued a draft report on June 29, 2020. Alva Vernon Johnson, Director, responded by letter dated July 8, 2020 (Attachment), agreeing with the audit results. This final audit report includes the Lottery's response.

**Restricted Use**

This report is intended for the information and use of the Lottery, the 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 this report, which is a matter of public record, and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

September 21, 2020

# Findings and Recommendations

## **FINDING 1— Inadequate controls over the monitoring of Voyager fuel card purchases**

The Lottery lacked controls for monitoring Voyager fuel card transactions to ensure that purchases were appropriate. FMU staff members did not monitor Voyager fuel card purchases per the Lottery’s policies and procedures. We tested 41 gasoline transactions, totaling \$2,671, and identified 33 (80%), totaling \$2,293, as inappropriate. We also tested 19 vehicle mileage logs and compared the miles recorded in the logs to the amount of fuel purchased, and identified four vehicles with questionable mpg. If not mitigated, this control deficiency leaves the Lottery at risk of additional improper Voyager fuel card purchases.

The Lottery’s *Fleet Management Unit Desk Manual*, Chapter 6, Fuel Card Management, states, in part:

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 by the BSA [Business Services Analyst] and sent to the Lottery Sales Managers to review and approve or disapprove. Any transactions that are not approved are tracked to resolution by FMU.

By the 15<sup>th</sup> of every month, the Business Services Analyst is required to run and review reports for the following irregular purchases:

- “Supreme” gasoline
- Unleaded “plus” gasoline
- Diesel fuel
- Over 28 gallons in vehicle (if unauthorized 28-plus gallon vehicle)
- Car washes (if more than three)
- Food
- Miles per gallon
- Valid all-vehicle (temporary Voyager) cards
- Miscellaneous purchases

We requested to review five months of irregular purchase reports. However, we determined that FMU staff had not generated irregular purchase reports for the audit period. As a result, the Lottery could not provide us with the requested materials. Therefore, we requested the US Bank Voyager Fleet Card transaction detail to test for unallowable or questioned purchases.

### **Unallowable “plus” and “supreme” gasoline purchases**

We identified 1,707 transactions, totaling \$100,652, that were categorized on the US Bank Voyager Fleet Card transaction detail as purchases of “plus” or “supreme” gasoline. We reviewed supporting documentation for all 41 transactions for the month of June 2017 that were categorized as “plus” or “supreme” gasoline purchases. Based on receipts, 33 (or 80%)



of the 41 transactions, totaling \$2,293, were for “plus” or “supreme” gasoline purchases. There are no vehicles in the Lottery’s fleet that require “plus” or “supreme” gasoline. One transaction included a questionable \$4 non-tax purchase.

### **Questioned miles per gallon for vehicles**

We also requested mileage logs for the 19 vehicles for which “plus” or “supreme” gasoline was purchased in the month of June 2017. We compared the monthly mileage per vehicle to the gallons purchased. We identified four vehicles for which the calculated mpg did not appear reasonable, given the associated vehicle’s combined mpg.

For example, 765 miles were reported for a 2008 Dodge Caravan in June 2017. A total of 104 gallons of fuel was purchased for this vehicle, which has a combined mpg of 20.5. The resulting average of approximately 8 mpg does not appear reasonable.

As FMU did not generate and analyze monthly irregular purchase reports, the Lottery was not able to identify or address unreasonable mpg in a timely manner. In addition, the Lottery could not provide mileage logs for four of the 19 vehicles.

The *California Lottery Fleet Card Program Procedures Manual* prohibits the following purchases:

- Mid-grade or premium (supreme) unleaded gasoline;
- Fuel for personal vehicles; and
- Miscellaneous items such as food or sundries (personal items).

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

### **Recommendation**

We recommend that the Lottery:

- Establish adequate controls to ensure that Voyager fuel card purchases are appropriate and comply with the Lottery’s policies and procedures; and
- Ensure that staff members and supervisors are aware of the allowable and prohibited uses of the Voyager fuel card.

### **Lottery’s Response**

The Lottery agrees with this finding, and stated that it has implemented corrective actions. We will follow up on the implementation of corrective actions during the next fleet management audit.

**FINDING 2—  
Inadequate  
controls over  
vehicle repairs**

The Lottery lacked controls over vehicle repairs to ensure that repairs were appropriate and properly documented. A similar finding was noted in the prior SCO Fleet Services Audit report, dated July 16, 2014. This leaves the Lottery at risk of incurring unnecessary costs. We noted that FMU did not:

- Have a system in place to track vehicle repairs;
- Document a comparison or evaluation of whether vehicles should be repaired or disposed of; and
- Maintain adequate supporting documentation for repair approvals and estimates.

The Lottery allows supervisors to use their CAL-Cards for repair and maintenance on the fleet vehicles assigned to their employees. However, FMU does not have a system in place to ensure that expenses for each vehicle are properly tracked. FMU staff cannot easily identify all repairs performed on a specific vehicle. As a result, FMU staff members are not able to monitor vehicle repairs in order to prevent repairs that may be excessive.

We identified 5,082 vehicle-related CAL-Card transactions, totaling \$1,646,991. We judgmentally selected 81 transactions, totaling \$31,605, based on the highest costs per month per employee. We noted that 30 of the 81 transactions were for repairs over \$2,000.

Of the 30 transactions, 24 were for vehicles that were at least seven years old or had odometer readings of over 90,000 miles. FMU had no documentation of a comparison or an evaluation to determine whether the vehicles should be repaired or disposed of. For example, a vehicle with an odometer reading of 137,000 miles was repaired for approximately \$3,945. Less than a year later, after an additional 6,200 miles, the vehicle was disposed of. According to the *Fleet Management Unit Desk Manual*, the vehicle should have been disposed of once the vehicle mileage exceeded 130,000.

The Lottery provided Visa CAL-Card Account Update (CSL 1209e) Forms for approving increased CAL-Card credit limits for the 30 repairs. However, we were able to verify FMU approval for only 12 of the 30 repairs. FMU staff did not properly maintain written approvals or require employees to provide repair estimates with the CSL 1209e forms.

*Fleet Management Unit Desk Manual*, Chapter 4, Disposition of Vehicles, states:

Either of these two criteria determines [whether] a vehicle needs to be disposed [of]:

- 1) Vehicle mileage exceeds 130,000
- 2) Excessive repairs are needed due to mechanical issues or resulting from an accident.

In order to determine whether a vehicle needs to be disposed [of], the driver gathers estimates for the repairs required on the vehicle and submits those estimates to FMU who then compares the cost of the work

with the vehicle's Kelly Blue Book value. FMU will approve repairs up to 75% of [the] value of [the] vehicle. If requested repairs exceed 75% of the value of [the] vehicle, it is deemed as needing excessive repairs and the vehicle is identified as requiring disposal.

The process trigger to consider these issues is when the vehicle is 7 years old or mileage exceeds 90k.

*Fleet Management Unit Desk Manual*, Chapter 20, Repair Approvals and Cost Limits, states, in part:

When a Lottery vehicle requires repair, estimates are gathered by the employee. All charges are made on assigned CalCards (Visa), which have spending limits. If driver has repairs costing over \$2,000, their CalCard limit must be temporarily increased. This requires written approval from FMU and adherence to this process.

GC sections 13402 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

#### Recommendation

We recommend that the Lottery:

- Ensure that comparisons and evaluations are documented to determine whether vehicles should be repaired or disposed of;
- Establish adequate controls to ensure that repairs are tracked and properly documented; and
- Update *Fleet Management Unit Desk Manual* procedures to include detailed guidance on vehicle disposition and repair documentation.

#### Lottery's Response

The Lottery agrees with this finding, and stated that it has implemented corrective actions. We will follow up on the implementation of corrective actions during the next fleet management audit.

### **FINDING 3— Inadequate controls over fleet vehicle car washes**

The Lottery lacked controls over the purchases of basic car washes for its fleet vehicles. The Lottery allowed employees to charge car washes on both the Voyager fuel card and the CAL-Card. As a result, FMU did not adequately monitor and ensure that only basic low-cost car washes were purchased.

We identified 834 CAL-Card transactions, totaling \$31,605, that were categorized as car washes. We judgmentally selected 68 car wash transactions over \$20 for six employees. We found that 44 (65%) transactions were improper, because employees did not purchase the lowest-cost car washes available. As FMU does not review CAL-Card statements for vehicle expenses under \$500, FMU did not detect these unallowable purchases. In addition, while testing car wash purchases, we found that an employee had improperly purchased an air freshener and a beverage.

We also identified 153 Voyager fuel card transactions, totaling \$1,385, categorized as “Wash Job.” We judgmentally selected 29 car wash transactions over \$20 for four vehicles. We found that all were improper because employees did not purchase basic car washes. FMU did not review Voyager fuel card transactions, as noted in Finding 1, or have controls in place to ensure that car wash costs were reasonable. This leaves the Lottery at risk of additional improper car wash purchases if not mitigated.

The *California Lottery Fleet Card Program Procedures Manual* states that three basic low-cost car washes are allowed per month on the Voyager fuel card.

In addition, the *California Lottery Vehicle Operator Handbook* states that the Voyager fuel card can be used for the purchase of three basic (low-cost) car washes per month.

#### Recommendation

We recommend that the Lottery:

- Establish adequate controls to ensure that only basic (low-cost) car washes are purchased;
- Use the Voyager fuel card, not the CAL-Card, for basic car wash purchases in order to better track the number of car washes purchased; and
- Inform staff and management about which car wash purchases are allowable.

#### Lottery’s Response

The Lottery agrees with this finding, and stated that it has implemented corrective actions. We will follow up on the implementation of corrective actions during the next fleet management audit.

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

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July 8, 2020

Andrew Finlayson, Bureau Chief  
Division of Audits  
State Controller's Office  
Post Office Box 942850  
Sacramento, California 94250-5874

Re: Response to Fleet Management Draft Audit Report S18-LOT-0001

Dear Mr. Finlayson:

The California State Lottery (Lottery) thanks the State Controller's Office (SCO) for the opportunity to respond to its draft audit report dated June 29, 2020. The report covered the Lottery's Fleet Management (FM) program for the period July 1, 2014, through June 30, 2017. The Lottery generally agrees with the findings and recommendations set forth in the draft report.

We are happy to note that the SCO did not identify instances of fraud, waste or abuse in the Lottery's FM program. The Lottery is proud to have provided more than \$1.8 billion to California public education in fiscal year 2018-19 and appreciates the SCO's focus on business processes that could be improved, thus helping the Lottery to ensure that contributions to education are maximized each year.

Following are the Lottery's responses to the specific findings and recommendations provided in the draft audit report.

**FINDING 1** – Inadequate controls over the monitoring of Voyager fuel card purchases

**RECOMMENDATION:**

The SCO recommends that the Lottery:

- Establish adequate controls to ensure that Voyager fuel card purchases are appropriate and comply with the Lottery's policies and procedures; and

Mr. Finlayson  
July 8, 2020  
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- Ensure that staff members and supervisors are aware of the allowable and prohibited uses of the Voyager fuel card.

**RESPONSE:**

**Unallowable “plus” and “supreme” gasoline purchases**

The Lottery agrees with this finding. The Lottery revised its FM Desk Manual to reconcile monthly exception reports identifying questionable (i.e., regular vs. high octane) fuel card transactions. FM communicated to all fleet drivers, supervisors, managers and fleet liaisons reminding them on approved uses of the Voyager fuel card. Annually each district office FM staff presents changes, updates and reminders on the fleet program to drivers, supervisors and managers. Additionally, in November 2019 the Lottery fully implemented its Irregular Fuel Card Purchase form to justify the business need for irregular purchases. Failure to adequately justify the business need within existing allowances will result in follow up action. The Lottery is in the process of recovering the \$4 unallowable purchase.

**Questioned miles per gallon for vehicles**

The Lottery agrees with this finding. During the audit period the Lottery relied on mileage logs and fuel card exception reports as indicators of irregular usage. However, the FM Program did not routinely analyze exceptions and follow up with drivers to determine if the usage was justified. To correct this issue, the Lottery has both a short term and long-term solution. In the short term, the Lottery will analyze data to determine if irregularities exist and if so, utilize the Irregular Fuel Card Purchase form to reconcile fuel usage. In the long term by late 2020, the Lottery will implement a new tool that will gather mileage and fuel usage standards allowing it to analyze, identify and report irregular fuel usage.

**FINDING 2 – Inadequate controls over vehicle repairs**

**RECOMMENDATION:**

The SCO recommends that the Lottery:

- Ensure that comparisons and evaluations are documented to determine whether vehicles should be repaired or disposed of;
- Establish adequate controls to ensure that repairs are tracked and properly documented: and
- Update Fleet Management Unit Desk Manual procedures to include detailed guidance on vehicle disposition and repair documentation.

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**RESPONSE:**

The Lottery agrees with the findings. The Lottery did not require repairs to be performed at Department of General Services (DGS) auto repair facilities before July 2017, as the Lottery is exempt from DGS oversight per the California Lottery Act Article 6, Section 8880.56 Procurement. However, in July 2017, the Lottery adopted the use of the DGS Fleet Inspection Program. This program provides the Lottery with vehicle inspection services and recommends whether vehicles should be repaired or disposed. The Lottery updated the FM Desk Manual to reflect the Lottery's participation in the DGS Fleet Inspection Program.

Repairs over \$500 are currently logged and tracked in FM, and regardless of dollar value, are logged in the vehicle's maintenance book. In late 2020 the Lottery anticipates implementing its new Asset Management Tool that will report and track vehicle maintenance costs thereby replacing the vehicle maintenance book.

With respect to CAL-Card limit increases the Lottery is implementing an interim step by requiring FM approval before vehicle repairs occur.

**FINDING 3 – Inadequate controls over fleet vehicle car washes**

**RECOMMENDATION:**

The SCO recommends that the Lottery:

- Establish adequate controls to ensure that only basic (low-cost) car washes are purchased;
- Use the Voyager fuel card, not the CAL-Card, for basic car wash purchases in order to better track the number of car washes purchased; and
- Inform staff and management about which car wash purchases are allowable.

**RESPONSE:**

The Lottery agrees with this finding and updated its policy and procedures in its Vehicle Operator's Handbook and CAL-Card User Manual by prohibiting the use of the CAL-Card for regular or routine car washes. Additionally, FM communicated to drivers, supervisors and managers that Voyager cards shall be used for monthly car washes only. The only acceptable CAL-Card use will be one annual detailed car wash.



Mr. Finlayson  
July 8, 2020  
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The FM Desk Manual will be updated to ensure questionable monthly transactions are monitored and justified, such as car washes and irregular fuel charges. Failure to justify a business need will result in follow up action.

If you have any additional questions, please contact Deputy Director of Internal Audits, Roberto Zavala, at (916) 822-8358.

Sincerely,

DocuSigned by:  
  
ACCF44E2EF1C4C6...  
Alva V. Johnson  
Director

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
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