

**Date:** October 22, 2024 File No.: 4121

**To:** **The Honorable Ricardo Lara**  
Insurance Commissioner  
California Department of Insurance  
300 Capitol Mall, 17th Floor  
Sacramento, CA 95814

**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 California Department of Insurance (CDI). 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).

CDI's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and the commitments made to address our recommendations. It should be noted that we were unable to perform effectiveness tests by the conclusion of fieldwork to determine whether the corrective actions taken to address our first recommendation related to CDI's contracting program were functioning as intended.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. Therefore, please submit on your department's official letterhead the status report to us by April 22, 2025.

To the extent that it is practicable, proof-of-practice and supporting documentation should explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our three recommendations, consistent with CDI's individual formal responses to our draft report.

The necessity of any further actions or additional support will be determined at that time. Please transmit your proof-of-practice documentation and/or status report to: DGS – Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605 or preferably via email to [Dennis.Miras@dgs.ca.gov](mailto:Dennis.Miras@dgs.ca.gov).

We sincerely appreciated the cooperation and assistance provided by CDI's personnel.

If you need further information on or assistance with this report, please contact me at (916) 376-5064 / [Dennis.Miras@dgs.ca.gov](mailto:Dennis.Miras@dgs.ca.gov), or Larisa Samoylovich, Management Auditor, at (279) 799-3730 / [Larisa.Samoylovich@dgs.ca.gov](mailto:Larisa.Samoylovich@dgs.ca.gov).

*Dennis M Miras*

DENNIS M. MIRAS, CIA  
Manager, Office of Audit Services

Attachment

cc: Laurie Menchaca, Deputy Commissioner, Administration and Licensing Services Branch, CDI  
Crista Hill, Chief, Financial and Business Management Division, CDI  
David Noronha, Chief, Information Technology Division, CDI  
Jenny Ruth, Chief, Human Resources Management Division, CDI  
Sofia Lim, Chief, Organizational Accountability Office, CDI  
Somsanouk Khotpanya, Chief, Internal Audits Unit, CDI

**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
CALIFORNIA DEPARTMENT OF INSURANCE**

**FOR COMPLIANCE WITH STATE  
BUSINESS MANAGEMENT POLICIES  
REPORT NO. 4121**

**OFFICE OF AUDIT SERVICES**

**JULY 2024**



**CALIFORNIA DEPARTMENT OF INSURANCE  
(CDI)**

**COMPLIANCE AUDIT  
REPORT NO. 4121**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: October 22, 2024

TO: **The Honorable Ricardo Lara**, Insurance Commissioner  
California Department of Insurance

This report presents the results of our compliance audit of the business management functions and services of the California Department of Insurance (CDI). 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 (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by DGS.

As applicable, the scope of this audit included, but was not limited to, compliance with policies and procedures governing contracting, fleet and travel services administration, small business and disabled veteran business enterprise usage, driver safety and insurance, surplus property, and real estate.

While in most areas we concluded that CDI 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 CDI in addressing these issues:

- Contracting program policies and procedures are not ensuring full compliance with state contracting requirements. The types of exceptions noted during our audit included not: (1) completing a Contractor Evaluation form for consulting services contracts; (2) consistently using a STD. 213/215 form for delegated contracts; (3) maintaining signed contract certification clauses; (4) retaining verifications of "good standing" with the Secretary of State; (5) approving contracted services prior to the start date; and (6) using "Economic Sanctions" language in contracts.
- CDI's fleet management and travel services programs are not ensuring compliance with the State Fleet Card Program and completion of a justification form when renting a vehicle at a rate higher than the contracted rate.

During our review we also identified other matters requiring attention, but that did not pose a significant risk to the business management functions, which were discussed with CDI's management and are not further detailed in this report.

We are pleased with the commitment shown to improve compliance with state requirements. It should be noted that when advised of areas for improvement during our audit fieldwork, CDI's management agreed with all issues discussed and provided assurances that prompt actions had been or would be taken to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. CDI's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to our recommendations as well as our evaluation of the response are included in this report.

We sincerely appreciated the cooperation and assistance provided by CDI's personnel.

If you need further information on or assistance with this report, please contact me at (916) 376-5064/[Dennis.Miras@dgs.ca.gov](mailto:Dennis.Miras@dgs.ca.gov), or Larisa Samoylovich, Management Auditor, at (279) 799-3730/[Larisa.Samoylovich@dgs.ca.gov](mailto:Larisa.Samoylovich@dgs.ca.gov).

*Dennis M Miras*

DENNIS M. MIRAS, CIA  
Manager, Office of Audit Services

Staff: Larisa Samoylovich, Management Auditor

cc: Laurie Menchaca, Deputy Commissioner, Administration and Licensing Services Branch, CDI  
Crista Hill, Chief, Financial and Business Management Division, CDI  
David Noronha, Chief, Information Technology Division, CDI  
Jenny Ruth, Chief, Human Resources Management Division, CDI  
Sofia Lim, Chief, Organizational Accountability Office, CDI  
Somsanouk Khotpanya, Chief, Internal Audits Unit, CDI



# CALIFORNIA DEPARTMENT OF INSURANCE

## 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 California Department of Insurance (CDI) for compliance with policies set forth in 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 contracting for services and the administration of fleet and travel management operations.

This information was developed based on our fieldwork conducted over the period of December 15, 2023 through July 31, 2024. In addition to this written report, as findings were observed and developed during our audit fieldwork, CDI's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our July 31, 2024 audit exit conference, CDI 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 2023-24 fiscal year.

#### **CONTRACTING PROGRAM**

Overall, we determined that CDI was conducting its contracting program in compliance with state requirements. However, our sample tests of the various types of contracts <sup>1</sup> processed disclosed a number of areas for improvement that need to be addressed to fully comply with the state's service contracting requirements. These requirements are primarily contained in Consolidated State Contracting Manual (SCM) Volume 1.

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<sup>1</sup> The types of contracts tested for compliance included both contracts subject to DGS review and approval (generally contracts of an amount of \$50,000 or more) and those delegated to CDI to directly execute (generally contracts of an amount under \$50,000).

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 included weaknesses involving the following contracting practices (applicable criteria provided) [applicable exception/deviation rate noted]:

- Completing a Contract/Contractor Evaluation form (STD. 4) within 60 days of the completion of a consulting service contract of \$5,000 or more (SCM 1, 3.02.5 and Public Contract Code (PCC) 10369) [67%]
- Using Standard Contracting Forms 213/215 for delegated contracts (SCM 1, 1.07.A) [29%]
- Vendors signing the Contract Certification Clauses (CCC's) and CDI maintaining a copy in the contract file (SCM 1, 4.08 A.1.d.4) [57%]
- Retaining documentation verifying a contractor is in "good standing" with the Secretary of State (SOS) (SCM 1, 5.30 A.6.c) [86%]
- Approving of delegated contracts, small dollar service agreements, and purchase orders (and documentation of such) prior to the transaction start date (SCM 1, 4.09 and SCM 2, 1901.1 - 1902.4 ) [61%]
- Employing "Economic Sanctions" language in contract agreements (Broadcast Bulletin P-07-22 and 3<sup>rd</sup> Joint Memo 6-21-22) [38%]

Staff turnover, which has led to inexperience with and unawareness of all applicable contracting rules and regulations, as well as oversight while processing these kinds of transactions, were all considered contributing factors to the above conditions.

### **Recommendation**

1. Improve upon existing, institute additional, and broadcast all policies and procedures that will ensure full compliance with state service contracting requirements. These activities should address each of the issues noted above.

### **FLEET MANAGEMENT AND TRAVEL SERVICES PROGRAMS**

CDI needs to strengthen its oversight of the department's fleet and travel services programs. Specifically, the following areas need further attention:

- **State Fleet Card Program** - CDI needs to more actively enforce its current policies and procedures to ensure the satisfactory control of all its state fleet cards. Fleet cards are primarily used by state employees to purchase fuel for vehicles used for official state business. Briefly, SAM Section 4108 establishes controls that would help prevent abusive fleet card practices, including but not limited to fraud and abuse.

Specifically, our review of 40 employees with access to using a state fleet card revealed that 24 (60%) did not have a signed fleet card user agreement on file prior to our request, acknowledging they understand the policies and procedures regarding usage; 22 (55%) of these did later sign the agreement subsequent to our request during testing.

The State Fleet Card Program requires that participating departments comply with several requirements including: (1) implementing written oversight procedures; (2) designating a coordinator to closely manage the use of the program; (3) submitting to OFAM an annual certification that the department has executed required procedures; and (4) requiring card users to sign an agreement addressing compliance with usage policies and procedures.

- **Rental Car Usage Compliance** – CDI's policies and procedures are not ensuring that an SCO Justification Form is being completed for those rental car transactions that exceed the daily or weekly contracted rate. Our review of seven transactions revealed six (86%) car rentals that exceeded the state contracted rate; however, a justification form was not on file as required by current travel notices. DGS Travel Bulletin 21-01 requires employees to obtain supervisory approval prior to renting a vehicle larger than the intermediate size by using the SCO Justification Form, which then needs to accompany the invoice to SCO for payment.

Staff turnover at CDI, coupled with a lack of experience and working knowledge over its fleet and travel services processes, were ascribed to these above conditions.

### **Recommendation**

2. Establish a uniform and centralized management and tracking system that will ensure the adequate control of all state fleet cards. This process should require all card users to sign the agreement addressing compliance with usage policies and procedures.

3. Update current policies and procedures to ensure the SCO Justification Form is completed and submitted with the invoice when rental car transactions exceed the daily or weekly contracted rate. Management personnel and their staff should be reminded of the need to complete the form and obtain prior supervisory approval as warranted.

## **CONCLUSION**

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



**RICARDO LARA**  
CALIFORNIA INSURANCE COMMISSIONER

October 14, 2024

Dennis Miras  
Manager, Office of Audit Services  
California Department of General Services  
707 3<sup>rd</sup> Street, 8<sup>th</sup> Floor  
West Sacramento, CA 955605

**SUBJECT: Audit Report: Compliance with State Business Management Policies - California Department of Insurance Response**

Dennis,

Led by the statewide elected Insurance Commissioner, as a constitutional officer, the California Department of Insurance (CDI) has read your office's Compliance with State Business Management Policies Draft Audit Report. This letter provides CDI's response to each of the findings:

1. Finding #1: *Contracting program policies and procedures are not ensuring full compliance with state contracting requirements. The types of exceptions noted during our audit included not: (1) completing a Contractor Evaluation form for consulting services contracts; (2) consistently using a STD. 213/215 form for delegated contracts; (3) maintaining signed contract certification clauses; (4) retaining verifications of "good standing" with the Secretary of State; (5) approving contracted services prior to the start date; and (6) using "Economic Sanctions" language in contracts.*

Recommendation: *Improve upon existing, institute additional, and broadcast all policies and procedures that will ensure full compliance with state service contracting requirements. These activities should address each of the issues noted above.*

CDI Response: Prior to the conclusion of the DGS compliance review, CDI had already implemented processes to ensure that required documentation is included in the procurement file as required, and delegated agreements and small dollar service agreements and purchase orders are executed prior to the transaction start date.

2. Finding #2: *CDI needs to strengthen its oversight of the department's fleet and travel services programs.*

CALIFORNIA DEPARTMENT OF INSURANCE  
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FINANCIAL AND BUSINESS MANAGEMENT DIVISION  
300 Capitol Mall, 16<sup>th</sup> Floor  
Sacramento, California 95814

***Recommendation #1:*** *Establish a uniform and centralized management and tracking system that will ensure the adequate control of all state fleet cards. This process should require all card users to sign the agreement addressing compliance with usage policies and procedures.*

**CDI Response:** CDI agrees with this recommendation. CDI is currently in the process of reviewing the CDI Fleet Program and will work to incorporate this feedback into the revised program in 2025.

***Recommendation #2:*** *Update current policies and procedures to ensure the SCO Justification Form is completed and submitted with the invoice when rental car transactions exceed the daily or weekly contracted rate. Management personnel and their staff should be reminded of the need to complete the form and obtain prior supervisory approval as warranted.*

**CDI Response:** While it may not be entirely clear by the travel guidelines and requirements in effect during the audit period tested that prior approval was required, CDI will ensure that moving forward, more direct and clearer procedures will be implemented to ensure prior supervisory approval of the SCO Justification Form is obtained.

Please contact Crista Hill, Division Chief for CDI's Financial and Business Management Division, at [Crista.Hill@insurance.ca.gov](mailto:Crista.Hill@insurance.ca.gov) should you have any follow-up questions regarding this letter. Thank you for your consideration.

Sincerely,



**MICHAEL MARTINEZ**  
Chief Deputy Commissioner

cc: Audit Committee, CDI  
Laurie Menchaca, Deputy Commissioner, Administration and Licensing Services Branch, CDI  
Crista Hill, Division Chief, Financial and Business Management Division, CDI  
David Noronha, Chief, Information Technology Division, CDI  
Jenny Ruth, Chief, Human Resources Management Division, CDI  
Sofia Lim, Chief, Organizational Accountability Office, CDI  
Somsanouk Khotpanya, Chief, Internal Audits Unit, CDI

# **CALIFORNIA DEPARTMENT OF INSURANCE (CDI)**

## **EVALUATION OF CDI'S RESPONSE**

We have reviewed the response by the California Department of Insurance (CDI) to our draft report. The response to the recommendations is satisfactory and we appreciate the efforts taken and/or planned by CDI to improve its business management functions and services.

It should be noted that we were unable to perform effectiveness tests by the conclusion of fieldwork to determine whether the corrective actions taken to address our first recommendation related to CDI's contracting program were functioning as intended.

As part of its operating duties, we are responsible for following up on audit recommendations and will require a six-month status report on the implementation of each. To the extent that it is practicable, proof-of-practice and supporting documentation should explain/outline specific actions taken and include excerpts, samples, screenshots, and/or copies of documents and communications which demonstrate corrective measures employed to address each of our three recommendations, consistent with CDI's individual formal responses to our draft audit report.