



MEMORANDUM

Date: January 30, 2025 File No.: 4122

To: **Nancy Farias**, Director
Employment Development Department
722 Capitol Mall, MIC 83
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 Employment Development Department (EDD). 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).

EDD'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.

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 July 30, 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 recommendations, consistent with EDD's individual formal written 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.

We sincerely appreciated the cooperation and assistance provided by EDD'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, or Rhonda Parker, Management Auditor, at (279) 799-3779 / Rhonda.Parker@dgs.ca.gov.

Dennis M Miras

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

Attachment

cc: Amy Faulkner, Chief Deputy Director, EDD
Tad Allred, Deputy Director, Administration Branch, EDD
Chuck Tobia, Division Chief, Audit and Evaluation Division, EDD
Jojo Sanchez-Gajo, Supervising Management Auditor, Audit and Evaluation Division, EDD
Clara Yen, Deputy Director, Policy, Accountability, and Compliance Branch, EDD
Andy Won, Deputy Director, Office of Audit Services, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
EMPLOYMENT DEVELOPMENT
DEPARTMENT**

**FOR COMPLIANCE WITH STATE
BUSINESS MANAGEMENT POLICIES
REPORT NO. 4122**

OFFICE OF AUDIT SERVICES

OCTOBER 2024

**EMPLOYMENT DEVELOPMENT DEPARTMENT
(EDD)**

**COMPLIANCE AUDIT
REPORT NO. 4122**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: January 30, 2025

TO: **Nancy Farias**, Director
Employment Development Department

This report presents the results of our compliance audit of the business management functions and services of the Employment Development Department (EDD). 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 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 EDD 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 EDD in addressing these issues:

- EDD'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.¹ Additionally, policies and procedures are not ensuring that frequent drivers attend a defensive driver training course at least once every four years.¹ Finally, current systems are not ensuring that all employees who operate vehicles on official business as a condition of employment are enrolled in the DMV Employer Pull Notice Program.

¹ The first two conditions noted previously existed and were included in our Compliance Audit Report issued to EDD in April 2018.

- EDD is not ensuring full compliance with state policies and procedures governing its State Fleet Card Program.

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 EDD'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, EDD's management took prompt actions to address our concerns. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. EDD'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 EDD'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, or Rhonda Parker, Management Auditor, at (279) 799-3779/Rhonda.Parker@dgs.ca.gov.

Dennis M Miras

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

Staff: Rhonda Parker, Management Auditor

cc: Amy Faulkner, Chief Deputy Director, EDD
Tad Allred, Deputy Director, Administration Branch, EDD
Chuck Tobia, Division Chief, Audit and Evaluation Division, EDD
Jojo Sanchez-Gajo, Supervising Management Auditor, Audit and Evaluation Division, EDD
Clara Yen, Deputy Director, Policy, Accountability, and Compliance Branch, EDD
Andy Won, Deputy Director, Office of Audit Services, DGS

EMPLOYMENT DEVELOPMENT DEPARTMENT

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 Employment Development Department (EDD) 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: driver safety and insurance program; and State Fleet Card Program.

This information was developed based on our fieldwork conducted over the period of February 2, 2024 through October 23, 2024. In addition to this written report, as findings were observed and developed during our audit fieldwork, EDD's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, during our October 23, 2024 audit exit conference, EDD 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 2022-23 through 2024-25 fiscal years.

DRIVER SAFETY AND INSURANCE PROGRAM

EDD 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**¹ - 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 all employees who use their own vehicle to conduct state business. Specifically, at the time of our audit tests of 49 employees who had claimed reimbursement for personal vehicle mileage during the 2023 calendar year, a current and validly approved STD. 261 was not available for 34 (69%) of these sampled drivers prior to using their own vehicle on state business.

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
- In safe mechanical condition

EDD's Proposed Corrective Action Plan (CAP): To ensure future compliance with STD. 261 policies, the Business Operations Planning and Support Division (BOPSD) will begin distributing yearly Administrative Circulars to remind supervisors/managers that a STD. 261 must be approved and on file before an employee can use a privately owned vehicle for state business. In addition, the Fiscal Programs Division will reinforce the requirement that supervisors/managers annually renew and approve STD. 261s for any of their staff using a privately owned vehicle for state business via annual travel bulletins. The Human Resource Services Division (HRSD) will evaluate ways to automate the process to further reduce the risk of incomplete and outdated forms. Additionally, HRSD is exploring methods to more consistently remind supervisors/managers of their responsibility to ensure the STD. 261 is completed.

A general lack of awareness of STD. 261 requirements may have contributed to the above condition.

¹ These conditions previously existed and were included in our Compliance Audit Report issued to EDD in April 2018.

- **Defensive Driver Training**¹ - Our review of a sample of 80 drivers revealed that 21 (26%) had not attended a defensive driver training (DDT) course within the last four years. SAM Section 0751 provides that frequent drivers attend and successfully complete an approved defensive driver training course at least once every four years. It should be noted that 14 of these 21 employees identified did later take the DDT course subsequent to our request for audit testing.

EDD's Proposed CAP: EDD's training program, which includes their Learning Management System (LMS), will develop a procedural structure to ensure all drivers are notified timely of the due dates, that reminders are provided to all drivers as the due dates approach, and that completion oversight is in place.

We were advised that oversight on the part of branch level Training Coordinators in monitoring for compliance was the likely cause of this condition.

- **DMV's Employer Pull Notice (EPN) Program** – our audit revealed that EDD is not ensuring that all employees who drive on state business as a condition of employment are enrolled in the Department of Motor Vehicles (DMV) Pull Notice Program.

SAM Section 0751 requires agencies to participate in the DMV "Employer Pull Notice (EPN) Program" if they have employees who operate vehicles on official business as a condition of employment for Class A, B, or Class C drivers' license with special certificates. While EDD has more than 1,300 employees enrolled in the EPN program, of nine employees specifically identified as mandated enrollees, only two were enrolled at the time of our audit (78% exception rate).

EDD's Proposed CAP: Enroll remaining seven mandated enrollees by November 15, 2024. Please note that (post fieldwork) we were provided with supporting documentation that this action had been taken.

We were advised that the primary contributing factor to this condition was programs not submitting requests for affected employees to be enrolled in the DMV EPN program.

Since EDD's proposed corrective measures (for the STD. 261 and DDT issues) were not in place by the time we concluded fieldwork, we were not able to perform effectiveness tests to determine whether they were functioning as intended.

Recommendations

1. Strengthen current policies and procedures that ensure the completion and annual update of a STD. 261 certification form by employees prior to using their own vehicles to conduct state business. This process should include periodic notification(s) to managers/supervisors regarding their responsibilities for ensuring the completion and updating of the form.

Adherence to STD. 261 requirements should specifically be made when employees seek reimbursement of mileage for personal automobile use while conducting State business. EDD should further consider adopting a process where annually, (e.g., July 1st) all employees using their own vehicles to conduct state business have their STD. 261s renewed and approved. Additionally, the STD. 261 should be part of any new hire/transfer process through HRSD. Finally, Accounting can reject/deny the processing of Travel Expense Claims for mileage reimbursement when a current, approved STD. 261 is not on file (as has been observed in other departments).

2. Proceed with plans for improving existing training-related processes by implementing/upgrading departmental policies and procedures intended to notify and remind drivers and to oversee key aspects related to EDD's DDT program. Additionally, periodically emphasize to operating unit staff/supervisors/managers their responsibilities for ensuring that employees who drive on state business attend an approved defensive driver training course at least once every four years.
3. Update and enforce current policies and procedures related to the DMV EPN Program, to include creating a system to track job classifications which require enrollment.

Other considerations include:

- a. Working with DMV to facilitate centralized access of driving records for monitoring and enforcement purposes.
- b. Reviewing current program usage to ensure it is aligned with job requirements (due to the large volume of employees enrolled).
- c. Removing positions from the EPN program that are not required to drive.
- d. Requiring program areas to annually review and acknowledge that existing participants are still required to drive as a condition of employment.
- e. Verifying that new hires are enrolled when applicable.

STATE FLEET CARD PROGRAM

EDD needs to update and 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 75 employees with frequent access to using a state fleet card revealed that 55 (73%) did not have a signed fleet card user agreement prior to our request acknowledging they understand the policies and procedures regarding usage.

The State Fleet Card program requires that participating departments comply with several requirements including: (1) implementing written oversight procedures; (2) designate 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.

Additionally, EDD's existing policies and procedures do not encompass all the requirements provided in the "State Fleet Card Oversight Usage and Responsibilities" handout referenced in SAM Section 4108. Required components missing include:

- Description of the roles and responsibilities of staff who provide oversight and monitoring of the program.
- Oversight and tracking inventory of all fleet cards.
- Steps for ordering/canceling; reporting lost, stolen, or damaged; and distributing fleet cards.
- A request form to order or cancel a Fleet Card, which includes all pertinent information for tracking purposes.

Recommendation

4. 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 an agreement addressing compliance with usage policies and procedures and include all required components noted above.

CONCLUSION

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



December 17, 2024

Dennis Miras
Manager
Department of General Services
Office of Audit Services
707 3rd Street, 8th Floor,
West Sacramento, CA 95605

Dear Dennis:

This letter transmits the Employment Development Department's (EDD) response to the findings identified in the draft audit report for the Department of General Services' Compliance Audit of EDD's Business Management Functions and Services.

We appreciate the opportunity to provide you with our responses as we work toward closure of these findings. If you have questions regarding this response, please contact Jared Brown at Jared.Brown@edd.ca.gov.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Farias".

Nancy Farias
Director

Attachment: EDD's Response

cc: Charles Tobia, Audit and Evaluation Division

Dennis
December 17, 2024
Page 2

bcc: Amy Faulkner, Directorate
Tad Allred, Administration Branch
Clara Yen, Policy, Accountability and Compliance Branch



December 17, 2024

Department of General Services
Office of Audit Services

707 3rd Street, 8th Floor
West Sacramento, CA 95605

Dear Dennis Miras:

The Employment Development Department (EDD) has received the Department of General Services' (DGS) official draft audit report for Compliance with State Business Management Policies Report No. 4122. The EDD agrees with the findings outlined in the draft audit report.

To address the findings and to incorporate DGS' recommendations, the EDD is taking the following actions:

1. Vehicle Authorizations:

The Fiscal Programs Division (FPD) will continue to issue annual Travel Bulletins to reinforce the requirement that supervisors/managers must approve an Authorization to Use Privately Owned Vehicle (STD. 261) certification form for employees using their vehicles to conduct state business and that this form is to be reviewed and completed annually. The STD. 261 is listed on the Appointment Checklist for Attendance Clerks for both the hire and the transfer process.

2. Defensive Driver Training:

The Human Resource Services Division (HRSD) is partnering with Business Operations Planning and Support Division (BOPSD) who are creating and maintaining a tracking log of all fleet cards, including new card requests, cancellations, and the vehicle/location for which they are assigned. The list of users will be sent monthly, starting November 15th, 2024, to the Learning Management System (LMS) administrators to ensure all users are identified and the LMS will push Defensive Driver Training to all identified staff.

3. DMV's Employer Pull Notice (EPN) Program:

The BOPSD will partner with HRSD to establish a process where HRSD will provide a listing of employees who are required to drive as a condition of employment every quarter. Once notified, BOPSD will work with the program to add missing employees into the EPN program. This will add an additional level of oversight and

ensure employees are added into the EPN program. Beginning January 2nd, 2025, the BOPSD will also initiate an annual clean-up effort and request programs to review a listing of enrolled employees to verify if the employee's job is still aligned with EPN requirements and to update/remove positions that are not required to drive.

4. State Fleet Card Program:

The BOPSD has designated Vehicle Management Unit (VMU) staff as the department Fleet Card Coordinator to oversee the Fleet Card Program as well as support staff as the Fleet Card Liaison to process the ordering and cancelling of fleet cards. The EDD is currently implementing written oversight procedures incorporating the missing components as seen below:

- Expand the details in the roles of individuals in the Vehicle Management Unit (VMU) Fleet Management Handbook, as well as in the annual reminders to managers.
- Create and maintain a tracking log of all fleet cards, including new card requests, cancellations, and the vehicle/location for which they are assigned.
- Implement a form for users to submit for all new/replacement/canceled card requests. The Fleet Card Liaison will be designated to process the ordering and cancelling of the fleet cards.
- To ensure compliance with the Fleet Card User Agreement (FCUA) policies, the VMU will distribute yearly Administrative Circulars reminding managers that all individuals authorized to use the State Fleet Card must sign a FCUA. In addition, VMU will require that a FCUA be completed when issuing out a telematics key frequency operated button (FOB). It is EDD's policy to have a FOB assigned to all drivers, and this effort will ensure all drivers have a FCUA on file prior to a FOB assignment and before driving a state vehicle.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

EVALUATION OF EDD'S RESPONSE

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

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 four recommendations, consistent with EDD's individual formal responses to our draft audit report.