State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
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To: THOMAS P. HALLENBECK, Chief
Division of Traffic Operations

CLARK PAULSEN, Chief
Division of Accounting

Date: May 5, 2015

File: P4000-0387

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Subject: **FINAL AUDIT REPORT - TRANSPORTATION PERMIT AUDIT**

Audits and Investigations' (A&I) completed an audit of the Division of Traffic Operations' (DTO) Transportation Permits Program. The purpose of the audit was to determine if transportation permits have adequate internal controls in place to comply with state and departmental policies and procedures.

The final audit report includes responses from the Divisions of Traffic Operations and Accounting. We request that the status of corrective actions be provided to A&I within 60, 180, and 360 days from the date of the final report. If all the findings are not corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved. As a matter of public record, this report and the status reports will be posted on A&I's website.

We thank you and your staff for their assistance during this audit. If you have any questions or need additional information, please contact Zilan Chen, Chief, Internal Audits, at (916) 323 7877, or Juanita Baier, Internal Audit Manager, at (916) 323 7951.

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P4000-0387
Division of Traffic Operations Transportation Permits Audit
May 2015

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Summary

Audits and Investigations (A&I) completed an audit requested by the California Department of Transportation's (Caltrans) Division of Traffic Operations (DTO). The purpose of the audit was to determine if the DTO's Transportation Permits Program has adequate internal controls in place to comply with state and departmental policies and procedures.

Our audit disclosed that, during the audit period of July 1, 2010, through June 30, 2013, the Transportation Permits Program did not have an adequate system of internal controls. Specifically, we found:

1. Internal Control Weaknesses in the Issuance Branch
2. Overtime is Not Always Justified, Pre-approved, or Properly Documented
3. The Issuance Branch has an Inefficient Process for Establishing Debtor Accounts
4. The Transportation Permit Fees are Not Properly or Timely Billed
5. Minimal Collection Efforts and Inadequate Monitoring of Aging Reports
6. The Office of Permits is Not Complying with the State's Full Cost Recovery Policy
7. The Transportation Permit System is Outdated and Unreliable
8. Not All Prior Audit Recommendations were Implemented

Background

Caltrans has the authority to issue special permits for the movement of vehicles/loads exceeding statutory limits on size and weight and loading of vehicles contained in Division 15 of the California Vehicle Code (CVC). To ensure safety of the motoring public and integrity of the infrastructure, the CVC established height, weight, length and width restrictions for vehicles and their loads.

The Office of Commercial Vehicle Operations (formerly the Office of Permits) is responsible for administering the transportation permit program, focusing on safety and mobility by providing access management to the State Highway System through encroachment permits and transportation permits. The Office of Commercial Vehicle Operations is primarily responsible for the transportation permits program and oversees two branch offices:

- The Transportation Permits Branch Office (Permits Office) is responsible for establishing policies and guidelines.

- The Transportation Permits Issuance Branch (Issuance Branch) is responsible for issuing transportation permits for the movement of oversized vehicles on the state highway system. The Issuance Branch processes, tracks transportation permits, and compiles accounting reports for billing purposes. There are various types of transportation permits with different fees as noted below:

Background (continued)

- Single Trip (STARS) $16
- Annual Permits $90
- Variance Permits $16 plus $50 per hour for processing
- Repetitive $90

Objectives, Scope, and Methodology

We conducted an audit of the Transportation Permits Program to determine if internal controls are adequate for processing and issuing permits, processing fee payments, and collecting permit fees.

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to determine whether:

- Written policies and procedures exist for properly administering the permits programs.
- Policies are clearly communicated to those who are responsible for implementing the permitting process.
- Permits are processed in compliance with applicable state and departmental policies and procedures, and applicable laws and regulations.
- Permits are properly monitored and centrally administered within the department.
- Proper accountability for collection of permit fees exists.

The scope of the audit covered the period of July 1, 2010, to June 30, 2013, and focused on internal controls and procedural compliance as they related to transportation permits. We conducted the audit from July 1, 2013, to November 4, 2013. Changes after these dates were not tested, and accordingly, our conclusion does not pertain to changes arising after November 4, 2013. The audit included tests as we considered necessary to achieve the above audit objectives.

Conclusion

Our audit disclosed that, during the audit period of July 1, 2010, through June 30, 2013, the transportation permits program did not have an adequate system of internal controls. Specifically, we found:

- Internal Control Weaknesses in the Issuance Branch
- Overtime is Not Always Justified, Pre-approved, or Properly Documented
- The Issuance Branch has an Inefficient Process for Establishing Debtor Accounts
- The Transportation Permit Fees are Not Properly or Timely Billed
- Minimal Collection Efforts and Inadequate Monitoring of Aging Reports

Conclusion (continued)

- The Office of Permits is Not Complying with the State's Full Cost Recovery Policy
- The Transportation Permit System is Outdated and Unreliable
- Not All Prior Audit Recommendations were Implemented

Views of Responsible Officials

We requested and received a response from the Chiefs of the Divisions of Traffic Operations and Accounting. These officials generally agreed with the findings and provided a plan of action to implement the recommendations. For a copy of the complete responses, please see the attachments.

WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

March 13, 2015

FINDINGS AND RECOMMENDATIONS

Finding 1 - Internal Control Weaknesses in the Issuance Branch

We found that the Division of Traffic Operations does not have adequate internal controls over its operational and administrative functions in the Transportation Permit Program. Specifically, we found the following internal control weaknesses:

- Sensitive Permit Applicant Information is Not Secured or Redacted
- Permits and Associated Fees are Not Properly Tracked
- Workload is Not Evenly Distributed
- Performance is Not Monitored
- Inconsistent Procedures for Charging Permit Fees
- Checks Not Safeguarded and Not Submitted to Cashiering Timely
- Inadequate Separation of Duties
- Outdated Policies and Procedures and Poor Communication

The Transportation Permits Issuance Branch (Issuance Branch) is responsible for issuing various types of permits for the movement of oversized vehicles on the state highway system. The Issuance Branch issues approximately 140,000 permits annually and generates $3.74 million in revenue for the following permit categories: single trip, annual permits, repetitive permits and variance permits.

Sensitive Permit Applicant Information is Not Secured or Redacted.
The Issuance Branch receives hundreds of permit applications daily via United States mail, fax machine, electronic mail, and walk-ins. The process for receiving the applications does not allow for the security of sensitive applicant information. Permit applications are received and placed in designated inboxes that are located in open areas of the office. Permit applicants write their credit card number and other personal information on the application. There is no process for monitoring the applications that come in and permit applications may sit in fax machines or designated inboxes for long periods of time, including overnight. Once permit applications are processed, the package is placed in binders located in open areas within the office. The building has a security guard, but the office is open to other occupants who could have access to the sensitive information.

We also found that credit card information is not always redacted after the payment is processed. We reviewed applications processed for the months of December 2010, December 2011, November 2012, and May 2013, and identified 134 permit applications containing applicant's personal information including credit card numbers, security codes, and copies of drivers' licenses that were not redacted.

By not safeguarding applicant's information, there is a high risk that Caltrans could be liable for misuse of sensitive information.

Finding 1 - (continued)

The United States Government Accountability Office's Green Book (Green Book) Section 10.03, states that management is responsible for designing appropriate types of control activities for the entity's internal control system. A common control activity includes access restrictions to and accountability for resources and records. Management limits access to resources and records to authorized individuals, and assigns and maintains accountability for their custody and use.

According to the Issuance Branch management, the office is not set up to secure information; but they do require staff to redact sensitive information once the permit has been issued. However, based on our review we determined that not all staff followed this requirement.

Permits and Associated Fees are Not Properly Tracked

The Issuance Branch tracks all permits and fees in the clerical database. We reviewed reports generated from this database and found that permit fees were not properly tracked because they are logged incorrectly. For example, variance permit fees were listed with a fee of $16 when they should be a minimum of $66. The $66 amount includes the $16 fee plus a minimum of $50 per hour for processing the permit. In addition, we found that some single trip permits were logged with a fee of $14, $20, or $32 instead of the $16 set fee. We also noted permits with no fee amount listed.

Additionally, we found that permit riders are not identified in the clerical database or the accounting reports; therefore, we could not determine if they were being properly charged. A permit rider is used when a current permit needs modification of a specific element to the original permit and a fee of $16 is charged. We found that permit riders are not used for their intended purpose; instead, they are used as an extension to the original permit because there is not enough room on the permit to document the route.

Not properly tracking permits and permit fees could result in not collecting or billing the proper fee. This also presents an opportunity that could lead to misuse of revenue collected because an amount less than what was collected or no amount at all could be recorded without any way to know the amount listed was incorrect.

The Green Book states that a variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs.

The Transportation Permit Manual (Permit Manual) Section 108.2 states that permit riders shall be issued and accounted for as permits. Further, Section 917.7 states that a permit rider is an attachment to the original transportation permit modifying specific elements of the original permit.

Finding 1 - (continued)

According to the Issuance Branch management, there was only one employee responsible for manually logging all permit application and fee information into the clerical database. Further, management stated it did not have time to review the database reports to determine whether the information was logged accurately.

Workload is Not Evenly Distributed

Issuance Branch management does not monitor or distribute the permits as they are received. During our testing, we noted that permits are received in a variety of ways, which may affect the distribution of work. Permit applications are received via fax machines, United States mail, email, walk-in counter, or electronically through the Single Trip Application and Routing System (STARS). The applications are placed into designated inboxes located in a centralized area and permit writers take them from these inboxes. Single trip permit applications that come through STARS are placed in a queue in the system. Permit writers choose applications from the inboxes or go into the system and access the applications in the queue. Variance permits are also faxed or emailed directly to the lead person who distributes the applications to staff and keeps the more complex ones for processing.

We found that the workload is not evenly distributed among the permit writers. We reviewed reports from the Transportation Permits system for the month of April 2013, and found that the workload is not consistent for staff with the same level of experience. To illustrate, two permit writers with approximately the same experience level who processed STARS and single trip permits had significantly different production levels. One permit writer worked on 1,904 permits, while the other permit writer worked on 434 permits. In another example, we noted three permit writers with approximately five years experience, where one processed 409 annual and routine permits and two other permit writers processed 11 routine permits each during the same time period. We also noted that one permit writer processed more routine permits while working overtime than during regular working hours.

The Permit Manual Section 103, states that all applications shall be handled promptly and in the same order received.

The Green Book Section 5.08 states that management is responsible for evaluating performance and holding individuals accountable for their internal control responsibilities. Further, Section 6.03 states that management defines objectives in specific terms so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement.

According to the Issuance Branch management, the current process for distributing work has been in place for many years and it allows permit writers to choose the less complex permits or work permits out of order.

Finding 1 - (continued)

Further, the Permits Office stated that some permit writers might have special assignments in addition to issuing permits. During the time of our audit, management at the Issuance Branch did not identify special assignments. Allowing permit writers to choose the less complex permits or work permits out of order, could lead to uneven workload, potentially low productivity, and possible delay of permit issuance.

Performance is Not Monitored

We found that managers did not monitor staff's performance. Permit writers do not have performance measures and can take as long as necessary to process permits. Managers are not able to hold permit writers accountable for processing permits since there are no established performance measures. During our interviews, we found that managers are not aware of the number of permits their staff processed because they do not monitor or distribute the workload as previously mentioned.

By not having performance measures in place, managers are not able to determine if their branch is meeting the objective of processing permits timely. Further, by not knowing the appropriate performance measure for processing permits, backlogs may occur and overtime may be approved unnecessarily.

The Green Book Section 5.01 requires that management evaluate performance and hold individuals accountable for their responsibilities. Also, Section 6.04 states that management defines objectives in measurable terms so that performance toward achieving those objectives can be assessed. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement.

According to managers, they are not allowed to hold permit writers accountable because prior management allowed staff to take as long as necessary. The Office of Commercial Vehicle Operations developed workload standards for routine and variance permits but only for budgeting purposes. These standards are not used for monitoring performance, and the transportation permit system does not produce the information necessary to monitor performance.

Inconsistent Procedures for Charging Permit Fees

We found that when permits were cancelled, voided or require a credit or refund, the procedures are inconsistent for handling the various permit types. For example, for annual permits the payment is processed and the permit number is issued when the permit application is received, therefore, no credit refund is given for cancelled or voided permits. When variance permits are cancelled or voided, the amount for the hours already worked on the permit is applied to the next permit instead of being billed, causing Caltrans to record a charge on future permits for work that does not apply to that permit. Further, applicants can request multiple permits in anticipation of bidding for certain

Finding 1 - (continued)

jobs, and if they don't get those jobs, they cancel the permit and the cancelled permits are not tracked.

Inconsistency in the handling of cancellations, voids, credits and refunds can result in Caltrans not collecting the proper fees or applying the credit or refund for the proper amount.

According to Issuance Branch management, sometimes it's necessary to override a permit fee due to errors, customer complaints, or miscommunication, and there is no consistent process for handling these cases. Currently, the Permits Manual does not provide guidance on how to handle cancellations, voids or refunds.

Checks Not Safeguarded and Not Submitted to Cashiering Timely

We found that the Issuance Branch does not adequately safeguard checks or submit them to the Caltrans Cashiering Office timely. Permit applications come in with a check or credit card number for payment. When checks are received, the office technician inputs the check information into the clerical database and performs a daily reconciliation. The office technician packages the checks and places them in an envelope in an unlocked cabinet for approximately one week. By not submitting the checks to Cashiering timely or safeguarding them, the checks may be lost or misplaced.

The Green Book, Principle 10 states that management should design control activities to achieve objectives and respond to risks. Specifically, management should establish physical control to secure and safeguard vulnerable assets such as cash and securities.

According the Issuance Branch, they do not have enough staff to take the checks to Cashiering on a daily basis and did not consider putting them in a locked cabinet.

Inadequate Separation of Duties

We determined the separation of duties over the processing permit applications and fees to be inadequate. Specifically, permit writers, office technicians, and managers have the ability to receive applications, process payments and issue credits or cancellations. In addition to the functions mentioned above, permit writers also issue permits. As such, any one of the employees in these positions can perform the entire permit process.

By not segregating responsibilities among different employees, the current process could allow for the wrong permit fees being charged or provide the opportunity for fraud to occur. Further, since there is no independent reconciliation or review, the improper charges would be difficult to identify.

The Green Book Section 10.3 states that management divides or segregates key duties and responsibilities among different people to reduce the risk of

Finding 1 – (continued)

error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

According to Issuance Branch management, permit writers have been allowed to handle all aspects of the permit function due to lack of resources.

Outdated Policies and Procedures and Poor Communication

We found that the Permit Manual, policies and procedures are outdated. According to the Permit Office staff, the Permit Manual has been going through revision since 2009, and most of the sections have been completed and are under review. However, we noted that the Permit Manual has not been updated for policy changes since 2001 and still reflects permit fee rates from February 1990. We also found that pilot car maps and other resources have not been updated since 2009. In addition, permit writers use manual processes for updating restricted routes, construction, and highway emergency information.

We also determined that there are no written procedures for any of the permitting or administrative processes including: processing and review of the various types of permit applications, tracking and accounting for permits, fee collections, processing payments, refunds, credits and voids, and establishing debtor accounts.

The Permit Office does not always communicate new and revised policies and procedures or provide formal guidance to the Issuance Branch. For example, a permit writer received instruction from the Permits Office that the policy regarding the duration of the repetitive permits had changed from six months to 90 days. According to the Permit Office manager, the notification was put on the website a few years ago to clarify the policy and it is the responsibility of the Issuance Branch to monitor the Transportation Permits website for changes.

In addition, one Issuance Branch manager stated that there is minimal communication with the Permits Office management. Some permit writers contact the Permits Office directly for direction rather than getting direction from their manager.

Not having updated policies and procedures or communicating policy changes could lead to inconsistency among staff in processing permits. This is especially critical when there is high turnover of permit writers. We analyzed the level of experience among staff at the Issuance Branch and found that, at the time of our field work, 26 out of 40 staff (65 percent) had two years or less experience.

Finding 1 – (continued)

The Permit Office stated that policy changes are published on the Transportation Permit's website and that permit writers should be monitoring the website for changes. However, the Division of Traffic Operations, Office of Permits Fact Sheet states that it is the responsibility of the Permit Office to update the policies and procedures and communicate the changes to those responsible for doing the work. According to the Permits Office, they don't have enough staff to update the Permit Manual.

Recommendation

We recommend that the Division of Traffic Operations:

1. Develop procedures for securing confidential information and remind staff of its policy to redact personal and sensitive information once permits are issued.
2. Develop a system to properly track permits and associated fees; and review the system generated reports to ensure proper fees are being charged.
3. Require that managers distribute the workload based on the complexity of the permit application and experience of the permit writer, and in accordance with the Transportation Manual.
4. Develop performance measures and require that managers monitor staff's performance.
5. Establish procedures for handling permits that are void, overrides, or cancelled. The procedures should include guidance on when to refund the prepaid fees.
6. Require that checks are sent to Cashiering within 24 hours of receiving them or ensure they are kept in a secured/locked cabinet until submitted to Cashiering.
7. Develop procedures to ensure an adequate separation of duties exists so that the same employee does not handle all aspects of a permit process.
8. Update the Permit Manual with current policies and procedures and develop a process to communicate revised policies to all staff in a timely manner.

Division of Traffic Operations Response:

The Division of Traffic Operations generally agreed with the findings and stated that some of the recommendations were addressed in July 2014. The Division of Traffic Operations provided an action plan addressing all the recommendations with target completion dates. For a copy of the complete response, please see Attachment 1.

Finding 2 – Overtime is Not Always Justified, Pre-approved or Properly Documented

We found that overtime is not always justified, pre-approved or properly documented. Management in the Issuance Branch allows staff to work overtime when a backlog of routine permit applications occurs. This backlog is supposedly calculated on a daily basis, but we did not see evidence of a workload analysis to justify the need for overtime.

Finding 2 – (continued)

To track its workload, the Issuance Branch uses a worksheet and starts with the number of outstanding permit applications from the prior day, adds the permit applications that come in that day via fax and the STARS system and calculates the number of permits that were issued between 8 am and 3 pm. They subtract the number of permits issued for the day and the difference is considered "outstanding" or the "backlog." Based on the backlog, management requests volunteers to work one hour of overtime before the beginning or their shift or one hour after their shift. On some occasions, they also request volunteers to work on Saturdays, again depending on the backlog.

We analyzed the worksheet used to calculate the "backlog" of permits and noted that on some days there are negative number of outstanding permit applications and managers still allow overtime. Furthermore, there is no performance measure to indicate how many permits are expected to be completed during regular business hours or during the overtime hours. For example, for the week of December 3, 2012, we noted that on one day a total of 443 permits were issued and on the following day, only 266 permits were issued while the number of permit writers appeared to be the same. Additionally, there did not seem to be a direct correlation between the number of overtime hours worked and the number of permits processed. For example, the worksheet shows that 24 permits were completed during 7 hours of overtime on December 17, 2012, and on December 19, 2012, a total of 24 permits were completed in 13 hours. There was no documentation explaining why it took 5 hours more to complete the same number of permits.

The Issuance Branch uses an overtime log for employees to record their time in and time out, the number of hours worked and the type and number of permits processed. Management is required to review and approve each entry to indicate that overtime was authorized and approved. We reviewed overtime logs for December 2012 through June 2013, and noted that overtime was not always pre-approved. We noted 498 out of 1,001 overtime entries were not pre-approved. In addition, 44 entries were incomplete as they lacked the type of permit worked and the number of permits processed.

Managers began tracking the number of permits received on a daily basis as a means to determine if overtime is necessary. However, documentation was not maintained to indicate the need for overtime or the plan of action to address the backlog.

Not monitoring or evaluating the need and use of overtime could lead to abuse and inaccurate reporting. Furthermore, since management did not monitor employee performance, the overtime may have been worked when it was not necessary. We determined that during the 3-year audit period, staff in the Issuance Branch worked a total of 5,968 hours of overtime, at a cost of $206,607.

Finding 2 – (continued)

Caltrans' Overtime Policy DD-56/R3 states that managers and supervisors are responsible for the effective management and careful use of overtime and documentation is required in all situations. Overtime needs to be pre-authorized and the reason documented. Proper documentation is required in all situations where overtime is utilized, including emergencies.

According to management, the permit backlog is created by frequent system failures, high staff turnover, and because the more experienced staff spend a lot of time training new staff. Further, management stated that they allowed staff to work overtime on the honor system as backlogs occurred. Specifically, staff were allowed to work overtime without supervision in the early mornings and on Saturdays because managers did not work as they are not compensated for working overtime.

Recommendation

We recommend that management in the Issuance Branch:

1. Analyze the need for overtime, based on workload, and approve as appropriate.
2. Require that a supervisor or manager pre-approve overtime and supervise employees when working overtime.

Division of Traffic Operations Response:

The Division of Traffic Operations implemented changes immediately after the field exit conference. For a description of the changes and the complete response, please see Attachment 1.

Finding 3 – The Issuance Branch has an Inefficient Process for Establishing Debtor Accounts

All applicants who want to purchase permits electronically, through the STARS system, are required to establish a debtor account regardless of the type of payment. This process is inefficient because the debtor accounts are intended for customers who purchase permits in volume and who wish to be billed at a later time. Furthermore, the Issuance Branch does not have a process for approving or denying the request for a debtor account. Currently, every applicant who requests a debtor account obtains one regardless of their credit worthiness or past payment history for permits.

The process is inefficient because it goes through many hands before establishing the debtor account. The debtor account request goes to a manager at the Issuance Branch, then to the office technician and back to the manager. The manager submits it to the Division of Accounting (DofA) to log and issue a debtor number, then back to the Issuance Branch where the number is logged a second time. Then the request goes to Information Technology, where the account is set up in the STARS system. The DofA began maintaining the debtor account log in 2011, and issues debtor account numbers. The Issuance Branch created its own log and began tracking debtor accounts in 2013, because they determined that DofA's log is incomplete.

Finding 3 – (continued)

The Issuance Branch does not have a process for reviewing the debtor requests. It requires minimal information on the request such as customer name, address, and telephone number, and does not require background or credit checks to establish a debtor account. We reviewed the debtor log and found incomplete and inaccurate information. For example, 20 of 179 debtor numbers were missing and no explanation could be provided. In addition, we judgmentally selected eight customer requests at the Issuance Branch and compared them to the debtor log maintained by DofA and noted that one of the eight requests contained a different name.

We also found that the debtor log does not contain important data such as the permitee contact information. As a result, the DofA is not able to contact permitees when billing issues arise because the contact information is not in the accounting system. We determined that five debtors were not billed timely because the DofA could not locate the debtor account request used to input the applicant's contact information in the accounting system. The Issuance Branch was also unable to locate these five debtors in the Transportation Permit System.

Requiring applicants to establish a debtor account when they do not intend to use it is unnecessary, inefficient and time consuming. In addition, inadequate internal controls over the debtor account process allows companies who do not meet the purchasing requirements to obtain permits.

The Permit Manual – 108.4 states that permit transporters receiving an average of ten permits per month for six months may be billed monthly for accumulated permit fees on their request and approval. The Accounting Manual, section 08.03.02.02 states that fees should be collected from haulers prior to permits being issued. However, for large volume haulers, fees can be accumulated and billed monthly.

We found that there is no established efficient process for the Issuance Branch to follow. The Northern and Southern Permit Issuance Branches merged in 2011 and the DofA assumed responsibility for maintaining the debtor log and issuing the debtor account numbers. According to the DofA, the customer request for a debtor number is emailed to them by the Issuance Branch and includes the company's contact information and date of the request. However, this key information is not included in the Debtor Log and is not entered into the Advantage system until the first invoice is processed. This delayed process causes the Debtor Log and the accounting system to have incomplete information.

Recommendation:

We recommend that the Division of Traffic Operations work with DofA to:

1. Determine the possibility of using one identifying number per debtor account.

Recommendation: (continued)

2. Follow established criteria for approving or denying an applicant's debtor account.
3. Determine the need for having two separate logs between the Division of Accounting and the Division of Traffic Operations.

Division of Traffic Operations Response:

The Division of Traffic Operations agreed with the finding and provided a response to the recommendation. For a copy of the complete response, please see Attachment 1.

Division of Accounting Response:

The Division of Accounting met with the Division of Traffic Operations and agreed to use the debtor number as the vendor customer control number in the Advantage system. For a copy of the complete response, please see Attachment 2.

Finding 4 – The Transportation Permit Fees are not Properly or Timely Billed

Our audit found that the billing process for transportation permits is inefficient and does not allow timely billing of debtor accounts. When a new permitee is listed in the debtor report, it cannot be cross-referenced to a vendor number because the vendor numbers are generated at the time of the first billing. In this case, the vendor number is retrieved from the original customer request which is a cumbersome process. In some cases, billings fall through the cracks and never get billed, as mentioned in the previous finding related to debtor accounts. Once the billing is generated, an invoice number is produced and is manually written on the debtor report. The DofA copies the listing of permits from the debtor report and pastes it to a word document for each invoice. The DofA does not utilize its invoice folding machine to send out the invoices. Rather, they manually fold and insert transportation permit billings because these invoices have multiple pages which the folding machine cannot handle.

The billing process is labor intensive and subject to human error. We reviewed three months of debtor account reports and compared the information obtained from the Issuance Branch to what was billed by DofA. We noted the following:

- DofA's debtor report, which is used for billing purposes, had different amounts for four customers than what the Issuance Branch's report indicated was the amount for permits issued.
- Six customers had incorrect debtor names.
- Two permits did not have the invoice numbers and DofA could not determine whether the invoice had been billed or not.
- One customer listed in the debtor report was not listed in the DofA report.
- Two customers were not billed because they were not listed in the debtor report.

Finding 4 – (continued)

- DofA does not consistently input the payment due date. We noted that the due date was the same as the invoice date in all the permits tested for a two month period.
- One customer had several invoices that were not billed for up to one year.

The debtor account report is prepared by the Issuance Branch and emailed to the DofA. This report captures debtor number, company name, issued date, permit type and number, name of permit writer and amount to be billed. The DofA uses the information, except the debtor number, to prepare billings. Instead of using the debtor number, DofA staff cross-references the information to a vendor number used for billing purposes. DofA staff manually writes the vendor number next to each debtor number in the report which is time consuming.

The inefficient process caused some invoices to be processed five to twelve months late which results in delayed payments. Further, there is no assurance that all fees due were billed and collected. Finally, reconciliations are not possible because the information in the Advantage system has different information than the debtor account reports.

The DofA Manual, Section 08.03.02.02 states that customers are billed monthly from a list of permits issued daily including the permit number, permitee name, debtor number and amount of bill. Furthermore, the State Administrative Manual, Section 20050, Internal Control states that "State entity heads…are accountable for activities carried out in their agencies…including the establishment and maintenance of internal accounting and administrative controls."

According to the DofA management, it does not receive debtor account reports from the Issuance Branch on a monthly basis. Rather, the DofA received the reports every three to four months; therefore, they could not perform the billing on a monthly basis as required.

Recommendation:

We recommend that the Division of Traffic Operations and the DofA work together to:

1. Determine who will maintain the debtor account log so that there is only one log.
2. Explore the possibility of incorporating the debtor number into the Advantage system's billing process.
3. Reconcile the permits issued in the debtor account report to the permit fees billed in the Advantage system and resolve billing issues timely.

We also recommend that the DofA develop a process for ensuring billing information is correctly input into the Advantage system.

Division of Traffic Operations Response:

The Division of Traffic Operations met with DofA on April 9, 2015, and agreed to implement the recommendation. For a copy of the complete response, please see Attachment 1.

Division of Accounting Response:

The DofA and Traffic Operations met and agreed that Traffic Operations will maintain the debtor account log and the debtor account number will be used as the vendor control number in Advantage for invoicing functions. In addition, the DofA will establish a process to reconcile the invoices issued each month from the Advantage system to the debtor account report. For a copy of the complete response, please see Attachment 2.

Finding 5 - Minimal Collection Efforts and Inadequate Monitoring of Aging Reports

The Issuance Branch is responsible for initially contacting companies with delinquent permit fees to request payment and if necessary suspend their accounts. The DofA Revenue and Collections Section is responsible for billing transportation permit fees and collection of delinquent fees; and the Abatement and Reimbursement Section is responsible for monitoring and analyzing the aging reports and preparing information to be sent to the collection agency.

We found there is minimal collection effort for delinquent transportation permit fees and that the Revenue and Collections Section does not perform collection functions for delinquent amounts owed except for sending out automated system-generated 30 and 60 day late notifications. We also found that the Abatement and Reimbursement Section did not consistently submit delinquent invoices to the collection agency and its current process for monitoring delinquent accounts is inefficient and time consuming.

According to DofA staff, they have an informal policy of not collecting amounts under $1,000, and allow invoices to sit on the books until the four year statute of limitations runs out or payment is received. Based on our review, we noted amounts under $1,000 that had been sent to the collection agency because they were identified as being in collection status. We also observed amounts over the $1,000 threshold that were not in collection status.

We found that the Advantage system does not generate aging reports by program code. As a result, DofA staff must manually upload the information into an excel spreadsheet and then sort by program code. The program code identifies billings as transportation permit fees. Additionally, we noted that when the billing invoices are modified in the Advantage system, the accounts receivable invoice date automatically changes to the date the invoice was modified. Consequently, the accounts receivable invoice date listed in the aging report is almost always shown as being after the due date. This creates a negative number of days outstanding. When analyzing the aging report, DofA staff cannot rely on the columns that indicate the number of days outstanding (30, 60, 90, 120 days), rather staff must calculate the number of days manually using the accounts receivable invoice date. Further, we

Finding 5 – (continued)

observed that the aging reports were not consistently submitted to the Issuance Branch to contact customers and suspend customers' accounts.

We noted many invoices listed in the aging report did not have a due date, as noted in the previous finding. The DofA had not input the due dates or input the same due date as the invoice date and it was not possible to determine if the invoices were delinquent. If the due date is not input correctly, when the invoice is created, it will not be properly reflected in the aging report. We also found that the aging reports contained invoices where DofA allowed the statute of limitations to run out without sending them to the collection agency.

Because of the inefficient and time consuming process, aging reports are not submitted timely; and the imperfections in the Advantage system causes inaccurate billing information. Furthermore, because of the inaccurate information, there is no assurance that all amounts that are delinquent are being collected. Delinquent permit fees owed could be reduced if the DofA and Issuance Branch had accurate and timely billing and collection information and actively followed their collection process. However, the Issuance Branch stated that they are not comfortable suspending accounts based on inaccurate information in the aging reports.

The Accounting Manual, Section 8.03.07 states "need to initiate a series of letters and telephone calls, address checks and other appropriate collection measures." Also, the State Administrative Manual, Section 8776.6, states that the state must "develop collection procedures that will ensure prompt follow-up on receivables." The Permits Manual Section 108.4.3 states that if payment is not received within 70 days, notification will be made and appropriate suspension of permit privileges will be instituted. The California Victim Compensation Claims Board, as of April 18, 2013, provides approval for Caltrans' request to refrain from collecting accounts receivable of less than $500 in accordance with the Government Code Section 13943.2.

According to DofA staff, the Advantage system does not create an aging report by program code so they must manually download the aging report with all program codes into an excel spreadsheet, sort it by program code and identify the transportation permits. Since this is a very time consuming process, they only perform this task every other month or as time permits.

Recommendation:

We recommend that the Division of Accounting:

- Make the necessary efforts to collect delinquent permit fees and enforce the policy of collecting for delinquent accounts as approved by the Victims Compensation Claims Board.
- Work with Information Technology to fix the aging reports so that they contain timely and accurate information.

Recommendation: (continued)

- Work with the Issuance Branch to identify customers with delinquent accounts, initiate collection efforts, and suspend permitees with uncollectible accounts in accordance with the Transportation Permit and Accounting Manuals.

Division of Accounting Response:

The Division of Accounting stated that they already implemented some of the recommendations and agreed to request that the Division of Information Technology modify the invoice date reflected on the aging report. For a copy of the complete response, please see Attachment 2.

Finding 6 - The Office of Permits is Not Complying with the State's Full Cost Recovery Policy

We reviewed revenue and expenditure reports from the Revenue and Collections Section in the DofA for fiscal years 2010/11 and 2011/12, and found that the Office of Commercial Vehicle Operations is recovering approximately 67 percent of its cost to administer the program. Therefore, the Office of Commercial Vehicle Operations is not recovering the full cost for administering its program. We estimate that for the audited period, the program could have recovered an additional $3.1 million in permit fees.

The California Code of Regulations (CCRs) Title 21, Div 2, Chapter 7, Section 1411.3, requires that departments review the permit fee rates annually to ensure the revenue from fees does not exceed the cost of administering the program. In addition, the State Administrative Manual, Section 8752, allows for departments to recover costs whenever good and services are provided in all cases except where statute prohibits full cost recovery.

We found that the DofA staff calculates the permit fee rates annually using information provided by the Division of Traffic Operations. The calculations are sent for review to the Permits Office. However, the Permits Office has not increased the permit fees since 1993; and has no procedures for analyzing the calculations proposed by DofA.

Recommendation

We recommend that the Division of Traffic Operations consult with the Divisions of Legal and Budgets to determine if it can move forward with implementing current permit fees in order to recover its cost for administering the program.

Division of Traffic Operations Response:

The Division of Traffic Operations agreed to work with DofA to increase the fees by December 31, 2015. However, the Division of Traffic Operations does not see the need to work with the Divisions of Legal and Budgets.

Audits & Investigations Analysis of Response

Based on information shared at the formal exit conference, Audits & Investigations still recommends that the Division of Traffic Operations work with the Divisions of Legal and Budgets before implementing fee increases.

Finding 7 - The Transportation Permit System is Outdated and Unreliable

The Transportation Permits System (system) is made up of five databases used by internal users to process and track permits and by external users to request routing permits. We found that the system is outdated and unreliable because it crashes frequently; the databases are not set up for read only and data can be easily manipulated; and it is difficult to capture and provide accurate statistical data and reports.

Because of the problems with the system, the production reports are unreliable and inaccurate. These reports are compiled using information downloaded from the system and according to the managers, it is a cumbersome process. We reviewed production reports prepared by the Issuance Branch and compared the information to the reports prepared by the Permit Office and noted differences in the number of permits listed.
We also noted the system has retention limitations when it comes to accessing data and as a result, the data in the system is only available for the last 3 months. If other data is needed, it is obtained from an excel spreadsheet.

Caltrans' Information Technology, Custom Development Office hired a consultant to develop a semi-automated system in 2001, but the system was not developed. According to a report issued by the California State Auditor on March 19, 2015, the contract was terminated in 2007 and Caltrans paid the consultant $10 million. Another contractor was hired in 2008 to do a feasibility study, but no funding was available to implement the recommendations. A third consultant was hired in 2011, to replace the multiple databases with a single database, provide a more user friendly application, and minimize the system crashes. It is our understanding that the new system is on target to be implemented by June 2015.

Recommendation

We recommend that the Division of Traffic Operations continue to work with Caltrans Information Technology to complete successful implementation of the new system.

Division of Traffic Operations Response:

The Division of Traffic Operations agreed to work with Information Technology. For a copy of the complete response, please see Attachment 1.

Finding 8 - Not All Prior Audit Recommendations were Implemented

As part of our audit, we reviewed prior audits of the Division of Traffic Operations and found that the California State Auditor issued an audit report in 2000. Through interviews with management, we learned that only some of the recommendations made by the State Auditor have been fully implemented.

The Division of Traffic Operations has taken the following steps to begin addressing the outstanding recommendations in the State Auditor's report:

- Contracted with a consultant to work with Information Technology to replace the current database software.

Finding 8 – (continued)

- Started reclassifying the Transportation Engineering Technician positions.
- Hired Informatix to document the current permitting process and identify process flows in order to identify inefficiencies.

The following recommendations have not been fully implemented:

1. To improve communication of roadway changes to its permits branch, Caltrans should do the following:

   - Establish a process and designate a position with authority to enforce the reporting policies. If personnel do not adhere to these policies, Caltrans should tie reporting to performance evaluations.
   - Ensure that these policies are clearly communicated to those who have responsibility for implementing them.

2. To improve its system for issuing travel permits for oversize vehicles, Caltrans should do the following:

   - Develop an automated routing system. If the current request for an automated routing system is not approved, Caltrans should seek approval again in the next budget cycle. A new request should include an analysis of staffing requirements and should also identify what the funding source would be.

3. Finally, to ensure that permit writers are properly qualified and trained, Caltrans should take the following steps:

   - Expand training for new permit writers to include instruction in standardized permit writing, use of pilot car maps, and use of the routing database.
   - Assess the training needs of experienced permit writers and develop an ongoing training program.

Recommendation: We recommend that the Division of Traffic Operations take steps to fully address all the recommendations contained in the State Auditor's report.

Division of Traffic Operations Response: The Division of Traffic Operations agreed to implement the outstanding recommendations and provided an action plan addressing them. For a copy of the complete response, please see Attachment 1.

Audit Team

Laurine Bohamera, Chief, Internal Audits
Juanita Baier, Audit Manager
Amy Norwood, Auditor
Kula Sirleaf, Auditor

ATTACHMENT 1

DIVISION OF TRAFFIC OPERATIONS RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help save water!

To: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Date: May 1, 2015

File: P4000-0387

From: THOMAS P. HALLENBECK
Chief
Division of Traffic Operations

Subject: **RESPONSE TO DRAFT AUDIT REPORT – TRANSPORTATION PERMITS AUDIT**

Thank you for the opportunity to review and comment on the Division of Traffic Operations (DTO) Transportation Permits Audit draft report. After the field exit conference review between DTO and the Audits Team on October 15, 2013, the DTO has taken some improvement actions to address some of the findings and recommendations. Attached, you will find the responses to the specific items you have identified and additional general comments to this report.

If you have any questions or need additional information, please contact Brian D. Toepfer, Acting Office Chief, Commercial Vehicle Operations at (916) 653-0096.

Attachment
(1) Response to Transportation Permits Audit Draft Report

c: Brian D. Toepfer, Acting Office Chief, Commercial Vehicle Operations, Division of Traffic Operations
Kris Kuhl, Assistant Chief, Division of Traffic Operations
Katie Berringer, Acting Assistant Chief, Division of Traffic Operations
Rajinder Chharan, Branch Chief, Transportation Permits Issuance, Division of Traffic Operations
Justin Unck, Branch Chief, Transportation Permits Issuance, Division of Traffic Operations
Steven Sowers, Branch Chief, Transportation Permits Issuance, Division of Traffic Operations
Kien Le, Branch Chief, Transportation Permits, Division of Traffic Operations
Mark Spaulding, Branch Chief, Accounts Receivable, Division of Accounting
Gina Schumacher, Chief, Revenue and Collections Section, Division of Accounting
Frank Garcia, Chief, Office of Receivables, Systems and Administration, Division of Accounting
Clark Paulsen, Chief, Division of Accounting
Tracy Scribner, Chief, Information Technology Solutions Division
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
Sumi Smith, Acting Chief Information Officer
Juanita Baier, Internal Audit Manager, Audits and Investigations

BDT/ktl

Audits & Investigations (A&I) – Response to Transportation Permits Audit Draft Report - March 11, 2015

PROGRAM AUDITED: Traffic Operations **AUDIT NAME:** Transportation Permits Audit **AUDIT NUMBER:** P4000-0387

Finding No. 1 **AUDIT DATE:** March 11, 2015

Name of Report Finding: **Internal Control Weaknesses in the Issuance Branch**

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
1.1 Develop procedures for securing confidential information and remind staff of its policy to redact personal and sensitive information once permits are issued.	Transportation Permits Issuance Branch (Issuance Branch) shall evaluate the following procedures for implementation: 1. Issue periodic reminders to staff to redact information. Improve quality of redaction methods. 2. Pursue the authority to perform "background checks" for new hires in the Issuance Branch. 3. Post "Authorized Personnel Only" signs at the entrance to the Permits Office and require guests be accompanied by staff at all times. 4. Review current security procedures for protection of sensitive information on permit applications, afterward develop a process or procedure to limit public access to this information. 5. Review current office procedures to determine if pending permit applications can be placed in a locked cabinet at the close of business each day. 6. Place locks on archive cabinets.	Target completion dates: May 8, 2015 Dec. 1, 2015 June 1, 2015 Dec. 1, 2015 Dec. 1, 2015 Dec. 1, 2015	Issuance Branch: Steve Sowers (916) 322-4960	

1.2 Develop a process or procedure to properly track permits and associated fees; and review the system generated reports to ensure proper fees are being charged.	Permits staff runs Accounting Reports daily to identify permits issued and fees charged during the previous business day. Permits issued are reviewed and reconciled with fees charged and any discrepancies (number skips, price errors, etc.) are investigated and explained.	Current practice as of June 2010	Issuance Branch: Steve Sowers (916) 322-4960	
	Policy will be revised to define the use of the Permit Rider as a permit extension form to document long routes that will not fit on the Single Trip Permit. When this rider is used as the original permit's extension, a permit number will not be assigned and no charge is assessed.	Target completion date: Dec. 31, 2015	Permit Office: Kien Le (916) 654-3093	
1.3 Require that managers distribute the workload based on the complexity of the permit application and experience of the permit writer, and in accordance with the Transportations Permit Manual (Permit Manual).	Applications are processed in the order received within each permit type group. Permit writers must select the oldest permit available subject to authorization from their managers. Authorizations are dependent upon an experience and lead worker's recommendation. Permit managers have been distributing the workload based on complexity of the permit and the staff's experience since July 20, 2014.	Current Practice as of July 20, 2014	Issuance Branch: Steve Sowers (916) 322-4960	
1.4 Develop performance measures and require that managers monitor staff's performance.	Issuance Branch management's plan to begin the monitoring of employees' performance on June 1, 2015.	Target completion date: June 1, 2015	Issuance Branch: Steve Sowers (916) 322-4960	
1.5 Establish procedures for handling permits that are voided, overridden, or cancelled. The procedures should include guidance on when to refund the prepaid fees.	Any skips, double stamps, voids, overrides, corrected permits (issued free due to Caltrans' error), or refunds need approval from a manager. Issuance Branch management will establish a procedure for staff to track the permit numbers and to reconcile charges during daily accounting.	Target completion date: July 15, 2015	Issuance Branch: Steve Sowers (916) 322-4960	
1.6 Require that checks are sent to cashiering within 24 hours of receiving them or ensure they are kept in a secured/locked cabinet until submitted to cashiering.	The following procedures have been implemented since July 31, 2014. Instructions were provided at staff meeting. Checks received during the day will be locked in a cabinet at the close of each business day. After accounting is completed in the morning of the following day, checks will be moved to the safe in the supply room. Accounting drops are made each Monday and include the prior week's intake of checks and credit card charge information.	Current practice since July 31, 2014	Issuance Branch: Steve Sowers (916) 322-4960	

1.7 Develop procedures to ensure an adequate separation of duties exists so that the same employee does not handle all aspects of a permit process.	Separation of Duties currently exists and the following procedures have been implemented since July 31, 2014. The reconciliation of fees is done by the Office Technicians (OT). The OT's are responsible to ensure that the correct amount has been collected for each permit issued by Permit Writers. Since permit numbers are issued sequentially (each permit type has its own sequence) reconciliation is a straightforward process.	Current practice since July 31, 2014	Issuance Branch: Steve Sowers (916) 322-4960	
1.8 Update the Permit Manual with current policies and procedures and develop a process to communicate revised policies to all staff in a timely manner.	The Permit Manual is being updated with current policies and procedures. Most chapters' revisions have been made and reviews were completed by both internal staff and trucking industry representatives. The Permit Office will continue to work on finalizing this manual as well as developing a communication process for implementation of new policies. The Permit Office and the Issuance Branch will work together in finalizing the policies, procedures, and the Permit Manual.	Current practice for most business processes. Remaining Permit Manual chapters completion - TBD	Permit Office: Kien Le (916) 654-3093	

Audits & Investigations (A&I) – Response to Transportation Permits Audit Draft Report - March 11, 2015

Finding No. 2

Name of Report Finding: Overtime is Not Always Justified, Pre-approved, or Properly Documented

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
2.1 Analyze the need for overtime, based on workload, and approve as appropriate.	At 3 p.m. each day, a manager looks at the permit backlog for each permit type, their quantity, date and time of the oldest outstanding permits, and then analyzes the need for overtime for that day. When overtime is needed, the Issuance Branch's management will estimate the number of hours needed and ask all available staff if they would like to work overtime. The procedures for overtime work in the Issuance Branch have been implemented since August 13, 2014.	Current practice as of August 13, 2014	Issuance Branch: Steve Sowers (916) 322-4960	
2.2 Require that a supervisor or manager pre-approve overtime and supervise employees when working overtime.	All overtime is pre-approved by supervisors as described in the above Finding 2.1 response. Supervisors monitor overtime work through direct oversight and monitoring as needed. This procedure for has been implemented since August 13, 2014.	Current practice as of August 13, 2014	Issuance Branch: Steve Sowers (916) 322-4960	

Finding No. 3

Name of Report Finding: The Issuance Branch has an Inefficient Process for Establishing Debtor Accounts

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
3.1 Determine the possibility of using one identifying number per debtor account.	Division of Traffic Operations (DTO) met with the Division of Accounting (DofA) on April 9, 2015 and had agreed to the following: DofA will use the Debtor number established by DTO as the vendor customer control number in the Advantage accounting system for all transportation permit vendors. Existing permit vendors will have their vendor customer control numbers modified in Advantage to the Debtor number issued by DTO. This will result in one unique identifying number used by DofA and DTO for each debtor account.	Target completion date: June 30, 2015	Issuance Branch: Steve Sowers (916) 322-4960	
3.2 Follow established criteria for approving or denying an applicant's debtor account.	Debtor account applicants supply required information to the Issuance Branch in order to establish a debtor account. If applicant meets certain criteria, the Issuance Branch assigns a debtor number and forwards the request to DofA. DofA finishes creating the account and notifies the customer. No further action is required and the customer may begin charging to the debtor account for STP, Annual/Repetitive and Variance permits. Currently, before processing a debtor account application, a manager will question the applicant on intended usage and a debtor account will not be granted unless/until the applicant meets the six month average usage requirement. Management may include additional new criteria such as: • Taxpayer identification number • Affirmation of billing and suspension policy	Current practice as of August 13, 2014	Issuance Branch: Steve Sowers (916) 322-4960	

3.3 Determine the need for having two separate logs between the Division of Accounting and the Division of Traffic Operations.	Division of Traffic Operations (DTO) met with the Division of Accounting (DofA) on April 9, 2015 and had agreed to the following: DTO is currently responsible for maintaining the Debtor log and issuing the debtor account numbers. DTO provides the debtor number to DofA after it has been established, along with vendor contact information (name, address, phone). This debtor information is used by DofA to set up the vendor customer control number in Advantage for vendor invoicing purposes. As provided in recommendation response #3.1 above, the debtor account number will be used by DofA as the vendor customer control number in the Advantage system.	Target completion date: June 30, 2015	Issuance Branch: Steve Sowers (916) 322-4960	

Audits & Investigations (A&I) – Response to Transportation Permits Audit Draft Report - March 11, 2015

Finding No. 4

Name of Report Finding: The Transportation Permit Fees are Not Properly or Timely Billed

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
4.1 Determine who will maintain the debtor account log so that there is only one log.	Division of Traffic Operations (DTO) met with the Division of Accounting (DofA) on April 9, 2015 and had agreed to the following: DTO is the first point of contact with the customer, issues the debtor numbers and maintains the debtor account log. See recommendation response #3.3 above.	Completed	Issuance Branch: Steve Sowers (916) 322-4960	
4.2 Explore the possibility of incorporating the debtor number into the accounting system's billing process.	DofA to respond to Audits and Investigations (A&I) recommendation.			
4.3 Reconcile the permits issued in the debtor account report to the permit fees billed in the Advantage system and resolve billing issues timely.	DofA to respond to A&I recommendation.			

Audits & Investigations (A&I) – Response to Transportation Permits Audit Draft Report - March 11, 2015

Finding No. 5

Name of Report Finding: **Minimal Collection Efforts and Inadequate Monitoring of Aging Reports**

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
5.1 Make the necessary efforts to collect delinquent permit fees and enforce the policy of collecting for delinquent accounts as approved by the Victim Compensation Claims Board.	DofA to respond to A&I recommendation.			
5.2 Work with Information Technology to fix the aging reports so that they contain timely and accurate information.	DofA to respond to A&I recommendation.			
5.3 DofA should work with the Issuance Branch to identify customers with delinquent accounts, initiate collection efforts, and suspend permittees with uncollectible accounts in accordance with the Transportation Permit And Accounting Manual.	DofA to respond to A&I recommendation.			

Finding No. 6

Name of Report Finding: The Office of Permits is Not Complying with the State's Full Cost Recovery Policy

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
6 We recommend that the Division of Traffic Operations consult with the Divisions of Legal and Budgets to determine if it can move forward with implementing current permit fees in order to recover its cost for administering the program.	In 2011, the Permit Office worked with DofA to address this issue. The proposal to increase the permit fees was also discussed with trucking industry's representatives and their response was positive. The fee increase proposal was on hold since that time due to the re-organization of the Permit Program and changes to the staffing re-classifications. Once the realignment of the staffing and the re-organization has been completed, our office will be revisiting this proposal. DTO will work with DofA to establish the fee structure. The fees increase will go through the Administrative Procedures in the California Code of Regulations.	Target completion for update: December 31, 2015	Permit Office: Kien Le (916) 654-3093	

Audits & Investigations (A&I) – Response to Transportation Permits Audit Draft Report - March 11, 2015

Finding No. 7

Name of Report Finding: The Transportation Permit System is Outdated and Unreliable

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
7 We recommend that the Division of Traffic Operations continues to work with IT to complete successful implementation of the new system.	In July 2011, the Division of Information Technology (IT) began working on updating the current databases system. Conversion of the Route Clearing Database from Access97 to MySQL was completed in 2015. IT is currently working on the conversions for the remaining databases. Further system improvements are pending approval and funding of the Integrated Transportation Permit System (ITPS) Project. In coordination with IT, the DTO conducted a Business Process Review (BPR) of the transportation permit functions in 2013. The BPR provided the functional requirements for an automated system (ITPS). In addition to the ITPS, the Department needs an online payment system for all permitting functions (Transportation, Encroachment, and Outdoor Advertising), and Right-of-Way rental payment, airspace lease, etc. DOT will be working with IT to get a completion date for this recommendation.	Target completion for update: December 31, 2015	Permit Office: Kien Le (916) 654-3093	

Finding No. 8

Name of Report Finding: Prior Audit Recommendations Not Implemented

A&I Recommendation	Auditee's Response to Draft Report	Estimated Completion Date	Staff Responsible for Completion	A&I Analysis of Response
8 We recommend that the Division of Traffic Operations take steps to fully address all the recommendations contained in the 2000 State Auditor's report.	DTO has established a process and designate a position with authority to enforce the reporting policies. According to DD-57, the Division of Traffic Operations Program Manager is responsible for managing the Transportation Permit Program, including tracking and incorporation of temporary and permanent clearances, bridge permit ratings, and issuing of transportation permits. This deputy directive is being revised to reflect changes in the reorganization of the various functional areas.	Target completion date for updating DD-57 : December 31, 2015	Permit Office: Kien Le (916) 654-3093	
	DTO is to ensure that policies are clearly communicated to those who have responsibility for implementing them. At the invitation from the Division of Construction, the Permit Office attends the Division of Construction's Resident Engineers' Academy to provide a presentation on the clearance notification requirements.	Current practice as of January 8, 2013.	Permit Office: Kien Le (916) 654-3093	
	The Division of Traffic Operations is currently working with IT and California Department of Technology on developing the business requirements for the automated transportation permit system. Further system improvements are pending FSR approval and funding of the Integrated Transportation Permit System (ITPS) Project. In coordination with IT, the Division of Traffic Operations also conducted a BPR of the transportation permit functions in 2013. The BPR provided the functional requirements for an automated system (ITPS). As noted in Finding #7, the scheduled date for completion of this recommendation will depend on the agreement with IT.	To be determined	Permit Office: Kien Le (916) 654-3093	

	The 2000 State Auditor's report recommendation is to expand training for the new permit writers to include instruction in the standardized permit writing, use of pilot car maps, and use of the routing database. DTO has implemented the training of new permit writers since September 3, 2003. Newly hired permit writers (trainees) begin their training learning the clerical functions of the office. After approximately three weeks, trainees are assigned to trainers for permit training that will last six months to one year. Trainers provide formal and on-the-job training, and provide feedback to managers on their progress. Training covers all aspects of permit writing, including use of pilot car maps and the route clearing database. Permits are written and issued according the Permit Manual and policy memos. Managers provide formal approvals of trainee advancement and release from training/review.	Current practice as of September 3, 2003	Issuance Branch: Steve Sowers (916) 322-4960	
	DTO to assess the training needs of experienced permit writers and develop an ongoing training program. All employees, including experienced permit writers, receive an IDP where a supervisor collaborates with an employee about training needs and advancement of the employee. Additionally, bi-weekly training sessions are held to provide information on hot topics, new policies and procedures, etc.	Current practice as of August 13, 2014	Issuance Branch: Steve Sowers (916) 322-4960	

ATTACHMENT 2

DIVISION OF ACCOUNTING RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help save water!

To: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Date: May 4, 2015

From: CLARK PAULSEN
Chief
Division of Accounting

Subject: **Division of Accounting Response–Transportation Permit Audit (P4000-0387)-Revised**

The attached worksheet has the Caltrans Division on Accounting's response to the findings noted in the draft report. Revisions have been made for recommendations 4.4 and 5.2.

If you have any questions or need additional information, please contact Frank Garcia at (916) 227-9149.

c: Tom Hallenbeck, Chief, Division of Traffic Operations
Frank Garcia, Chief, Office of Receivables, Systems and Administration, Division of Accounting
Juanita Baier, Senior Management Auditor, Division of Audits and Investigation

Audits & Investigations (A&I) – Response to Draft Report

PROGRAM AUDITED: **Division of Traffic Operations** **AUDIT NAME:** **Transportation Permits Audit** **AUDIT NUMBER:** **P4000-0387**
Finding No. 3
Name of Report Finding: **The Issuance Branch has an Inefficient Process for Establishing Debtor Accounts**

A&I Recommendation:	Auditee Response to Draft Report:	Estimated Completion Date:	Staff Responsible for Completion:	A&I Analysis of Response
3.1 Determine the possibility of using one identifying number per debtor account.	Division of Accounting (DofA) will use the Debtor number established by the Division of Traffic Operations (DTO) as the vendor customer control number in its Advantage accounting system for all transportation permit vendors. Existing permit vendors will have their vendor customer control numbers modified in Advantage to the Debtor number issued by DTO. This will result in one unique identifying number used by DofA and DTO for each debtor account.	6/30/2015	Gina Schumacher	
3.2 Follow established criteria for approving or denying an applicant's debtor account.	DTO to Respond			
3.3 Determine the need for having two separate logs between the Division of Accounting and the Division of Traffic Operations.	DTO is currently responsible for maintaining the Debtor log and issuing the Debtor account numbers. DTO provides the debtor number to DofA after it has been established, along with vendor contact information (name, address, phone). This debtor information is used by DofA to set up the vendor customer control number in Advantage for vendor invoicing purposes. As provided in recommendation response #3.1 above, the debtor account number will be used by DofA as the vendor customer control number in the Advantage system.	6/30/2015	Gina Schumacher	

Audits & Investigations (A&I) – Response to Draft Report

Finding No. 4
Name of Report Finding: **The Transportation Permit Fees are not Properly or Timely Billed**

A&I Recommendation:	Auditee Response to Draft Report:	Estimated Completion Date:	Staff Responsible for Completion:	A&I Analysis of Response
4.1 Determine who will maintain the debtor account log so that there is only one log.	Traffic Operations is the first point of contact with the customer, issues the debtor numbers, and maintains the debtor account log. See recommendation response #3.3 above.	Completed	Gina Schumacher	
4.2 Explore the possibility of incorporating the debtor number into the accounting system's billing process.	As provided in recommendation response #3.1 above, DofA will use the debtor account number generated by DTO as the vendor control number in Advantage for invoicing functions. Existing permit vendors will have their vendor customer control numbers modified in Advantage to the same Debtor number issued by DTO.	6/30/2015	Gina Schumacher	
4.3 Reconcile the permits issued in the debtor account report to the permit fees billed in the Advantage system and resolve billing issues timely.	DofA will establish a process to reconcile the invoices issued each month from the Advantage system to the debtor account report received from DTO. All invoicing issues will be timely resolved.	6/30/2015	Gina Schumacher	
4.4 We also recommend that the DofA develop a process for ensuring billing information is correctly input into Advantage.	When setting up the vendor customer control number in Advantage, DofA staff will review the customer information (name, address, phone) provided by DTO to ensure all information is input accurately. Additionally, DofA will establish a process to reconcile the invoices issued each month from the Advantage system to the debtor account report received from DTO (see recommendation response 4.3).	6/30/2015	Gina Schumacher	

Audits & Investigations (A&I) – Response to Draft Report

Finding No. 5
Name of Report Finding: Minimal Collection Efforts and Inadequate Monitoring of Aging Reports

A&I Recommendation:	Auditee Response to Draft Report:	Estimated Completion Date:	Staff Responsible for Completion:	A&I Analysis of Response
5.1 Make the necessary efforts to collect delinquent permit fees and enforce the policy of collecting for delinquent accounts as approved by the Victims Compensation Claims Board.	DofA currently complies with State Administrative Manual Section 8776.6, which provides collection procedures and guidelines for nonemployee accounts receivables. DofA sends a sequence of 4 collection letters (initial invoice, and three additional notices at 30, 60, and 120 days after initial invoice date if needed). Outstanding transportation permit invoices are then turned over to an outside collection agency at 180 days. Any receivables that are past statute are written off.	Completed	Gina Schumacher	
5.2 Work with Information Technology to fix the aging reports so that they contain timely and accurate information.	Transportation Permit aging reports are generated monthly by DofA, and have been provided to DTO since 8/2013. The report is efficiently generated based on sub Balance Sheet Accounts, and contains only outstanding Transportation Permit invoices. The invoices age on the report from the due date that is manually keyed in Advantage during the invoice creation process and is not altered when invoices are modified. The Division of Accounting will submit a change request to the Division of Information Technology to modify the invoice date reflected on the aging report.	9/30/2015	Gina Schumacher	

5.3 Work with the Issuance Branch to identify customers with delinquent accounts, initiate collection efforts, and suspend permitees with uncollectible accounts in accordance with the Transportation Permit and Accounting Manuals.	DofA's collection efforts are detailed in recommendation response #5.1. DTO currently receives the Transportation Permit aging report prepared by DofA on a monthly basis. DofA also provides DTO a copy of all collection letters sent for invoices outstanding 120 days or more. Starting in April 2015, upon receipt of these collection letters, DTO will suspend the debtor number for any future permit purchasing privileges and also contact the permit customer.	June 30, 2015	Gina Schumacher	