



FACT SHEET

Independent Office of Audits and Investigations

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IMPACT OF EQUIPMENT RENTAL AUDIT

BACKGROUND

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations, completed a statewide audit of the Impact of Equipment Rental. The purpose of the audit was to determine the impact and cost effectiveness of equipment rental, and if there were adequate ongoing monitoring activities. In FY 2015/16 and FY 2016/17, Caltrans spent \$25 million in equipment rentals or an average of approximately \$12.5 million per year.

KEY FINDINGS

Our review disclosed that Caltrans has some elements of a system of internal controls, and policies and procedures in place over equipment rental activities. However, our audit identified the following:

- Cost and usage records of rented equipment is insufficient and/or unreliable.
- Compliance with established policies and procedures is deficient.
- Current policy and guidance on equipment rental needs improvements.
- Deficiencies in contract management resulted in \$41,766 in over-payments or 8.5% of costs audited. Reviews are underway by District Maintenance offices to identify additional overpayments. Deficiencies in contract language resulted in \$1,417,030 in miscellaneous equipment rental costs without contract authority and/or information about how that equipment would be charged.
- Ineffective fleet optimization costing Caltrans approximately \$496,707 in pickup truck rentals and lost savings of approximately \$76,450 for not utilizing available Caltrans equipment.

KEY RECOMMENDATIONS

The audit resulted in several recommendations to headquarters Maintenance:

- Compile sufficient and reliable rental cost and usage data, and work closely with headquarters Equipment to decide if Caltrans should purchase rather than rent equipment in the future.
- Work closely with district Maintenance to update the current policy directive to further define roles and responsibilities, guidelines, and establish corrective actions for non-compliance.
- Work with the Division of Procurement and Contracts to ensure that equipment rental contracts are clear, concise, and include all necessary clauses, to include miscellaneous equipment clauses.
- Ensure district Maintenance are implementing assertive, proactive measures to optimize equipment utilization across the various program areas within the district.
- Require approval at the statewide level for renting and leasing of light duty vehicles such as pickup trucks and Jeep 4x4.

We also recommend district Maintenance ensure that staff understand their roles and responsibilities regarding rental equipment, and reinforcing staff's understanding of the rental equipment contract terms and conditions.

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California Department of Transportation Impact of Equipment Rental



Audit Report
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ATTACHMENTS

1. **Audit Response from Division of Maintenance**
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 5. **Audit Response from District 11**
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SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The California Department of Transportation (Caltrans) Independent Office of Audits and Investigations (A&I) completed a statewide audit of the Impact of Equipment Rental. The purpose of this audit was to determine the impact and cost effectiveness of equipment rental, and if there were adequate ongoing monitoring activities. However, due to insufficient and unreliable rental cost and usage data, we were unable to achieve the audit objective of analyzing the impact and cost effectiveness of renting versus owning equipment. Our audit identified that Caltrans has established the following elements of a system of internal controls, policies and procedures over equipment rentals:

- Headquarters Division of Maintenance (Maintenance) implemented a fleet asset management plan.
- Maintenance issued the Maintenance Policy Directive 13-02 to provide management the authority to move underutilized equipment.
- Maintenance established the Maintenance Policy Directive 14-03, which outlines the minimum process, roles and responsibilities pertaining to equipment rentals.
- The Chief of the Division of Equipment (Equipment) was delegated the authority to reassign equipment to optimize usage of equipment.

However, our audit disclosed the following deficiencies:

- Compliance with established policies and procedures is deficient.
- Current policy and guidance on equipment rental needs improvements.
- Deficiencies in contract management resulted in \$41,766 in over-payments.
- Deficiencies in contract language resulted in \$1,417,030 in miscellaneous equipment rental costs without contract authority and/or information about how that equipment would be charged.
- Ineffective fleet optimization costing Caltrans approximately \$496,707 in pickup truck rentals and loss in savings of approximately \$76,450 for not utilizing Caltrans' equipment.

In addition, we prepared a management letter, dated April 20, 2018, as part of the audit report. We noted certain matters that we believe did not rise to the level of being included in the report but warrant management's attention. The management letter presents those internal control weaknesses that could, in some instances, adversely affect Caltrans' ability to record, process, and report data. Strengthening internal controls in these areas is considered to be important and presents an opportunity to improve operating efficiency.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

- If there were sufficient policies and procedures in place over the renting of equipment.
- The impact and cost effectiveness of renting and owning equipment.
- If effective monitoring and reporting mechanisms were in place to provide management with accurate, relevant, and reliable information regarding equipment rental.

The scope of the audit included reviewing various policies and procedures covering equipment and equipment rentals, and interviews with officials and representatives in headquarters Maintenance and Equipment to gain an understanding of equipment rental functions, activities, and the various systems associated with equipment and equipment rentals. We also conducted interviews and performed field work in Districts 4, 8, and 11 (districts). We examined and reviewed documentation related to equipment rental activities, and conducted analytical procedures we considered necessary to achieve our audit objectives. The audit covered the equipment rentals during the period of July 1, 2015, through September 30, 2017. We conducted our audit from May 31, 2017, through December 1, 2017. Changes after these dates were not tested, and accordingly, our conclusions do not relate to changes arising after December 1, 2017.

BACKGROUND

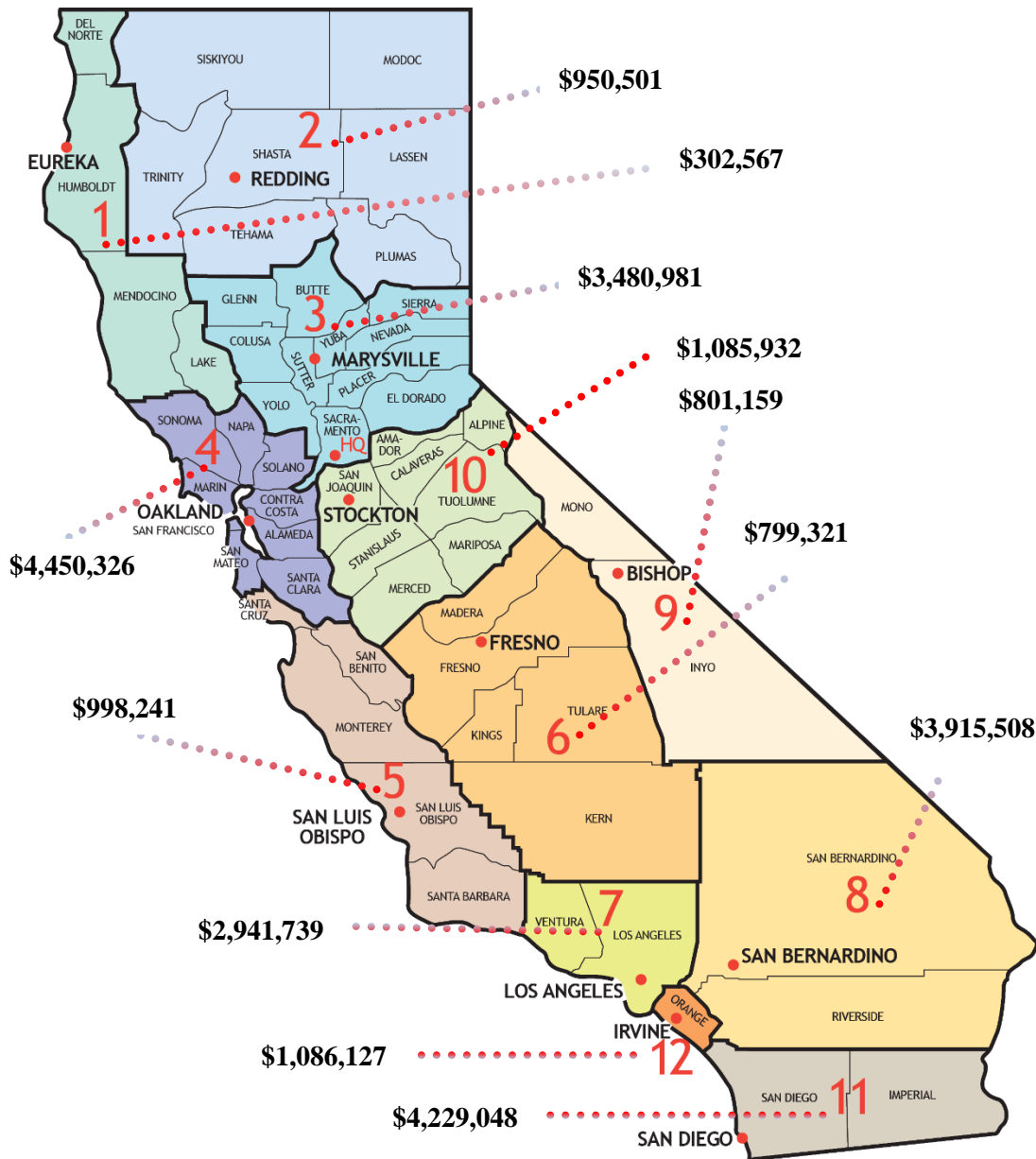
Since Governor's Executive Order B-2-11, regarding statewide fleet management and vehicle allocation methodology, Caltrans relinquished 1,324 pieces of equipment because it was determined that the equipment was non-essential or was not cost effective to own. In order to improve equipment utilization, headquarters Maintenance issued Maintenance Policy Directive 13-02, Vehicle Reporting, Utilization and Reassignment, which provided the Maintenance Statewide Equipment Manager and the District Equipment Managers the authority to move underutilized equipment to increase usage. Also, Caltrans issued a Fleet Optimization decision document, dated April 2015, which delegated to headquarters Equipment the authority to reassign equipment for the purpose of optimizing usage. This included moving equipment within the department to maximize usage, determining which equipment should be rented versus owned, and ensuring only equipment that is needed and used is to be replaced.

Equipment's functions include purchasing new vehicles, servicing and equipping new units, assembling equipment components into complete units, repairing and maintaining more than 12,000 pieces of equipment, and disposing of used vehicles. Approximately 75 percent of the Caltrans' mobile fleet is assigned to Maintenance.

Maintenance protects public safety and preserves California's highways by maintaining and repairing the system. Maintenance is composed of headquarters Maintenance and 12 District Maintenance Offices. Each District Maintenance Office is directed by a Deputy District Director, Maintenance, who is responsible for all maintenance activities within their district. District Maintenance Offices are authorized to rent equipment when Caltrans' equipment is not available.

Caltrans spent a combined \$25,041,449 in equipment rentals in FY 2015/16 and 2016/17 or an average of approximately \$12.5 million per year, as shown in Figure 1.

Figure 1
Total Dollar Amount Each District Spent on Equipment Rentals in FY 2015/16 and FY 2016/17



TOTAL COSTS FOR FY 2015/16 & FY 2016/17 = \$25,041,449
AVERAGE COSTS FOR FY 2015/16 & FY 2017 = \$12,520,724

Maintenance Policy Directive 14-03 requires equipment rental be minimized whenever possible through proper scheduling of work and sharing of equipment. Headquarters Maintenance is responsible for determining equipment resource allocations for the districts, and providing guidance and assistance to the districts with their equipment rental needs. The Fleet Optimization Manager or District Equipment Manager is responsible for approving and managing all maintenance equipment rentals within their districts.

CONCLUSION

Our audit identified that Caltrans has some elements of a system of internal controls and procedures in place over equipment rentals. However, our audit disclosed the following:

- Compliance with established policies and procedures is deficient.
- Current policy and guidance on equipment rental needs improvements.
- Deficiencies in contract management resulted in \$41,766 in over-payments.
- Deficiencies in contract language resulted in \$1,417,030 in miscellaneous equipment rental costs without contract authority and/or information about how that equipment would be charged.
- Ineffective fleet optimization costing Caltrans approximately \$496,707 in pickup truck rentals and loss in savings of approximately \$76,450 for not utilizing Caltrans' equipment.

This report is intended as information for Caltrans management. The report is a matter for public record and will be placed on Caltrans' website, which can be viewed at www.dot.ca.gov/hq/audits/reports_issued.html.

VIEWS OF RESPONSIBLE OFFICIALS

We requested and received a written response to our findings from the Chief of Division of Equipment, Chief of Division of Maintenance, and District Directors of 4, 8, and 11. Please see Attachments 1 through 5 for their complete responses and action plans.



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May 11, 2018

FINDINGS AND RECOMMENDATIONS

The Maintenance Program can improve their system of internal controls and policies and procedures over the equipment rental activities. In addition, the District Maintenance Offices in District 4, 8 and 11 (districts) did not always follow the established internal controls and policies and procedures to ensure efficient and effective program operations, reliable data gathering and reporting, and compliance with applicable laws, policies, and procedures.

California Government Code (GC) Section 13401 emphasizes the importance of active oversight processes, including regular and ongoing monitoring processes. All levels of management must be involved in assessing and strengthening the systems of internal controls, and those tasked with monitoring must maintain integrity, impartiality, inquisitiveness, and the ability to accurately and fairly assess circumstances and draw sound conclusions.

The State Leadership Accountability Act was enacted to reduce the waste of resources and strengthen internal controls. The State Leadership Accountability Act requires each state agency to maintain effective systems of internal control, and also calls for state agencies to establish an ongoing internal control monitoring system to ensure a satisfactory system of internal control is maintained.

Without adequate internal controls or adherence to them, the risk of fraud, theft, waste, and abuse of state resources increases. As a result of not adhering to the existing internal controls, and policies and procedures over equipment rentals along with insufficient management oversight, the conditions described in the following findings have occurred.

FINDING 1 – Unable to Evaluate the Impact and Cost Effectiveness of Renting Equipment

During our audit, we were unable to achieve the objective of analyzing the impact and cost effectiveness of renting equipment because of insufficient and unreliable rental cost and usage data. Specifically, each district tracks only their own equipment rental expenditures based on the invoices received. Cost information for individual classifications of equipment are not tracked. In addition, as discussed in Finding 3b, the districts did not always review the invoices for accuracy, resulting in under- and over-billing of invoices.

Also, the only available rental usage data came from the rental equipment log sheets (log sheets) and that data was not always recorded in the Integrated Maintenance Management System (IMMS). As identified in Finding 2b below, we did not receive 150 of the 240 log sheets requested, and in Finding 5b, of the 90 log sheets received, almost 78 percent of usage was not recorded in the IMMS. Further, the IMMS does not have the capability to run a report on usage for equipment rentals.

Based on discussions with the Division of Equipment (Equipment) staff, we learned that headquarters Equipment uses Caltrans' equipment cost and usage data to make replacement decisions exclusively for Caltrans' equipment. The equipment replacement decision involves a

step-by-step process that includes setting a Fleet Acquisitions Plan workshop at each district to discuss replacement, purchases, and removal of equipment from the fleet, if any. In some instances, headquarters Equipment and the Division of Maintenance (Maintenance) may decide to rent based on Caltrans' equipment usage data and their knowledge on commercial rental rates and availability. However, there is no documentation to show that Caltrans takes into consideration the actual rental costs and usage of individual piece or classification of equipment to determine if additional equipment purchases are warranted or to continue to rent. Caltrans does not record rented equipment costs by individual piece or classification nor record actual rental usage in a consistent or retrievable database.

GC Section 13402 mentions that State agency heads are responsible for establishment and maintenance of a system of controls and are responsible for maintaining and ensuring the system is functioning as prescribed and is modified, as appropriate. In addition, the Contract Manager's Handbook requires contract managers to "track...any applicable direct cost..." The lack of rental cost and usage information inhibits Caltrans from making informed decisions to replace current equipment, purchase additional equipment, or continue renting equipment.

RECOMMENDATION

We recommend headquarters Maintenance compile rental cost and usage data, and work closely with headquarters Equipment to decide if Caltrans should purchase rather than rent equipment in the future.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendation. Please see Attachment 1 for details of the response and action plan.

FINDING 2 – Deficiencies in and Non-Compliance with the Maintenance Policy Directive

Maintenance Policy Directive 14-03 (policy directive), dated November 2014, established minimum internal controls for the equipment rental process, and identified some staff roles and responsibilities over equipment rental operations. Our audit disclosed that the internal controls were not always followed and staff roles and responsibilities were either not clearly defined or understood as detailed below:

a) The Maintenance Policy Directive and Guidelines Can Be Improved

Our audit disclosed that headquarters Maintenance can better define staff roles and responsibilities and provide more detailed guidelines for day-to-day equipment rental activities. Exhibit A shows parts of the policy directive that can be improved. A well-written policy allows employees to better understand their roles and responsibilities and increases the likelihood of the policy being followed consistently by employees and across districts. The lack of understanding or compliance can lead to inefficiencies, waste and abuse. Headquarters Maintenance is currently reviewing and updating the policy directive.

In addition, we found that districts did not have guidelines such as documented desk procedures and processes in place to meet the needs of Maintenance employees involved in day-to-day equipment rental activities. Some District Equipment Managers (Equipment Managers) were either acting or new to their position and when asked what training they received in their new jobs, the Equipment Managers stated that they did not receive any formal training but received mostly on-the-job training. Maintenance employees also received guidance from the policy directive and the Maintenance Manual. The Maintenance Manual was designed to present general practice and procedures to maintain the State highway system, however, it lacks procedures and processes for specific day-to-day equipment rental activity.

State Administrative Manual (SAM) Section 20060 maintains that state entity heads are accountable for activities carried out in their agencies and that each internal control system an entity establishes and maintains should be documented, communicated, and functioning as intended and modified, as appropriate, for changes in conditions. SAM Section 20060 further explains that outdated or non-existence of policy and procedural or operational manuals, amongst other control deficiencies, is usually indicative of a poorly maintained or vulnerable internal control system. Well-written guidelines provide consistency in day-to-day operation and clarity when confronting accountability issues.

RECOMMENDATIONS

We recommend headquarters Maintenance work closely with district Maintenance to:

- Update the current policy directive to further define roles and responsibilities, guidelines, oversight and review procedures, and establish corrective actions for non-compliance.
- Provide maintenance employees involved in equipment rentals with appropriate training, including but not limited to, training materials and online resources.

We recommend district Maintenance develop documented desk procedures and processes to meet the needs of Maintenance employees involved in day-to-day equipment rental activities.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

b) Missing Equipment Rental Documents

In reviewing equipment rental records we found districts did not maintain equipment rental requests, log sheets, and invoices to support equipment rentals, as shown in Table 1.

Table 1
Missing Equipment Rental Support Documents

DISTRICT	SAMPLE RECORDS	NO. OF MISSING EQUIPMENT RENTAL REQUESTS	NO. OF MISSING RENTAL EQUIPMENT LOG SHEETS	NO. OF MISSING INVOICES
4	61	11	53	0
8	107	60	39	36
11	72	46	58	0
TOTAL	240	117	150	36

Districts were not able to support that they followed the equipment rental process as required by the policy directive, including detailing equipment rental needs through equipment rental requests, monitoring rented equipment usages, and the reviewing and approval of vendor invoices. This also impacted districts' ability to account for and control equipment rentals.

The log sheets are used to monitor usage of the equipment by the Equipment Managers. The log sheets are also used to record the usage of the equipment in the IMMS so that the usage of the rented equipment can be properly charged to work orders. IMMS is an asset management system that provides real-time data to allow effective monitoring and control of materials, coordinates large projects, determines where equipment is located and who is using it, and provides a central repository for information at all levels. Without accurate and complete usage information, Caltrans is not able to justify the rental of equipment and is not able to ensure that the costs of the equipment are properly charged to work orders. SAM Section 8752 requires all departments to recover the full cost of goods or services.

Also, the policy directive requires all Equipment Managers to retain equipment rental requests on file for three years, however, the policy directive is silent on the retention of other documents. GC Section 8546.7 states that each agency is responsible for maintaining all invoices, records, and relevant documentation consistent with the agency's record retention schedule for at least three years after the final payment under the contract.

Other issues identified include a lack of oversight by Equipment Managers and not all Maintenance Supervisors or designees completed the log sheets or if completed, did not submit them timely to the Equipment Managers. During our field work in District 11, we noted that the current Equipment Manager has taken steps to improve the equipment rental record files.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Revise the policy directive to clearly identify all documentation that must be maintained in equipment rental files.
- Perform yearly reviews of equipment rental files, and publicize the information such as posting the results on the intranet and submitting to district management.
- Determine the feasibility of establishing an automated equipment rental process.

We recommend district Maintenance include compliance with the policy directive in the employee's yearly Individual Development Plans.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

c) Under-Utilized Caltrans' and Rental Equipment

The audit found a number of instances where rental equipment was not sufficiently utilized to justify the rental cost incurred. The policy directive identifies the rental period cut-off as:

- If rental exceeds three full days, it is more cost effective to rent for the week.
- If rental exceeds two full weeks, it is more cost effective to rent for the month.

We tested 89 invoices from the three districts for compliance with the rental period cut-off dates and found 82 invoices were billed at the monthly rate. From these 82 invoices, we reviewed the log sheets for usage and identified 30 pieces of equipment that did not justify the monthly rental period, as shown in Table 2.

Table 2
Examples of Under-Utilized Rental Equipment

EQUIPMENT TYPE	NO. OF PIECES RENTED	AVERAGE DAYS OF USAGE	4-WEEKLY/MONTHLY RATE BILLED
Backhoe	4	5	\$2,216
Dozer	2	3	\$3,487 - \$6,630
Equipment Trailer	1	0	\$1,169
Excavator	1	10	\$4,489
Forklift	1	1	\$3,292
Freightliner	1	7	\$4,024
Loader	6	5	\$2,751 - \$4,374
Personnel Hoist / Bucket Truck	3	7	\$2,210 - \$3,276
Pickup Truck	1	6	\$1,447
Skid Steer Brush with Mower Attachment	1	7	\$600
Skid Steer Loader	3	3	\$1,400 - \$2,274
Truck with Attenuator & Arrow Board	1	3	\$5,376
Water Truck	5	4	\$1,839 - \$3,898

The policy directive does not require the Equipment Managers, Maintenance Area Superintendents and Maintenance Supervisors to monitor the equipment rental usage on a daily or weekly basis for compliance with rental cut-off dates. Instead, it assigns the monitoring responsibility to the Statewide Equipment Manager, however, the Statewide Equipment Manager did not have the ability to perform such reviews due to limited resources. As such, the efficient use of rental equipment for compliance with the policy was not monitored.

We also reviewed the “extended breakdown” statements made by the requesting units to verify if Caltrans’ equipment was out of service and unavailable during the replacement equipment’s rental period. Our test included 32 pieces of Caltrans’ equipment and found instances where some of the equipment were available but not used by the districts. Therefore, the three districts combined could have save approximately \$76,450 if the Caltrans’ equipment was effectively utilized during certain rental periods, as shown in Table 3.

Table 3
Availability Check of Caltrans’ Equipment

DISTRICT	NO. OF EQUIPMENT TESTED	EQUIPMENT AVAILABLE PRIOR TO/DURING RENTAL PERIOD	POTENTIAL SAVINGS
4	5	1	\$ 5,107
8	20	3	\$ 7,633
11	7	5	\$ 63,710
TOTAL	32	9	\$ 76,450

The Equipment Managers we interviewed stated that they performed pre-rental availability check but failed to record it as required by the policy directive or keep evidence that such a check was performed. In addition, the policy directive does not require the Equipment Managers to maintain documentation such as emails and phone logs as evidence.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Provide the tool(s) needed to allow the Statewide Equipment Manger to monitor the equipment rental usages, or modify the policy directive to require the Equipment Managers, Maintenance Area Superintendents and Maintenance Supervisors to actively monitor the usage of all rental equipment.
- Remind the Equipment Managers to perform, and maintain records that they performed the pre-rental resources check of needed equipment within the district, with other districts, and with the Maintenance Statewide Equipment Manager prior to equipment rentals.

We recommend district Maintenance maximize usage of Caltrans’ equipment and return rented equipment when Caltrans’ equipment becomes available.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

d) Physical Inspections of Equipment Weaknesses

During our fieldwork, we performed on-site inspections of rented equipment at the three districts. Our inspections included verification that:

- Daily pre- and post-operation inspections were completed.
- Rental equipment was equipped with Global Positioning System (GPS) tracking system.
- Equipment rented over 30 days had Caltrans' identification decals applied in a visible location.
- Daily log sheets were completed.

Table 4 presents the results of physical inspections of equipment. We found there was inadequate management oversight to ensure compliance with the policy directive and equipment rental contracts.

Table 4
Results of Physical Inspections of Equipment

DISTRICT	NO. OF EQUIPMENT INSPECTED	PRE-OP/POST-OP NOT COMPLETED	NOT EQUIPPED WITH GPS	NO CALTRANS DECALS APPLIED	RENTAL EQUIPMENT LOG SHEETS NOT COMPLETED
4	9	5	4	3	4
8	5	1	5	5	0
11	7	4	6	7	3
TOTAL	21	10	15	15	7

The policy directive requires all pre- and post-op inspections to be completed on a daily basis prior to and after using the equipment. Performing and documenting the pre- and post-operation inspection will ensure that the equipment is safe and legal to operate. Any defects can then be reported to the Equipment Manager for repairs or replacements. Failure to perform the required inspections increases the risk of equipment failure that could result in job delays, repair/replacement delays, additional costs, and increases Caltrans' liability for potential injury.

The policy directive and equipment rental contracts require rented equipment to be equipped with GPS. Without GPS, Caltrans management could not effectively monitor the location, routing, idling times, and equipment utilization. Based on our interviews, field staff did not understand

that they have the option of rejecting equipment without GPS. Additionally, the policy directive requires Maintenance Supervisors ensure all mobile fleet rented over 30 days have a Caltrans' identification decal that meets Equipment's quality standards and be placed in a visible location.

The Maintenance Area Superintendents, Maintenance Supervisors or designees are responsible for recording the daily usage on the log sheets and submit the log sheets monthly to the Equipment Manager. Without documented equipment usage, districts would not be able to justify equipment needs.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Develop an oversight and review policy and procedures to review districts' compliance with the policy directive and equipment rental contracts.
- Update the policy directive to provide guidance on the acceptance of equipment that does not meet contract terms.

We recommend district Maintenance:

- Ensure that all staff understand their roles and responsibilities when it comes to rental equipment.
- Reinforce staff's understanding of the rental equipment contract requirements.
- Not accept equipment from rental contractors that do not meet the contract terms and conditions without proper justification.
- Develop measures for corrective actions and hold staff accountable for non-compliance.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendations. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

e) Incomplete Equipment Rental Requests

The policy directive states that the Maintenance Area Superintendent is responsible for reviewing and approving the equipment rental request and the Equipment Manager is required to check for availability of needed equipment, and complete the pre-rental resources check section on each rental request. The rental request form contains signature blocks for the Maintenance Area Superintendent and the Equipment Manager.

Our review disclosed that the Equipment Managers did not always complete the pre-rental resources check section of the rental requests. Further, not all rental requests have the Maintenance Area Superintendent's and/or Equipment Manager's approval, as shown in Table 5.

Table 5

Results of Incomplete Pre-Rental Resources Check Section of Rental Requests and Rental Requests Approval

DISTRICT	NO. OF EQUIPMENT RENTAL REQUESTS PROVIDED	NO. OF INCOMPLETE PRE-RENTAL RESOURCES CHECK SECTION	NO. OF REQUESTS W/OUT EQUIPMENT MANAGER'S APPROVAL	NO. OF REQUESTS W/OUT SUPERINTENDENT'S APPROVAL
4	50*	23	50	50
8	47	3	31	38
11	26**	26	26	9
TOTAL	123	52	107	97

* This number includes 2 rental requests made through emails.

** This number includes 5 rental requests made through emails.

The Equipment Managers interviewed stated they performed the pre-rental resources check but did not keep evidence that it was performed. It was unclear if these required activities were performed to ensure Caltrans' equipment usage was maximized and all rental requests were authorized.

Although the policy directive states that the rental request process can be done via email, it does not require email correspondence to be retained or state whether an email requests can be used in lieu of a signature. The Maintenance Area Superintendents and the Equipment Managers did not always monitor to ensure adequate documentation was maintained and the equipment rental process was followed. This increases the risk of inappropriate activities and abuse in the equipment rental program.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Update the policy directive to require evidence of proper approval on the rental request or, if the request is sent electronically, to include other evidence to show approval.
- Develop an oversight and review policy and procedures to review districts compliance with the policy directive.

We recommend district Maintenance ensure the pre-rental resources checks are performed and documented.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

FINDING 3 – Deficiencies in Contract Management

The Division of Procurement and Contracts (DPAC) is charged with maintaining the integrity of the service contract process and ensuring adherence to all applicable procurement laws, regulations, and policies. Each Equipment Manager at the district is responsible for preparing the Service Contract Request form for highway equipment rental contracts and submitting the request to the Maintenance Statewide Equipment Manager for review and approval. The Equipment Manager works closely with the DPAC analyst to refine the scope of work, technical proposal requirements, cost proposal requirements, and proposal submission requirements. Once the request is approved by the DPAC and the contract awarded to the winning vendor, the Equipment Manager is responsible for administering the contract.

During our audit, we tested the districts' compliance with their rental contracts and reviewed the contract language. We found that contract management and language could be improved significantly as noted below:

a) No Authority to Rent Additional Equipment Not Listed in the Equipment Rental Contracts

Districts rented equipment not listed in the contracts and in some instances, exceeded the budgeted/contracted amount for miscellaneous equipment rentals. Districts 4 and 11 expended funds for miscellaneous equipment without any contract terms or allocations for such equipment, as shown in the table below.

In addition, the two contracts tested in District 8 did not have a specific clause to allow the vendor to provide equipment that are not listed in the bid proposals. However, the two contracts included allocated amounts in the bid proposals for miscellaneous equipment rentals but the contract language did not clearly identify the cost basis for billing the miscellaneous equipment. In both contracts, District 8 expended more than the allocated amounts for miscellaneous equipment.

Table 6
Contracts With and Without Additional Equipment Clause and Allocated Amounts for Miscellaneous Equipment Rentals

DISTRICT	CONTRACT	ADDITIONAL EQUIPMENT CLAUSE	ALLOCATED AMOUNT FOR MISC. EQUIPMENT RENTALS	NO. OF EQUIPMENT/ MISC. ITEMS	TOTAL COST FOR ADDITIONAL RENTED EQUIPMENT	EXCEEDED ALLOCATED AMOUNT FOR MISC. EQUIPMENT
4	04A4562	Yes	\$ 263,225	Did not test		
	04A5024	No	\$ -	3	\$ 2,719	\$ 2,719
8	08A2353	No	\$ 100,000	5	\$ 122,139	\$ 22,139
	08A2608	No	\$ 200,000	4	\$ 651,548	\$ 451,548
11	11A2274	No	\$ -	11	\$ 640,624	\$ 640,624
	11A2629	Yes	\$ 438,694	Did not test		
TOTAL				23	\$ 1,417,030	\$ 1,117,030

Districts are prohibited from renting any other equipment aside from those specified in the contracts without the additional equipment clauses. All contracts were primarily for heavy-duty equipment and/or general maintenance equipment. Table 7 shows examples of equipment rented without authority.

Table 7
Examples of Additional Equipment Rented That Violated Contractual Terms

DISTRICT	CONTRACT	EQUIPMENT/VEHICLE RENTED	AMOUNT BILLED PER MONTH
4	04A5024*	Skid Steer with Sweeper attachment	\$ 784
		Skid Steer with 48 in. Fork	\$ 260
8	08A2353**	Sweeper	\$ 11,197
		Vactor Truck	\$ 14,904
11	11A2274*	Jeep 4x4	\$ 1,402
		Vactor Truck	\$ 16,664

* Contracts without authority to rent additional equipment.

** Contract with budget authority to rent additional equipment but with no cost basis for billing.

We noted that District 11 has rented a Jeep 4x4 for more than two years without justification. In addition, the Jeep 4x4 was not equipped with GPS, pre-/post-operational inspections were not performed, and it did not have a Caltrans' decal applied in a visible location. Through interviews with maintenance staff, we found out that the Jeep 4x4 was used by one of the regional managers. District 11 spent approximately \$37,460 on this vehicle during the scope of the audit. Though the policy directive and Maintenance Manual do not prohibit the rental of light-duty vehicles, public policy discourages such rentals if other alternatives can meet the district's business needs.

State Contracting Manual (SCM), Volume 1, Section 2.02 states in part, "A contract must clearly identify...the term of the contract...and a contract sets forth terms, conditions, and statement of

all work to be performed.” Further, Section 9.04 of the SCM addresses the responsibilities of a contract manager, which in this case, applies to the Equipment Managers. Some of the responsibilities include ensuring performance of all necessary actions for effective contracting, overseeing compliance with all applicable state laws and regulations and the terms of the contract, and reviewing and approving vendor invoices for compliance with contracts terms. Further, the Contract Manager's Handbook requires that payments to contractors are consistent with contractor's bid rates, and invoices are in compliance with terms of contracts.

Deficiencies in contract language resulted in \$1,417,030 in miscellaneous equipment rental costs without contract authority and/or information about how that equipment would be charged. Further, even with the additional equipment clause, Caltrans could be paying higher rates for the additional equipment since the same type of equipment may be less expensive from other vendors. Consequently, the additional equipment clause could lead to abuse and also makes it difficult to determine if districts were billed correctly for equipment not listed on the bid proposal. This puts Caltrans at risk of wasteful spending and overpayments.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Work closely with the DPAC and districts to ensure contracts include a miscellaneous equipment clause and ensure the clause limits what can and cannot be rented, and include the basis of charges.
- Require approval at the statewide level for vehicle rentals such as the Jeep 4x4 and light-duty vehicles.
- Monitor districts' compliance with contract terms annually.

We recommend district Maintenance ensure all staff associated with contract management receive proper contract management training and held accountable for noncompliance with contract terms.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

b) Under- and Over-Billings

We found districts did not always review the invoices for accuracy prior to approving vendor payments. Specifically, we found 94 of the 171 invoices reviewed were over-billed by approximately \$44,490 and 35 invoices were under-billed by approximately \$2,724. Therefore, 75 percent of invoices were incorrect resulting in a net over-billing of \$41,766 during the two-year

period tested as detailed in Table 8. The net over-billing represents approximately 8.5 percent of the total dollar amount tested of \$496,850. The incorrect billings stemmed from:

- The vendor billed the districts at the contract bid rates, plus sales tax when the contract bid rates already included sales tax.
- The vendor billed the districts at higher than the contract bid rates, plus sales tax.
- The vendor billed the districts at lower rates instead of the contract bid rates.

Also, in one district, the contract bid rates were required to be based on one specific city's sales tax rate and the contract language stated the rates were fixed. However, the vendor violated the contract terms by adjusting the contracted rates based on the sales tax for the City where the rented equipment came from.

Table 8
Under- and Over-Billing of Invoices

DISTRICT	NO. OF INVOICES TESTED	TOTAL DOLLAR AMOUNT	NO. OF UNDER-CHARGED INVOICES	NO. OF OVER-CHARGED INVOICES	NET TOTAL DOLLAR AMOUNT OF UNDER- AND OVER-CHARGES
4	46	\$ 115,946	17	19	\$ 8,602
8	63	\$ 185,753	11	48	\$ 16,084
11	62	\$ 195,151	7	27	\$ 17,080
TOTAL	171	\$ 496,849	35	94	\$ 41,766

The contracts in all districts state that the contractor must be reimbursed for work performed at the bid rates quoted, and that the agreed rates include sales and use taxes, unless a separate payment provision was specifically provided. Section 9.04 of the SCM and Section 8422.1 of the SAM require that invoices comply with the terms of the contracts. Ensuring invoices billed are accurate prevents a waste of state resources and overbillings may exhaust contract limits sooner than necessary, and may result in incorrect budget decisions in future years.

There were several causes for these billing errors identified during our audit. First, the Equipment Managers did not understand the terms and conditions of their rental contracts. Second, the Equipment Managers stated they didn't know the contracted prices already included sales tax. In addition, the Equipment Managers in general were not reviewing invoices for compliance with contract terms and errors and omissions before approving payments.

During our field exit conference, we were informed that the current Equipment Manager in District 11 has taken steps to work closely with the vendor to recover any over-billings identified. Further discussions with headquarters Maintenance disclosed that all districts have been advised to perform a self-audit on all invoices received and work with the vendors to recover any over-billings during the current and prior agreement periods.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Work closely with the DPAC to review/revise the bid rates clause in the contracts to avoid future problems with over-billing of invoices.
- Review districts' compliance with contract terms and conditions annually.

We also recommend district Maintenance:

- Continue to perform a self-audit on all invoices received and work with the vendors to recover any over-billings during the current and prior agreement periods.
- Ensure that Equipment Managers, or whomever is performing contract management duties, has read and understands the terms and conditions of their contracts and consistently enforces those contract terms and conditions.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendations. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

FINDING 4 – Ineffective Fleet Optimization

Our review indicates Caltrans' fleet optimization can be more effective. Specifically, our review of low-usage pickup trucks disclosed that Districts 8 and 11 routinely rented pickup trucks instead of optimizing their low-usage vehicles by transferring the low-usage vehicles across program areas. During the two-year period of July 1, 2015 through June 30, 2017, the two districts combined spent approximately \$496,707 on pickup truck rentals. Exhibit B presents the number of low-usage pickup trucks across program areas, and the number of pickup truck rentals in the three districts tested.

Headquarters Maintenance developed a fleet asset management plan that covers fleet management and operations as a result of the Governor's Executive Order B-2-11. Headquarters Maintenance also implemented the Maintenance Policy Directive 13-02 to help maximize vehicle and equipment usage. Each district is responsible for its equipment resource management. The policy states that the Statewide Equipment Manager and Equipment Manager are responsible to move low-usage equipment to maximize vehicle usage.

In addition, Chapter 4 of the Maintenance Manual states that equipment rental should be minimized whenever possible through proper scheduling of work and sharing of equipment.

Though the policy directive and Maintenance Manual do not prohibit the rental of pickup trucks, such rentals are to be minimized if other alternatives can meet the district's business needs. In any case, the district must demonstrate the critical need for these type of vehicles.

During our interviews with Maintenance staff, we were informed that some programs were not very receptive when other programs needed to borrow/transfer low-usage equipment. Without full utilization of Caltrans' fleet, DGS may not approve future equipment replacement requests. The lack of proper planning, scheduling, and use of Caltrans' fleet will lead to the conclusion that underutilized vehicles are non-essential or not cost effective, and risk further equipment reductions and subsequent loss of resources. Also, interviews with maintenance staff disclosed that the districts continued to rent despite Caltrans' equipment going back into service because the districts were anticipating future break-downs of the equipment.

RECOMMENDATIONS

We recommend that headquarters Maintenance:

- Continue to work closely with headquarters Equipment and the Division of Administration to finalize the draft Deputy Directive related to equipment utilization and the transfer of low-usage equipment between programs and districts.
- Assess the possibility of requiring approval at the statewide level for the renting or leasing of light duty vehicles such as pickup trucks.
- Ensure district Maintenance are implementing assertive, proactive measures to optimize equipment utilization across the various program areas within the district.

We also recommend district management:

- Implement assertive, proactive measures to optimize equipment utilization across the various program areas within the district, and work closely with headquarters Maintenance to maximize equipment usage.
- Minimize or eliminate all pickup truck rentals when possible through proper scheduling of work and sharing of equipment within the district and between districts.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DIVISION OF EQUIPMENT RESPONSE

Headquarters Equipment responded to the finding and first bulleted recommendation. Please see Attachment 2 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendations. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

FINDING 5 – Lack of Accurate and Reliable Information

During our effort to perform testing on key controls, we found inaccurate and inconsistent data in AssetWorks, an integrated fleet management system, and IMMS as follows:

a) Challenges Related to AssetWorks Data

The audit found work orders in AssetWorks a challenge to interpret and as a result, the task of performing a comprehensive availability check of needed equipment is rather involved and tedious. AssetWorks is a fleet management software that is designed to allow Caltrans to manage all aspects of its fleet vehicles, streamline maintenance and preventive maintenance through standardized jobs, and provide quick access to the parts lists, work orders, and historical data. Each work order identifies the equipment in the shop for repairs, the in-service and out-of-service days, and description of work done on the equipment. Each work order is coded according to the repair reasons. If the work order was not coded correctly, it may not present accurate data on the availability of needed equipment.

The current practice at the districts to check for availability of needed equipment is through telephone calls within the district, with other districts, with the Maintenance Statewide Equipment Manager, and with the shop. Headquarters Equipment also sends the districts weekly fleet availability reports generated from AssetWorks, which include equipment and vehicles that are out of service, and the districts are supposed to prioritize them for repairs based on their workload and project schedules. Although, during our audit, none of the district Maintenance staff mentioned that they utilized the fleet availability report to check for availability of needed equipment.

In addition, the districts check the work orders through AssetWorks. However, the information contained in the work orders creates confusion between headquarters Equipment and the districts. For example, open work orders that starts with a “W” series delay code means the equipment is in-service and is available if needed. The equipment may be waiting for parts that are not critical for the operation of the equipment. However, the districts consider any equipment in the shop as out-of-service and unavailable. The delay codes in Table 10 are used when the equipment is in-service and available.

Table 9
Delay Codes and Descriptions

DELAY CODE	DESCRIPTION
WA	In-service --- awaiting approval
WB	In-service --- space not available
WC	In-service --- component repairs
WE	In-service --- waiting for equipment
WL	In-service --- labor not available
WP	In-service --- parts on order
WR	In-service --- requested by user
WT	In-service --- waiting for tools
WV	In-service --- vendor not available

As mentioned in Finding 2c, we reviewed the “extended breakdown” statements made by the requesting units to verify if Caltrans’ equipment were out of service and not available during the rental period. During this effort, we were informed that in order to get a close estimate of whether the equipment was available, headquarters Equipment has to look for all associated work orders for that particular equipment during, for example, a whole year, when the work orders were opened, calculate the period of time and the hours the equipment was down and then subtract out any time associated with any in-service delay codes.

Due to the difficult task of pulling accurate information on availability of certain equipment, we sought help from both headquarters Equipment and headquarters Maintenance. Based on the additional information provided, we performed additional testing to confirm the results. Our testing revealed instances when the work orders did not always present accurate information. In addition, information entered into AssetWorks may not be up-to-date due to the shop’s heavy workload.

Due to the challenging nature of performing a comprehensive availability check of needed equipment, districts may continue the use of rental equipment. This also makes it difficult to identify equipment that could be moved across program and district boundaries. In addition, if Caltrans’ equipment is not reported as sufficiently utilized there is risk that the equipment will be lost.

RECOMMENDATIONS

We recommend headquarters Equipment work closely with headquarters Maintenance to continue their efforts of educating and training district Maintenance staff on AssetWorks, and the benefits of the fleet availability report.

We also recommend district Maintenance utilize the Equipment Managers and Statewide Equipment Manager to assist them with optimizing their fleet.

DIVISION OF EQUIPMENT RESPONSE

Headquarters Equipment concurred with the finding and recommendation. Please see Attachment 2 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendation. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

b) Rental Charges Were Not Always Recorded in IMMS/Inconsistent Recording of Rental Rates in IMMS

The policy directive states that the Maintenance Supervisors or designees are required to record daily charges in the IMMS. Section 2.6.02 of the Maintenance Manual, Volume II, provides general guidelines on how to record daily equipment rental charges. Also, SAM Section 8752, requires all departments to recover the full costs of goods or services provided for others. Equipment rental charges and rates are recorded in the IMMS to track all costs associated with the specific job for budget and cost billing reimbursement purposes. Our audit disclosed that districts did not always record the equipment rental charges in the IMMS. As discussed in finding 2b, we did not receive 150 of 240 log sheets requested. We determined that almost 78 percent of the charges were not recorded for the 90 log sheets that were provided, as shown in Table 10.

Table 10
Number of Daily Rental Charges Not Recorded in IMMS

DISTRICT	NO. OF RENTAL EQUIPMENT LOG SHEETS PROVIDED	NO. OF DAILY RENTAL CHARGES TESTED	NO. OF DAILY RENTAL CHARGES NOT RECORDED IN IMMS	% OF DAILY RENTAL CHARGES NOT RECORDED IN IMMS
4	8	94	87	93%
8	68	347	257	74%
11	14	35	26	74%
TOTAL	90	476	370	78%

Our discussions with some Maintenance Supervisors revealed they did not always record the equipment rental charges in the IMMS due to other priorities or this responsibility was overlooked. Not recording equipment rental charges is a violation of state regulations because it does not allow Caltrans the ability to bill the full cost of the rented equipment when the cost should have been billed to others.

Further, we found that the recording of the daily equipment rental rates in the IMMS was not consistent across the districts. In some instances, the unit used the daily rate from the invoice to charge the rental cost in the IMMS. In other instances, the unit used the hourly rate from the invoice to charge the rental cost in the IMMS. The policy directive does not provide clear instructions on how to calculate the daily rates. The Maintenance Manual provides general guidance only. Consequently, it makes it difficult to determine the correct daily rates for a

particular piece of equipment. Inconsistent equipment rental rates in IMMS could hamper Caltrans' ability to fully recover the costs of work performed for others as required by State regulations.

RECOMMENDATIONS

We recommend headquarters Maintenance:

- Develop consistent methodology to calculate and record the daily rental rate in IMMS.
- Provide clear direction and training on the methodology and calculation.
- Develop ongoing oversight and review procedures to ensure that all equipment usage is recorded on log sheets and recorded in the IMMS.
- Educate the Maintenance Supervisors or designees on the importance of recording vehicle charges in the IMMS on a daily basis.

We recommend district Maintenance:

- Take steps to ensure that log sheets are completed for all rental equipment usage.
- Ensure compliance with policy directive, such as completed and submitted log sheets, in employee evaluations.

DIVISION OF MAINTENANCE RESPONSE

Headquarters Maintenance concurred with the finding and recommendations. Please see Attachment 1 for details of the response and action plan.

DISTRICTS 4, 8, AND 11 RESPONSE

Districts 4, 8, and 11 concurred with the finding and recommendations. Please see Attachments 3, 4, and 5 respectively for details of the responses and action plans.

Exhibit A – Deficiencies in the Maintenance Policy Directive 14-03 Non-Operated (Bare) Rental Equipment

We reviewed the policy directive to identify the equipment rental process, and roles and responsibilities of employees who oversee and utilize rented vehicles and equipment. Our review disclosed areas that could be improved.

POLICY DIRECTIVE STATES	AUDITOR'S EVALUATION
1. The contracts are to be approved by the Statewide Equipment Manager.	The Statewide Equipment Manager does not have the authority to approve the contracts, STD 213. The Statewide Equipment Manager only reviews and approves the Service Contract Request, ADM-0360. The DPAC approves all contracts. We recommend correcting the policy directive on the approval process.
2. GPS minimum capabilities will be recording run time and unit location with dates and times at no <u>less</u> than 5-minute intervals.	The language in the policy directive regarding GPS minimum capabilities is incorrect. GPS minimum capabilities should be recording run time and unit location with dates and times at no <u>more</u> than 5-minute intervals.
3. Check with other government agencies or departments about establishing an inter-agency agreement.	We recommend removing this provision because this process is time-consuming and inefficient.
4. Statewide Equipment Manager is responsible for reviewing the quarterly rental reports and usage of all rental equipment.	We recommend that the policy directive state the purpose of such reviews.
5. The Deputy District Director of Maintenance (DDD of Maintenance), Maintenance Regional Manager, and the Equipment Manager are required to monitor equipment rental expenditures.	Based on our audit, it appears that this area could be strengthened to clarify the duty or responsibility for monitoring rental expenditures.
6. The Equipment Manager is responsible for monitoring district compliance with rental use policy.	Based on our audit, it appears that the Equipment Managers do not have the authority to monitor district compliance with rental use.
7. The policy directive requires the equipment rental request to be completed prior to renting equipment. The request has signature blocks for the requesting Maintenance Supervisor, Maintenance Area Superintendent and the Equipment Manager. The request can also be sent via email.	The policy directive is silent on the proper approval on the rental requests.

Exhibit B – Caltrans’ Low-Usage Pickup Trucks and Pickup Truck Rentals¹

July 1, 2015 through June 30, 2017

CALTRANS LOW USAGE PICK-UP TRUCKS²

DISTRICT 4									
PROGRAM AREA	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Administration	9	9	8	9	7	8	7	8	5
Capital Outlay Support	118	102	72	80	80	90	91	69	48
Maintenance	15	10	14	24	14	17	31	14	14
Traffic Operations	6	4	5	4	5	7	7	5	7
TOTAL	148	125	99	117	106	122	136	96	74

PROGRAM AREA	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Administration	8	9	9	9	9	4	3	4	4
Capital Outlay Support	39	70	71	86	42	34	33	41	30
Maintenance	9	12	14	19	12	10	10	15	9
Traffic Operations	6	6	6	8	5	4	4	6	6
TOTAL	62	97	100	122	68	52	50	66	49

DISTRICT 8

PROGRAM AREA	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Administration	0	0	0	0	0	0	0	0	0
Capital Outlay Support	57	56	58	50	43	44	53	39	40
Maintenance	5	3	7	2	4	1	3	3	3
Traffic Operations	0	0	0	0	0	0	0	0	0
TOTAL	62	59	65	52	47	45	56	42	43

PROGRAM AREA	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Administration	0	0	0	0	0	0	0	0	0
Capital Outlay Support	31	29	37	48	38	35	26	35	27
Maintenance	3	7	8	9	6	4	4	3	2
Traffic Operations	0	0	0	1	1	1	0	0	1
TOTAL	34	36	45	58	45	40	30	38	30

¹ We did not distinguish between two-wheel drive and four-wheel drive pickup trucks in our review.

² Data obtained from the Equipment Usage Reports from January 2016 through October 2016, and Fleet Optimization Reports from November 2016 through June 2017.

DISTRICT 11

PROGRAM AREA	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Administration	1	1	1	2	3	2	2	2	0
Capital Outlay Support	46	36	37	34	34	32	36	26	14
Maintenance	8	6	11	14	12	14	15	11	4
Traffic Operations	3	3	3	5	5	4	5	3	0
TOTAL	58	46	52	55	54	52	58	42	18

PROGRAM AREA	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Administration	1	2	2	2	1	1	2	3	5
Capital Outlay Support	13	35	44	49	33	14	14	17	11
Maintenance	5	12	13	13	8	6	7	8	6
Traffic Operations	2	3	4	4	3	3	2	2	2
TOTAL	21	52	63	68	45	24	25	30	24

PICKUP TRUCK RENTALS³

July 1, 2015 - June 30, 2017

MONTH / YEAR	DISTRICT 4	DISTRICT 8	DISTRICT 11
Jul-15	0	3	12
Aug-15	0	4	12
Sep-15	0	4	12
Oct-15	0	2	12
Nov-15	0	5	12
Dec-15	0	7	13
Jan-16	0	8	12
Feb-16	0	9	14
Mar-16	0	8	14
Apr-16	0	7	14
May-16	0	1	18
Jun-16	0	1	13
Jul-16	0	6	15
Aug-16	0	8	27
Sep-16	0	8	20
Oct-16	0	7	16
Nov-16	0	5	18
Dec-16	0	2	18
Jan-17	0	3	18
Feb-17	0	10	17
Mar-17	0	10	17
Apr-17	0	10	17
May-17	0	6	16
Jun-17	0	2	13

³ Data obtained from the districts' invoice tracking worksheets from July 1, 2015, through June 30, 2017.

ATTACHMENT 1

DIVISION OF MAINTENANCE

RESPONSE TO THE DRAFT AUDIT REPORT


Memorandum

*Making Conservation
a California Way of Life.*

To: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Date: May 18, 2018

File:

From: TONY TAVARES 
Chief
Division of Maintenance

Subject: **RESPONSE TO DRAFT AUDIT REPORT – EQUIPMENT RENTAL AUDIT**

The Division of Maintenance has reviewed the most current draft report for the Equipment Rental Audit and concurs with the recommendations identified relative to the division. A detailed response to the findings, is attached.

If you have any questions regarding implementation, please contact Dale Greep at (916) 643-8860.

Attachment

(1) Response to Draft Report

c: Joel Allen, Chief, Office of Maintenance Safety, Equipment, and Training
Dale Greep, Statewide Equipment Manager, Division of Maintenance
Geno Cervantes, Assistant Statewide Equipment Manager, Division of Maintenance

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: Division of Maintenance

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Audit Report Finding #1				
<i>Unable to Evaluate the Impact and Cost Effectiveness of Renting Equipment</i>				
We recommend headquarters Maintenance to compile rental cost and usage data, and work closely with headquarters Equipment to decide if Caltrans should purchase rather than rent equipment in the future.	Division of Maintenance, the Office of Statewide Equipment Management (Maintenance) will work closely with HQ Equipment to come up with methodologies for rental costs and usage data in order to quantify purchasing and/or renting equipment.	November 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #2a				
<i>The Maintenance Policy Directive and Guidelines Can Be Improved</i>				
Work closely with district Maintenance to update the current policy directive to further define roles and responsibilities, guidelines, oversight and review procedures, and establish corrective actions for non-compliance.	Maintenance is currently in the process of updating the Maintenance Policy Directive (14-03) / Fleet Management Plan (2014). We will incorporate language that better defines the roles and responsibilities, guidelines, oversight and procedures associated with renting equipment. As far as the corrective action portion for non-compliance, this is better suited at the district level following the chain of command.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Work closely with District Maintenance to provide maintenance employees involved in equipment rentals with appropriate training, including but not limited to, training materials and online resources.	In order to show transparency between the maintenance and district maintenance equipment managers, maintenance is committed to working closely to provide resources and materials in order to rent equipment in a cost effective way. We will outline this in the Maintenance Policy Directive and Fleet Management Plan. Maintenance is committed to meeting with the Fleet Optimization Manager's and Equipment Manager's on a quarterly or semi-annual basis to go over advanced training objectives.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #2b				
<i>Missing Equipment Rental Documents</i>				
Revise the policy directive to clearly identify all documentation that must be maintained in equipment rental files.	Maintenance will come up with a document checklist that will complement the Maintenance Policy Directive / Fleet Management Plan that will outline and make recommendations of what should be kept in equipment rental files (similar to a record retention file checklist).	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Perform yearly reviews of equipment rental files, and publicize the information such as posting the results on the intranet and submitting to district management.	Maintenance is committed to perform annually reviews of equipment rental files and illustrate these findings with better transparency via the intranet upon completion of said findings.	December 2018	Dale Greep/Geno Cervantes	
Determine the feasibility of establishing an automated equipment rental process.	Maintenance is in the process of researching automated equipment rental processes from a variety of vendors.	December 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #2c				
<i>Under-Utilized Caltrans and Rental Equipment</i>				
Provide the tool(s) needed to allow the Statewide Equipment Manager to monitor the equipment rental usages, or modify the policy directive to require the Equipment Managers, Maintenance Area Superintendents and Maintenance Supervisors to actively monitor the usage of all rental equipment.	Maintenance is already complying with Department of General Services, Office of Fleet Administration minimum use standards through a monthly usage report. This report tracks fleet usage running 12-month cycle and will be outlined in the new Maintenance Policy Directive. Maintenance is also working with rental contractor's in providing monthly/quarterly usage reports to better track statewide equipment rentals.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Remind the Equipment Managers to perform, and maintain records that they performed the pre-rental resources check of needed equipment within the district, with other districts, and with the Maintenance Statewide Equipment Manager prior to equipment rentals.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #2d				
<i>Physical Inspections of Equipment Weaknesses</i>				
Develop an oversight and review policy and procedures to review districts' compliance with the policy directive and equipment rental contracts.	Maintenance will clearly outline these in the updated Maintenance Policy Directive and Fleet Management Plan.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Update the policy directive to provide guidance on the acceptance of equipment that does not meet contract terms.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #2e				
<i>Incomplete Equipment Rental Requests</i>				
Update the policy directive to require evidence of proper approval on the rental request or, if the request is sent electronically, to include other evidence to show approval.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: Division of Maintenance

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Develop an oversight and review policy and procedures to review districts compliance with the policy directive.	Maintenance already provides inspections of equipment and rental contracts and will incorporate any new changes deemed necessary in the directive and plan. We are committed to reviewing 1-3 districts annually for compliance in this area.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #3a <i>No Authority to Rent Additional Equipment Not Listed in the Equipment Rental Contracts</i>				
Work closely with the DPAC and districts to ensure contracts include a miscellaneous equipment clause and ensure the clause limits what can and cannot be rented, and include the basis of charges.	Maintenance is working closely together with DPAC and the districts in coming up with standard boiler plate language for BARE rental agreements.	December 2018	Dale Greep/Geno Cervantes	
Require approval at the statewide level for vehicle rentals such as the Jeep 4x4 and light-duty vehicles.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Monitor districts' compliance with contract terms annually.	Maintenance already provides inspections of equipment and rental contracts and will incorporate any new changes deemed necessary in the directive and plan.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #3b <i>Under- and Over-Billings</i>				
Work closely with the DPAC to review/revise the bid rates clause in the contracts to avoid future problems with over-billing of invoices.	Maintenance is working closely together with DPAC and the districts in coming up with standard boiler plate language for BARE rental agreements.	December 2018	Dale Greep/Geno Cervantes	
Review districts' compliance with contract terms and conditions annually.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #4 <i>Ineffective Fleet Optimization</i>				
Continue to work closely with headquarters Equipment and the Division of Administration (Administration) to finalize the draft Deputy Directive related to equipment utilization and the transfer of low-usage equipment between programs and districts.	Maintenance recently updated the maintenance policy directives (13-02) which clearly defines retainment, reassignment and replacement of fleet based on usage.	Completed / Signed May 2018	Dale Greep/Geno Cervantes	We reviewed Maintenance Policy Directive 13-02-R1, <i>Division of Maintenance Fleet Usage Requirements for Optimization</i> , issued by headquarters Maintenance on 4/25/2018, and confirmed that the policy clearly defines the management of fleet assignment, retainment, operational optimization, and replacement of fleet assets. We consider this recommendation implemented and no further status update is required by headquarters Maintenance for this item. Headquarters Equipment will continue to work closely with Administration to finalize the draft Deputy Directive on equipment utilization and the transfer of low-usage equipment between program areas and districts.
Assess the possibility of requiring approval at the statewide level for the renting or leasing of light duty vehicles such as pickup trucks.	This will be addressed more clearly in the Draft Maintenance Policy Directive / Fleet Management Plan being drafted in September 2018.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Ensure district Maintenance are implementing assertive, proactive measures to optimize equipment utilization across the various program areas within the district.	Maintenance will work closely with the districts to implement fleet optimization statewide.	Draft Maintenance Policy Directive / Fleet Management Plan tentatively issued September 2018	Dale Greep/Geno Cervantes	
Audit Report Finding #5b <i>Rental Charges Were Not Always Recorded in IMMS / Inconsistent Recording of Rental Rates in IMMS</i>				
Develop consistent methodology to calculate and record the daily rental rate in IMMS.	Maintenance will work closely with HQ DOE and IMMS to come up with methodologies for rental costs and usage data in order to quantify purchasing or renting equipment. Maintenance will come up with a standard procedure on calculating daily, weekly, and monthly rates.	December 2018	Dale Greep/Geno Cervantes	

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: Division of Maintenance

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Provide clear direction and training on the methodology and calculation.	Maintenance will work closely with District Equipment Manager's and Fleet Optimization Manager's to outline training and the importance of accurate reporting in IMMS.	December 2018	Dale Greep/Geno Cervantes	
Develop ongoing oversight and review procedures to ensure that all equipment usage is recorded on log sheets and recorded in the IMMS.	Maintenance will work closely with District Equipment Manager's and Fleet Optimization Manager's to outline training and the importance of accurate reporting in IMMS.	December 2018	Dale Greep/Geno Cervantes	
Educate the Maintenance Supervisors or designees on the importance of recording vehicle charges in the IMMS on a daily basis.	Maintenance will work closely with IMMS to improve training for District Equipment Manager's and Fleet Optimization Manager's to demonstrate the importance of accurate reporting in IMMS.	December 2018	Dale Greep/Geno Cervantes	

ATTACHMENT 2

DIVISION OF EQUIPMENT

RESPONSE TO THE DRAFT AUDIT REPORT

Memorandum

*Making Conservation
a California Way of Life.*

To: WILLIAM E. LEWIS
Assistant Director
Independent Office of Audits and Investigations

Date: May 11, 2018

File: P3010-0636

From: ROBERT S. MYERS
Chief
Division of Equipment



For

Subject: RESPONSE TO DRAFT AUDIT REPORT -- IMPACT OF EQUIPMENT RENTAL

The Division of Equipment has reviewed the most recent draft report on the Impact of Equipment Rental Audit. We suggest the following edits to the recommendations. A detailed response to the findings is attached.

If you have questions regarding our response, please contact Michael Mayor at (916) 227-9506.

Attachment

Schedule for Auditee's Response to Draft Audit Report - Division of Equipment

c: Michael Mayor, Chief, Office of Budgets and Administrations
Lisa Kunzman, Chief, Office of Quality Assurance & Fleet Management

Independent Office of Audits and Investigations (A&I) - Response to Draft Audit Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: Division of Equipment

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Audit Report Finding #1				
<i>Unable to Evaluate the Impact and Cost Effectiveness of Renting Equipment</i>				
We recommend headquarters Maintenance compile rental cost and usage data, and work closely with headquarters Equipment to decide if Caltrans should purchase rather than rent equipment in the future.	The Division of Equipment will continue to work with Headquarters Maintenance to decide when to rent or purchase equipment. Additionally, the Division of Equipment (through its Statewide Fleet Optimization Manager) facilitates the reassignment of low-use state owned equipment to eliminate the need for a rental.	Ongoing	Division of Equipment, Division of Maintenance	
Audit Report Finding #4				
<i>Ineffective Fleet Optimization</i>				
We recommend headquarters Maintenance continue to work closely with headquarters Equipment and the Division of Administration to finalize the draft Deputy Directive related to equipment utilization and the transfer of low-usage equipment between programs and districts.	DOE hired a Statewide Fleet Optimization Manager in 2016. In 2016, 379 units were reassigned due to low use. In 2017 184 units were reassigned, and in 2018, to-date, 43 units were reassigned. With the passage of SB1, and the addition of staff, projections indicate that vehicle utilization will increase.	1/1/2019	Division of Equipment, Division of Administration	We reviewed Maintenance Policy Directive 13-02-R1, <i>Division of Maintenance Fleet Usage Requirements for Optimization</i> , issued by headquarters Maintenance on 4/25/2018, and confirmed that the policy clearly defines the management of fleet assignment, retainment, operational optimization, and replacement of fleet assets. We consider this recommendation implemented and no further status update is required by headquarters Maintenance for this item. Headquarters Equipment will continue to work closely with Administration to finalize the draft Deputy Directive on equipment utilization and the transfer of low-usage equipment between program areas and districts.
Audit Report Finding #5a				
<i>Challenges Related to AssetWorks Data</i>				
Work closely with headquarters Maintenance to continue their efforts of educating and training district Maintenance staff on AssetWorks, and the benefits of the fleet availability report.	DOE agrees with the recommendations provided.	Ongoing	Division of Maintenance	

ATTACHMENT 3

DISTRICT 4

RESPONSE TO THE DRAFT AUDIT REPORT

Memorandum

*Making Conservation
a California Way of Life.*

To: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Date: May 11, 2018

File: P03010-0636

From: JAMES E. DAVIS
Acting District Director



Subject: **D4 Response to Draft Audit #P3010-0636 Regarding Impact of Equipment Rental Audit**

District 4 has attached the Auditees Response to the Impact of Equipment Rental Audit dated April 2018.

If you have any questions or need additional information, please contact Adam Steiger, D4 Maintenance Manager I at (510) 715-8473.

Attachment

Auditee (D4) response to draft audit report May 11, 2018.

c: Premjit Rai, Deputy District Director, Administration, District 4, David Ambuehl, Deputy District Director, Maintenance, District 4 Laura Horan Manager II, Maintenance Support, District 4 Chris Nesmith, Manager I Maintenance Support, District 4, Adam Steiger, Manager I Maintenance I Maintenance Support, District 4.

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 4 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Audit Report Finding #2a				
<i>The Maintenance Policy Directive and Guidelines Can Be Improved</i>				
Develop documented desk procedures and processes to meet the needs of Maintenance employees involved in day-to-day equipment rental activities.	The District Equipment Manager will work with HQ Maintenance to help develop a desk manual for all levels involved in equipment rental.	12/1/2018	District Equipment Manager	
Audit Report Finding #2b				
<i>Missing Equipment Rental Documents</i>				
Include compliance with the policy directive in the employee's yearly Individual Development Plans.	The Updated IDP PM-0944 (2-2018) has a rating section for "Adheres to applicable policies, procedures, and practices" This will be addressed with District Region Management to ensure IDPs are completed and the policy will be included with the annual expectations letter.	9/30/2018	Deputy District Director Maintenance, Region Managers, Superintendents	
Audit Report Finding #2c				
<i>Under-Utilized Caltrans and Rental Equipment</i>				
Maximize usage of Caltrans equipment and return rented equipment when Caltrans equipment becomes available.	Upon completion of the updated Policy Directive by Headquarters. The District will reinforce the policy regarding responsibilities of the requesting Supervisor and Superintendent prior to submitting the rental request. The District Equipment Manager will continue to check the State fleet for low use and cost effective availability, upon receipt of a rental request. The District will continue to educate staff regarding policy when an out of service State unit becomes available for use or when the work has been completed. The requesting Supervisor or Superintendent are responsible to notify the District Equipment Manager that the rental unit is ready to be returned.	11/1/2018	District Equipment Manager, Region Managers, Superintendents	
Audit Report Finding #2d				
<i>Physical Inspections of Equipment Weaknesses</i>				
Ensure that all staff understand their roles and responsibilities when it comes to rental equipment.	Upon completion of the updated Policy Directive by Headquarters. The District will provide additional training to Supervisors and Superintendents regarding policy responsibility for the respective positions This training will be recurring as needed.	11/1/2018	District Equipment Manager	
Reinforce staff's understanding of the rental equipment contract requirements.	Upon completion of the updated Policy Directive by Headquarters. Supervisors and Superintendents will receive an overview of the contract requirements during the additional policy training session. This training will be recurring as needed.	11/1/2018	District Equipment Manager	
Not accept equipment from rental contractors that do not meet the contract terms and conditions without proper justification.	Upon completion of the updated Policy Directive by Headquarters. The District Equipment Manager will train staff and reinforce with the vendor the contract GPS terms and conditions. If the item does not meet term & conditions the requesting Superintendent shall provide the DEM with additional justification for approval prior to rental.	11/1/2018	District Equipment Manager, Superintendents, Supervisors	
Develop measures for corrective actions and hold staff accountable for non-compliance.	The responsibilities of the Supervisor, Superintendent, and Manager are specified in the Maintenance Manual Chapter 4.04. Responsibilities for the Superintendent include " Shall enforce the use of the pre-trip/post-trip checklist book and Permanent Equipment Maintenance Record (PEMR) books". The execution of these responsibilities will also be inspected through the periodic reviews of equipment and policy compliance performed by the District Equipment Manager and/or HQ Maintenance Equipment. Non-compliance shall be reported to District Management for possible corrective action through the progressive discipline process.	12/1/2018	Deputy District Director Maintenance, Region Managers, Superintendents	
Audit Report Finding #2e				
<i>Incomplete Equipment Rental Requests</i>				
Ensure the pre-rental resources checks are performed and documented.	Upon completion of the updated Policy Directive by Headquarters. Supervisors and Superintendents will receive an additional review of the rental policy emphasizing the requirement of checking pre-rental prior to submitting a rental request. When the District Equipment Manager receives a rental request the DEM will continue to check resources and document these checks on the rental request.	11/1/2018	District Equipment Manager, Superintendents, Supervisors	
Audit Report Finding #3a				
<i>No Authority to Rent Additional Equipment Not Listed in the Equipment Rental Contracts</i>				
Ensure all staff associated with contract management receive proper contract management training and held accountable for noncompliance with contract terms.	All staff involved in contract management have been to Contract Manager training and renew the certification yearly. Non compliance with contract terms will be addressed through the employee discipline process.	7/30/2018	Manager Maintenance Support, Region Managers	

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 4 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible	A&I Analysis
Audit Report Finding #3b				
<i>Under- and Over-Billings</i>				
Continue to perform a self-audit on all invoices received and work with the vendors to recover any over-billings during the current and prior agreement periods.	The District has hired an AGPA to assist the Contract Manager. Included in the duties are contract payments and working with the vendor to correct and recover over billings.	10/30/2018	District Equipment Manager, Fleet Optimization Manager Assistant	
Ensure that Equipment Managers, or whomever is performing contract management duties, has read and understands the terms and conditions of their contracts and consistently enforces those contract terms and conditions.	All staff involved in contract management have read and understand the contract conditions and terms. The Contract Manager will monitor and work with the vendor to ensure contract terms and conditions are followed. If there are issues the Contract Manager will contact the vendor or if necessary work through DPAC to resolve the issue.	7/30/2018	Manager Maintenance Support	
Audit Report Finding #4				
<i>Ineffective Fleet Optimization</i>				
Implement assertive, proactive measures to optimize equipment utilization across the various program areas within the district, and work closely with headquarters Maintenance to maximize equipment usage.	The District Fleet Optimization Manager works with all program vehicle coordinators to optimize the light duty fleet. The District Equipment Manager is working with HQ Maintenance Equipment and other District Equipment Managers to implement Policy Directive 13-02.	12/1/2018	Fleet Optimization Manager, District Equipment Manager	
Minimize or eliminate all pickup truck rentals when possible through proper scheduling of work and sharing of equipment within the district and between districts.	District 4 Maintenance does not rent pickups. The District has reassigned low use pickups to assist other Districts.	5/1/2018	District Equipment Manager	No action required for District 4 Maintenance as testing confirmed that the district does not rent pickup trucks from outside vendors.
Audit Report Finding #5a				
<i>Challenges Related to Asset Works Data</i>				
Utilize the Equipment Managers and Statewide Equipment Manager to assist them with optimizing their fleet.	The District Equipment Manager (DEM) has daily contact with Division of Equipment and is in frequent communication with HQ Maintenance Equipment, District Equipment Managers, State, and District Fleet Optimization Managers .The DEM will continue use all available resources to make decisions regarding rentals and availability of State fleet.	7/30/2018	Fleet Optimization Manager, District Equipment Manager	
Audit Report Finding #5b				
<i>Rental Charges Were Not Always Recorded in IMMS / Inconsistent Recording of Rental Rates in IMMS</i>				
Take steps to ensure that log sheets are completed for all rental equipment usage.	The Equipment Manager's office has updated the process, rental logs are sent to the requesting Supervisor with the rental equipment information and daily rental rate. This will assist the Supervisors entering the data in IMMS and submitting the rental logs. The DEM will also provide recurring training to assist Supervisors and Superintendents in compiling with the policy. .	9/1/2018	District Equipment Manager, Region Managers, Superintendents	
Ensure compliance with policy directive, such as completed and submitted log sheets, in employee evaluations.	The Updated IDP PM-0944 (2-2018) has a rating section for "Adheres to applicable policies, procedures, and practices" This will be addressed with District Region Management to ensure IDPs are completed and the policy will be included with the annual expectations letter.	10/1/2018	Deputy District Director Maintenance, Region Managers	

ATTACHMENT 4

DISTRICT 8

RESPONSE TO THE DRAFT AUDIT REPORT


Memorandum

*Making Conservation
a California Way of Life.*

To: ZILAN CHEN
CHIEF
INTERNAL AUDITS

Date: May 11, 2018

File:

From: 
JOHN BULINSKI
District Director
Caltrans District 8

Subject: **RESPONSE TO DRAFT AUDIT REPORT-IMPACT OF EQUIPMENT RENTAL AUDIT**

The District 8 Division of Maintenance has reviewed the most recent draft report for the impact of equipment rental audit and concurs with the recommendations identified relative to the division. A detailed response to the findings is attached.

If you have any questions regarding implementation, please contact Stephen R. Pusey at (909) 383-6320 or Jeff Renfro at (909) 806-4909.

Attachment

District 8 Response to Draft Audit Report

c: Steve Takigawa, Deputy Director, Maintenance and Operations
David Prizmich, Chief, Division of Procurement and Contracts
Cliff Vose, Internal Audit Manager, Independent Office of Audits and Investigations
Janice Ang, Audit Specialist, Independent Office of Audits and Investigations

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 8 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible
Audit Report Finding #2a			
<i>The Maintenance Policy Directive and Guidelines Can Be Improved</i>			
Develop documented desk procedures and processes to meet the needs of Maintenance employees involved in day-to-day equipment rental activities.	Maintenance HQ is currently in the process of updating the Maintenance Policy Directive (14-03) / Fleet Management Plan (2014) . Which will incorporate language that better defines the roles and responsibilities, guidelines, oversight and procedures associated with renting equipment. Meanwhile the District will conduct site visits to help educated field personnel on their responsibilities where state owned/ rental equipment is concerned.	July 1st, 2018	Equipment Manager & Superintendent
Audit Report Finding #2b			
<i>Missing Equipment Rental Documents</i>			
Include compliance with the policy directive in the employee's yearly Individual Development Plans.	State of Ca. Dept. Transportation form PM-0944 (Rev 02/2018) , Titled: Supervisory and Managerial Annual Performance Review and Probationary Report under the "integrity" section it is stated that the employee is to adhere to applicable policies, procedures and practices. The annual performance review report accompanies the Individual Development Plans.	July 1st, 2018	Everyone who supervises employees that are instrumental in initiating and following the rental process including: D.D.D, Region Manager, Superintendent & Supervisor
Audit Report Finding #2c			
<i>Under-Utilized Caltrans and Rental Equipment</i>			
Maximize usage of Caltrans equipment and return rented equipment when Caltrans equipment becomes available.	Always pursue other resources prior to renting equipment as listed on the Rental Request form (MTCE-029) . Common practice within the district is to notify the Equipment Manager when downed equipment is returned to service, when rented equipment is returned upon completion of field projects, or seasonal support rental equipment is returned from winter and summer monsoon operations.	Active	Equipment Manager, Fleet Optimization Manager & Superintendent
Audit Report Finding #2d			
<i>Physical Inspections of Equipment Weaknesses</i>			
Ensure that all staff understand their roles and responsibilities when it comes to rental equipment.	Continual training to reaffirm each individual roles and responsibilities in regards to the rental equipment policy for pre-op/post-op inspections and documentation. Within the same expectation as Caltrans owned equipment.	July 1st, 2018	Region Manager, Superintendent, Supervisors, F.O.M & Equipment Manager
Reinforce staff's understanding of the rental equipment contract requirements.	Equipment Manager will establish a continual training system to help educate the field managers, superintendents and supervisors on the specifics of the Rental Contract and the requirements in regards to the available rental equipment. In addition the Equipment Manager has created an open door policy in which any questions pertaining to the rental contract, rented equipment, rental rates and invoicing can be addressed.	July 1st, 2018	Equipment Manager, FOM & Region Managers
Not accept equipment from rental contractors that do not meet the contract terms and conditions without proper justification.	Equipment Manager will establish a continual training system to help educate the field managers, superintendents and supervisors on the specifics of the GPS requirements listed on the contract. As the contracts requires rented equipment to be equipped with GPS. Without GPS, Caltrans management could not effectively monitor the location, routing, idling times, and equipment utilization. Which will be listed in the districts.	July 1st, 2018	Equipment Manager, Superintendent & Supervisor
Develop measures for corrective actions and hold staff accountable for non-compliance.	Adhere to the applicable policies, procedures, and practices that are set in place for non-compliance. As per State of Ca. Dept. Transportation form PM-0944 (Rev 02/2018) , Titled: Supervisory and Managerial Annual Performance Review and Probationary Report .	July 1st, 2018	D.D.D, Region Manager & Superintendent
Audit Report Finding #2e			
<i>Incomplete Equipment Rental Requests</i>			
Ensure the pre-rental resources checks are performed and documented.	Equipment Manager will follow protocol as pre-check with wet signatures on Rental Request MTCE-029 and check all pertinent boxes prior to renting.	July 1st, 2018	Equipment Manager Superintendent & Supervisor

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 8 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible
Audit Report Finding #3a			
<i>No Authority to Rent Additional Equipment Not Listed in the Equipment Rental Contracts</i>			
Ensure all staff associated with contract management receive proper contract management training and held accountable for noncompliance with contract terms.	All staff associated with contract management required to complete contract manager training courses prior to initiating any work associated with the rental contract. In addition the new contracts include verbiage that allows for authority to rent equipment additional equipment not listed in the Equipment Rental Contracts with proper justification. The verbiage states, "MISCELLAENEUS EQUIPMENT RENTAL AS-NEEDED. Calculate 10% of the Subtotal above. Contractor shall be paid for additional equipment up to this amount at the Contractors published rate less 10%."	July 1st, 2018	DDD, Region Manager, Superintendent, F.O.M & Equipment Manager
Audit Report Finding #3b			
<i>Under- and Over-Billings</i>			
Continue to perform a self-audit on all invoices received and work with the vendors to recover any over-billings during the current and prior agreement periods.	Equipment Manager has hired a PI to review all invoices received/paid in previous contracts. Equipment Manager will work with the Rental Companies to recover overpayments. All future invoices will be reviewed and compared to the bid-proposal sheet for accuracy. Vendor is required to revise invoice discrepancies prior to any payment.	July 1st, 2018	Equipment Manager, Fleet Optimization Manager & F.O.M Assistant
Ensure that Equipment Managers, or whomever is performing contract management duties, has read and understands the terms and conditions of their contracts and consistently enforces those contract terms and conditions.	Continued training to educate all parties performing contract management duties. Ensuring everyone reads and understands the terms/conditions of the rental contract. Any diversion from the contract terms and conditions the Contract Manager contacts the vendors' representation in order to resolve the issue.	July 1st, 2018	DDD, Region Manager, Superintendent, F.O.M & Equipment Manager
Audit Report Finding #4			
<i>Ineffective Fleet Optimization</i>			
Implement assertive, proactive measures to optimize equipment utilization across the various program areas within the district, and work closely with headquarters Maintenance to maximize equipment usage.	District Fleet Optimization Manger with support of the District Director and Deputy District Directors will establish the 30, 60 and 90 day directive in regards to the districts fleet utilization across all district divisions that have fleet. This directive helps the district maximize the fleet usage. In addition to the 30, 60 and 90 day rule, the district will also following the 3, 6, and 9 month mandate from HQ.	July 1st, 2018	DD, DDD's, Fleet Optimization Manager & Equipment Manager
Minimize or eliminate all pickup truck rentals when possible through proper scheduling of work and sharing of equipment within the district and between districts.	Equipment/Fleet Manager will continue the challenge of reaching out to the other divisions and districts to borrow idle units prior to renting. Work with the field staff to maximize usage and eliminate pickup rental.	July 1st, 2018	Equipment Manager, Fleet Optimization Manager & Superintendent
Audit Report Finding #5a			
<i>Challenges Related to Asset Works Data</i>			
Utilize the Equipment Managers and Statewide Equipment Manager to assist them with optimizing their fleet.	The implementation of the 30-60-90 day directive in District 8 and with support of the new 3-6-9 month HQ directive in conjunction with the pre-rental checks on the <i>Rental Request form (MTCE-029)</i> . Following these directives will significantly improve fleet utilization.	July 1st, 2018	Equipment Manager
Audit Report Finding #5b			
<i>Rental Charges Were Not Always Recorded in IMMS / Inconsistent Recording of Rental Rates in IMMS</i>			
Take steps to ensure that log sheets are completed for all rental equipment usage.	Continual training at the local level with the district Region Managers, Area Superintendents and Supervisors to follow rental protocol. Request for Superintendents to review in Superintendent/Supervisor meetings.	Active	Superintendent, Supervisor & FOM Assistant
Ensure compliance with policy directive, such as completed and submitted log sheets, in employee evaluations.	With support of the Region Managers we are in the process of undertaking the Superintendents to be more involved and hand-owns with the monthly rental log submittal process.	July 1st, 2018	Superintendent, Supervisor & FOM Assistant

ATTACHMENT 5

DISTRICT 11

RESPONSE TO THE DRAFT AUDIT REPORT

Memorandum

*Making Conservation
a California Way of Life.*

To: WILLIAM E. LEWIS
ASSISTANT DIRECTOR
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS

Date: May 11, 2018

File:

From: EVERETT TOWNSEND
Deputy District Director
District 11 Division of Maintenance

Subject: **RESPONSE TO DRAFT AUDIT REPORT – EQUIPMENT RENTAL AUDIT**

District 11 Maintenance has reviewed the most recent draft of the Equipment Rental Audit and will be taking the actions noted in Attachment 1 to address the findings of the audit.

Progress Reports on the status of work plan items, will be provided at the 180-day and 360-day milestones.

If you have any questions or need additional information, please contact Ignacio Vazquez, Staff Services Manager II at (619) 688-3621.

Attachment

(1) Response to Draft Report -Impact of Equipment Rental

c: Tim Gubbins, Acting District Director, District 11
Cory Binns, Chief Deputy District Director, District 11
Lorna Rice, Deputy District Director, District 11
Ignacio Vazquez, Staff Services Manager II, District 11
Maintenance Managers, District 11

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 11 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible
Audit Report Finding #2a			
<i>The Maintenance Policy Directive and Guidelines Can Be Improved</i>			
Develop documented desk procedures and processes to meet the needs of Maintenance employees involved in day-to-day equipment rental activities.	A directive memo will be issued to address the findings of this audit, and all maintenance staff will be informed of the requirements for equipment rentals in accordance with Maintenance Policy Directives 14-01 and 14-03. Documented desk procedures will be developed and implemented.	Jun-18	Everett Townsend, District Division Chief, Maintenance
Audit Report Finding #2b			
<i>Missing Equipment Rental Documents</i>			
Include compliance with the policy directive in the employee's yearly Individual Development Plans.	Managers and Supervisors will be reminded to include compliance with the policy directive in employee's yearly Individual Development Plans.	Ongoing	Everett Townsend, District Division Chief, Maintenance, and all Managers and Supervisors
Audit Report Finding #2c			
<i>Under-Utilized Caltrans and Rental Equipment</i>			
Maximize usage of Caltrans equipment and return rented equipment when Caltrans equipment becomes available.	The District Equipment Manager (DEM) will perform pre-rental availability checks on Caltrans equipment on a weekly basis to ensure better utilization of Caltrans equipment. Supervisors will perform daily, weekly and monthly rental usage reviews.	Ongoing	Duane Paquin, District Equipment Manager
Audit Report Finding #2d			
<i>Physical Inspections of Equipment Weaknesses</i>			
Ensure that all staff understand their roles and responsibilities when it comes to rental equipment.	All Supervisors will be informed of their roles and responsibilities of the rental equipment process, and provided training.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager
Reinforce staff's understanding of the rental equipment contract requirements.	All Supervisors will be informed of their roles and responsibilities of the rental equipment process, and provided training.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager
Not accept equipment from rental contractors that do not meet the contract terms and conditions without proper justification.	All Supervisors will be trained on the rental equipment process to ensure rental equipment meet contract terms and conditions.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager
Develop measures for corrective actions and hold staff accountable for non-compliance.	Measures for corrective actions will be developed in coordination with the Office of Disciplinary Services, and all Maintenance Managers and Supervisors will be informed accordingly to ensure staff is held accountable for non-compliance of policy directives on rental equipment.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager, All Maintenance Managers and Supervisors
Audit Report Finding #2e			
<i>Incomplete Equipment Rental Requests</i>			
Ensure the pre-rental resources checks are performed and documented.	The DEM will perform and document pre-rental availability checks on Caltrans equipment prior to approving rental equipment. Documentation for pre-rental availability checks will be evaluated monthly.	Ongoing	Duane Paquin, District Equipment Manager; Kenneth Bailey, Acting Maintenance Support Manager
Audit Report Finding #3a			
<i>No Authority to Rent Additional Equipment Not Listed in the Equipment Rental Contracts</i>			
Ensure all staff associated with contract management receive proper contract management training and held accountable for noncompliance with contract terms.	All Supervisors associated with the contract management process will be trained regarding contracting terms.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager

Independent Office of Audits and Investigations (A&I) - Response to Draft Report

Audit Name: Impact of Equipment Rental

Audit #: P3010-0636

Auditee: District 11 - Maintenance Office

A&I Audit Recommendation	Auditee Response to Draft Audit Report	Estimated Completion Date	Staff Responsible
Audit Report Finding #3b			
<i>Under- and Over-Billings</i>			
Continue to perform a self-audit on all invoices received and work with the vendors to recover any over-billings during the current and prior agreement periods.	A self-audit will continue to be performed on all invoices received to address any vendors over-billings.	Ongoing	Kenneth Bailey, Acting Maintenance Support Manager
Ensure that Equipment Managers, or whomever is performing contract management duties, has read and understands the terms and conditions of their contracts and consistently enforces those contract terms and conditions.	The DEM or other designated staff performing contract management activities has read and understands the terms and conditions of their contract and enforces contract terms and conditions.	Ongoing	Ignacio Vazquez, Maintenance Administrative Manager
Audit Report Finding #4			
<i>Ineffective Fleet Optimization</i>			
Implement assertive, proactive measures to optimize equipment utilization across the various program areas within the district, and work closely with headquarters Maintenance to maximize equipment usage.	The District Fleet Optimization Manager (DFOM) will implement assertive proactive measures to maximize equipment usage in coordination with the DEM and others.	June 2018 and ongoing	Denella Blount, District Fleet Optimization Manager
Minimize or eliminate all pickup truck rentals when possible through proper scheduling of work and sharing of equipment within the district and between districts.	The DFOM will work in coordination with the DEM and others to minimize or eliminate pickup truck rentals where possible.	Ongoing	Denella Blount, District Fleet Optimization Manager
Audit Report Finding #5a			
<i>Challenges Related to AssetWorks Data</i>			
Utilize the Equipment Managers and Statewide Equipment Manager to assist them with optimizing their fleet.	The DEM will continue to work with the Statewide Equipment Manager to optimize fleet usage and availability.	Ongoing	Duane Paquin, District Equipment Manager
Audit Report Finding #5b			
<i>Rental Charges Were Not Always Recorded in IMMS / Inconsistent Recording of Rental Rates in IMMS</i>			
Take steps to ensure that log sheets are completed for all rental equipment usage.	All Supervisors will be trained on their roles and responsibilities of the rental equipment process to ensure that log sheets are completed for all rental equipment usage.	July 2018 thru September 2018	Ignacio Vazquez, Maintenance Administrative Manager
Ensure compliance with policy directive, such as completed and submitted log sheets, in employee evaluations.	Managers and Supervisors will be reminded to include compliance with the policy directive, such as completed and submitted log sheets, in employee's yearly employee evaluations.	Ongoing	Everett Townsend, District Division Chief, Maintenance, and all Managers and Supervisors