



# FACT SHEET

Audits and Investigations

Malcolm Dougherty, Director

William E. Lewis, Assistant Director

## WAREHOUSE MAINTENANCE AUDIT

### BACKGROUND

The Maintenance Program is responsible for helping Caltrans meet its mission by protecting public safety and preserving California's highways. Moreover, the Maintenance Program allocates approximately \$18 million annually to the headquarters warehouse which is managed by the Division of Procurement and Contracts (DPAC), for material purchases and is reimbursed based on the materials usage. In addition, there are 22 district warehouses that are managed by the Maintenance Program, and two that are managed by the Administration Program.

### KEY FINDINGS

Our audit disclosed that the Sacramento warehouse and one district warehouse comply with Caltrans policies and procedures for tracking, recording, and allocating costs for maintenance and non-maintenance materials. However, the overall warehouse program needs improvement to ensure the effective operation of these functions in the following areas:

- Poor inventory controls at district warehouses resulting in overstated inventory balances, including unaccounted inventory items and obsolete materials
- Antiquated inventory system
- Other internal control deficiencies including unclear delegated authority, inconsistent staffing, access to one of the warehouses tested by non-Caltrans personnel, incomplete Local Request forms and inconsistent walk-in and advance orders
- Materiel management manual needs revision

### KEY RECOMMENDATIONS

The audit resulted in several recommendations including:

- District management to require district warehouses to promptly post local requests for materials issued, and implement DPAC recommendations for inventory best practices.
- District management to require completion of cycle counts to ensure all inventory is counted at least once annually.
- District management to ensure improved segregation of duties, completion of documentation at the warehouses and restriction of access to materials.
- DPAC to continue yearly visits to district warehouses and report the results of its spot counts, warehouse inspections, and recommendations to District Warehouse Management.
- DPAC, the Division of Maintenance and District Warehouse management to resolve the disposition of obsolete items.
- DPAC to continue efforts to replace the Service and Supply Material Management System and work with the Division of Accounting to resolve the issue of rejected valid transactions.
- DPAC to reviews and update the Materiel Management Manual.

November 21, 2017

P3030-0661

## Memorandum

*Making Conservation  
a California Way of Life.*

**To:** ANGELA SHELL  
Chief  
Division of Procurement and Contracts

**Date:** November 21, 2017


**File:** P3030-0661

TONY TAVARES  
Chief  
Division of Maintenance

DAVE MOORE  
District Director  
District 2

BIJAN SARTIPI  
District Director  
District 4

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



**Subject:** WAREHOUSE MAINTENANCE AUDIT REPORT

Attached is the Independent Office of Audits and Investigations' (A&I's) final audit report on the Warehouse Maintenance Audit. Your response has been included as part of our final report. This report is intended for your information and for Department Management.

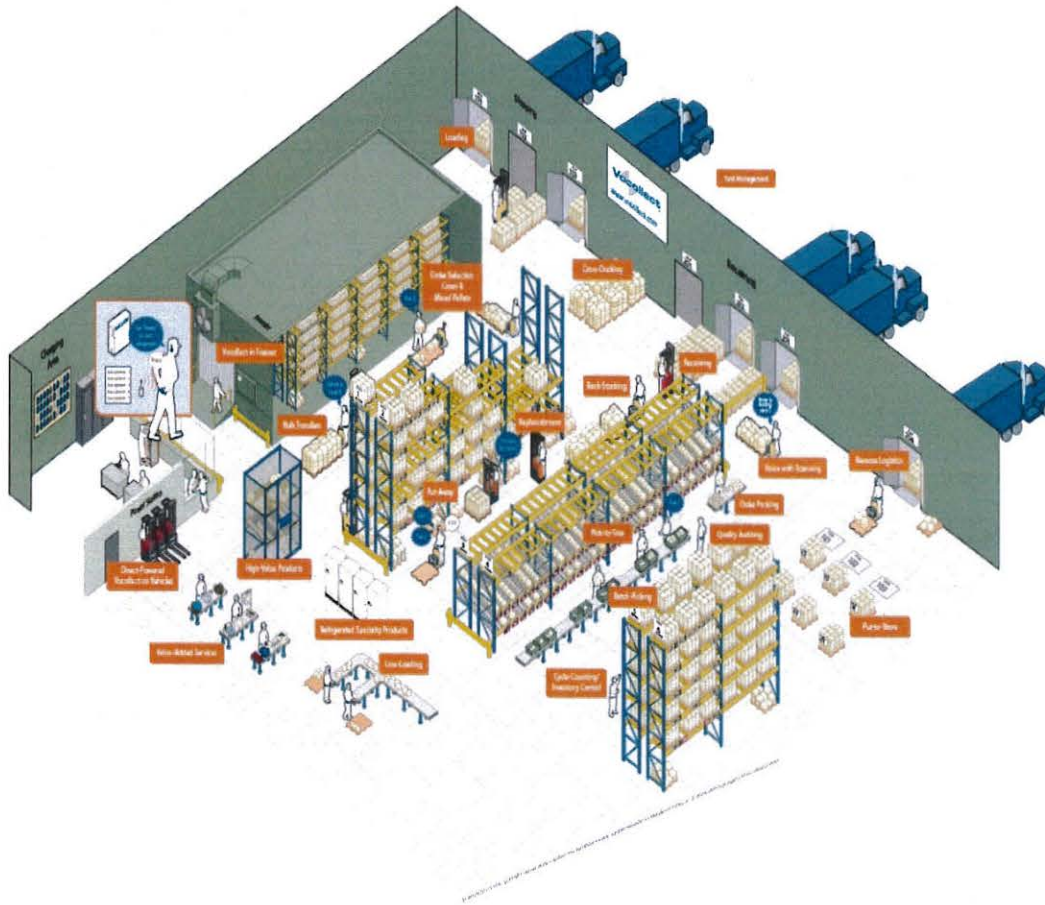
Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the date of this transmittal memorandum. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved. As a matter of public record, this report and the status reports will be posted on Caltrans website.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please contact Zilan Chen, Chief, Internal Audits, at (916) 323-7877, or myself at (916) 323-7122.

Attachment

- c: Michael R. Tritz, Deputy Secretary, California State Transportation Agency
- Susan Bransen, Executive Director, California Transportation Commission
- Rodney Whitfield, Director of Financial Services, Federal Highway Administration
- Malcolm Dougherty, Director
- Laurie Berman, Acting Chief Deputy Director
- David Ambuehl, Deputy District Director, Maintenance, District 4
- Premjit Rai, Deputy District Director, Administration, District 4
- Melissa Rose, Deputy District Director, Administration, District 2
- Tracy Gentry, Assistant Division Chief, Policy, Protests, Communications, and  
Materiel Management, Division of Procurement and Contracts
- Zilan Chen, Chief, Internal Audits, Independent Office of Audits and Investigations
- Douglas Gibson, Manager, Internal Audits, Independent Office of Audits and  
Investigations

# California Department of Transportation Warehouse - Maintenance Audit Division of Maintenance



**Audit Report**

**November 2017**

*“Provide a safe, sustainable, integrated and efficient transportation system to enhance California’s economy and livability”*

## PREPARED BY:

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Zilan Chen, Chief, Internal Audits  
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P3030-0661

# TABLE OF CONTENTS

<b>SUMMARY</b>	<b>1</b>
<b>OBJECTIVES, SCOPE, AND METHODOLOGY</b>	<b>1</b>
<b>BACKGROUND</b>	<b>2</b>
<b>CONCLUSION</b>	<b>3</b>
<b>VIEWS OF RESPONSIBLE OFFICIALS</b>	<b>4</b>
<b>FINDING 1 – Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances</b>	<b>5</b>
<b>FINDING 2 – Antiquated Inventory System</b>	<b>8</b>
<b>FINDING 3 – Other Internal Control Deficiencies</b>	<b>10</b>
<b>FINDING 4 – Materiel Management Manual Needs Revision</b>	<b>12</b>
<b>ATTACHMENTS</b>	
<b>1 Audit Response from the Division of Procurement and Contracts</b>	
<b>2 Audit Response from the Division of Maintenance</b>	
<b>3 Audit Response from District 2</b>	
<b>4 Audit Response from District 4</b>	

# **SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION**

## **SUMMARY**

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations, completed an audit on current practices at the headquarters and district warehouses relating to material management. The purpose of the audit was to evaluate if policies, procedures and practices over headquarters and district warehouses are adequate in managing maintenance and non-maintenance materials.

Our audit disclosed that the Sacramento Warehouse and one district warehouse tested comply with Caltrans policies and procedures for tracking, recording, and allocating costs for maintenance and non-maintenance materials. However the overall warehouse program needs improvement to ensure the effective operation of these functions in the following areas:

- Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances
- Antiquated Inventory System
- Other Internal Control Deficiencies
- Materiel Management Manual Needs Revision

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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

- Headquarters and district warehouses comply with Departmental policies, administrative manuals and established procedures.
- Procedures for tracking recording and allocating costs for maintenance and non-maintenance materials are adequate.
- Data in the information system used by the warehouses is accurate and reliable regarding the distributed materials.

The scope of the audit included evaluating the Materiel Management Manual, procurement policies and procedures in the Division of Procurement and Contracts (DPAC) and district warehouses as well as compliance testing for the period of January 1, 2016 to June 30, 2017.

The audit methodology and procedures included:

- Reviewing policies and procedures to determine if they are current and adequate.
- Interviewing personnel in the Divisions of Maintenance and Accounting as well as at various warehouses.

- Obtaining an understanding of the material operations function.
- Conducting field visits of various warehouses to observe and perform tests of compliance with rules and regulations.

## BACKGROUND

Maintenance Program is responsible for helping Caltrans meet its mission by protecting public safety and preserving California's highways. Maintenance Program employees maintain the highway system and respond to emergencies so travelers and goods reach their destination safely and efficiently. In addition, Maintenance Program allocates approximately \$18 million annually to the Headquarters Warehouse for material purchases and is reimbursed based on the materials usage. The Maintenance Program is reimbursed by Caltrans programs based on their materials usage.

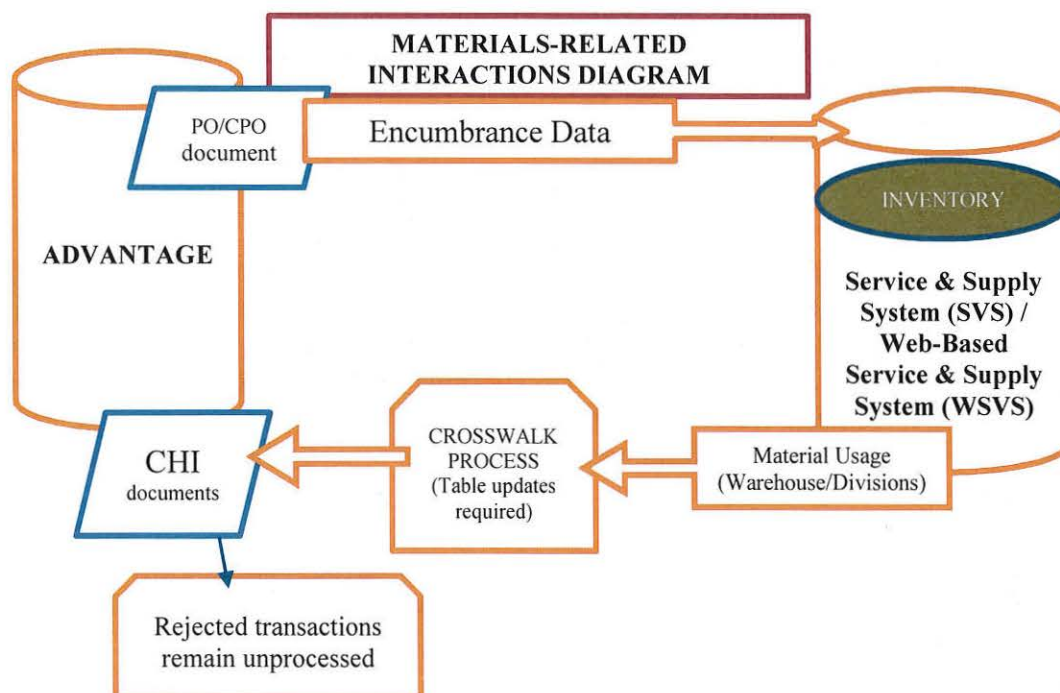
The Headquarters Warehouse, located in Sacramento, receives various commodities from business vendors and distributes the products statewide. DPAC manages the Headquarters Warehouse and some of its responsibilities pertaining to the warehouse facilities include:

- Maintaining the Material Management Service and Supply System (SVS) and the Web-Based Service and Supply (WSVS) ordering system.
- Updating and maintaining material management procedures.
- Providing training and outreach for WSVS users and district warehouses.

The process for managing materials related transactions for the Maintenance Program involves interaction between the two systems, SVS/WSVS and Advantage. These systems generate purchase and usage transactions which are tracked under a process known as Net Zero Logic. The basic principle of Net Zero Logic is to post encumbrance/expenditures using the Purchase Order (PO) and/or CalCard Purchase Order (CPO) process to the budget unit where materials were initially purchased, and then charge projects, districts, or programs as materials are issued.

When DPAC purchases materials, the initial transaction is recorded in Advantage as Maintenance Program expenditures. These expenditures will eventually be offset when the materials are requested, issued and charged to the project, district warehouse or division that receives the materials. In order for the amount to be properly recorded, accounting information is required for each transaction. Issuance of materials and adjustments are posted to the SVS by district and division users on ADM 1001C (Local Request) forms and/or materials adjustments forms. District and division users are responsible to provide the correct cost coding information on these forms. Advantage is updated with material usage in SVS through a charge document called a CHI. The following flow chart illustrates this process:





In addition to the Headquarters Warehouse, there are 22 district warehouses that are managed by the Maintenance Program, and two that are managed by the Administration Program. DPAC is responsible for the development of policies and procedures, and best business practices, as well as maintaining the Materiel Management Manual. It is the district warehouses' responsibility to develop their own procedures by following the Materiel Management Manual and the State Administrative Manual. In an effort to provide assistance to all warehouses, DPAC performs site visitations every year to verify safety practices, offer guidance for better warehousing procedures, and provide in-house training on inventory controls and the usage of various materials ordering system and sub-systems. In addition, DPAC and the Contracts Material Distribution Branch, created a Warehouse Advisory Committee which assists and provides direction and feedback regarding adopting new products and removing old products from stock.

## CONCLUSION

Our audit disclosed that the Sacramento Warehouse and one district warehouse tested comply with Caltrans policies and procedures for tracking, recording, and allocating costs for maintenance and non-maintenance materials. However, the overall warehouse program needs improvement to ensure the effective operation of these functions in the following areas:

- Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances
- Antiquated Inventory System
- Other Internal Control Deficiencies
- Materiel Management Manual Needs Revision

## **VIEWS OF RESPONSIBLE OFFICIALS**

We requested and received a written response to our findings from the Division Chiefs of Procurement and Contracts, and Maintenance, and the Directors of Districts 2 and 4. These officials have concurred with the findings. Please see Attachments 1 through 4 for their complete responses.



**WILLIAM E. LEWIS, CPA**  
Assistant Director  
Independent Office of Audits and Investigations

October 6, 2017

## FINDINGS AND RECOMMENDATIONS

### FINDING 1 – Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances

The audit found the California Department of Transportation (Caltrans) warehouses can improve inventory controls considerably. Specifically, the audit found unaccounted inventory items and poor inventory controls and practices by district warehouses. As a result, the inventory balance in the Service and Supply Material Management System (SVS System) and the excess balances based in need are significantly overstated. In addition, Caltrans warehouses need to address the obsolete items included in the inventory balances.

#### Unaccounted Inventory Items

During the audit, we reviewed internal controls over inventories at the warehouses. This included inspections, review of procedures, and test counts of materials and supplies at the Sacramento Warehouse as well as warehouse facilities in Districts 2 and 4. We also observed cycle counts performed by warehouse management at those facilities. Our visits to the San Francisco Oakland Bay Bridge (SFOBB) and Oakland Warehouses in District 4, and discussion with Division of Procurement and Contracts (DPAC) and district warehouse staff disclosed that the actual inventory balance is significantly less than the inventory reported in the SVS System.

As indicated in Table 1 below, 67 percent of inventory units in the SVS System that we test counted were not accounted for. For example, at SFOBB Warehouse, we randomly selected and counted six inventory items and compared our count value of \$29,370 to the value showed in the SVS System of \$252,228. A dollar discrepancy of \$222,858 was noted.

**Table 1**

Warehouse Location	Inventory Item Observed	(A) # of Unit on-hand	(B) # of Unit per System	(C=A-B) Unaccounted Items	(C/B) Variance Percentage	Variance Value
Headquarters	7	33,371	33,371	-	0%	\$ -
District 2	7	1,076	1,194	(118)	-10%	\$ (2,386)
SFOBB	6	19,901	130,110	(110,209)	-85%	\$ (222,858)
Oakland	7	569	582	(13)	-2%	\$ 185
<b>Total</b>	<b>27</b>	<b>54,917</b>	<b>165,257</b>	<b>(110,340)</b>	<b>-67%</b>	<b>\$ (225,059)</b>

### Poor Inventory Controls and Practices

The missing inventory units and inaccurate balances were largely due to poor inventory controls and non-implementation of best practices recommended by DPAC as follows:

- District warehouses did not post local request forms regularly or timely. Local request forms are used to record requests and issuance of materials and supplies from the warehouses. The posting of local requests reduces the inventory quantities and dollar value of the units issued and charges the projects/budget units/programs for the materials and supplies. During our field visit at the SFOBB Warehouse, we noted more than 60 unprocessed local request forms with some going as far back as 2014. We noted that the Oakland Warehouse also did not post local request forms promptly. The State Administrative Manual (SAM) Section 10860 requires the monthly posting of requisitions on which issues of stores have been made. In addition, SAM Section 20050 states that one symptom of deficient internal control is untimely financial and operational reporting. Issuing products to requesting crews without processing the request forms means that inventory records are not updated and causes inventory units to be unaccounted for. Moreover, the materials issued are not charged properly to the project/budget unit/programs and causing Maintenance Program to be under-reimbursed.
- Cycle counts are not always conducted by most warehouses. A cycle count is a periodic count of inventory designed to ensure the entire inventory is accounted for. Caltrans Materiel Management Manual (Manual) requires differences between the counts and inventory records to be investigated, and the records be adjusted accordingly. We found that no cycle counts were conducted at the District 2 warehouse in 2016 and the SFOBB facility has not performed a count in the last four years. At the Oakland Warehouse, we found staff performing random physical inventory counts of a few items; however, there was no investigation of variances noted or correcting adjustments after the inventory counts were completed. SAM Section 10860 requires complete physical inventories at least once a year. The lack of regular cycle counts and absence of investigating, reporting, and adjusting differences can result in inaccurate inventory records and missing inventory. Without adjusting inventory records to actual physical counts, inventory balances become misstated. Additionally, inaccurate inventory counts may impact Caltrans' ability to provide needed items to requestors timely as items may not be in stock. Moreover, Caltrans would not be able to detect missing inventory caused by theft or loss, and take immediate corrective action.
- Recommendations made by DPAC's System and Process support team are not always implemented by district warehouses. During our visit to the SFOBB and discussion with DPAC personnel, we discovered that recommendations made in August 5, 2015 to continuously post local request forms had not been implemented as of February 2017.

### Overstated Excess Inventory Balance

Excess inventory levels of all warehouses statewide were highly overstated. Materials are deemed to be excess when the net balance in the SVS System exceeds the calculated maximum level needed. The net balance is calculated by adding the amount on order to the amount on hand and subtracting the safety level from that total. The maximum level is defined by past year demands.

Therefore, an inventory item would have more than a past one-year supply before the quantity of the item would be designated as excess.

As shown in Table 2, the SVS System's total inventory value as of December 29, 2016 was \$45,994,100; while the excess inventory was \$24,261,941 (53 percent). Caltrans Manual requires warehouses to maintain an excess inventory ratio of less than 17 percent statewide. Approximately 77 percent of the \$24.26 million of excess inventory is in the custody of warehouse facilities managed by district maintenance. Since inventory counts were not performed regularly and systematically, it is unclear what portion of the excess inventory amount is actually inventory on hand and available for distribution.

Furthermore, some of the items in the current excess inventories include obsolete materials. A discussion with DPAC Warehouse management indicated that excess items in Headquarters Warehouse included the green Caltrans-logo shirts that are no longer in use and have an original inventory value of more than \$3 million. While Caltrans has procedures in place for making adjustments for obsolete items, the disposal of some items may require special equipment.

Table 2

SERVICE AND SUPPLY SYSTEM INVENTORY BY DISTRICTS AS OF 12/29/16						
DISTRICTS	MANAGED BY	TOTAL ITEMS	TOTAL INVENTORY VALUE	EXCESS QUANTITY		
				# OF ITEMS	QUANTITY VALUE	EXCESS %
HQ	Admin.	1,553	\$ 21,138,516	832	\$ 9,088,482	43%
1	District Maint.	1,739	\$ 645,976	309	\$ 152,125	24%
2	District Admin.	723	\$ 705,005	415	\$ 260,098	37%
3	District Maint.	1,420	\$ 1,544,754	737	\$ 729,908	47%
4	District Maint.	4,085	\$ 8,402,936	2401	\$ 7,316,250	87%
5	District Maint.	732	\$ 518,025	238	\$ 209,611	40%
6	District Maint.	1,990	\$ 2,449,324	1,007	\$ 1,857,008	76%
7	District Maint.	613	\$ 3,185,431	220	\$ 797,018	25%
8	District Maint.	980	\$ 1,634,290	288	\$ 415,259	25%
9	District Maint.	511	\$ 171,116	168	\$ 62,424	36%
10	District Maint.	841	\$ 555,823	432	\$ 346,890	62%
11	District Admin.	925	\$ 2,608,502	496	\$ 1,720,471	66%
12	District Maint.	1,410	\$ 2,434,402	698	\$ 1,306,398	54%
<b>Totals</b>		<b>17,522</b>	<b>\$ 45,994,100</b>	<b>8,241</b>	<b>\$ 24,261,941</b>	<b>53%</b>

According to SAM Section 3535, the Department of General Services has initiated a statewide program to establish effective standards and policies for all materials management including the reduction of expendable goods inventories which are maintained in uneconomically large quantities

**RECOMMENDATION:**

We recommend District Warehouse Management to:

- Require district warehouses to promptly post local requests for material and supplies issued.
- Require completion of cycle counts at all warehouses, ensuring that all inventory items are counted at least once annually, and adjusting inventory balances to reflect actual inventory on hand.
- Ensure district warehouses implement recommendations made by DPAC on inventory best practices.

We recommend DPAC to:

- Continue with yearly site visits to warehouses and provide assistance, recommendations or corrective actions to ensure that best practices are being implemented.
- Report the results of its spot counts, warehouse inspections, and recommendations to District Warehouse Management.
- Work with Headquarters Division of Maintenance and District Warehouse Management to develop a solution for the disposition of obsolete items.

**DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE**

DPAC concurs with the findings and recommendations. Please see Attachment 1 for details of the response and action plan.

**DIVISION OF MAINTENANCE RESPONSE**

Division of Maintenance concurs with the findings and recommendations. Please see Attachment 2 for details of the response and action plan.

**DISTRICTS 2 and 4 RESPONSE**

The Districts concur with the findings and recommendations. Please see Attachments 3 and 4 for details of their response and action plans.

**FINDING 2 – Antiquated Inventory System**

Caltrans uses the SVS System for recording and tracking materials inventory. The SVS System interfaces with other systems and subsystems including Advantage. The successful transfer of data from the SVS System to Advantage depends on a crosswalk process that converts expenditure authorization six-digit numbers used in the SVS System to a ten-digit project number that is used in Advantage. The posting of material usage transactions from the SVS System to Advantage, enables the Maintenance Program to be credited for the materials used by projects, divisions or programs.

Through our testing and interviews with warehouse managers, we determined that the SVS System is antiquated, not timely and prone to errors. Specifically, we found the following:

- The SVS System utilizes a batching process and is not capable of providing real time inventory information, which delays the availability of actual inventory numbers and records by up to three days.
- Although the SVS System interfaces with multiple subsystems, this interaction and the transfer of data is sometimes unreliable and results in numerous rejected transactions. As of April 29, 2017, there were 3,032 rejected transactions dating back to July 2013, totaling \$995,471. These rejected transactions are transactions that should have been charged to other divisions, programs, and/or the appropriate district warehouses. One reason for the rejections is that the crosswalk system contains tables that require timely updating to enable the conversion of expenditure authorization numbers to Advantage project numbers. Although the updates are automated and occur nightly, they are frequently not entered into Advantage timely, resulting in transactions that do not find a match to be rejected. Another factor causing rejections is incorrect coding being used on source documents.

Good internal controls dictate that an inventory system should provide reliable accountability of materials. California Government Code Section 13401 states that effective systems of internal control are necessary to ensure that state resources are adequately safeguarded, monitored, and administered. In addition, it also states that systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved. SAM Section 10800 states that to the extent that stock records are kept, they will provide management tools for regulating and controlling the use of commodities and establishing accountability for commodities.

Not properly posting and accounting for the use of materials increases the risk of loss of assets and causes the Maintenance Program to be under-reimbursed. It also results in inaccurate inventory balances in Advantage. In addition, DPAC staff stated that they spend a significant amount of time each month reviewing and correcting the error list for transactions that were accurately submitted, but rejected because the crosswalk tables had not been updated with the correct coding.

The SVS System is a legacy system that cannot be updated and has been in use for more than 27 years. DPAC personnel have requested a more up-to-date, efficient system to replace the SVS System.

#### **RECOMMENDATION:**

We recommend DPAC work with the Division of Accounting to find a solution for the valid transactions being rejected due to crosswalk coding differences.

We also recommend DPAC continue to pursue its efforts to replace the SVS System to improve the level of service to users and ensure accurate and timely inventory records.

**DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE**

DPAC concurs with the findings and recommendations. Please see Attachment 1 for details of the response and action plan.

**FINDING 3 – Other Internal Control Deficiencies**

The audit indicated the following additional internal control deficiencies:

Unclear delegated authority

Warehouse responsibilities and authorities are not clearly defined. There is no memo, policy, or directive delegating authority to DPAC to enforce accountability, best practices and proper inventory processes at the district warehouses. DPAC provides guidance and conducts spot-checks of inventory at the district warehouses. However, it has no direct authority to ensure that its recommendations are implemented as the district warehouses report directly and administratively to District management. Moreover, 22 of the 24 district warehouses report functionally to the Maintenance Program. Without DPAC having direct authority to monitor district warehouses to ensure full compliance with mandated processes such as cycle counts, materiel adjustments, accurate accounting of on-hand inventory on a statewide basis, increases the risk of excess levels of inventory and/or misallocation of products.

Inconsistent staffing

Our audit showed that staffing levels varied from warehouse to warehouse and was not always consistent or in proportion with the inventory balances maintained. Differences in staffing also seemed to depend on which program was responsible for the warehouse. Based on our observations, the most efficient and effective warehouse was the Sacramento Warehouse managed by DPAC. This warehouse appeared to be adequately staffed with experienced and well-trained personnel. We found the following regarding staffing for the three other warehouses we visited:

- District 2's Warehouse is the responsibility of the Administrative Program and has a staff of three, which includes a manager, warehouse worker, and a Material Store Specialist. These staff perform different procurement and warehouse custody functions which provide some degree of segregation of duties.
- SFOBB and Oakland Warehouses, which are the responsibility of District 4 Maintenance, have only one warehouse staff respectively. This structure creates a lack of segregation of duties as there is only one warehouse staff at each location managing the facility, who orders, receives, distributes the materials to requestors, and posts these transactions to the SVS System. Having a single warehouse worker maintaining custody of materials, creating requisitions, authorizing distribution of goods, and receiving and issuing goods increases the risk of fraud, theft or abuse of state assets.

In addition, some warehouse staff did not receive proper training prior to operating warehouses. SAM Section 20500 states that a satisfactory system of internal control shall include personnel of a quality commensurate with their responsibilities. Inconsistent or inadequate staffing can increase the risk of fraud or abuse of state assets.



Access to the SFOBB warehouse by non-Caltrans personnel.

Discussion with the SFOBB Warehouse Manager disclosed that the warehouse is located in a leased facility and the owner can access inventory items without Caltrans' knowledge. According to the Warehouse Manager, the warehouse will be moved to Caltrans-owned facilities in late 2017. SAM Section 20500 states that a satisfactory system of internal control shall include a plan that limits access to state assets only to authorized personnel who require these assets in the performance of their duties.

Incomplete Local Request Forms

We reviewed 26 local request forms for completeness at the SFOBB Warehouse and found that all had incomplete sections and two were approved after the goods were received. Missing information from the forms included the requesting crew numbers, source districts, Expenditure Authorization numbers, special designations, approval dates, goods received dates, and signatures for goods received. In addition, some information on the local request forms was illegible.

SAM Section 20500 states that a satisfactory system of internal control shall include a system of authorization and recordkeeping procedures adequate to provide effective control over assets, liabilities, revenues, and expenditures. SAM Section 10831 also states that materials must be issued from storerooms on approved requisitions only. Approving local request forms after the goods are received increases the risk of theft, or unauthorized use of items. Incomplete local request forms can result in incorrect information posted to inventory records.

Walk-in and advance orders

The walk-in order process for requesting materials is inconsistently followed by both warehouse personnel and walk-in customers. The Manual states that specific transaction codes should be used for walk-in orders and no orders will be filled in advance. However, per DPAC staff, some orders have been processed in advance but were never picked up. This resulted in waste of resources since the inventory records needed to be corrected, and unclaimed materials had to be restocked.

**RECOMMENDATION:**

We recommend that DPAC and Headquarters Division of Maintenance develop procedures governing the enforcement of recommendations to ensure full compliance with the Manual, as well as to provide clear guidance and adherence to the State Administrative Manual and other regulations pertaining to warehouse management.

We also recommend that District Warehouse Management:

- Review the staffing levels at its warehouses to ensure adequate segregation of duties for procurement activities.
- Ensure that access to materials in warehouses is limited to authorized Caltrans personnel.
- Establish monitoring procedures that includes reviews of local request forms and other documentation used to update inventory records.
- Provide training to crews and warehouse managers regarding the importance of internal controls and completing local requests forms properly.

### **DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE**

DPAC concurs with the findings and recommendations. Please see Attachment 1 for details of the response and action plan.

### **DIVISION OF MAINTENANCE RESPONSE**

Division of Maintenance concurs with the findings and recommendations. Please see Attachment 2 for details of the response and action plan.

### **DISTRICTS 2 AND 4 RESPONSE**

The Districts concur with the findings and recommendations. Please see Attachments 3 for details of their response and action plans.

### **FINDING 4 – Materiel Management Manual Needs Revision**

DPAC can improve the procedures over the warehouse and material management by updating the Manual which is the warehouse employees' guide in their day to day operations and data processing. During our audit, we noted various sections are outdated and in need of revision, and that there has been no update to the Manual since October 2011.

Specifically, the following sections of the Manual make reference to the Transportation Accounting Management System, Caltrans old accounting system:

- Chapter 1, Users Guide for Preparation of SVS Documents
- Chapter 2, Warehousing Material, Section B, How much to Stock
- Chapter 3, SVS Inventory Adjustments, Section E, Reconciling Working Stock Records
- Chapter 4, Receiving, Section C Form preparation
- Chapter 5, SVS Contingency Plan

We also noted that Chapter 3 of the Manual includes other out-of-date contact information and references to an incorrect SAM section.

Government Code section 13401 states in part that all levels of management must provide active, ongoing oversight and monitoring processes for the prevention and early detection of fraud and errors in program administration, and must routinely monitor, evaluate, and improve internal controls when necessary. Internal administrative controls comprise the methods and procedures that address operational efficiency and adherence to management policies, and include "...An established system of practices to be followed in performance of duties and functions in each of the state agencies..." SAM 20050 states that one indication of a deficient system of internal control is the presence of outdated manuals and procedures.

Without an updated manual, procedures and current industry best practices at the warehouses will not be consistently or properly applied.

**RECOMMENDATION:**

We recommend DPAC management review and update the Caltrans Materiel Management Manual.

**DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE**

DPAC concurs with the findings and recommendations. Please see Attachment 1 for details of the response and action plan.

# **ATTACHMENT 1**

## **DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE TO THE DRAFT REPORT**


## Memorandum

*Making Conservation  
a California Way of Life.*

**To:** WILLIAM E. LEWIS  
ASSISTANT DIRECTOR  
AUDITS AND INVESTIGATIONS

**Date:** October 26, 2017

**File:** P3030-0661

**From:** ANGELA SHELL   
Chief  
Division of Procurement and Contracts

**Subject:** **RESPONSE TO DRAFT REPORT – WAREHOUSE MAINTENANCE REVIEW AUDIT**

The Division of Procurement and Contracts (DPAC) has attached the Response to the Draft Report for the Warehouse Maintenance Review Audit. Please find attached the updated Product Specialist Desk Manual, Section 6, Obsolete Products Process, to satisfy the recommendation for Finding 1.3.

**Attachments:**

- (1) P3030-0661 Response to Draft Report
- (2) Finding 1.3— Product Specialist Desk Manual, Section 6

If you have any questions regarding this status response, please contact Char Krantz by phone at (916) 227-6071 or by email at [Char.Krantz@dot.ca.gov](mailto:Char.Krantz@dot.ca.gov).

c: Zilan Chen, Chief, Internal Audits, Audits and Investigations  
Douglas Gibson, Audit Manager, Internal Audits, Audits and Investigations  
Edgar Diaz, Auditor, Internal Audits, Audits and Investigations  
Tracy Gentry, Assistant Division Chief, Policy, Protests, Communications and Materiel Management, DPAC  
Theresa Garon-Ford, Branch Chief, Material Distribution, DPAC  
Mel Cornsilk, Warehouse Manager, DPAC  
Char Krantz, Branch Chief, Policy, DPAC

**Audit Report Finding #1**

**Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances**

	A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
1.1	DPAC to continue yearly site visits to warehouses and provide assistance, recommendations or corrective actions to ensure that best practices are being implemented.	DPAC conducts 23 site visits per year and a report is completed and submitted to the Deputy District Director. The suggested resolutions contained in the report provide a basis for the Deputy District Director to have a District to correct deficiencies or determine corrective actions to ensure compliance. DPAC does not have authority to ensure compliance and only provides guidance and training.	Completed	Theresa Garon-Ford	
1.2	DPAC to report the results of its spot counts, warehouse inspections, and recommendations to District Warehouse Management.	DPAC submits a report detailing findings to the Deputy District Director for each site visit. The suggested resolutions contained in the report provide a basis to correct deficiencies as directed by the Deputy District Director.	Completed	Theresa Garon-Ford	
1.3	DPAC to work with Headquarters Division of Maintenance and District Warehouse Management to develop a solution for the disposition of obsolete items.	A process was implemented on October 2, 2017 and the Product Specialist Desk Manual was updated.	Completed	Theresa Garon-Ford Mel Corsilk	

**Audit Report Finding # 2**

**Antiquated Inventory System**

2.1	DPAC to work with the Division of Accounting to find a solution for the valid transactions being rejected due to crosswalk coding differences.	DPAC assigned an employee to correct rejected transaction documents until a more permanent solution is established pending the completion of the recommendation of Finding 2.2.	7/1/2020	Theresa Garon-Ford	
2.2	DPAC to pursue efforts to replace the SVS System to improve the level of service to users and ensure accurate and timely inventory records.	DPAC is currently working with IT through the Request for Information and vendor identification stage to replace the SVS system.	7/1/2020	Theresa Garon-Ford Gary Lovelace Lincoln Horst	

**Audit Report Finding # 3**

**Other Internal Control Deficiencies**

3.1	DPAC to work with Headquarters Division of Maintenance to develop procedures governing the enforcement of recommendations to ensure full compliance with the Manual, as well as to provide clear guidance and adherence to the State Administrative Manual and other regulations pertaining to warehouse management	DPAC will establish a committee with the Division of Maintenance to develop policies and procedures governing the enforcement of material management as contained in the State Administrative Manual Section 3535 and the Caltrans Materials Management Manual.	3/31/2018	Theresa Garon-Ford Lincoln Horst	
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**Audit Report Finding # 4**

**Materiel Management Manual Needs Revision**

4.1	DPAC to review and update the Caltrans Materiel Management Manual.	DPAC to update all nine sections of the Caltrans Material Management Manual.	6/30/2018	Theresa Garon-Ford	
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# **ATTACHMENT 2**

## **DIVISION OF MAINTENANCE RESPONSE TO THE DRAFT REPORT**


## Memorandum

*Serious drought.  
Help save water!*

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

Date: November 16, 2017

File: P3030-0661

From: TONY TAVARES,   
Chief,  
Division of Maintenance

Subject: **RESPONSE TO AUDIT RECOMMENDATIONS RE WAREHOUSE-MAINTENANCE  
AUDIT**

Please find attached the Division of Maintenance's (Maintenance) response to the recommendations made in the draft report of your Warehouse Maintenance Audit. Maintenance intends to work with DPAC to find solutions to the issues noted in the draft report.

Attachment:

c:



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

Audit Name: Warehouse - Maintenance Audit

Audit No. P3030-0661

Auditee: Division of Maintenance

<b>Audit Report Finding #1</b>				
<b>Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances</b>				
<b>A&amp;I Audit Recommendation</b>	<b>Auditee Response to Draft Report</b>	<b>Estimated Completion Date</b>	<b>Staff Responsible</b>	<b>A&amp;I Analysis</b>
Work with DPAC and District Warehouse Management to develop a solution for the disposition of obsolete items.	Maintenance supports working with DPAC and District Warehouse Management to discontinue ordering obsolete items.	TBD	DPAC, District and Division of Maintenance Staff	
<b>Audit Report Finding # 3</b>				
<b>Other Internal Control Deficiencies</b>				
Work with DPAC to develop procedures governing the enforcement of recommendations to ensure full compliance with the Manual, as well as to provide clear guidance and adherence to the State Administrative Manual and other regulations pertaining to warehouse management	Maintenance is in support of working to develop procedures in-line with enforcing recommendations ensuring compliance with the State Administrative Manual and regulations pertaining to warehouse management	TBD	DPAC and Division of Maintenance Staff	

# **ATTACHMENT 3**

## **DISTRICT 2**

### **RESPONSE TO THE DRAFT REPORT**


## Memorandum

*Serious drought.  
Help save water!*

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

Date: October 19, 2017

File: P3010-0661

From: DAVE MOORE,   
Director, District 2

Subject: **RESPONSE TO AUDIT RECOMMENDATIONS WAREHOUSE-MAINTENANCE AUDIT**

Please find attached District 2's response to the recommendations made in the draft report of your Warehouse Maintenance Audit.

### **FINDING 1 – Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances**

All audit recommendations have been implemented, except for disposition of obsolete items. We tentatively have DPAC scheduled to come in December to provide training on disposition of obsolete items, our estimated completion date is 180-360 days.

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### **FINDING 3 – Other Internal Control Deficiencies**

All audit recommendations have been implemented.

Attachment:

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

**Audit Name: Warehouse - Maintenance Audit**

**Audit No. P3030-0661**

**Auditee: District 2**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Audit Report Finding #1 Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances</b>				
Require the prompt posting of local requests for materials and supply issued.	Local request for material and supplies are being entered promptly. New inventory is entered into WSVS once it has arrived. 420's are attached to Statement of Account monthly and sent down to accounting.	Completed	Warehouse Purchasing Liaison	
Require completion of cycle counts at its warehouse and ensure that all inventory items are counted at least once annually and adjust inventory balances to reflect actual inventory on hand.	As of January 2017 we have performed monthly cycle counts and spot checks and have made any required adjustments.	Completed	Warehouse Purchasing Liaison	
Require the warehouse to implement recommendations made by DPAC on inventory best practices.	We collaborate and implement recommendations made by DPAC on inventory best practices. Staff reaches out regularly and consistently to DPAC for support regarding warehouse related issues to ensure continuity of service.	Completed	Warehouse Purchasing Liaison	
Work with DPAC and Headquarters Division of Maintenance to develop a solution for the disposition of obsolete items.	We are in the process of currently reducing our excess inventory levels to less than 17%. We currently have scheduled time in December with the Sacramento DPAC Warehouse to provide onsite training regarding excess inventory process. We work closely with Sacramento DPAC Warehouse, other Districts Warehouses and property control to eliminate obsolete material.	180-360 days	Warehouse Purchasing Liaison	
<b>Audit Report Finding # 3 Other Internal Control Deficiencies</b>				
Review the staffing levels to ensure adequate segregation of duties for procurement activities.	Two staff members are located onsite in the warehouse, one Warehouse Worker and one Warehouse Purchasing Liaison, this ensures adequate segregation of duties.	Completed	Warehouse Manager	
Establish monitoring procedures that includes reviews of local request forms and other documentation used to update inventory records.	Purchasing Liaison reviews all local request forms and other documents used to update inventory records and works with Warehouse Manager to determine essential inventory to be carried in the warehouse. The Manager reviews all daily SVS processed and rejected transactions reports for accuracy on completion. District 2 does fill orders in advance due to the distance of our maintenance yards to our warehouse. If items are on back order or we have issues with the local request, we can contact the requester prior to them traveling to the warehouse.	Completed	Warehouse Purchasing Liaison and Warehouse Manager	
Provide training to crews and warehouse managers regarding the importance of internal controls and completing local requests forms properly.	All Warehouse staff, including back-up staff, have been provided multiple training opportunities, such as; Sacramento DPAC Warehouse training, WSVS training, forklift training, Eureka District Warehouse onsite training, hazmat training, and training material/manuals regarding proper warehouse operations.	Completed	Warehouse Manager	

**ATTACHMENT 4**

**DISTRICT 4**

**RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Making Conservation  
a California Way of Life.*

To: WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

Date: October 26, 2017

File: P3030-0661

  
From: BIJAN SARTIPI  
District Director

Subject: **D4 Response to Draft Audit # P3030-0661 Regarding Warehouse Maintenance**

District staff has reviewed the draft audit report and participated in the exit conference. Attached is District 4 plan to address the findings of the audit.

If you have any questions or need additional information, please contact David Ambuehl, Deputy District Director of Maintenance at (510) 286-5893.

Attachment

Auditee (D4) response to draft audit report October 2017

c: Premjit Rai, Deputy District Director, Administration, District 4  
Jeffrey Butte, Region Manager II, Structure Steel Paint, District 4  
Zilan Chen, Supervising Management Auditor, Audits & Investigations

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

Audit Name: Warehouse - Maintenance Audit

Audit No. P3030-0661

Auditee: District 4

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Audit Report Finding #1</b>				
<b>Poor Inventory Controls at District Warehouses Resulting in Overstated Inventory Balances</b>				
Require warehouses the prompt posting of local requests for materials and supply issued.	For all future posting of local requests we will have a maximum 7 days to posts for materials and supplies issued.	Effective immediately after reopening warehouse	Tracey McCan & Bill Almeida	
Require completion of cycle counts at all its warehouses and ensure that all inventory items are counted at least once annually and adjust inventory balances to reflect actual inventory on hand.	We are currently in the process of doing an annual count and we will continue to do annual counts every end of fiscal year. We will request training on proper implementation of cycle counts to accurately ensure process is correct.	Current count - November 9, 2017 All future annual counts - late June	Tracey McCan & Bill Almeida	
Require district warehouses implement recommendations made by DPAC on inventory best practices.	Yes and more training required from headquarters to achieve a standardization of running the warehouse	Effective immediately after reopening warehouse	Tracey McCan & Bill Almeida	
Work with DPAC and Headquarters Division of Maintenance to develop a solution for the disposition of obsolete items.	Yes and we have already been in contact with David Dias in DPAC regarding this topic.	Effective immediately	Tracey McCan & Bill Almeida	
<b>Audit Report Finding # 3</b>				
<b>Other Internal Control Deficiencies</b>				
Review the staffing levels at its warehouses to ensure adequate segregation of duties for procurement activities.	Yes reviewed with upper managment with a revised staffing proposal to add an additional 2 more entry level employees	Effective December 1, 2017	Tracey McCan & Bill Almeida	
Ensure that access to materials in warehouses is limited to authorized Caltrans personnel.	Yes we will ensure access	Effective immediately	Tracey McCan & Bill Almeida	
Establish monitoring procedures that includes reviews of local request forms and other documentation used to update inventory records.	Every quarter reviews will be conducted by the supervisor and/or lead worker to ensure procedures are followed and that inventory is up to date.	Effective at the end of current December 31, 2017	Tracey McCan & Bill Almeida	
Provide training to crews and warehouse managers regarding the importance of internal controls and completing local requests forms properly.	We will request training every year or as needed for new employees to provide the importance for proper procedures.	Effective immediately pending availability of DPAC representatives	Tracey McCan & Bill Almeida	