

# Memorandum

*Serious drought.  
Help save water!*

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

Date: November 5, 2014

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File: P4000-0391

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Subject: **REVISED - FINAL AUDIT REPORT – ENCROACHMENT PERMITS STATEWIDE  
AUDIT**

Audits and Investigations (A&I) completed an audit of the California Department of Transportation's (Caltrans) Division of Traffic Operations' Encroachment Permit Program. We performed the audit to determine if adequate internal controls exist and are working as intended for the program. We also assessed compliance with state and department policies and procedures for the encroachment permits. The scope of the audit covered encroachment permit files from Districts 3, 4, 7 and 11 for the period July 1, 2012, through July 30, 2014.

The final audit report includes responses from the Divisions of Traffic Operations and Accounting, and Districts 3, 4, 7 and 11. We request that the status of corrective actions be provided to A&I within 60, 180, and 360 days from the date of the final report. If all the findings are not corrected within 360 days from the date of the final report, we also request that the status reports be provided every 180 days until the findings are fully resolved. As a matter of public record, this report and the status reports will be posted on A&I's website.

We thank you and your staff for their assistance during this audit. If you have any questions or need additional information, please contact Laurine Bohamera, Chief, Internal Audits at (916) 323-7107, or Juanita Baier, Internal Audit Manager at (916) 323-7951.

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**P4000-0391**

**Encroachment Permits Statewide  
Audit**

**October 2014  
(Revised)**

**William E. Lewis  
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## REPORT CONTENTS

<b>AUDIT REPORT</b>	<b><u>Page</u></b>
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	4
 <b>STATEWIDE FINDINGS AND RECOMMENDATIONS</b>	
1. Under Recovery of Costs for Administering the Encroachment Permit Program	5
2. Hourly Rate for Film Permits is Less Than the Standard Hourly Rate	10
3. Encroachment Permits are not Consistently Approved or Denied within the 60-Day Statutory Requirement	11
4. Project Inspections are not Consistently Performed	12
5. Lack of Segregation of Duties in Processing and Approving Permit Applications	14
6. Weakness in Initial Screening Process of Permit Applications	15
7. Lack of Reconciliation for Encroachment Permit Fees Collected	17
8. Inconsistency in Using Standard Forms	18
 <b>DISTRICT 3 SPECIFIC</b>	
9. The Workload not Consistently Monitored or Distributed in District 3	18

## REPORT CONTENTS

<b>AUDIT REPORT</b>	<b><u>Page</u></b>
<b>DISTRICT 4 SPECIFIC FINDINGS</b>	
10. The Current Environment Allows for Expediting Permits Without Proper Reviews	19
11. Unclear Assignment of Authority and Level of Responsibility	21
<b>DISTRICT 4 SPECIFIC OBSERVATIONS</b>	
1. Poor Communication Within the Encroachment Permits Office	22
2. Inadequate Records Management	23
3. Inconsistency in Forwarding Applications for Oversight Projects	24
<b>ATTACHMENTS</b>	
1. Division of Traffic Operations - Office of Permits Response	26
2. District 3 Response	27
3. District 4 Response	28
4. District 7 Response	29
5. District 11 Response	30
6. Division of Accounting Response	31

## Summary

Audits and Investigations (A&I) completed a statewide audit of the California Department of Transportation's (Caltrans) Division of Traffic Operations' Encroachment Permits Program (Encroachment Permits). The purpose of the audit was to determine if internal controls exist and are adequate to comply with state and departmental policies and procedures, and related laws and regulations. We conducted a statewide survey of all 12 district offices and performed field work in Districts 3, 4, 7 and 11, as well as the Office of Permits and the Division of Accounting.

Our audit disclosed that District 3, 7 and 11 have adequate internal controls in place for processing encroachment permit applications and issuing permits. We found internal control weaknesses in District 4 that will be discussed in detail in the Findings and Recommendations section of the report. We also found the following statewide and district specific findings and observations:

- Under Recovery of Costs for Administering the Encroachment Permits Program.
- Hourly Rate for Film Permits is Less Than the Standard Hourly Rate.
- Encroachment Permits are not Consistently Approved or Denied Within the 60 Day Statutory Requirement.
- Project Inspections are not Consistently Performed.
- Lack of Segregation of Duties in Processing and Approving Permit Applications.
- Weaknesses in Initial Screening Process of the Permit Application.
- Lack of Reconciliation for Encroachment Permit Fees Collected.
- Inconsistency in Using Standard Forms.

### District 3 Specific:

- The Workload is not Consistently Monitored or Distributed.

### District 4 Specific:

- The Current Environment Allows for Expediting Permits Without Proper Reviews.
- Unclear Assignment of Authority and Level of Responsibility.
- Poor Communications Within the Encroachment Permit Office.
- Inadequate Records Management.
- Inconsistency in Forwarding Applications for Oversight Projects.

A&I conducted two audits in 2006 and 2009 and a number of these findings were previously reported. As noted in the Findings and Recommendations section of the report, some of these findings continue to exist.

## **Background**

Caltrans issues encroachment permits in all 12 district offices. An encroachment permit is a valid contract between Caltrans and the permittee and provides permissive authority for the permittee to enter the state highway right-of-way to construct, alter, repair, improve facilities or conduct specified activities. All entities including individuals, contractors, corporations, utilities, cities and counties, Native American Tribes and other government agencies, other than Caltrans, must obtain an encroachment permit before conducting any activity within, under, or over the state highway right-of-way.

The process for issuing an encroachment permit involves the following:

- Submitting an application, supporting documents and applicable fees
- Project review and coordination
- Issue encroachment permit
- Inspect project during and after construction
- Accept as-built plans, process other requirements stipulated in the permit.
- Final accounting and billing/refund
- Archive permit file

## **Objectives, Scope, and Methodology**

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

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

The scope of the audit covered the period of July 1, 2012, through July 30, 2014, and focused on internal controls and procedural compliance as they relate to the Encroachment Permit Program. We conducted a statewide survey of the twelve District offices and analyzed the responses.

We judgmentally selected Districts 3, 4, 7 and 11 based on the results of the survey, our risk assessment, and the number of permits processed per year. According to the Encroachment Permit Management System, as of July 2, 2014, Caltrans issued a total of 11,065 encroachment permits in fiscal year 2012/2013.

**Objectives,  
Scope, and  
Methodology  
(continued)**

District	No. of Permits
1	439
2	498
<b>3*</b>	<b>963</b>
<b>4*</b>	<b>1,942</b>
5	543
6	1,027
<b>7*</b>	<b>2,307</b>
8	1,029
9	340
10	698
<b>11*</b>	<b>682</b>
12	597
<b>Total</b>	<b>11,065</b>

\* Selected districts for field work.

During fieldwork we conducted interviews, observed operational and administrative procedures and tested source documents to specific objectives.

**Conclusion**

Our audit disclosed that Caltrans generally has adequate controls and procedures for administering the Encroachment Permit Program. However, we found the following statewide findings:

- Under Recovery of Costs for Administering the Encroachment Permit Program.
- Hourly Rate for Film Permits is Less Than the Standard Hourly Rate.
- Encroachment Permits are not Consistently Approved or Denied Within the 60 Day Statutory Requirements.
- Project Inspections are not Consistently Performed.
- Lack of Segregation of Duties in Processing and Approving Permit Applications.
- Weaknesses in Initial Screening Process of the Permit Application.
- Lack of Reconciliation for Encroachment Permit Fees Collected.
- Inconsistency in Using Standard Forms.

District 3 Specific:

- The Workload is not Consistently Monitored or Distributed.

District 4 Specific:

- The Current Environment Allows for Expediting Permits Without Proper Reviews.
- Unclear Assignment of Authority and Level of Responsibility.
- Poor Communications Within the Encroachment Permit Office.
- Inadequate Records Management.
- Inconsistency in Forwarding Applications for Oversight Projects.

**Views of  
Responsible  
Officials**

We requested and received a response from the Chiefs of the Divisions of Traffic Operations, and Accounting; and the District Deputy Directors for Maintenance and Operations in Districts 3, 4, 7 and 11. These officials agreed with some findings and disagreed with others. They all provided a written response with a plan of action for implementing the recommendations. For a complete copy of the responses, please see the Attachments.



**WILLIAM E. LEWIS**  
**Assistant Director**  
**Audits and Investigations**  
**October 21, 2014**

## FINDINGS AND RECOMMENDATIONS

### **Finding 1 – Under Recovery of Costs for Administering the Encroachment Permit Program**

We reviewed the encroachment permit processes statewide and found deficiencies that affect Caltrans' ability to recover the full cost of administering the Encroachment Permits (Encroachment Permits) Program.

Specifically we found:

- The Standard Hourly Rate has not been updated since 2004.
- Permit applicants with overdue permit fees are not tracked.
- A significant backlog of over 27,000 permit files waiting for close out.
- Inconsistencies in final billing and refunding practices.
- Inconsistencies between districts with the number of hours allowed for pre-conceptual meetings.

#### **The Standard Hourly Rate**

The Division of Traffic Operations' Headquarters Office of Permits (HQ Office of Permits) has not fulfilled its responsibility to update the Standard Hourly Rate annually, since 2004. This has resulted in under recovery of costs spent for administering Encroachment Permits. Audits and Investigations (A&I) conducted an audit in 2006 and reported this as a finding.

We reviewed the total revenue and expenditures for the period July 1, 2012, to June 30, 2013, and found that the program has recovered only \$5,779,044 or 31 percent of the program's total recoverable expenses of approximately \$18,558,403. This calculation did not take into consideration the costs associated with issuing exempt permits, as cities and counties are exempt from paying for their permits.

The Encroachment Permit Manual, Section 201.2B "Fee Calculation", 2. Standard Hourly Rate states, "Each fiscal year, HQ Encroachment Permits establishes the Standard Hourly Rate used for calculating encroachment permit fees. This rate is derived from salaries and wages, operating expenses, and an overhead assessment."

The HQ Office of Permits took steps to increase the hourly rate and issued a draft report on September 9, 2010, recommending an increase from the current \$82 to \$155 per hour. The Legal Division reviewed the draft report and recommended the hourly rate be put into regulation. The HQ Office of Permits drafted a regulation in 2012, but no changes have occurred since then. According to HQ Office of Permits, when they followed up on the status of the regulations with the Legal Division, the attorney indicated verbally that regulations were not necessary, but has not confirmed in writing.

**Finding 1 –  
(continued)**

**Permit Applicants with Overdue Permit Fees are not Tracked**

The District Encroachment Permit Offices are not tracking permit applicants with outstanding amounts prior to accepting new applications for a permit. Not tracking delinquent applicants can result in the accumulation of uncollectible permit fees and continuing to provide services to applicants who have delinquent fees. We noted that as of July 9, 2014, there was approximately \$571,822 in outstanding permit fees from multiple applicants that were overdue up to 2,033 days. It should be noted that utility companies make up a large portion of the outstanding permit fees. For example, Pacific Gas & Electric Co. had outstanding fees of \$133,182, and Southern California Edison had outstanding fees of \$59,166 as of the time of our testing. Due to the statute of limitations, Caltrans cannot require the permittee to pay outstanding permit fees beyond four years or 1,460 days after project completion.

Accounting Manual, Chapter 8 “Accounts Receivable”, Section 08.03.02 “Revenue”, 08.03.02.01 “Encroachment Permits”, 4<sup>th</sup> paragraph states that “A monthly report of outstanding encroachment permit accounts receivables with balances that are over 60 days old is sent to the Traffic Operations offices in the districts and the Division of Traffic Operations.” The Encroachment Permit Manual Section 201.2C “Billing and Overdue Account”, 2<sup>nd</sup> paragraph, states in part “Each District Office will make a list of repeat applicants and notify them of unpaid fees and that any new permits will only be issued after resolution with the HQ Division of Accounting.”

According to the audited districts, there has not been a reliable tool for monitoring overdue accounts. The Division of Accounting (DofA) was not able to provide an aging report to the districts from 2011 until 2013. Although the DofA started providing an aging report; it did not always contain accurate and useful information. In addition, the DofA stated that it’s difficult to collect from utility companies because of incorrect billing addresses and because utility companies are allowed deferred billing for their permits, which contributes to the outstanding fees.

**Significant Backlog of Permits Files Waiting for Close Out**

Permit files are not being closed out timely. We reviewed 66 files and found that 45 files (68 percent) were closed from 1 to 802 days after the permits’ expiration date. A&I reported this as an audit finding in 2006, and it remains uncorrected.

We found that as of June 15, 2014, there was a statewide backlog of 24,724 permit files pending final closure. The backlog of permit files pending closure can result in a loss of revenue to the State or untimely refunds being issued because many permits have either a balance due to Caltrans or a refund due to the applicant.

**Finding 1 –  
(continued)**

To illustrate, we obtained the total dollar amount of District 3’s backlog for the period July 1, 2012, to August 31, 2013. During this period District 3’s backlog totaled \$34,440 in additional billing and \$29,877 requiring refunds.

The table below represents the breakdown of the statewide backlog per number of years the permits have been expired:

<b>Number of Expired Permits and Time Expired</b>						
<b>District</b>	<b>Less than 1 year</b>	<b>Less than 2 years</b>	<b>Less than 3 years</b>	<b>Less than 4 years</b>	<b>Over 4 years</b>	<b>District Total</b>
1	159	87	65	37	104	452
2	88	24	0	1	8	121
3	451	221	175	98	149	1,094
4	1833	1,586	1,174	951	2,082	7,626
5	421	245	216	214	464	1,560
6	153	58	29	7	8	255
7	1730	1,415	1,163	542	911	5,761
8	607	429	199	96	77	1,408
9	243	106	61	76	35	521
10	610	619	359	313	767	2,668
11	447	350	316	256	408	1,777
12	502	375	243	152	209	1,481
<b>Total</b>	<b>7,244</b>	<b>5,515</b>	<b>4,000</b>	<b>2,743</b>	<b>5,222</b>	<b>24,724</b>

The four year statute of limitations for requiring payment has run out for approximately 5,222 permits statewide as shown above. Therefore, the permittees are no longer obligated to pay, which makes it difficult for Caltrans to recover the cost associated with issuing these permits.

The Encroachment Permit Manual Section 201.2 “Billing and Overdue Accounts”, states, “When a progress payment or final payment for an encroachment permit project is due, the Permit Engineer sends a “Progress Billing/Permit Closure (form TR-0129)...indicating the billing or refund information... to HQ DofA who then bills the permittee.” Moreover, Section 206.4A “Closing Out Permit Files” states in part, “When a permitted encroachment is completed, the file should be closed out ...”

According to staff in the audited districts, closing out permits is not their highest priority. Rather, issuing permits within the 60-day statutory timeframe is their highest priority.

**Finding 1 –  
(continued)**

**Inconsistencies in final billing and refunding practices.**

We found that billing and refunding practices among the Districts are inconsistent, specifically:

- a. Districts 3 and 7 have an informal policy of submitting the billing or refund to the DofA only when the final balance for a permit is more than two billable hours.
- b. District 11 processes refunds regardless of the amount. For example, refunds were processed with a balance of one hour or \$82 and another with a balance of only \$3.
- c. Districts 3, 4 and 7 do not collect all estimated fees prior to issuing the permit.

These inconsistencies contribute to Caltrans' inability to fully recover the appropriate cost spent for administering Encroachment Permits and to provide an appropriate and timely refund to the permittees.

The Encroachment Permit Manual, Section 207 "Accounting and Record keeping" states, "State statutes allow Caltrans to charge fees for actual costs of administering the Encroachment Permit Program. Districts are not delegated authority to waive or reduce fees and should recover all costs of administering the chargeable permits." Section 201.3 "Refunds" states, that "A minimum of one hour's time at the current Standard Hourly Rate is retained as an application-processing fee when a refund is appropriate."

According to district staff, they were not aware of the criteria stated above or informed on how to proceed when the final balance of a permit is more than one hour.

**Inconsistency with the Number of Hours Allowed for Pre-Conceptual Meetings.**

District Encroachment Permit Offices conduct pre-conceptual meetings when requested by prospective encroachment permit applicants to discuss permitting requirements for encroachment projects.

We found that districts are not consistent with the number of hours allowed for pre-conceptual meetings. For example, Districts 7 and 11 are allowing one pre-conceptual meeting and the time spent for the meeting is charged to customer service. If the applicant requests another meeting, the district will charge the actual time spent to the permit applicant once their completed application package is simplex stamped. Districts 3 and 4, on the other hand, allow multiple pre-conceptual meetings, and all the hours for these meetings are charged to customer service. This inconsistency may also contribute to Caltrans' inability to fully recover the appropriate cost for administering the program.

**Finding 1 –  
(continued)**

California Government Code Section 13401(a)(4) states that “Effective systems of internal accounting and administrative control are necessary to ensure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency.” In addition, the Encroachment Permit Manual, Section 207 states, Accounting and Recordkeeping “...in addition to using the appropriate Project Code, it is critical for all of Caltrans’ staff involved in permit-related activities (review, inspection, etc) to accurately document and report to Permits all time expended on permit work.”

Currently, there is no standard for allowing one or more pre-conceptual meetings and no guidance on how to charge the time spent on the meetings.

**Recommendations**

We recommend the HQ Office of Permits:

1. Follow-up with the Legal Division to determine if regulations are necessary to increase the Standard Hourly Rate. If regulations are necessary, request that the Legal Division proceed with implementing regulations.
2. Finalize the process for reviewing and revising, the Standard Hourly Rate on an annual basis when necessary.
3. Determine the appropriate number of hours allowed for pre-conceptual meetings and provide guidance to the districts on how to charge the time spent.
4. Require that utility companies, that are delinquent, pay in advance for their permits and require that they provide a central billing address.

We recommend that the DofA provide the district Encroachment Permit Offices with Aging Reports that contain useful, reliable and timely information on delinquent accounts.

We also recommend the District Encroachment Permit Offices:

1. Using DofA’s aging report; identify permittees with overdue balances prior to accepting new applications.
2. Require applicants to pay overdue balances prior to accepting new application.
3. Close out permit files timely and ensure the required close out documents are received.
4. Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.

**HQ Office of  
Permits Response**

HQ Office of Permits provided a response and agreed to the following:

1. Consult with the Legal Division to determine if regulations are necessary to increase the Standard Hourly Rate.
2. Work with DofA to finalize the process for reviewing and revising the Standard Hourly Rate on an annual basis.

**HQ Office of Permits Response (continued)**

3. Convene a committee to evaluate the appropriate number of hours allowed for pre-conceptual meetings.
4. Meet with DofA, districts and Legal to determine how to request payment in advance from utility companies that are delinquent.

In addition, the HQ Office of Permits agreed to assist the districts in implementing the recommendations. For a copy of the complete response, please see Attachment 1.

**District Encroachment Permit Offices Response**

District 3 provided a response to the draft report and agreed to implement the recommendations above. For a complete copy of the response, please see Attachment 2.

District 4 provided a response to the draft report and agreed to implement the recommendations above after getting clarification on some items from HQ Office of Permits. For a complete copy of the response, please see Attachment 3.

District 7 agreed with most of the recommendations above but has concerns over Recommendation 2 because utility companies are the ones with the most delinquent accounts. District 7 states that it only offers “deferred billing” up to the time of permit issuance, which saves administrative time and minimizes refunds. For a complete copy of the response, please see Attachment 4.

District 11 provided a response to the draft report and agreed to implement the recommendations above after getting clarification from HQ. For a complete copy of the response, please see Attachment 5.

**Division of Accounting Response**

The DofA agrees with the finding and has already taken corrective action. In August 2014, DofA started providing district encroachment permit offices with aging reports that are useful and provide relevant information. For a copy of the complete response, please see Attachment 6.

**Finding 2 – Hourly Rate for Film Permits is Less Than the Standard Hourly Rate**

Entities requiring film encroachment permits go through the California Film Commission to requests them. District 7 processes the permits and the California Film Commission remits payment to DofA Cashiering. We found that the hourly rate for film permits is set at \$70 per hour, which is \$12 less than the current rate of \$82 per hour. This difference is contributing to the under recovery of costs for the administration of the Encroachment Permits as discussed in Finding 1.

We estimate that Caltrans could have generated an additional \$374,400 in permit fees since 2001 by increasing the hourly rate for film permits. According to DofA Cashiering, they receive payment for an average of 100 film permits per month or 1,200 per year. Each permit requires a minimum of 2 hours of review time. Therefore, during the last 13 years we estimate that Caltrans has undercharged by \$12 per hour for at least 31,200 hours.

**Finding 2 –  
(continued)**

The State Administrative Manual, Section 8752, Full Cost Recovery, requires departments to recover full costs whenever goods or services are provided for others in all cases, except where statute prohibits full cost recovery. A Memorandum of Agreement for encroachment permits between the California Film Commission, the California Highway Patrol and Caltrans was renewed on June 1, 2014, but it does not include the hourly rate.

Neither the HQ Office of Permits nor the District Encroachment Permits Office could provide documentation to support why the hourly rate charged for film permits has remained at \$70. The Standard Hourly Rate was increased from \$70 to \$80 in 2001 and then to \$82 in 2004 for all permits except film permits. According to District 7 staff, they believe there was an agreement between the California Film Commission and Caltrans to maintain the hourly rate at \$70. However, this agreement could not be located.

**Recommendation**

We recommend the HQ Office of Permits adjust the hourly rate for film permits to the current standard hourly rate of \$82. If the standard hourly rate is increased in the future, the hourly rate for film permits should also be increased.

**HQ Office of  
Permits Response**

The HQ Office of Permits will meet with District 7 and the California Film Commission to discuss the Standard Hourly Rate for film permits.

**Finding 3 –  
Encroachment  
Permits are not  
Consistently  
Approved or  
Denied within the  
60-Day Statutory  
Requirement**

We found that permits are not consistently approved or denied within the 60-day statutory requirement. This was also reported as a finding in audits performed by A&I in 2006 and 2009.

We reviewed 123 completed permits statewide and found that 24 permits (20 percent) were approved beyond the 60-day statutory requirement. Specifically, we noted one permit took up to 491 days to be approved, 7 permits took more than 200 days and the remaining 16 permits took 71 to 173 days to be approved.

We also determined that District Encroachment Permits Offices use an inconsistent date of when the 60-day clock starts to approve or deny permit applications. Some districts use the actual date received and others the simplex date (date stamp) as the starting point. In some cases, we noticed that it took one to nine days for the staff to simplex stamp the permit application from the date it was received.

According to District Encroachment Permit staff, there are many reasons for the permit to take more than 60 days such as incomplete documentation and the complexity of the application. They stated that if additional documentation is necessary, they send a letter to the applicant requesting the missing documentation and stop the clock. The 60-day clock is reset once the information is received. However, we did not consistently see such documentation in the permit files we reviewed. Furthermore, the

**Finding 3 –  
(continued)**

Encroachment Permits Management System does not reflect any information on stopping or restarting the 60-day clock.

The California Streets and Highways Code Section 671.5, states “The department’s failure to notify the applicant within that 60-day period that the permit is denied shall be deemed to constitute approval of the permit. Thereafter, upon notifying the department, the applicant may act in accordance with its permit application, as if the permit has been approved.” Furthermore, the Encroachment Permits Manual, Section 201.5, “Processing Applications” states, “If the submittal was conditionally accepted, the Permit Engineer will assign an Encroachment Permit number and distribute it to the necessary Caltrans units to review it for compliance with policy, design and construction standards.”

When the statutory 60-day requirement to provide notification of denial is not met, the applicant may proceed with the encroachment because the application is deemed approved.

**Recommendation**

We recommend that HQ Encroachment Permits develop a standard letter for districts to use that clearly states that the application is denied and the clock will stop until the documentation is received.

We also recommend that District Encroachment Permit Offices:

1. Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.
2. Remind Encroachment Permit staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.
3. Consider documenting the stop and start dates on EPMS.

**HQ Office of  
Permits Response**

The HQ Office of Permits will develop standard letters for the district offices to use. The sample letters will be available on the intranet for easy reference. The HQ Office of Permits also provided the reference to the Encroachment Permit Manual where these issues are discussed. For a copy of the complete response, please see Attachment 1.

**District  
Encroachment  
Permit Offices  
Response**

Districts 3, 4, 7 and 11 provided a response to this finding and agreed to implement the recommendations as long as HQ clarifies what will be considered a statewide policy. For the complete responses per district, please see Attachments 2, 3, 4, and 5.

**Finding 4 –  
Project  
Inspections are not  
Consistently  
Performed**

We found no evidence that all required project inspections were consistently performed due to lack of documentation in the permit files reviewed. In addition, we could not determine that pre-construction meetings or final inspections were actually being performed for a number of permits because pre-construction or Notice of Completion forms were missing. This was also reported as a finding in the audit performed by A&I in 2006.

**Finding 4 –  
(continued)**

When project inspectors fail to perform the required permit procedures, permit conditions are not monitored or recorded.

The Encroachment Permits Manual, Section 206 “Permit Inspection and Enforcement” states that, “Each District is responsible for competent and adequate inspection of permitted work. Permit inspectors are assigned as required, sometimes other Caltrans’ units, utility companies, local agencies, or private engineers hired by the permittee may be asked to perform inspection. If inspection is to be done by any of the above listed, the inspector must be approved by the District Permit Engineer before commencement of work.”

According to District Encroachment Permit staff, some permittees do not coordinate with inspectors to set up pre-construction meetings after they receive their encroachment permit. In one district, inspectors are not authorized to perform inspections beyond their regular work schedule, especially at night or weekends due to budget concerns. In these cases, inspectors will inspect jobsites the following working day to ensure proper job closure. In other cases, the inspections may or may not be required, but there was not sufficient documentation in the permit file to determine whether or not the inspections were required.

**Recommendation**

We recommend that District Encroachment Permit Offices:

1. Ensure that required inspections are performed, and are consistently documented in the permit file.
2. Require that documentation be included in the permit file when inspections are not required.

**District  
Encroachment  
Permit Offices  
Response**

District 3 agreed to ensure that required inspections are performed and documented. For a copy of the complete response, please see Attachment 2.

District 4 provided a response stating that the Senior Permit Engineers will spot check to ensure that proper inspections are performed and documented, when necessary. District 4 also stated that full time inspections are not required or feasible due to the existing resources and overtime restrictions. For a copy of the complete response, please see Attachment 3.

District 7 agreed that when inspections are required they should be performed and documented. District 7 will require that inspectors perform inspections and, if necessary, supervisors approve overtime for required inspections. For a copy of the complete response, please see Attachment 4.

District 11 agreed with the recommendations and will remind its staff of having proper documentation for inspections. For a copy of the complete response, please see Attachment 5.

**A&I Analysis of Responses**

Districts 3, 7 and 11 agreed to implement the recommendation, but District 4 stated that full time inspections may not be required or feasible. We recommend that HQ Office of Permits make a determination as to when to perform inspections and require consistency among all districts.

**Finding 5 – Lack of Segregation of Duties in Processing and Approving Permit Applications**

We found that Districts 3 and 4 informally delegated the authority to sign and approve permits without appropriate supervisory review over the permits they process. In District 3, the Senior Transportation Engineers only review and sign complex permits. In District 4, we found that one permit was written and signed by the same permit writer and two permits were signed as approved by another permit writer without management review. This creates an internal control weakness in the lack of segregation of duties when permits are written and reviewed by the same person.

Inadequate review and approval may result in undetected errors and omissions in the permits being issued to the applicants. In addition, this may not ensure that all the requirements and conditions of the permit are properly communicated to the permittees.

The California Government Code 13403(a) states, “Internal accounting and administrative controls, if maintained and reinforced through effective monitoring systems and processes, are the methods through which reasonable assurances can be given that measures adopted by state agency heads to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to...a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.”

According to District Encroachment Permit management, there is no clear policy on reviewing, approving, and signing permits in the Encroachment Permits Manual. District 4 management requested guidance from the HQ Office of Permits but have yet to receive a response.

**Recommendations**

We recommend that HQ Office of Permits provide specific guidance to all districts regarding the requirements to process and approve permit applications.

We also recommend that District’s 3 and 4 Encroachment Permit Offices assign the responsibility for reviewing and approving permits to individuals one level above the permit writers until they receive further guidance from the HQ Office of Permits.

**HQ Office of Permits Response**

The HQ Office of Permits agreed to provide specific guidance to all districts. For a copy of the complete response, please see Attachment 1.

**District 3  
Response**

District 3 agreed to assign the responsibility for reviewing and approving permits to the Branch Chief or designated licensed engineer. For a copy of the complete response, please see Attachment 2.

**District 4  
Response**

District 4 disagreed with this finding and stated that it is a statewide practice to have Senior Engineers sign permits. It also stated that Senior Engineers may delegate the authority to sign permits to peer Senior Engineers or journey level subordinate staff, in consultation with the Office Chief.

**A&I Analysis of  
District 4's  
Response**

A&I agrees that most of the District Encroachment Permit Offices have Senior Engineers sign permits. However, most of the district offices have a Chief who is at the Senior level. A&I is not concerned with the classification, but rather with the internal control weakness in segregation of duties. When the same engineer writes, reviews, and approves the permit, there is no independent review to make sure all the requirements were met.

**Finding 6 –  
Weakness in  
Initial Screening  
Process of Permit  
Applications**

We found that internal control weaknesses exist in the initial screening process for permit applications in all four districts. This was also reported as a finding in the audit performed by A&I in 2006.

Specifically we noted the following:

1. Acknowledgment letters are not consistently sent to applicants. For example, in one district we reviewed 38 permit files and 37 did not contain evidence that acknowledgment letters were sent to applicants. If applicants do not receive acknowledgment letters they might assume their application was approved. The Encroachment Permits Manual, Section 201.5 requires that letters be sent to applicants to acknowledge the receipt of their application and whether it is rejected or conditionally accepted. According to the audited districts, they are using alternative methods, such as emails and telephone calls. However, we found no evidence to support these alternative methods in the permit files.
2. Permit applications are accepted and permit numbers are assigned prior to determining whether they are complete or not. Accepting incomplete permit applications may result in more time spent coordinating with applicants which affects the 60 day time frame. The Encroachment Permits Manual, Section 201.4 states that a permit number is assigned when an application is accepted as complete.
3. There is no consistent process for date stamping permit applications at the time they are received. By not date stamping the permit applications when they are received, the district is not able to monitor the timeliness of processing the applications. It is a good internal control practice to date stamp permit applications at the time they are received in order to track and monitor the timeliness of processing them. Existing policies

**Finding 6 –  
(continued)**

and procedures do not require districts to date stamp applications upon receipt.

4. Districts do not log, securely maintain, or submit applicant checks to the District Cashier timely. Specifically, we found there was a lag time of up to 14 days between the date the check was received and the date it was submitted to the District Cashier’s office. We also found that there are no processes in place to track and secure applicant checks in the district offices. Typically the check is attached to the permit applications. In the initial screening process the application is routed at least four times before the check is submitted to the District Cashier’s office. The Encroachment Permits Manual, Section 201.2, “Permit Application Fee” states, “All payments shall be logged and remitted to the District Cashier’s office by the next business day for deposit into the appropriate State bank account.”

**Recommendation**

We recommend that District Encroachment Permit Offices:

1. Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.
2. Ensure permit applications are complete prior to accepting them.
3. Date stamp applications at the time they are received.
4. Adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier’s office.

**District  
Encroachment  
Permit Offices  
Response**

Districts 3, 4, and 11 responded to this finding and agreed to implement the recommendations above. For a copy of the complete response per district, please see Attachments 2, 3, and 5.

District 7 provided a response stating that providing the applicant a copy of the fee sheet with a “PAID” stamp while they are at the counter should suffice in lieu of an acknowledgement letter. This district also suggested an email instead of a letter as a way of being more efficient.

The HQ Office of Permits also provided a response to this recommendation. It stated that it will work with the district offices on implementing these recommendations and it will review the guidance in the manual to determine if it needs to be revised or clarified.

**A&I Analysis of  
District 7’s  
Response**

A&I agrees that this section of the Encroachment Permits manual may need to be revised to come up with a more efficient process. A&I also agrees that an email or a copy of the fee sheet may be a more efficient method of communicating with the applicant after the initial screening process. A&I recommends that if the HQ Office of Permits determines that a change in policy is necessary, the change be communicated to all the districts.

**Finding 7 –  
Lack of  
Reconciliation for  
Encroachment  
Permit Fees  
Collected**

We found that processes do not exist for ensuring encroachment permit fees, including fees for film permits, are properly collected and applied to the proper permit. Specifically, we found:

Processes do not exist to (1) acknowledge the receipt of permit fee payments collected and submitted to HQ cashier by district cashier and (2) to validate that encroachment permit payments collected and submitted by the district cashier are applied to the proper permit by the HQ cashier. Encroachment permit fee payments and supporting documents, with the exception of film permits, are collected by the district cashier and submitted to HQ cashing through a third party courier. HQ cashing deposits and posts each payment by permit number.

We also found that there is no process established to ensure that Caltrans is being paid for all the film permits it issues. The California Film Commission acts as the liaison between the film industry and Caltrans by submitting permit applications to District 7. District 7 processes the application and issues the permits to the California Film Commission. The California Film Commission collects the payments and forwards them to HQ cashier. No acknowledgement is submitted to District 7 that fees were collected and paid for permits they issued.

By not having an established process for ensuring payments for permits fees collected are properly posted, there is the possibility of undetected or lost payments and documents and payments being posted incorrectly. Also, there is no assurance that all fees are collected for film permits issued. According to HQ cashier, currently, there is no process or policy in place for reconciling film permit fee payments.

California Government Code Section 13401(a)(4) states that “Effective systems of internal accounting and administrative control are necessary to ensure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency.”

**Recommendation**

We recommend that DofA Headquarters Cashier:

1. Work with HQ Office of Permits to establish a process for validating fee payments collected to the permits the districts issued including fees collected by the district cashiers and the California Film Commission.
2. Provide districts with appropriate information so they can validate the payments posted and acknowledge the permit fees collected.

**Division of  
Accounting  
Response**

DofA HQ Cashier will work with District 7 to revise the payment process for film permits. In addition, HQ Cashiering will create a report for use by districts to identify deposits made for encroachment permits. For a complete copy of the response, please see Attachment 6.

**Finding 8 –  
Inconsistency in  
Using Standard  
Forms**

We reviewed 123 permit files statewide and found that some districts were using different versions and, in some cases, outdated forms to process encroachment permits. For example, some districts were using the Encroachment Permit Application Review form from 1997, instead of the form that was revised in 2010. The Encroachment Permit Storm Water Assessment Form being used was from 2004, instead of the revised form from 2012. Also, there were five different versions of the Progress Billing / Completion Notice form being used, dating from 1997 to 2009; the latest revised version is from 2013.

Outdated forms may not include updated information and requirements. For example, outdated Encroachment Permits applications do not contain the notice for the Americans with Disabilities Act requirements.

The Encroachment Permits Manual Section 108, “Overview of Encroachment Permit Process” states, “An application for an Encroachment Permit must be on a current standard Encroachment Permit application.” Also, best practice dictates that all current standard forms should be used.

According to the districts, some staff saved the forms in their computers without updating them to the newest versions.

**Recommendation**

We recommend Districts ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual.

**District  
Encroachment  
Permits Offices  
Response**

Districts 3, 4, 7 and 11 will require that their staff use the most recent version of the encroachment permit forms.

The HQ Office of Permits also provided a response stating that it will remind the district offices that all the current forms are in the Encroachment Permits website and Caltrans Electronic Forms System.

**Finding 9 –  
The Workload is  
not Consistently  
Monitored or  
Distributed in  
District 3**

We found that the permit workload is not consistently monitored or distributed in District 3. Specifically, we noted that one electrical permit writer was assigned one permit during a year while their counterpart was assigned 76 permits during the same time period. According to the manager, the reason for the disparity in workload is that the permit writer who only completed one permit was also conducting electrical reviews. However, he did not provide documentation to support the review time for conducting electrical reviews by this permit writer.

Encroachment Permits Manual Section 108.1 – Enforcement Permit Projects, “These projects are 100 percent funded, designed, and constructed by a local agency, transportation agency, Sales-tax measure sponsor, or a private entity. Projects are non-complex and construction cost within the existing or future State right-of-way is under \$1 million. The project scope is defined, funding secured, and plans are complete.”

**Finding 9 –  
(continued)**

According to the permit writer and his manager, cities and counties do not submit proper electrical plans. Therefore, the permit writer has to assist them by re-designing the plans in order to maintain good partnership with these entities. We analyzed the time charged by this permit writer and noted that 40 percent was for writing permits and 60 percent for administrative time or overhead. It was not clear if the 60 percent was spent assisting cities and counties.

By not monitoring staff's workload, it could lead to inappropriate time charging practices. A lack of consistency in time recording diminishes Caltrans's ability to monitor and track the actual number of hours incurred in each permit. Furthermore, we could not find a policy stating that permit writers are required to redesign plans for cities and counties.

**Recommendation**

We recommend that District 3 Management:

1. Distributes the workload to staff evenly.
2. Request guidance to determine if it's appropriate for permit writers to design plans for permit applicants.
3. If it's determined appropriate, establish a tracking mechanism to account for time spent designing plans for permit applicants.

**District 3  
Response**

District 3 redistributed the workload immediately upon learning of this finding. In addition, District 3 stated that permit writers should not be designing plans for applicants as permit applicants are required to sign and stamp their own plans.

**Finding 10 –  
The Current  
Environment Allows  
for Expediting  
Permits Without  
Proper Reviews  
in District 4**

We conducted interviews, observed operational and administrative procedures, and found that employees in District 4 have been expediting permits without proper reviews at management's direction. The majority of the employees interviewed stated that management routinely asks them to expedite permits without providing time for proper reviews.

We reviewed documentation showing that management requested the following:

1. A permit to be issued after the work was already completed and the agency had not submitted the proper documentation.
2. A permit be expedited even though the proper documentation had not been provided. Further, it was unclear whether Caltrans was reimbursed for material and labor expenses that were incurred for this permit.
3. A permit be issued on the same day as the application was accepted.
4. A future permit be expedited for a joint project with a local agency; and agree to reciprocate services elsewhere in lieu of reimbursement of costs.

**Finding 10 –  
(continued)**

According to district management, there are occasions when a permit needs to be expedited due to unforeseen circumstances or the potential loss of funding for the applicant. However, expediting permits must not include over riding or bypassing the established internal controls in the permit issuance process.

An adequate system of internal controls includes policies and procedures that allow management to intervene or override established controls by documenting the reason and authorizing at the appropriate level when necessary. Control environment factors also include an appropriate “tone at the top” established by management and communicated effectively throughout the organization.

Director’s Policy DP-02-R2 states that managers and supervisors are responsible for:

- Exemplifying ethical standards in the workplace.
- Ensuring that their subordinates are informed of and comply with departmental policies regarding ethical conduct.
- Establishing an ethical climate in their work unit including controls and procedures that eliminate or reduce the opportunity for unethical conduct.

**Recommendation:**

We recommend that District 4 Management:

1. Consult with HQ Division of Traffic Operations to determine if expediting permits is acceptable.
2. If expediting permits is acceptable, District 4 should develop appropriate procedures and clearly communicate those procedures to all staff.

**District 4  
Response**

District 4 management agrees that the district sometimes expedites permits and states that it’s an acceptable practice. District 4 determined that separate procedures are not necessary for expediting permit applications and that all requirements still apply regardless of priority.

**A&I’s Analysis of  
District 4  
Response**

A&I reviewed District 4’s response which includes many examples where, in their opinion, expediting permits is acceptable. District 4 also believes that all procedures were followed when expediting permits. However, our audit found that procedures are not always followed when expediting permits and that staff do not have clear direction for expediting permits. Our recommendation remains that District 4, in consultation with HQ Division of Traffic Operations, develop specific procedures for expediting permits and clearly communicate those procedures to all staff. If HQ Division of Traffic Operations determines that expediting permits is an acceptable practice, it should provide consistent guidance to all districts.

**Finding 11 –  
Unclear  
Assignment of  
Authority and  
Level of  
Responsibility  
in District 4**

We found that the level of authority and responsibility in reviewing and approving permits, storm water requirements, and administrative duties is unclear among encroachment permit program staff in District 4.

*Approving Levels* - According to interviews with staff, management has not clearly communicated the levels of authority and responsibility for signing permits. Although the prior District Permit Engineer reviewed and approved most permits, the new District Permit Engineer informally delegated this responsibility to the Senior Engineers and now only reviews and approves high profile permits. Some Senior Engineers approve and sign all their permits while others allow their staff to sign the permits they process. We reviewed 38 permits and found that one was not signed; one was written and signed by the same permit writer; and two were signed as approved by a peer, another permit writer.

*Storm Water* – We found that District 4 does not have a process in place to ensure that all permits subject to storm water requirements are reviewed. Permit writers are inconsistent in performing the necessary reviews and the Senior Engineers do not give consistent direction. One Senior Engineer stated that the permit writers are required to assess storm water requirements by using standard form TR-0132, while another Senior Engineer stated that the form is no longer being used. District 4 has an assigned Encroachment Permit Storm Water Coordinator. However, this individual has only been in this position for approximately 16 months and was not given proper direction or training. During fiscal year 2013/14, approximately 100 application packages out of the 2,000 processed, were reviewed. It is unclear how many of the 2,000 application packages required storm water review.

*Administrative Unit* - We also found that there is confusion with roles and responsibilities in the administrative unit. Because there has been high turnover in the management of this unit, some employees are not sure of their roles and responsibilities and some engineers are performing administrative functions, such as Cal Card, file room clean up, and document searches in response to public records act requests. Employees are under the impression that the Senior Engineer over the administrative unit is on a rotational basis because management requests volunteers for this position from the District Division of Traffic Operations. The current Senior Engineer has been in the position for approximately two months and plans on retiring within one year. The prior Senior Engineer was there for approximately 16 months and the one before him approximately 18 months. As a result, management in the administrative unit lacks credibility because employees see this position as temporary.

An adequate system of internal controls includes the appropriate assignment of authority and responsibility. Specifically, management should consider the appropriate level of authority and scope of responsibility assigned to individuals based on employee's job responsibilities, knowledge and skills. Furthermore, management needs to make employees aware of their

**Finding 11 –  
(continued)**

responsibilities and clearly state management’s expectations. During the course of our audit, we noted that roles and level of responsibility have not been clearly communicated to staff.

**Recommendation**

We recommend that District 4 Management:

1. Determine the appropriate level of authority for reviewing and signing permits and communicate it to its entire staff.
2. Provide appropriate training and oversight to the Storm Water Coordinator.
3. Define clear roles and responsibilities for the administrative staff.

**District 4  
Response**

District 4 provided a response and agreed to implement Recommendations 2 and 3 above. However, District 4 believes that Recommendation 1 is not necessary and provided the same response for Finding No. 5.

**A&I Analysis of  
Response**

A&I reviewed District 4’s response to the recommendations for this finding and does not agree with the response. A&I still recommends that all three recommendations be implemented in order to strengthen internal controls as noted in our analysis of District 4’s response to the recommendations for Finding No. 5.

**Observation - 1  
Poor  
Communication  
Within the  
Encroachment  
Permits Office  
in District 4**

We found that communication in the Encroachment Permit Program is inefficient and sometimes non-existent. There is no process for effectively disseminating policies and procedures to all staff. While the District Permit Engineer holds weekly meetings with the Senior Engineers, the Senior Engineers do not have a consistent method for communicating with their staff. Furthermore, Senior Engineers have infrequent interaction with each other and do not promote a cohesive management team environment. During interviews, we found that staff feels overwhelmed with the amount of work and fears potential retaliation if they approach their Senior Engineer for guidance. Two out of the four Senior Engineers have worked in the Encroachment Permits for over 20 years, yet do not provide support to the newer Senior Engineers. This practice has a negative effect on staff’s productivity and morale.

According to the State Administrative Manual Section 20050, information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. In addition, Caltrans’ Director’s Policy No. DP-10, states that Caltrans Management has the responsibility for creating an environment and attitude that results in a committed team; and encourages an atmosphere where open discussion is encouraged and concerns are shared.

**Recommendation**

We recommend that District 4 Management:

1. Establish reporting relationships to ensure effective communication between employees, supervisors and managers.

**Recommendation  
(continued)**

2. Work towards building a cohesive management team with the goal of developing an engaged and inspired workforce as identified in one of Caltrans current strategic priorities.

**District 4  
Response**

District 4 responded that their reporting relationships are clear because the rank and file staff report to one of the four seniors and the seniors report to the Office Chief. It also stated that management will ensure that seniors hold regular staff meetings to disseminate information and provide a forum for open communication. In addition, District 4 will require regular management meetings.

**A&I Analysis of  
Response**

A&I reviewed District 4's response and agrees that holding regular staff meetings to provide training and a forum for sharing information is a good first step. District 4 believes that reporting relationships are clear in the Encroachment Permits Office. However, during the audit, A&I interviewed almost all the employees and based on the information provided, it was apparent that there is confusion among staff regarding the workload and the guidance being provided.

**Observation – 2  
Inadequate  
Records  
Management  
in District 4**

District 4 has a dedicated file room with a filing system that holds approximately four years worth of records. The electronic filing system is not adequate because the file room contains permit records that are over 20 years old; and as a result, it is cluttered and disorganized. We observed that there are approximately 35 boxes with permit files waiting to be closed out. We also noted many other boxes with documents stacked in no particular order waiting to be filed. Permit packages are clipped and placed in an accordion folder along with many other packages instead of in individual permit files. The lack of organization in the file room makes it difficult and time consuming to retrieve permit information.

California Government Code, Section 13403. (a) (3) states that the elements of a satisfactory system of administrative controls shall include a system of authorization and record keeping procedures adequate to provide effective accounting controls over operations.

In addition, Caltrans Deputy Directive No. DD-101 states that "records management is necessary for the efficient operation of the Department and to ensure good record keeping practices, including retention and preservation of electronic records.

**Recommendation**

We recommend that District 4 Management Require that staff follow the established procedures when checking out files from the file room and take the steps necessary to organize the file room.

**District 4  
Response**

District 4 took immediate action to organize the file room and will remind its staff to follow established procedures when checking out files. District 4 will also poll other districts to see if there are best practices for file control.

**Observation – 3  
Inconsistency in  
Forwarding  
Applications for  
Oversight Projects  
in District 4**

Our audit found that permit applications are not consistently reviewed to determine if they meet the criteria for an encroachment permit, or an oversight project. Oversight projects are generally more complex, exceed \$1 million, and fall under the responsibility of Project Development instead of Traffic Operations. Project Development’s responsibilities include the work plan development, plan review, obtaining encroachment permits, and executing cooperative or highway improvement agreements.

We found that Seniors and permit writers are aware that applicants may be intentionally setting project costs under \$1 million or breaking up projects into several projects to avoid the lengthier Project Development oversight project process. We received copies of two encroachment permit applications that listed project costs just under \$1 million dollars for each project which appeared to be the same project. We also noted, based on interviews, that one project was broken up into several different projects.

By not submitting these permit applications through the Project Development oversight project process, the appropriate costs may not be assigned to the project and proper design checks and inspections may not be performed. Since oversight projects are more complex, it may take longer to process the applications, which could result in the Encroachment Permit Office not meeting the 60-day statutory requirement for approving or denying the permit application.

Encroachment Permit Manual Section 202 states that the District Permit Engineer is responsible for determining the complexity of the proposed projects submitted to Caltrans. Current policy allows Highway Improvement Projects costing \$1 million or less to follow the encroachment permit process. In some cases, the level of complexity or location would dictate that the responsibility of the project is Project Development. Highway improvement projects greater than \$1 million would be assigned to Project Development and requires full project development process.

One Senior stated that encroachment permit staff are aware that applicants may be intentionally setting estimated costs below \$1 million dollars to avoid going to Project Management for design checks, project costs and inspections. They accept the applications without review because they are too busy to address this with local agencies.

**Recommendation**

We recommend that a Senior level or above review permit applications when they are close to the \$1 million dollar mark to determine if it should be an encroachment permit or an oversight project. If it’s an oversight project, the project should be forwarded to Project Management.

**District 4  
Response**

District 4 disagreed with this finding and stated that by policy and practice, Senior Permit engineers review all permit applications to determine which process to use.

**A&I Analysis of  
Response**

A&I agrees that by practice senior engineers are supposed to review all permit applications to determine which process to use. However, our audit found that some projects appeared to have been split to remain under the \$1 million threshold.

**Audit Team**

Laurine Bohamera, Chief, Internal Audits  
Juanita Baier, Audit Manager  
Edgar Diaz, Auditor  
Jonathan Geffrey, Auditor  
Amy Norwood, Auditor

# **ATTACHMENT - 1**

## **DIVISION OF TRAFFIC OPERATIONS OFFICE OF PERMITS RESPONSE TO THE DRAFT REPORT**

# Memorandum

*Serious drought.  
Help save water!*

**To:** WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

**Date:** October 28, 2014

**File:**



**From:** THOMAS P. HALLENBECK  
Chief  
Division of Traffic Operations

**Subject:** **DIVISION OF TRAFFIC OPERATIONS' RESPONSE TO DRAFT ENCROACHMENT PERMIT AUDIT REPORT (P4000-0391)**

The Division of Traffic Operations reviewed the September 2014 Draft Encroachment Permit Audit conducted by Audits and Investigations. Please see attached detailed responses to the recommendations.

If you have any questions on the attached responses, please contact Yin-Ping Li, Chief, Office of Permits at (916) 654-5548.

## Attachment

Encroachment Permit Audit Response

- c: Steve Takigawa, Deputy Director, Maintenance and Operations
- Clark Paulsen, Chief, Division of Accounting
- Jeanne Scherer, Deputy Chief Counsel, Legal Division
- Kris Kuhl, Acting Deputy District Director, Maintenance and Operations, District 3
- S. Sean Nozzari, Deputy District Director, Traffic Operations, District 4
- Ali Zaghari, Deputy District Director, Operations, District 7
- Marcelo Peinado, Deputy District Director, Traffic Operations, District 11
- Andrew Brandt, Acting Assistant Chief, Division of Traffic Operations, Headquarters
- Yin-Ping Li, Chief, Office of Permits, Division of Traffic Operations, Headquarters

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: Encroachment Permits Program

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
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**Audit Report Finding # 1**

**Under recovery of costs for administering the Encroachment Permit Program**

Recommendations to HQ Office of Permits				
1. Follow up with the Legal Division to determine if regulations are necessary to increase the Standard Hourly Rate. If regulations are necessary, request that the Legal Division proceed with implementing regulations.	HQ EP will consult with the Legal Division as recommended to confirm the need of regulations to increase the Standard Hourly Rate.  If regulations are necessary, HQ EP will consult with the Legal Division to assess the risks if Caltrans increases the Standard Hourly Rate prior to having regulations in place.	TBD	HQ Traf Ops-Tom Franklin	
2. Finalize the process for reviewing and revising the Standard Hourly Rate on an annual basis when necessary.	HQ EP will work with Accounts Receivable to finalize the process for reviewing and revising the SHR as recommended.	TBD	HQ Traf Ops-Tom Franklin	
3. Determine the appropriate number of hours allowed for pre-conceptual meetings and provide guidance to the districts on how to charge the time spent.	HQ EP will convene a committee of District and HQ EP and other functional units to evaluate issues and propose solutions.	TBD	HQ Traf Ops-Tom Franklin	
4. Require that utility companies, that are delinquent, pay in advance for their permits and require that they provide a central billing address.	HQ EP will meet with Accounts Receivable, District EP, Legal, and utilities to discuss issues and identify solutions.	TBD	HQ Traf Ops-Tom Franklin	
Recommendations to District Permits Offices				
1. Establish a list of delinquent applicants using DofA's aging report to identify permittees with overdue balances prior to accepting new applications.	To assist the Districts, HQ EP will take the lead and work with Accounts Receivable to provide Districts with a user friendly aging report to identify overdue balances.	TBD	HQ Traf Ops-Tom Franklin	
2. Collect the overdue balance from the applicant prior to accepting the new application.	To assist the Districts, HQ EP will meet with Accounts Receivable and District EP to evaluate existing processes and update as required.	TBD	HQ Traf Ops-Tom Franklin	
3. Close out permit files timely and ensure the required close out documents are received.	To assist the Districts, HQ EP will provide monthly performance reports to the District Directors, DDDs, and DPEs in a collaborative effort to timely close out permits that had been completed.	TBD	HQ Traf Ops-Tom Franklin	
4. Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.	Based on information provided by Accounts Receivable, the threshold on refund and billing has been established in the State Administrative Manual (SAM). HQ EP will work with Accounts Receivable, District EP, and Legal to establish a standard practice to be implemented consistently statewide.	TBD	HQ Traf Ops-Tom Franklin	

**Audit Report Finding # 2**

**Hourly Rate for Film Permits is Less than the Standard Hourly Rate**

Recommendation to HQ Office of Permits				
We recommend the HQ Office of Permits adjust the hourly rate for film permits to the current standard hourly rate of \$82. If the standard hourly rate is increased in the future, the hourly rate for film permits should also be increased.	HQ EP will meet with District 7 and the California Film Commission to discuss the Standard Hourly Rate and how it applies to film permits.	1/15/2015	HQ Traf Ops-Tom Franklin	

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: Encroachment Permits Program

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Recommendations to HQ Office of Permits</b>				
Develop a standard letter for districts to use that clearly states that the application is denied and the clock will stop until the documentation is received.	HQ EP will develop and implement standard letters for application denials. Sample letters will be available on the EP intranet site for reference.	2/1/2015	HQ Traf Ops-Alfredo Rodriguez, Jr.	
<b>Recommendations to District Permits Offices</b>				
1. Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.	<p>HQ EP will send email to the Districts reminding them of the steps that had been incorporated into Section 201.5 of the EP Manual on 07/31/2013 to ensure that 1) an application is complete prior to it being simplex stamped and 2) Caltrans is in compliance with Section 671.5 of the California Streets and Highways Code.</p> <ul style="list-style-type: none"> <li>• After performing an initial screening of the application submittal for completeness, the Permit Engineer will send out a letter to the applicant acknowledging its receipt and whether or not it has been rejected or conditionally accepted.</li> <li>• If the submittal was rejected, the letter will detail the reason(s) for the rejection and list the required item(s) to be included with the resubmittal.</li> <li>• If the submittal was conditionally accepted, the Permit Engineer will then simplex stamp and assign an Encroachment Permit number and then distribute it to the necessary Caltrans units to review it for compliance with policy, design and construction standards.</li> </ul>	2/1/2015	HQ Traf Ops-Alfredo Rodriguez, Jr.	
2. Remind Encroachment Permit staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.	HQ EP will assist the Districts by reminding them to simplex the application only after it has been accepted as complete. The EPM Chapter 200, section 201.4 states, "A permit number is assigned when an application is accepted as complete."	2/1/2015	HQ Traf Ops-Alfredo Rodriguez, Jr.	
3. Consider documenting the stop and start dates on EPMS.	HQ EP will assist the Districts by working with HQ IT to explore the possibility of enhancing EPMS to better document the 60 day clock.	TBD	HQ Traf Ops-Alfredo Rodriguez, Jr.	

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: Encroachment Permits Program

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Audit Report Finding # 4</b>				
<b>Project Inspections are not Consistently Performed</b>				
<b>Recommendation to District Permits Offices</b>				
1. Ensure that required inspections are performed, and are consistently documented in the permit file.	HQ EP will assist the Districts by consulting with Districts to determine what obstacles might be contributing to this finding and what actions can be implemented on a statewide basis to meet this recommendation.	5/31/2015	HQ Traf Ops-David Lassiter	
2. Require that documentation be included in the permit file when inspections are not required.	HQ EP will assist the Districts by consulting with Districts to determine what obstacles might be contributing to this finding and what actions can be implemented on a statewide basis to meet this recommendation.	5/31/2015	HQ Traf Ops-David Lassiter	
<b>Audit Report Finding # 5</b>				
<b>Lack of Segregation of Duties in Processing and Approving Permit Applications</b>				
<b>Recommendation to HQ Office of Permits</b>				
The HQ Office of Permits provide specific guidance to all districts regarding the requirements to process and approve permit applications.	HQ EP will prepare (1) an interim guidance to the Districts while working to develop (2) a statewide policy.	(1) 3/31/2015 (2) TBD	HQ Traf Ops-David Lassiter	
<b>Recommendation to District Permits Offices</b>				
Districts 3 and 4 Encroachment Permit Offices assign the responsibility for reviewing and approving permits to individuals one level above the permit writers until they receive further guidance from the HQ Office of Permits.	HQ EP will assist the Districts by issuing a memorandum providing an interim guidance.	3/31/2015	HQ Traf Ops-David Lassiter	
<b>Audit Report Finding # 6</b>				
<b>Weakness in the Initial Screening Process of Permit Applications</b>				
<b>Recommendations to District Permits Offices</b>				
1. Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.	HQ EP will work with the Districts to draft a standard acknowledgement letter acknowledging receipt of application and to notify applicant whether the application had been conditionally accepted or rejected. Acknowledgement letter will be available on the EP intranet site for reference.	3/16/2015	HQ Traf Ops-Darren Tam	
2. Ensure permit applications are complete prior to accepting them.	HQ EP will send email or memo to remind the Districts that they need to adhere to the EP Manual guidelines. The EP Manual Chapter 200, section 201.4 states, "A permit number is assigned when an application is accepted as complete." An Encroachment Permit Application Checklist (TR-0402) is also available to aid Staff in reviewing application completeness before accepting them. If additional clarification is warranted, the EP Manual and/or the Application Checklist will be updated accordingly.	4/16/2015	HQ Traf Ops-Darren Tam	
3. Date stamp applications at the time they are received.	HQ EP will work with the Districts to draft policy making it standard practice to date stamp application at the time they are received, whether received at District office or Field office. HQ EP will work with HQ IT to explore options to provide an additional field in database for data input.	TBD	HQ Traf Ops-Darren Tam	
4. Adhere to the requirements for ensuring checks are tracked, securely maintained, and submitted timely to District Cashier's office.	HQ EP will send an email or memo to the Districts to remind them of the current practice as stated in EP Manual Chapter 200, Section 201.2, "All payments (coin, currency, checks, or warrants) shall be logged and remitted to the District Cashier's Office by the next business day for deposit into the appropriate State Bank account."	2/16/2015	HQ Traf Ops-Darren Tam	

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: Encroachment Permits Program

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Audit Report Finding # 7</b>				
<b>Lack of Reconciliation for Encroachment Permit Fees Collected</b>				
<b>Recommendation to DofA Headquarters Cashier</b>				
1. Work with HQ Office of Permits to establish a process for validating fee payments collected to the permits the districts issued including fees collected by the district cashiers and the California Film Commission.	HQ EP will assist the Cashering office in communicating with the Districts the appropriate actions required to validate payments.	12/31/2015	HQ Traf Ops-Tom Franklin	
2. Provide districts with appropriate information so they can validate the payments posted and acknowledge the permit fees collected.	HQ EP will assist the Cashering office in communicating with the Districts the appropriate actions required to validate payments.	12/31/2015	HQ Traf Ops-Tom Franklin	
<b>Audit Report Finding # 8</b>				
<b>Inconsistency in Using Standard Forms</b>				
<b>Recommendation to District Permits Offices</b>				
We recommend Districts ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual.	HQ EP will send email to the Districts to re-emphasize the importance that only current standard forms should be used.  Official forms are located in the Caltrans Electronic Forms System (CEFS), the EP intranet and internet websites and in the Encroachment Permits Management System (EPMS).	2/1/2015	HQ Traf Ops-Alfredo Rodriguez	

# **ATTACHMENT - 2**

## **DISTRICT 3**

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

**DEPARTMENT OF TRANSPORTATION****DISTRICT 3**

703 B STREET  
MARYSVILLE, CA 95901  
PHONE (530) 741-4318  
FAX (530) 741-4245  
TTY 711  
www.dot.ca.gov/dist3



*Serious drought.  
Help save water!*

October 30, 2014

Mr. William E. Lewis  
Assistant Director  
Audits and Investigations  
1304 "O" Street Suite 200  
Sacramento CA 95814

Dear Mr. Lewis:

Thank you for the opportunity to review and comment on the draft Encroachment Permit Audit Report dated September 2014. Attached, you will find the spreadsheet with District 3's response to the specific items you have identified in this draft report. We look forward to working with HQ's Traffic Operations and other Districts as needed to improve the processes and business practices for Encroachment Permits.

Many of the statewide findings will involve changes to, or more diligent implementation of, existing procedures found in the Encroachment Permit Manual. District 3 will pursue these changes as outlined in the enclosed spreadsheet with estimated due dates.

We have already started to implement changes to the one finding specific to our District, "The Workload is not Consistently Monitored or Distributed." On June 16, 2014, areas of responsibilities for the permit writers were revised to better balance workload. This is something we will continue to monitor and make adjustments as necessary.

We recommend updates to the Encroachment Permits Manual take place so better guidance is provided to Districts for consistent application Statewide.

Thank you for allowing us to be part of this audit process.

Sincerely,

A handwritten signature in blue ink that reads "Kris Kuhl".

KRIS KUHL  
Acting Deputy District Director  
District 3 - Division of Maintenance and Traffic Operations

Enclosure

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

**Audit Name:** Encroachment Permit Audit

**Audit No.** P4000-0391

Auditee: District 3 Encroachment Permits

**Audit Report Finding # 1**

**List Finding Here: Under Recovery of Costs for Administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
1. Establish a list of delinquent applicants using DofA's aging report to identify permittees with overdue balances prior to accepting the new applications.	We will build a list using DofA's aging report to identify permittees with overdue balances prior to accepting the new applications except for those with deferred billing. We will pursue correcting the technical issues for those eligible for deferred billing.	Receipt of the next aging report	Sergio Aceves	
2. Collect the overdue balance from the applicant prior to accepting the new application.	We will collect the overdue balance from the applicant prior to accepting the new application except for those with deferred billing. We will pursue correcting the technical issues for those eligible for deferred billing.	11/1/2014	Sergio Aceves	
3. Close out permit files timely and ensure the required close out documents are received.	We will establish new District Procedures to reduce the backlog and raise the priority for closing out permits.	12/1/2014	Sergio Aceves	
4. Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.	We will comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.	12/15/2014	Sergio Aceves	

**Audit Report Finding # 3**

**List Finding Here: Encroachment Permits are not Issued or Denied within the 60-Day Statutory Requirement**

1. Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.	We will ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.	11/1/2014	Sergio Aceves	
2. Remind Encroachment Permit Staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.	We will remind Encroachment Permit Staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.	11/1/2014	Sergio Aceves	
3. Consider documenting the stop and start dates on EPMS.	We will discuss with staff regarding documenting the stop and start dates on EPMS.	12/1/2014	Sergio Aceves	

**Audit Report Finding #4**

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: District 3 Encroachment Permits

**Audit Report Finding # 1**

**List Finding Here: Under Recovery of Costs for Administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
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**List Finding Here: Project Inspections are not Consistently Performed**

1. Ensure that required inspections are performed and are consistently documented in the permit file.	We will ensure that required inspections are performed and are consistently documented in the permit file.	12/1/2014	Sergio Aceves	
2. Require that documentation be included in the permit file when inspections are not required.	If we determine that a permit does not require inspection, then we include in the documentation permit file.	12/1/2014	Sergio Aceves	

**Audit Report Finding # 5**

**List Finding Here: Lack of Segregation of Duties in Processing and Approving Permit Applications**

2. Assign the responsibility for reviewing and approving permits to individuals one level above the permit writers until they receive further guidance from HQ Office of Permits.	The Branch Chief or, designated licensed engineer, will approve permits.	12/1/2014	Sergio Aceves	
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**Audit Report Finding # 6**

**List Finding Here: Weakness in the Screening Process of Permit Applications**

1. Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.	We will remind staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.	11/1/2014	Sergio Aceves	
2. Ensure permit applications are complete prior to accepting them.	We will ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.	11/1/2014	Sergio Aceves	
3. Date stamp applications at the time they are received.	We have a process in place to meet this recommendation	10/27/2014	Sergio Aceves	
4. Adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier's office.	We will adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier's office.	11/1/2014	Sergio Aceves	

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

Audit Name: Encroachment Permit Audit

Audit No. P4000-0391

Auditee: District 3 Encroachment Permits

**Audit Report Finding # 1**

**List Finding Here: Under Recovery of Costs for Administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
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**Audit Report Finding # 8**

**List Finding Here: Inconsistency in Using Standard Forms**

1. Ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual.	We will distribute the latest forms to the permit writers.	11/15/2014	Sergio Aceves	
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**Audit Report Finding # 9**

**List Finding Here: The Workload is not consistently Monitored or Distributed in District 3**

1. Distributes the workload to staff evenly.	Workload has been redistributed	6/15/2014	Sergio Aceves	
2. Request guidance to determine if it's appropriate for permit writers to design plans for permit applicants.	Permit writers should not be designing plans. The level of comment detail to expedite the review process may need adjustment. Permit applicants are required to sign and stamp their plans.	N/A	Sergio Aceves	
3. If it's determined appropriate, establish a tracking mechanism to account for time spent designing plans for permit applicants.	Not necessary, we do not design plans for permit applicants	N/A	Sergio Aceves	

# **ATTACHMENT - 3**

## **DISTRICT 4**

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

# Memorandum

*Serious drought.  
Help save water!*

To: WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

Date: October 22, 2014

From:   
S. SEAN NOZZARI  
Deputy District Director  
District 4, Operations

Subject: **Encroachment Permit Draft Audit Report**

The District 4 Division of Traffic Operations has reviewed the Encroachment Permit Draft Audit Report P4000-0391, dated September 2014. I appreciate this opportunity to strengthen our internal controls for processing encroachment permit applications and issuing permits.

In accordance with your staff's request dated October 8, 2014, pertinent District 4 responses to the recommendations are summarized in the provided template, in relation to Findings 1, 3-6, 8, 10, and 11; and Observations 1-3. The audit report Finding #10 implies internal control weaknesses in District 4 that warrant additional information – apparently not provided or sought at the time of the audit.

Finding #10 indicates *“The Current Environment Allows for Expediting Permits Without Proper Reviews in District 4. We conducted interviews, observed operational and administrative procedures, and found that employees in District 4 have been expediting permits without proper reviews at management's direction. The majority of the employees interviewed stated that management routinely asks them to expedite permits without providing time for proper reviews.”*

All permits applications processed in District 4 are intended to receive proper reviews even if expedited. The need for expediting permits is determined based on the unique characteristics and circumstances of individual applications. However, regardless of any tight deadlines established, permits routinely receive proper reviews.

There is a misperception that a “proper review” consists of distributing copies of a permit application to all District and/or headquarters' functional units for review, and to take as much as 60 days to respond (as allowed legislatively) irrespective of the nature or complexity of the permit application. This is generally not required nor acceptable in view of available resources and customer expectations. The District Office of Encroachment Permits employs many skilled, knowledgeable engineers. Many of our engineers, including supervisors and the manager, have extensive highway design and construction experience, and are registered civil engineers. Although not always feasible due to staffing limitations, it is perfectly acceptable to expect and conduct internal reviews within the Office of Encroachment Permits, and limit circulation of applications to the minimum required. This approach is typically utilized when a permit needs to

be expedited. When management is able to engage, permit applications receive a more timely and thorough review.

We will coordinate further with headquarters' Division of Traffic Operations to ascertain appropriateness of the above so that it may be reflected in the Encroachment Permits Manual, and more effectively communicated with Encroachment Permits Office staff.

Finding #10 indicates *"We reviewed documentation showing that management requested the following:*

1. *A permit to be issued after the work was already completed and the agency had not submitted the proper documentation.*

There are occasions in which we discover work completed by others within the State Right of Way, including that by local agencies without prior approval from the State. These are considered unauthorized encroachments. District 4 follows guidance provided in Section 206.3 of the Permit Manual regarding actions to take in these situations. This may result in a permit being issued after the work was already completed. As part of this process, an application will be requested and submitted with all necessary proper supporting documentation. The after-the-fact issued permit documents the date and type of work completed and places appropriate future responsibility with the permittee.

2. *A permit be expedited even though the proper documentation had not been provided. Further, it was unclear whether Caltrans was reimbursed for material and labor expenses that were incurred for this permit.*

There is nothing inherently wrong with expediting permits. As appropriately noted in the audit report, *"...there are occasions when a permit needs to be expedited due to unforeseen circumstances or the potential loss of funding for the applicant. However, expediting permits [does not] include over riding or bypassing the established internal controls in the permit issuance process."* Since the audit report did not identify the specific permit, it is difficult to ascertain if appropriate internal controls were overridden or bypassed (although unlikely).

Regarding the statement for reimbursement, Section 201.2A of the Permit Manual identifies the permits that are exempt from permit fees. As stated in the manual, public corporations are statutorily exempt from encroachment permit fees. In addition, the Permit Manual identifies 24 categories of permits that are administratively exempt from encroachment permit fees.

Protecting public safety and the integrity of the State highway system often requires close collaboration with local agencies and communities. The collaboration can take place through negotiations documented in a formal maintenance or cooperative agreement or through an encroachment permit that may involve negotiations (not formally documented or perhaps fully communicated). Regardless of the method used, the partnering, often entailing each entity to fund or perform a portion of the required work as part of their normal and routine activities,

results in a win-win scenario for all involved, particularly for the California motorists and the public.

3. *A permit be issued on the same day as the application was accepted.*

Again, there is nothing inherently wrong with issuing a permit on the same day as an application is accepted (although not always feasible). The following are examples of when this may occur.

- A permit rider to extend the completion date of an existing permit generally will not require extensive review, and may be issued on the same day the application was accepted.
- A double permit is a permit issued to someone performing work for an original permittee. The double permit is substantially identical to the original permit, which receives a thorough review. Therefore, the double permit does not require an extensive review, and may be issued on the same day the application was accepted.
- Annual permits allow public corporations, utility companies, and in some cases private corporations (ex: survey permits) the feasibility of performing everyday routine tasks and installations. These permits may be reviewed and issued in a short time period.
- Some permit applications may be submitted by public agencies upon prior coordination with District internal units such as Traffic Safety, Traffic Management, Signal Operations, or Maintenance, in order to accomplish a joint responsibility or interest. Having received prior internal review and concurrence, such permits can be issued quickly.

The above samples are only a few instances that may be conducive to a short review period. All permits are reviewed on their own merit. Without knowing which permit the audit is referring to, it is difficult to directly respond to the appropriateness of issuing the permit on the same day. However, when this is required, the reviews typically include hand delivering the proposal to functional units, so that concurrence is received on the same day.

4. *A future permit be expedited for a joint project with a local agency; and agree to reciprocate services elsewhere in lieu of reimbursement of costs.*

This item contains assertions that were also addressed in item #2 above, and are therefore repeated here.

There is nothing inherently wrong with expediting permits. As appropriately noted in the audit report, "...there are occasions when a permit needs to be expedited due to unforeseen circumstances or the potential loss of funding for the applicant. However, expediting permits [does not] include over riding or bypassing the established internal controls in the permit issuance process." Since the audit report did not identify the specific permit, it is difficult to ascertain if appropriate internal controls were overridden or bypassed (although unlikely).

Regarding the statement for reimbursement, Section 201.2A of the Permit Manual identifies the

permits that are exempt from permit fees. As stated in the manual, public corporations are statutorily exempt from encroachment permit fees. In addition, the Permit Manual identifies 24 categories of permits that are administratively exempt from encroachment permit fees.

Protecting public safety and the integrity of the State highway system often requires close collaboration with local agencies and communities. The collaboration can take place through negotiations documented in a formal maintenance or cooperative agreement or through an encroachment permit that may involve negotiations (not formally documented or perhaps fully communicated). Regardless of the method used, the partnering, often entailing each entity to fund or perform a portion of the required work as part of their normal and routine activities, results in a win-win scenario for all involved, particularly for the California motorists and the public.

Finding #10 indicates *“According to district management, there are occasions when a permit needs to be expedited due to unforeseen circumstances or the potential loss of funding for the applicant. However, expediting permits must not include over riding or bypassing the established internal controls in the permit issuance process. ... An adequate system of internal controls includes policies and procedures that allow management to intervene or override established controls by documenting the reason and authorizing at the appropriate level when necessary.”*

The District adheres to internal controls. In particular, the permits are reviewed and drafted by Permit Writers; and signed by Area Senior Permit Engineers. The Area Senior Permit Engineers ensure that all applications contain the proper documentation, and are reviewed by functional units, or Permits Office internal staff, as necessary.

Finding #10 indicates *“Control environment factors also include an appropriate “tone at the top” established by management and communicated effectively throughout the organization.”*

District management sets “the tone at the top” based upon Caltrans Mission as well as our vision for “A performance-driven, transparent and accountable organization that values its people, resources and partners, and meets new challenges through leadership, innovation and teamwork.”

District Management commits to improve communication with staff, through regular and expanded staff meetings, as well as more complete explanations as to why specific permits need to be expedited.

Finding #10 indicates *“Director’s Policy DP-02-R2 states that managers and supervisors are responsible for: Exemplifying ethical standards in the workplace; Ensuring that their subordinates are informed of and comply with departmental policies regarding ethical conduct; Establishing an ethical climate in their work unit including controls and procedures that eliminate or reduce the opportunity for unethical conduct.”*

It is unclear why the audit report singles out DP-02-R2, Ethics. However, in ensuring that the

WILLIAM E. LEWIS

October 22, 2014

Page 5 of 5

District Permits Office continue to uphold the requirements of DP-02-R2, Management will re-issue Staff Expectations memos to all staff, that will reinforce the responsibilities to adhere to all Departmental policies and directives, including:

- DP-02-R2, Ethics
- DD-09, Incompatible Activities and Conflict of Interest
- DD-54, Information Technology Use Standards
- DD-55, Management of Information Assets and Records
- DD-110, Employment Outside of the California Department of Transportation
- DD-111, Use of State Vehicles

Staff will also be reminded of the new Caltrans Ethics Helpline, as well as the Whistleblower Hotline, as a means for employees to safely, confidentially, and anonymously report suspected unethical behavior, and/or activities.

I would appreciate reflecting the above-provided additional information as part of the final audit report, as deemed appropriate. Thank you again for your and your staff's assistance with conducting this audit. We will implement the audit report's recommendations as indicated in the attachment. Please do not hesitate to contact me at (510) 286-6345, or Mr. David Salladay, at 510-286-4435, should you have any questions, or would like any additional information.

Attachment: Auditee Response to Draft Report (D4 Response)

c: Tom Hallenbeck, HQ-Traffic Operations  
Yin-Ping Li, Office Chief, HQ - Office of Permits  
David Salladay, District 4 – Encroachment Permits

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 1**

**Finding: Under recovery of costs for administering the encroachment permit program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<p>Establish a list of delinquent applications using DofA's aging report to identify permittees with overdue balances prior to accepting new applications.</p>	<p>D of A's aging reports have only been provided to the Districts for a few months.</p> <p>District 4 will defer to HQ Permits on how the District is to enforce the Permit Manual requirement that, "Each District Office will make a list of repeat applicants and notify them of unpaid fees and that any new permits will only be issued after resolution with the HQ Division of Accounting."</p> <p>Upon obtaining clarification, District 4 will implement this practice.</p>	<p align="center">11/30/14</p> <p align="center">1/1/15</p>	<p align="center">Office Chief</p> <p align="center">Permits Support Unit, Senior Engineer</p>	
<p>Collect the overdue balance from the applicant prior to accepting the new application.</p>	<p>District 4 will defer to HQ Permits on how to collect overdue balances.</p> <p>Upon obtaining clarification, District 4 will implement this practice.</p>	<p align="center">11/30/14</p> <p align="center">1/1/15</p>	<p align="center">Office Chief</p> <p align="center">Permits Support Unit, Senior Engineer</p>	
<p>Close out permit files timely and ensure the required close out documents are received.</p>	<p>District 4 will remind all permit inspectors to ensure the required close out documents are received, and permit files are closed in a timely manner, in cooperation with Permit Writers. Senior Permit Engineers will spot check permits in their region to ensure this is occurring, and track progress on a monthly basis.</p>	<p align="center">12/31/14</p>	<p align="center">Area Senior Permit Engineers</p>	
<p>Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.</p>	<p>Senior Permit Engineers will confirm that all estimated fees are collected before issuing permits. Prior to closing out permits, District 4 will ensure permittees have been billed properly, or issued a refund.</p>	<p align="center">12/31/14</p>	<p align="center">Area Senior Permit Engineers</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 3**

**Finding: Encroachment permits are not approved or denied within the 60-day statutory requirement**

<p>Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.</p>	<p>As long as this is the Statewide policy, this practice will be reinforced in District 4.</p> <p>However, District 4 proposes that the Permit Manual be revised to allow the simplex stamp be applied at the time of receipt, in order to better track all applications, including those that are initially rejected and will be re-submitted. In addition, the initial evaluations are unaccounted for, unless tracked by the simplex stamp.</p>	<p align="center">11/30/14</p>	<p align="center">Area Senior Permit Engineers</p>	
<p>Remind Encroachment Permit staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.</p>	<p>Staff will be reminded of the 60-day time period.</p>	<p align="center">11/30/14</p>	<p align="center">Area Senior Permit Engineers</p>	
<p>Consider documenting the stop and start dates on EPMS.</p>	<p>District 4 will defer to HQ Permits on how this may be best accomplished.</p>	<p align="center">12/31/14</p>	<p align="center">Office Chief</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 4**

**Finding: Project inspections are not consistently performed**

<p>Ensure that required inspections are performed, and are consistently documented in the permit file.</p>	<p>Given existing resources and overtime restrictions, inspections are conducted on an as-needed basis, depending on the nature of the permit. Full time inspection is neither required nor feasible. Senior Permit Engineers will spot check to ensure that proper bench mark inspection is performed, and documentation is placed in the permit files.</p>	<p align="center">12/31/2014</p>	<p align="center">Area Senior Permit Engineers</p>	
<p>Require that documentation be included in the permit file when inspections are not required.</p>	<p>Senior Permit Engineers will spot check to ensure that proper documentation is placed in the permit files.</p>	<p align="center">12/31/2014</p>	<p align="center">Area Senior Permit Engineers</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 5**

**Finding: Lack of segregation of duties in processing and approving permit applications**

<p>We also recommend that District's 3 and 4 Encroachment Permit Offices assign the responsibility for reviewing and approving permits to individuals one level above the permit writers until they receive further guidance from the HQ Office of Permits.</p>	<p>District 4 disagrees with this finding.</p> <p>Consistent with practice elsewhere in the State, District 4 has established that Senior Permit Engineers are representatives of the District Permit Engineer, authorized to sign encroachment permits and comment letters to applicants. Senior Permit Engineers may delegate authority to sign encroachment permits and comment letters on their behalf to peer Senior Engineers or journey level subordinate staff, in consultation with the Office Chief.</p>	<p align="center">N/A</p>	<p align="center">N/A</p>	
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**Audits and Investigations (A&I) - Response to Draft Report**

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 6**

**Finding: Weakness in initial screening process of permit applications**

Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.	Concur. This practice has been in place in District 4, and will be reinforced.	11/30/14	Permits Support Unit, Senior Engineer	
Ensure permit applications are complete prior to accepting them.	Concur. This practice has been in place in District 4, and will be reinforced.  Also, see response to Finding #3 above.	11/30/14	Area Senior Permit Engineers	
Date stamp applications at the time they are received.	Permit applications are received by several means (e.g. hand delivered, mailed to Senior Permit Engineer, mailed to the central desk, overnight mail, dropped off at field offices, etc.). Therefore, a consistent practice of date stamping the applications will need to be determined. District 4 staff will consult with other Districts to establish a best practice to implement this recommendation.	12/31/14	Permits Support Unit, Senior Engineer	
Adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier's office.	Concur. This practice has been in place in District 4, and will be reinforced.	11/30/14	Area Senior Permit Engineers	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 8**

**Finding: Inconsistency in using standard forms**

We recommend Districts ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual.

Concur. Staff will be reminded to use the latest version of encroachment permit forms. In addition, the Administration Senior will forward updated electronic forms to all staff.

11/30/2014

Permits Support Unit,  
Senior Engineer

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 10**

**Finding: The current environment allows for expediting permits without proper reviews in District 4**

<p>Consult with HQ Division of Traffic Operations to determine if expediting permits is acceptable.</p>	<p>All permit applications processed in District 4 are intended to receive proper reviews even if expedited. The need for expediting permits is determined based on the unique characteristics and circumstances of individual applications. However, regardless of any tight deadlines established, permits routinely receive proper reviews.</p> <p>There is nothing inherently wrong with expediting permits. As appropriately noted in the audit report, "...there are occasions when a permit needs to be expedited due to unforeseen circumstances or the potential loss of funding for the applicant. However, expediting permits [does not] include over riding or bypassing the established internal controls in the permit issuance process."</p> <p>There is a misperception that a "proper review" consists of distributing copies of a permit applications to all District and/or headquarters' functional units for review, and to take as much as 60 days to respond (as allowed legislatively), on a "first-in first-out" basis, irrespective of the nature or complexity of the permit application. This is generally not required nor acceptable in view of available resources and customer expectations. The District Office of Encroachment Permits employs many skilled, knowledgeable engineers. Many engineers assigned to Permits, including supervisors and the manager, have extensive highway design and construction experience, and</p>	<p align="center">11/30/14</p>	<p align="center">Office Chief</p>	
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**Audits and Investigations (A&I) - Response to Draft Report**

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

are registered civil engineers. Although not always feasible due to staffing limitations, it is perfectly acceptable to expect and conduct internal reviews within the Office of Encroachment Permits, and limit circulation of applications to the minimum required. This approach is typically utilized when a permit needs to be expedited. When management is able to engage, and prioritize workload, permit applications receive a more timely and thorough review.

There are occasions in which work completed by others is discovered within the State Right of Way, including that by local agencies without prior approval from the State. These are considered unauthorized encroachments. District 4 follows guidance provided in Section 206.3 of the Permit Manual regarding actions to take in these situations. This may result in a permit being issued after the work was already completed. As part of this process, an application will be requested and submitted with all necessary proper supporting documentation. The after-the-fact issued permit documents the date and type of work completed and places appropriate future responsibility with the permittee.

Section 201.2A of the Permit Manual identifies the permits that are exempt from permit fees. As stated in the manual, public corporations are statutorily exempt from encroachment permit fees. In addition, the Permit Manual identifies 24

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

categories of permits that are administratively exempt from encroachment permit fees.

Protecting public safety and the integrity of the State highway system often requires close collaboration with local agencies and communities. The collaboration can take place through negotiations documented in a formal maintenance or cooperative agreement or through an encroachment permit that may involve negotiations (not formally documented or perhaps not fully communicated to staff receiving encroachment permit applications). Regardless of the method used, the partnering often entails each entity to fund or perform a portion of the required work as part of their authorized, resourced, and routine activities, and results in a win-win scenario for all involved, particularly for the California motorists and the public.

The following are examples of when permits may be issued quickly:

- A permit rider to extend the completion date of an existing permit generally will not require extensive review, and may be issued on the same day the application was accepted.
- A double permit is a permit issued to someone performing work for an original permittee. The double permit is substantially identical to the original permit, which receives a thorough review. Therefore, the double permit does not require an

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

extensive review, and may be issued on the same day the application was accepted.

- Annual permits allow public corporations, utility companies, and in some cases private corporations (ex: survey permits) the feasibility of performing everyday routine tasks and installations. These permits may be reviewed and issued in a short time period.
- Some permit applications may be submitted by public agencies upon prior coordination with District internal units such as Traffic Safety, Traffic Management, Signal Operations, or Maintenance, in order to accomplish a joint responsibility or interest. Having received prior internal review and concurrence, such permits can be issued quickly.

The above samples are only a few instances that may be conducive to a short review period. All applications are reviewed on their own merit. When an application needs to be expedited, the reviews typically include hand delivering the proposal to functional units, often receiving concurrence on the same day.

The District adheres to internal controls. In particular, the permits are reviewed and drafted by Permit Writers; and signed by Area Senior Permit Engineers. The Area Senior Permit Engineers ensure that all applications contain the proper documentation, and are reviewed by functional units, or Permits Office internal staff, as necessary.

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

District management emphasizes customer service as well as efficiency, transparency, accountability, innovation and partnerships -- as reflected by Caltrans vision for "A performance-driven, transparent and accountable organization that values its people, resources and partners, and meets new challenges through leadership, innovation and teamwork."

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

<p>If expediting permits is acceptable, District 4 should develop appropriate procedures and clearly communicate those procedures to all staff.</p>	<p>All requirements and internal controls are utilized, regardless of priority. Additional training and information will be provided through expanded staff meetings and all staff will be reminded of the procedures.</p> <p>Staff will be reminded to evaluate unique circumstances, tight deadlines, and complex matters, through their chain of command immediately to ascertain necessary steps and actions, if necessary.</p> <p>District 4 will coordinate further with headquarters' Division of Traffic Operations to ascertain appropriateness of prioritizing workload as stated above; reflect accordingly in the Encroachment Permits Manual; and to more effectively communicate same with Encroachment Permits Office staff.</p> <p>District Management commits to improve communication with staff, through regular and expanded staff meetings, as well as more complete explanations as to why specific permits need to be expedited.</p> <p>To ensure that the District Permits Office continues to uphold the requirements of DP-02-R2, Management will re-issue Staff Expectations memos to all staff, that will reinforce the responsibilities to adhere to all Departmental policies and directives, including:</p>	<p>12/31/2014</p>	<p>Area Senior Permit Engineers</p>	
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**Audits and Investigations (A&I) - Response to Draft Report**

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

**Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations**

- DP-02-R2, Ethics
  - DD-09, Incompatible Activities and Conflict of Interest
  - DD-54, Information Technology Use Standards
  - DD-55, Management of Information Assets and Records
  - DD-110, Employment Outside of the California Department of Transportation
  - DD-111, Use of State Vehicles
- Staff will also be reminded of the new Caltrans Ethics Helpline, as well as the Whistleblower Hotline, as a means for employees to safely, confidentially, and anonymously report suspected unethical behavior, and/or activities.

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Finding # 11**

**Finding: Unclear assignment of authority and level of responsibility**

<p>Determine the appropriate level of authority for reviewing and signing permits and communicate it to its entire staff.</p>	<p>Consistent with practice elsewhere in the State, District 4 has established that Senior Permit Engineers are representatives of the District Permit Engineer, authorized to sign encroachment permits and comment letters to applicants. Senior Permit Engineers may delegate authority to sign encroachment permits and comment letters on their behalf to peer Senior Engineers or journey level subordinate staff, in consultation with the Office Chief.</p>	<p align="center">N/A</p>	<p align="center">N/A</p>	
<p>Provide appropriate training and oversight to the Storm Water Coordinator.</p>	<p>District 4 will provide the Storm Water Coordinator with appropriate training as it becomes available.</p>	<p align="center">12/31/15</p>	<p align="center">Permits Support Unit, Senior Engineer</p>	
<p>Define clear roles and responsibilities for the administrative staff.</p>	<p>District 4 will re-issue duty statements to all of the encroachment permit administrative staff.</p>	<p align="center">12/31/14</p>	<p align="center">Permits Support Unit, Senior Engineer</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Observation # 1**

**Observation: Poor communication within the encroachment permits office**

<p>Establish reporting relationships to ensure effective communication between employees, supervisors and managers.</p>	<p>The reporting relationships in District 4 are clear. The rank and file staff report to one of four Senior Engineers. The four Senior Engineers report to the Office Chief.</p> <p>District 4 will ensure that Senior Permit Engineers hold regular staff meetings to disseminate information, and provide a forum of open communication.</p>	<p align="center">11/30/2014</p>	<p align="center">Office Chief</p>	
<p>Work towards building a cohesive management team with the goal of developing an engaged and inspired workforce as identified in one of Caltrans current strategic priorities.</p>	<p>District 4 Encroachment Permits management team will meet regularly to ensure the team is cohesive, and to provide a forum of training and sharing lessons learned on engaging and inspiring their workforce.</p>	<p align="center">Ongoing</p>	<p align="center">Office Chief</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Observation # 2**

**Observation: Inadequate records management**

<p>We recommend that District 4 management require that staff follow the established procedures when checking out files from the file room and take the steps necessary to organize the file room.</p>	<p>District 4 will remind staff to follow the established procedures when checking out files from the file room. An individual will be assigned to ensure these procedures are being followed, such that deviations from these procedures can be identified and corrected.</p>	<p>11/30/14</p>	<p>Permits Support Unit, Senior Engineer</p>	
	<p>Furthermore, District 4 will poll other Districts to determine their method of file control, and to determine if a more suitable, effective method will work.</p>	<p>12/31/14</p>	<p>Permits Support Unit, Senior Engineer</p>	
	<p>The District 4 file room has been organized.</p>			

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: Sean Nozzari, District 4 Deputy District Director - Traffic Operations

**Audit Report Observation # 3**

**Observation: Inconsistency in forwarding applications for oversight projects**

<p>We recommend that a Senior level or above review permit applications when they are close to the \$1 million mark to determine if it should be an encroachment permit or an oversight project. If it's an oversight project, the project should be forwarded to Project Management.</p>	<p>District 4 disagrees with this finding. By policy and practice, District 4 Senior Permit Engineers review all permit applications to determine which process will be used.</p>	<p>N/A</p>	<p>N/A</p>	
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**ATTACHMENT - 4**

**DISTRICT 7**

**RESPONSE TO THE DRAFT REPORT**

**DEPARTMENT OF TRANSPORTATION**

OFFICE OF THE DIRECTOR  
P.O. BOX 942873, MS-49  
SACRAMENTO, CA 94273-0001  
PHONE (916) 654-5266  
FAX (916) 654-6608  
TTY 711  
www.dot.ca.gov



*Flex your power!  
Be energy efficient!*

October 27, 2014

**WILLIAM E. LEWIS**  
Assistant Director  
Audits and Investigations  
Sacramento, CA

Re: 2013 Audi of Encroachment Permit Office, Dist. 07

Dear Mr. Lewis,

Thank you for the opportunity to review and comment on the Audit Report. Attached, you will find the spreadsheet containing District 7's response to the specific items you had identified in the Final Report and additional general comments.

We look forward to working diligently with HQs Traffic Operations and other districts towards improving the Encroachment Permits processes and business practices. Amongst the many challenges ahead are two important areas in need of consideration. First is the need to focus on the development of the necessary resource structure and best practices to help bringing the backlogs up-to-date. This includes the need to recognize that Permits resources must factor in inspection that could occur beyond normal working hours and therefore require overtime resources. Second, on a related note, there may be opportunities to pursue the goal of making Encroachment Permits become largely self-reliant based on the revenues it can generate through proper valuation and collection of more equitable permits fees while maintaining high quality customer service. This may require the legislatures', the CalSTA's, and the California Transportation Commission's involvement in this important reform which is especially critical in the urban Districts such as District 7 with heavily travelled highways within metropolitan areas of Los Angeles and Ventura Counties.

We also recommend that further attention be paid to ensure that the applicable areas in the Encroachment Permits Manual are updated as identified in the Audit and via the feedback provided by the Districts. We would be happy to participate in the follow up effort to address the above needs.

Thank you once again for the Audit and the opportunity to be a part of this important exercise.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ali Zaghari'.

Ali Zaghari, PE  
Deputy District Director  
Traffic Operations  
District 07

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

Audit Name: **Encroachment Permit Audit**      Audit No. \_\_\_\_\_

Auditee: District 07

**Audit Report Finding # 1**

List Finding Here: **Under Recovery of cost for administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
1. Establish a list of delinquent applicants using DofA's aging report to identify permittees with overdue balances prior to accepting new applications	That is good only for current fiscal year.	one year	District: Front counter and admin	
2. Collect the overdue balance from the applicant prior to accepting the new application	This recommendation will be very challenging to implement and not conducive to the spirit of partnership the Department is promoting. Almost all of the overdue balances are from the applications from the utility companies which are most likely over one year old. In order to recover the charges and once a "request to pay" is made; these companies need to send the bill to their accounting office and that could take months before and if we are paid. Our experience is that the utility companies close and reconcile their accounting every year and it would be very hard to reopen old accounts. Because of this very issue, Dist 07 has stopped the "deferral". We only defer the payment from the application submittal date to the permit issuance date. This practice will, not only ensure payment and eliminate overdue balances, but also saves a lot of admin time and minimizes refunds. DofA should go thru a collection process for aged bills over one year in a manner that would not interfere with current utility work.	ongoing	District: Front counter and admin	
3. Close out permit files timely and ensure the required close out documents are received.	The district will strive to properly manage the large backlog of close-out permits. It would be helpful to reassess the amount of resources allocated for this task, especially in the larger urban districts.  The Workload Standard (WLS) may need to be revisited to assess the extent of work involved, including but not limited to file library management, microfilming, cataloging, billing, and purging extraneous material.	ongoing	Inspectors and admin.	
4. Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.	agree	ongoing	all staff	

**Audit Report Finding # 3**

List Finding Here: **Encroachment permits are not issued or denied within the 60-day Statutory requirements**

1. Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex	agree	ongoing	Front Counter	
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**Audits and Investigations (A&I) - Response to Draft Report**

Audit Name: Encroachment Permit Audit      Audit No. \_\_\_\_\_

Auditee: District 07

**Audit Report Finding # 1**

**List Finding Here: Under Recovery of cost for administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
2. Establish a consistent process to start the 60-day time period once the permit application has been simplex stamped	agree	ongoing	Front Counter, Permit writer, reviewers, admin	

**Audit Report Finding #4**

**List Finding Here: Project Inspections are not consistently performed.**

We recommend that District Encroachment Permit Offices ensure that required inspections are performed and are consistent with the specified permit requirements	Strongly agree. Of course there are a number of permits that do not require inspections or pre-job like "time extensions" or "Riders" and they mos-likely were not among the files audited. Inspection requests are rejected sometimes based on budget limitations. Our opinion is that per Section 206 of the EP Manual, as stated above - Inspection is necessary and is owed to the applicants because: 1) they have paid for it in advance and they count on our inspectors to be there, and 2) lack of presence and inspection deteriorates our authority out there and would not best protect the state highway facilities and increases the exposure to the State.	ongoing	Inspectors to perform inspection - supervisors to approve overtime for inspection if needed.	
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**Audit Report Finding #6**

**List Finding Here: Weakness in the initial screening process of Permit Applications**

1. Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual	This was probably drafted before we even had computers or fax machines. It needs to be revisited. Generally speaking; if some things are not being done over 95% of the times, it only means that policy needs to be revised. A copy of the fee sheet of the application with "PAID" stamp while they are waiting at the counter or email to the appliant should suffice in lieu of an acknowledgement letter.	ongoing	Front counter	
2. Ensure permit applications are complete prior to accepting them	strongly agree.	ongiong	Front counter, permit writers, inspectors	
3. Date stamp applications at the time they are received.	That's ok if also noted on the stamp whether the application is complete or incomplete. If incomplete this date stamp should not constitute the date to be used for the 60 days policy. In dist. 07, once the application is complete and ready for acceptance, we date it, log it in, give it a number and the 60 days clock starts running from then on.	ongoing	Front counter	

Audits and Investigations (A&I) - Response to Draft Report				
	Audit Name: Encroachment Permit Audit		Audit No. _____	
Auditee: District 07				
Audit Report Finding # <u>1</u>				
List Finding Here: Under Recovery of cost for administering the Encroachment Permit Program				
A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
4. Adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier's office.	agree	ongoing	front counter	
Audit Report Finding #8				
List Finding Here: Inconsistency in using Standard forms				
We recommend Districts ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual	agree	3/1/2015	Chief, Seniors,	

# **ATTACHMENT - 5**

## **DISTRICT 11**

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

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

**Date:** October 29, 2014

**File:**



**From:** MARCELO PEINADO  
District Division Chief  
Traffic Operations  
District 11

**Subject:** **RESPONSE TO DRAFT ENCROACHMENT PERMIT AUDIT REPORT (P4000-0391)**

Thank you for the opportunity to provide a response to the Draft Encroachment Permit Audit Report (P4000-0391) dated September 2014. District 11's responses to the findings are attached.

If you have any questions, please contact Ann Fox, District 11 Permit Engineer at (619) 688-3276.

**Attachment(s)**

Auditee Response to Draft Report (D-11 Response)

c: Yin-Ping Li, Chief, Office of Permits, Division of Traffic Operations, Headquarters  
Cory Binns, Chief Deputy District Director, District 11  
Ann Fox, District Permit Engineer, District 11

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: District - Traffic Operations

**Audit Report Finding # 1**

**Finding: Under recovery of costs for administering the encroachment permit program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<p>Establish a list of delinquent applications using DofA's aging report to identify permittees with overdue balances prior to accepting new applications.</p>	<p>D of A's aging reports have only been provided to the Districts for a few months.</p> <p>The list of aging reports should be prepared and sorted by Applicant and identify Permit number in order for it to be sortable/useful in the districts.</p> <p>Collections is a centralized activity, so action will be required of HQ and status of billing/collections reported to Districts. Additional clarification is needed from HQ.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Collect the overdue balance from the applicant prior to accepting the new application.</p>	<p>District will defer to HQ Permits on how to identify/collect overdue balances. Many of the Utility companies on the aging list have deferred billing accounts. Without status, the District is not aware of what billing cycle they may be on.</p> <p>Upon obtaining clarification, District 11 will implement this practice.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Close out permit files timely and ensure the required close out documents are received.</p>	<p>District will remind all permit inspectors to ensure the required close out documents are received, and permit files are closed in a timely manner, in cooperation with Permit Writers. Implement regular close-out status meetings to track outstanding closures.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Comply with the Encroachment Permits Manual for billable permitting activities and issue appropriate refunds.</p>	<p>Concur. District business practice is to currently collect estimated review and inspection hours prior to issuance of permit. Prior to closing out permits, District will ensure permittees have been billed properly, or issued a refund.</p>	<p>Ongoing</p>	<p>DPE</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: District - Traffic Operations

**Audit Report Finding # 3**

**Finding: Encroachment permits are not approved or denied within the 60-day statutory requirement**

<p>Ensure that all permit applications are complete and contain all pertinent documentation prior to applying the simplex stamp.</p>	<p>Concur.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Remind Encroachment Permit staff about the requirement to start the 60-day time period once the permit application has been simplex stamped and all required documentation has been received.</p>	<p>Staff will be reminded of the 60-day time period.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Consider documenting the stop and start dates on EPMS.</p>	<p>Concur. District will ensure that each correspondence is input in EPMS so that identify if waiting on District or Applicant response.</p>	<p>Ongoing</p>	<p>DPE</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: District - Traffic Operations

**Audit Report Finding # 4**

**Finding: Project inspections are not consistently performed**

<p>Ensure that required inspections are performed, and are consistently documented in the permit file.</p>	<p>Concur. Permit Inspectors will spot check to ensure that proper bench mark inspection is performed, and documentation is placed in the permit files.</p>	<p>Ongoing</p>	<p>DPE</p>	
<p>Require that documentation be included in the permit file when inspections are not required.</p>	<p>Concur. District will remind staff to capture this information on Permit Progress Billing/Closure Notice form.</p>	<p>Ongoing</p>	<p>DPE</p>	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: District - Traffic Operations

**Audit Report Finding # 6**

**Finding: Weakness in initial screening process of permit applications**

Remind permit staff to send acknowledgment letters to all applicants after the initial screening process as required by the Encroachment Permit Manual.	Concur. This practice will be reinforced.	Ongoing	DPE	
Ensure permit applications are complete prior to accepting them.	Concur. This practice will be reinforced.	Ongoing	DPE	
Date stamp applications at the time they are received.	Concur. This practice will be reinforced. The District stamps applications as 'received', then once all information is collected and conditionally complete, the application is Simplex stamped.	Ongoing	DPE	
Adhere to the requirements for ensuring checks are tracked, securely maintained and submitted timely to District Cashier's office.	Concur. This practice will be reinforced.	Ongoing	DPE	

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

**Audit Name: Encroachment Permit Audit**

**Audit No. P4000-0391**

Auditee: District - Traffic Operations

**Audit Report Finding # 8**

**Finding: Inconsistency in using standard forms**

We recommend Districts ensure that the latest version of encroachment permit forms are used as indicated in the Encroachment Permit Manual.

Concur. Staff will be reminded to use the latest version of encroachment permit forms. In addition, the Administration Senior will forward updated electronic forms to all staff.

Ongoing

DPE

# **ATTACHMENT - 6**

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

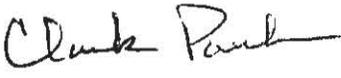
## Memorandum

*Serious drought.  
Help save water!*

**To:** WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigation

**Date:** October 22, 2014

**File:**

**From:** CLARK PAULSEN   
Chief  
Division of Accounting

**Subject:** **Division of Accounting Response – Encroachment Permit Audit (4000-0391)**

The Division of Accounting has reviewed the most recent draft report for the Encroachment Permit Audit. We concur with the findings identified relative to the Division of Accounting. Please find attached detailed responses to the findings.

If you have any questions or need additional information, please contact Lisa Kwong at (916) 227-9011 or Frank Garcia at (916) 227-9149.

### Attachment

c: Norma Ortega, Chief Financial Officer  
Thomas Hallenbeck, Chief, Division of Traffic Operations  
Yin-Ping Lee, Chief, Office of Permits, Division of Traffic Operations  
Lisa Kwong, Chief, Office of Financial Accounting and Analysis, Division of Accounting  
Frank Garcia, Chief, Office of Receivables, Systems and Administration, Division of Accounting

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

**Audit Name:** Encroachment Permit Audit

**Audit No.** 4000-0391

**Auditee:** Caltrans Division of Accounting

**Audit Report Finding # 1**

**Under Recovery of Costs for Administering the Encroachment Permit Program**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Recommendations to HQ Division of Accounting</b>				
<p>We recommend that the DofA provide the district Encroachment Permit Offices with Aging Reports that contain useful, reliable and timely information on Delinquent Accounts.</p>	<p>The DofA - Accounts Receivable Branch (ARB) has been sending a monthly aging report to HQ Traffic Operations - Office of Permits since October 2013. This report has also been distributed to the District Encroachment Permit Offices starting August 2014.</p> <p>The report identifies all outstanding encroachment permit receivable items by district, and contains the permittee name, permit number, invoice number, invoice date, amount invoiced, amount outstanding, &amp; the number of days outstanding. The ARB will continue to distribute this report on a monthly basis to HQ Traffic Operations and the District Encroachment Permit Offices.</p>	<p>Completed August 2014</p>	<p>Gina Schumacher, DofA - Revenues and Collections Section, Supervisor</p>	

**Audit Report Finding # 7**

**Lack of Reconciliation for Encroachment Permit Fees Collected**

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
<b>Recommendations to HQ Division of Accounting</b>				
<p>We recommend that DofA Headquarters Cashier: 1. Work with HQ Office of Permits to establish a process for validating fee payments collected to the permits the districts issued including fees collected by the district cashiers and the California Film Commission. 2. Provide districts with appropriate information so they can validate the payments posted and acknowledge the permit fees collected.</p>	<p>1. HQ Cashiering will work with HQ Office of Permits and District 7 to revise the process to have the checks from the California Film Commission (CFC) first be sent to District 7. District 7 will process the checks from CFC like the other non-film encroachment permits. Validation for CFC permit payments will be possible using standard processes enabled by the report described below. 2. HQ Cashiering will create a report for use by districts to identify deposits made for encroachment permits.</p>	<p>1. Process to be implemented by December 31, 2014. 2. Reports to be created and available by November 30, 2014.</p>	<p>Jenny Wong, DofA - Cashiering Deposits and Services Section, Supervisor</p>	