

DEPARTMENT OF TRANSPORTATION

Investigations of Improper Activities by State Employees, February 2003 Through June 2003

**ALLEGATION I2002-700 (REPORT I2003-2),
SEPTEMBER 2003**

Department of Transportation's response as of September 2003

Investigative Highlights . . .

A Caltrans' employee engaged in the following improper governmental activities:

- Misappropriated \$622,776 by requesting purchases and confirming the receipt of products that Caltrans did not receive.***
 - Directed a company to hold state funds outside the State Treasury and act as a fiscal agent without approval.***
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We investigated and substantiated an allegation that an employee for the Department of Transportation (Caltrans) misappropriated \$622,776 in state money. Our investigation showed that the employee submitted two purchase requests for products the department never received. The employee arranged for the company to hold these funds from these fictitious purchases and act as the State's fiscal agent.

Finding: An employee misappropriated state funds.

The employee misappropriated \$622,776 by submitting two purchase requests. After submitting the purchase requests, the employee directed the company to cancel delivery of the items and hold the payments in a company maintained account. In addition to initiating the purchase, the employee also verified the receipt of the products even though the company never sent these items. According to the employee, she directed the company to hold these funds outside the State Treasury and act as a fiscal agent to correct clerical errors and purchase training and information technology (IT) products for her unit.

In addition, poor management contributed to the misappropriation of funds. The employee's manager did not verify the receipt of the products on the fictitious purchases. The employee's unit gave the employee the responsibility and authority to request products, ensure their receipt, and monitor the funds used, which created the opportunity to misappropriate the funds.

Although Caltrans cannot completely account for the misappropriated funds, it paid unauthorized taxes and fees to the company. The balances that the employee and the company

maintained did not reconcile partly because the company commingled state funds with its own. However, the State did pay unauthorized taxes and fees. The company retained \$44,191, which represented sales taxes associated with the false purchase requests, and charged the State \$68,505 to maintain the account. Although the company likely earned interest during the two-year period it retained these funds, it did not allocate this interest to the State. Nevertheless, the company remitted \$75,698 to Caltrans, an amount it considered to be the balance the State paid for undelivered products.

Caltrans' Action: Partial corrective action taken.

Caltrans reported that it reinstated its prior policy of having all IT purchases shipped to, received, accepted, inventoried, and tagged by its Shipping and Receiving and Property Control units. Further, Caltrans reported that it initiated a practice of utilizing the Department of General Services' Technology and Acquisitions Support Branch for all IT procurements over \$500,000. Caltrans transferred the employee to another branch where her duties do not include procurement-related duties and will take appropriate disciplinary action against the employee upon completion of its review of case documentation. Caltrans added that it has contacted the appropriate law enforcement agencies to investigate any criminal implications or activity relating to the misappropriation. Caltrans also reported that it will make appropriate changes to its procedures after completing a review of its internal controls related to approval authorizations and documentation.