



MEMORANDUM

Date: 8/27/2019 File No.: 9210

To: Susan Bransen, Executive Director
California Transportation Commission
1120 N Street, MS 52
Sacramento, CA 95814

From: **Department of General Services**
Office of Audit Services

Subject: **AUDIT REPORT: DELEGATED PURCHASING PROGRAM**

Attached is the final report on our compliance audit of the California Transportation Commission's (CTC) delegated purchasing program. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of CTC's purchasing authority delegation agreements with DGS, which include dollar threshold limits for various categories of procurements.

CTC's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and commitments made to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit a status report on the implementation of each to us by February 28, 2020.

The necessity of any further status reports will be determined at that time. Please transmit your status report to: DGS – Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605 or preferably via e-mail to Olivia.Haug@dgs.ca.gov.

We greatly appreciated the cooperation and assistance provided by CTC's personnel. If you have any questions, please call me at (916) 376-5054, or Christine Pham, Management Auditor, at (916) 376-5060.

A handwritten signature in blue ink that reads 'Olivia Haug'.

OLIVIA HAUG
Manager, Office of Audit Services

Attachment

cc: Zilan Chen, Deputy Director, Administration and Financial Management
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA TRANSPORTATION COMMISSION
(CTC)**

**FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 9210**

OFFICE OF AUDIT SERVICES

JUNE 2019

**CALIFORNIA TRANSPORTATION COMMISSION
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO. 9210**

TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR'S REPORT	1
FINDINGS AND RECOMMENDATIONS	3
DELEGATED PURCHASING PROGRAM	3
RECOMMENDATIONS	4
CONCLUSION	4
CTC'S RESPONSE	5
EVALUATION OF CTC'S RESPONSE	7

STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: August 27, 2019

TO: **Susan Bransen**, Executive Director
California Transportation Commission

This report presents the results of our compliance audit of the delegated purchasing program of the California Transportation Commission (CTC). As required by Public Contract Code Section 10333, the Department of General Services (DGS) conducts an audit at least once in each three-year period of each state agency to which purchasing authority has been delegated by the department. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of CTC's purchasing authority delegation agreements with DGS, which include dollar threshold limits for various categories of procurements. As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing the conduct of competitive solicitations, use of leveraged procurement agreements, solicitation of certified small businesses (SB) and disabled veteran business enterprises (DVBE), establishment of fair and reasonable pricing for acquisitions of less than \$10,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Overall, we concluded that CTC is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreement. However, as discussed under the Findings and Recommendations section of this report, we identified a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The implementation of the recommendations presented in this report will assist CTC in addressing these issues.

During our review we also identified other matters requiring attention that we discussed with CTC's management but are not included in this report.

We acknowledge that CTC's management already started making changes to improve compliance with purchasing requirements before we began the audit and we are pleased that management took prompt corrective action to address areas for improvement identified during our audit fieldwork. Although we did not perform effectiveness tests to determine whether the corrective actions were fully functioning as intended, we appreciate the commitment shown to improve compliance with state requirements. CTC's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to our recommendations as well as our evaluation of the response are included in this report.

We greatly appreciated the cooperation and assistance provided by CTC's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5054, or Christine Pham, Management Auditor, at (916) 376-5060.

A handwritten signature in blue ink that reads "Olivia Haug". The signature is written in a cursive, flowing style.

OLIVIA HAUG
Manager, Office of Audit Services

Staff: Christine Pham, Management Auditor

cc: Zilan Chen, Deputy Director, Administration and Financial Management, CTC
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

CALIFORNIA TRANSPORTATION COMMISSION (CTC)

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CTC's delegated purchasing program. The state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (Non-IT), 3 (IT), and F (FI\$Cal).

This information was developed based on our fieldwork conducted over the period of April 25, 2019 through June 5, 2019. To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2018/19 fiscal year. Our transaction tests included the review of 10 delegated non-IT and IT procurements, including 4 leveraged procurement agreement transactions.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that CTC has implemented a delegated purchasing program that ensures compliance with the state's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers. However, our tests disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements.

Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted with transactions performed by CTC staff involved procurement transaction files that did not always include:

- Delegated purchasing authority number (SCM F, Ch.5—Overview-Introduction and LPA User Instructions—Contract Usage Rules)
- State's general provisions (SCM F, 4.B3.1 and 4.D4.0)
- Seller's permits for purchases of tangible items (SCM F, 4.B3.3)
- Complete and accurate bid information and/or justification to support fair and reasonable procurement methodology (SCM F, 6.9.1)
- Documentation that FTB and CDTFA websites have been checked to verify the contractor is not on a prohibited list (SCM F, 2.B4.5)
- SB/DVBE certificates for all small business (SB) and disabled veteran business enterprise (DVBE) contractors that bid on a state contract (SCM F, 3.A2.5)
- Commercially Useful Function (CUF) evaluation and determination for all SB and DVBE contractors, subcontractors and suppliers that bid on or participate in a state contract (SCM F, 3.A2.6 and 3.A2.8)
- Documentation of the Bidder Declaration—Form GSPD-05-105/05-106 for all SB/DVBE suppliers (SCM F, 3.A4.7)

- Documentation of Darfur Contract Act compliance for non-IT goods acquisitions (SCM F, 2.B4.6)
- Reference to the Leverage Procurement Agreement (LPA) terms and conditions on the purchase order for orders placed under an LPA (SCM F, 5.A1.10)

To address the audit findings, CTC's management promptly updated the policies and procedures manual, revised the file documentation checklist, and directed staff to start complying with the items we identified for improvements. Management also instituted a peer review process of procurement files to help ensure all purchasing requirements have been met. While we were not able to verify full effectiveness of the changes made during our audit field work, we acknowledge and appreciate the prompt corrective actions taken by CTC.

Recommendations

Continue with staff training and peer reviews to ensure procurement files consistently comply with the following areas:

- Referencing CTC's Purchasing Authority number on all purchase orders
- Documentation of the seller's permit
- Documentation of verification against FTB and CDTFA
- Documentation of SB/DVBE certificate
- Documentation of the Bidder Declaration
- Evaluation and documentation of CUF
- Documentation of Darfur compliance
- Referencing the State's General Provisions on all purchase orders
- Referencing the Leverage Procurement Agreement (LPA) terms and conditions on all purchase orders processed under an LPA

CONCLUSION

Our findings and recommendations are presented to aid CTC in administering its delegated purchasing program. CTC should address the reported issues to assist in ensuring compliance with applicable state laws, policies and procedures.



California Transportation Commission

August 20, 2019

FRAN INMAN
Chair

PAUL VAN KONYENBURG
Vice-Chair

BOB ALVARADO
Commissioner

YVONNE B. BURKE
Commissioner

LUCETTA DUNN
Commissioner

JAMES C. GHIEMETTI
Commissioner

CARL GUARDINO
Commissioner

CHRISTINE KEHOE
Commissioner

JOSEPH TAVIGLIONE
Commissioner

SENATOR JIM BEALL
Ex Officio

ASSEMBLY MEMBER JIM FRAZIER
Ex Officio

SUSAN BRANSEN
Executive Director

Olivia Haug
Manager, Office of Audit Services
Department of General Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

RE: Audit Report – Delegated Purchasing Program

Dear Ms. Haug:

Thank you for the draft audit report dated August 7, 2019, related to the delegated purchasing program for the California Transportation Commission (Commission). We value the opportunity to provide a response to the draft report.

The Commission has taken measures to improve internal controls over its purchasing and procurement functions to ensure compliance with the State Contracting Manual. These measures include increasing staff training, requiring peer review of procurement files, and updating policies and procedures in our procurement manual to make certain procurement files consistently include the following:

- Referencing the Commission's Purchasing Authority number on all purchase orders
- Documentation of the seller's permit
- Documentation of verification against Franchise Tax Board and the California Department of Tax and Fee Administration
- Documentation of Small Business/Disabled Veteran Business Enterprise certificate
- Evaluation and documentation of commercial useful function
- Documentation of Darfur compliance
- Referencing the State's General Provisions on all purchase orders
- Referencing the Leverage Procurement Agreement (LPA) term and conditions on all purchase orders processed under an LPA

The Commission appreciates the time and effort you and your team have taken to recommend improvement to our processes.

Olivia Haug
RE: Audit Report – Delegated Purchasing Program
August 20, 2019
Page 2

If you have any questions or concerns, please contact Zilan Chen, Deputy Director for Administration and Financial Management, at (916) 653-0162.

Sincerely,



SUSAN BRANSEN
Executive Director

**CALIFORNIA
TRANSPORTATION COMMISSION
(CTC)**

EVALUATION OF CTC'S RESPONSE

We have reviewed the response by the California Transportation Commission (CTC) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by CTC to improve its delegated purchasing functions.

