

## Memorandum

*Flex your power!  
Be energy efficient!*

To: FRANCESCA NEGRI  
Chief  
Division of Procurement and Contracts

Date: July 31, 2012

File: P3000-0402

From: WILLIAM E. LEWIS  
Acting Assistant Director  
Audits and Investigations



Subject: **Final Audit Report – Statewide Contract Management Audit**

Attached is Audits and Investigations' final audit report on California Department of Transportation's (Caltrans) contract management process. Your response has been included as part of our final report. This report is intended for your information and Caltrans Management.

Please provide our office with status reports on the implementation of your audit finding dispositions 60-, 180-, and 360-days subsequent to the report date. If all findings have not been corrected within 360-days, please continue to provide status reports every 180-days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

### Attachment

c: Malcolm Dougherty, Director  
Richard Land, Chief Deputy Director  
Cris Rojas, Deputy Director  
District Directors  
Coco Briseno, Acting Chief, Division of Research and Innovation  
Bill Bronte, Chief, Division of Rail  
Jay Norvell, Chief, Division of Environmental Analysis  
Megan Rettke, Assistant Division Chief,  
Division of Procurement and Contracts  
Kelly Takigawa, Assistant Division Chief,  
Division of Procurement and Contracts

P3000-0402
Contract Management
July 2012

Laurine Bohamera  
Chief, Internal Audits  
Audits and Investigations  
California Department of Transportation

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## **Summary**

Caltrans' Audits and Investigations (A&I) completed an audit of the California Department of Transportation's (Caltrans) contract management practices. The audit was performed to determine if contract managers complied with state and departmental policies and procedures for contract management. The scope of the audit covered service contracts executed by the Division of Procurement and Contracts (DPAC) and focused on contract manager responsibilities for administering contracts, monitoring contractor performance, and processing contractor invoices.

Our audit disclosed continuing weaknesses in contract manager responsibilities as noted by the following recurring findings:

- Inadequate Review of Contractor Invoices and Monitoring of Contract Expenditures
- Missing or Incomplete Contract Documentation
- Weaknesses In Contract Manager Training

Similar findings were previously reported by A&I in two prior audits dated October 23, 2007 and April 30, 2009.

## **Background**

Contract managers throughout the state are responsible for administering contracts executed by DPAC. Contract managers are responsible for monitoring and ensuring that contract transactions are properly processed, contract deliverables are received, and payments are legal and proper.

DPAC provides support and guidance to contract managers for the development and management of the acquisition of goods and services, and is responsible and accountable for the entire acquisition process. DPAC offers formalized training to contract managers in the form of an on-line training module.

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

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

The audit covered the period July 1, 2008 through June 30, 2010, with audit fieldwork being completed on August 22, 2011. Changes after August 22, 2011, were not tested and accordingly, our conclusions do not pertain to changes arising after this date. The audit focused on internal controls and procedural compliance as they related to the contract management function. The audit included tests as we considered necessary to determine whether contract managers:

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

- Allow contract services to begin only after contract approval.
- Monitor the performance of contract objectives.
- Review and approve invoices for contract deliverables rendered before authorizing payments.
- Monitor contract expenditures to ensure that sufficient funds are available and invoice payments are correctly processed through the Division of Accounting (Accounting).
- Ensure expenditures were budgeted and properly authorized.
- Administer and process amendments prior to expiration of the original contract.

We conducted audit fieldwork at Caltrans districts 3, 4, 11, 43, 65, and 75 to determine the adequacy of internal controls over the contract management function. In addition, we conducted a statewide survey to determine which Headquarters divisions were delegated authority from DPAC to execute service contracts. The survey was sent to 26 divisions and 16 divisions responded. Of the 16 divisions that responded, only two execute their own contracts in the form of master agreements and program supplements, and both divisions have proper delegation of authority to execute master agreements and program supplements.

**Conclusion**

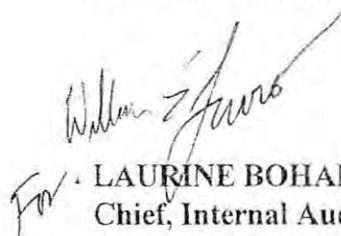
Our audit disclosed continuing weaknesses in contract manager responsibilities as noted by the following recurring findings:

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Similar findings were previously reported by A&I in two prior audits dated October 23, 2007, and April 30, 2009, with partial resolution.

**Views of  
Responsible  
Officials**

We requested and received a response from the Chief of DPAC. This official has, in general, concurred with the findings and recommendations and has prepared an action plan to address the recommendations. Please see the Attachment for the complete response.

  
For: **LAURINE BOHAMERA**  
Chief, Internal Audits  
Audits and Investigations

**June 27, 2012**

## FINDINGS AND RECOMMENDATIONS

### **Finding 1 - Inadequate Review of Contractor Invoices and Monitoring of Contract Expenditures**

We interviewed 30 contract managers and reviewed documentation from 60 contract files. We judgmentally selected invoices to review from each contract file for a total of 92 invoices. Our review of the 92 invoices disclosed that contract managers do not always review contractor invoices or monitor expenditures adequately as noted in the following examples:

1. 26 of the 92 invoices (28 percent) were not reviewed properly. As a result, the following conditions were identified in one or more of the 26 transactions:
  - Invoices were paid without supporting documentation. Specifically, we noted a contract payment was made for \$1,088,098 without a supporting invoice. In another example, an invoice with charges totaling \$6,515 had no supporting documentation.
  - Invoices had charges that were not itemized as required by the contract.
  - Invoices contained services that were different than the contracted services. In addition, some invoices had charges for staff that were not identified in the contract by name or title as required by the contract.
  - An invoice was paid that contained \$5,606 of unauthorized work.
  - Invoices were paid at different intervals than the contract requirements (i.e. weekly, bi-monthly).
  - Invoices were for services started prior to execution of the contract or contract amendment.
2. Contract managers did not monitor contract expenditures adequately. For example, we identified the following:
  - Contract balances were incorrect because some invoices were either not recorded or were recorded inaccurately.
  - Contract services were provided that exceeded the contract balance and, as a result, invoices were only partially paid.
  - A reconciliation of contract expenditures between the contract manager and Accounting did not take place, resulting in a \$5,159 invoice not being paid.
3. 21 out of the 92 invoices (23 percent) reviewed were incomplete. These invoices were not date-stamped when received, were missing the receiving document and/or were not approved by the contract manager.

**Finding 1 -  
(Continued)**

State Contracting Manual (SCM), Section 9.04-A.9 requires the contract manager to review and approve invoices for payment to substantiate expenditures for work performed.

In addition, the Department's Service Contract Managers Handbook, Chapter 4, sections 4.3.1 – 4.3.4 requires the following:

- Contract managers maintain constant status of contracts' available balances by keeping a running total of charges and costs for each contract on a spreadsheet.
- Contract managers reconcile, at least quarterly, a contract balance with Accounting. Further, the contract manager must review invoices for accuracy, timeliness, and compliance with cost and payment terms of contracts, ensure personnel shown match those listed in the cost proposal and/or contract, and verify and approve all invoices before submitting invoices to Accounting for payment.
- All invoices be date-stamped upon receipt and invoice packages include completed receiving records.

Inadequate review of contract invoices and supporting documentation increases the risk for loss of state funds when payments are made for services not received or not in compliance with the contract. Additionally, if the contract manager does not monitor contract expenditures, the contract could run out of funds or payments could be processed untimely.

**Recommendation**

We recommend that DPAC reiterate the importance of contract management responsibilities to contract managers. Additional emphasis should be provided in the following areas:

- Reviewing and approval of invoices before authorizing payment.
- Performing periodic reconciliations of contract payment records.
- Submitting complete invoice packages to Accounting.

**DPAC Response**

DPAC concurred with the finding and will reiterate the importance of contract manager responsibilities through Partnership and Outreach meetings.

**Finding 2 -  
Missing or  
Incomplete  
Contract  
Documentation**

We identified an ongoing condition reported in prior audits of incomplete contract files. Specifically, 43 out of the 60 contract files reviewed during this audit had missing or incomplete documentation as noted below:

**Finding 2 -  
(Continued)**

- 43 of the 60 files (72 percent) did not have documentation notifying the contractor to begin work. SCM, Section 9.09, A.4. states that “although initial notification to start work may be verbal, it should also be documented in writing and a copy of the notification retained in the contract file.”
- 34 of the 60 files (57 percent) did not have documentation indicating that a site inspection or review of the service was completed. SCM, Section 9.09, A.6. states that “the contract manager is responsible for monitoring and documenting the performance of contract services; contract managers must monitor the contractor’s performance and document it accordingly.”
- 23 of the 60 files (38 percent) were missing copies of the service contract request (form ADM 360). SCM section 9.09, A.1.c. requires that each file folder include a copy of the executed contract and other pertinent documentation, such as a copy of the original contract request. Caltrans’ Service Contract Managers Handbook sections 4.4.1 and 4.4.2 support this requirement in describing that contract managers maintain a “working” contract file for each separate contract and it should contain a copy of Service Contract Requests, ADM-360(s), with all supporting documentation.
- 19 of the 60 files (32 percent) did not have current certifications of insurance. Caltrans’ Service Contract Managers Handbook, section 4.3.5 describes that contract managers must monitor expiration date(s) of all certificates of insurance provided by contractors during the life of the contract, if insurance is a requirement of a contract.

As a result of the missing or incomplete documentation, it was difficult to determine if the contract performance requirements were satisfactorily met. In addition, failure to maintain documentation pertinent to contract requirements can prevent independent verification that proper contracting procedures were performed.

**Recommendation**

We recommend that DPAC, District Directors and Division Chiefs reinforce the need for complete documentation in the contract files.

**DPAC Response**

See DPAC’s response to Finding 1.

**Finding 3 -  
Weaknesses in  
Contract Manager  
Training**

We visited six districts, interviewed 30 contract managers and found the following weaknesses with current contract manager assignments and training:

- 5 of the 6 districts (83 percent) did not always notify DPAC when changes were made in the contract manager assigned to a contact and, as a result, the Contract Administrative Tracking System (CATS) was not updated.
- 17 of the 30 contract managers (57 percent) had not completed DPAC's Contract Manager Training and/or Accounting's, E-FIS Advantage training.

Caltrans relies on districts and programs to designate employees as contract managers to review and be familiar with contracting responsibilities through various contracting manuals and DPAC's Web site. Furthermore, good business practices dictate that employees receive training prior to managing contracts to ensure compliance with state and department policies and procedures.

Contracts managed by untrained staff increases the risk of noncompliance with the State Contracting Manual. In addition, a lack of accountability exists when the current contract manager is not identified in the CATS.

**Recommendation**

We recommend that DPAC:

- Request that districts and programs notify their office when changes in contract manager responsibilities occur.
- Remind District Directors and Division Chiefs that employees need to complete the on-line training module prior to managing a contract.

**DPAC Response**

DPAC will reiterate the importance of Contract Managers responsibilities through partnership and outreach meetings.

**Audit Team**

Juanita Baier, Audit Supervisor  
Kathy Brooks, Auditor  
Mandy Ip, Auditor

**ATTACHMENT**

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

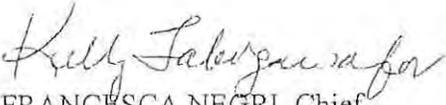
## Memorandum

*Flex your power!  
Be energy efficient!*

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

Date: July 27, 2012

File: P3000-0402

From:   
FRANCESCA NEGRI, Chief  
Division of Procurement and Contracts

Subject: **Status Report for Statewide Contract Management Audit**

The Division of Procurement and Contracts has attached the Draft Audit Response on the implementation of audit finding dispositions for the Statewide Contract Management Audit dated July 10, 2012.

If you have any questions on the status report, please contact Megan Rettke at (916) 227-6082.

Attachment:  
Draft Audit Response

**Audit Name:** Statewide Contract Management Audit  
**Audit Number:** P3000-0402  
**Audit Series:** Initial Response to Draft and Exit Conference

FINDINGS AND RECOMMENDATIONS 1 INADEQUATE REVIEW OF CONTRACTOR INVOICES AND MONITORING OF CONTRACT EXPENDITURES		Status	Response Date(s)	Audit Series
1:1	Recommend that DPAC reiterate the importance of contract management responsibilities to contract managers. Additional emphasis should be provided in the following areas: <ul style="list-style-type: none"> <li>• Review and approval of invoices before authorizing payment</li> <li>• Performance of periodic reconciliations of contract payment records</li> <li>• Submittal of complete invoices to Accounting</li> </ul>	In Process		
<b>Response:</b>  Contract Manager (CM) on-line training, along with several tools to help the CMs perform their duties, is available on the Division of Procurement and Contracts (DPAC) intranet site ( <a href="http://admin.dot.ca.gov/pc/cmgr.shtml">http://admin.dot.ca.gov/pc/cmgr.shtml</a> ). DPAC will reiterate the importance of CM responsibilities through Partnership and Outreach meetings.				
FINDINGS AND RECOMMENDATIONS 2 MISSING OF INCOMPLETE CONTRACT DOCUMENTATION		Status	Response Date(s)	Audit Series
2:1	Recommendation that DPAC, District Directors and Division Chiefs reinforce the need for complete documentation in the contract file: <ul style="list-style-type: none"> <li>• No documentation to notify contractor to start work</li> <li>• Missing service contract request (ADM 360)</li> <li>• Lacking current insurance certificates (that span the entire life of the contract)</li> </ul>	In Process		
<b>Response:</b>  Please refer to Response 1:1.				

**Audit Name:** Statewide Contract Management Audit  
**Audit Number:** P3000-0402  
**Audit Series:** Initial Response to Draft and Exit Conference

FINDINGS AND RECOMMENDATIONS 3 WEAKNESSES IN CONTRACT MANAGER TRAINING	Status	Response Date(s)	Audit Series
3:1 DPAC request that districts and programs notify their office when changes in contract management responsibilities occur: <ul style="list-style-type: none"> <li>• Lack of Contract Manager assignment changes in the file and in CATS</li> <li>• Contract Managers not completed DPAC's Contract Manager Training and /or Accounting's E-FIS Advantage Training</li> </ul>	In Process		
<b>Response:</b>  Our current contract data base (CATS) does not allow changes to be made once the contract is executed. The Division of Procurement and Contracts (DPAC) is working with IT to replace CATS. The new system will allow the Contract Manager (CM) to make this type of revision.  DPAC will reiterate the importance of CM responsibilities through Partnership & Outreach meetings.			

Approving Managers	Approval Date
Lindy Wilson, SSM II <i>(for) Rhonda Pile</i>	7/25/12
Rhonda Pile, SSM II <i>Rhonda Pile</i>	7/25/12
Jennifer Burnett, SSM II <i>Jennifer Burnett</i>	7/25/12
Megan Rettke, Assistant Division Chief <i>(for) Rhonda Pile</i>	7/25/12
Kelly Takigawa, Assistant Division Chief <i>Kelly Takigawa</i>	7/27/12