



CALIFORNIA
High-Speed Rail Authority

Procurement Audit

April 2015

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EXECUTIVE SUMMARY

The California High-Speed Rail Authority's (Authority), Audit Division has completed an audit of the Authority's Office of Procurement and Contracts which is under the Fiscal Services Division. The objective of the audit was to assess the efficiency and effectiveness of the processes in place to support procurement activities within the rules, regulations, and requirements set forth by the Department of General Services, Procurement Division. The audit was limited to the procurement process, which includes goods and information technology services. Our testing included 27 of the 253 (11%) purchases made during 2014, and the purchase amounts ranged from \$178.96 to \$27,361.13.

The audit was conducted to assess the efficiency and effectiveness of the processes in place to support procurement activities within the rules, regulation, and requirements set forth by the Department of General Services, Procurement Division.

Our audit found no instances of misuse of funds. However, our audit identified the following issues:

- Several purchases over \$5,000 were not registered in the State Contract and Procurement Registration System and they were not reported to the Department of Fair Employment and Housing after the procurement is awarded, as required.
- The Budget Office does not document its verification of the availability of funds before approving purchase documents.
- More than half of the purchases selected for review were not processed and approved within the three to six week timeframe set by the Office of Procurement and Contracts.
- Duplicate review and approvals by the contract manager or Chief Information Officer for a second review after the bidding process regardless if any changes were made to the purchase documents.
- The review process is not adequate to prevent errors in purchase documents and omissions in the purchasing process. Purchase estimates were not always properly approved. Also, purchase forms are not properly completed and not all the required documents were attached to the purchase order package.

The report contains the following recommendations:

- The Office of Procurement and Contracts should comply with the procurement process to ensure that all purchases over \$5,000 are registered in the State Contract and Procurement Registration System and also reported to the Department of Fair Employment and Housing.
- The Budget Office should develop specific procedures to verify the availability of funds before approving purchase documents.
- The Office of Procurement and Contract should improve the review process of purchase documents to ensure that the purchase documents are accurate and the workload is managed properly to ensure timely processing of purchases.
- The Office of Information technology should improve its review process of the purchase documents to ensure that goods and services requested meet established criteria.

- The Office of Procurement and Contracts should streamline the approval process to eliminate unnecessary approvals such as the required second review and approval by the contract manager or Chief Information Officer after the bidding process unless any changes are made to the purchase documents.
- The Office of Procurement and Contracts should perform a thorough review of purchase documents to ensure that all purchase documents are properly completed and approved, and all required documents are included in the purchase order package.

BACKGROUND

The Fiscal Services Division, Office of Procurement and Contracts acts as the purchasing authority for the California High-Speed Rail Authority (Authority) and is responsible for preparing bid documents and awarding contracts as well as assuring compliance with legal requirements in the procurement process. The Office of Procurement and Contracts reports to the Procurement and Contracting Officer, who is responsible for overseeing the Authority's purchasing and contracting function. All Authority purchases are the responsibility of the procurement staff and purchase documents are approved by the Chief Financial Officer, who is the Authority's Procurement and Contracting Officer. The responsibility for the Authority's purchasing program resides primarily, but not solely, with the Procurement and Contracting Officer; responsibility also resides with all staff involved in the procurement process.

The Office of Procurement and Contracts utilizes the State Contracting Manual, specifically Volumes 2 and 3, published by the Department of General Services, Office of Legal Services, as a resource for its procurement process. The State Contracting Manual provides the policies, procedures and guidelines to promote sound business decisions and practices in securing necessary non-information technology goods and information technology goods and services for the Authority.

To promote effective and efficient procurement practices and to achieve the best value for the money, Office of Procurement and Contracts personnel whose responsibilities are to procure goods and services for the Authority are expected not only to follow the State Contracting Manual, but also to follow the California High-Speed Rail Authority Procurement Policies and Procedure Manual (Manual). The Manual mirrors the State Contracting Manual on procurement policies and procedures while identifying additional controls that best fit the Authority's procurement needs. The Manual was originally created on November 30, 2006, and was also revised on April 15, 2014, during out audit period. Besides following the Manual, procurement staff are required to attend training provided by the Department of General Services California Procurement & Contracting Academy and complete the Basic Certificate Program. They are also expected to stay abreast of all current changes and events affecting the procurement process by checking the Department of General Services procurement website on a regular basis, and by attending the Department of General Services procurement workshops.

In the conduct of their operations, and in the accomplishment of the policies and procedures stated above, the Office of Procurement and Contracts personnel are also required to employ procurement process in a legal and ethical manner consistent with government statutes, rules, and regulations.

The Authority's business risks related to effective procurement practices include, but are not limited to, non-compliance with state laws, regulations, and requirements, as well as increased costs of doing business.

SCOPE AND METHODOLOGY

The Audit Division performed an audit of the Office of Procurement and Contracts' procurement policies, procedures, and processes. Specifically, tests were performed on the acquisitions of necessary non-information technology goods and information technology goods and services acquired through the different procurement methods (e.g., competitive, leveraged, exempt, etc.). Our audit did not include service contracts or the contracting process.

The objective of the audit was to assess the efficiency and effectiveness of the processes in place to support procurement activities within the rules, regulation, and requirements set forth by the Department of General Services, Procurement Division.

The audit included a review of judgmentally selected purchases for the audit period of January 2014 through December 2014. Our testing included 27 of the 253 (11%) purchases made during this period, and the purchase amounts ranged from \$178.96 to \$27,361.13.

Based on potential risks identified in the planning phase of the audit, a risk-based audit program was developed to detail how the audit objective, criteria, and risks would be addressed. The audit steps performed included, but were not limited to, the following procedures:

- Review the State Contracting Manual, Volumes 2 and 3 to gain knowledge of the procurement processes.
- Review the Authority's Purchasing Authority Approval issued by the Department of General Services.
- Review applicable provisions of the Public Contract Code, State Administrative Manual, and the California Code of Regulations.
- Review the California High-Speed Rail Authority Procurement Policies and Procedures Manual outlining the policies, procedures, guidelines, and directives related to procurement processes.
- Interview key personnel to obtain further understanding of specific aspects of the procurement process.
- Gather and review background information, e.g., review of the purchasing transaction logs, and other related documents.
- Perform tests to determine the effectiveness of controls for compliance with criteria applicable to the acquisition of necessary non-information technology goods and information technology goods and services, and assess the effectiveness of the procurement process.

Except as noted, we conducted our audit in accordance with the standards for the professional practice of internal auditing. However, we are unable to cite compliance with the standards because the Authority's Audit Division has not undergone a peer review as required by the standards due to the recent formation of the Audit Division and the lack of a body of work to be reviewed.

The review took place at the Sacramento office. The results of the audit were discussed with management on April 17, 2015. A response from the Fiscal Services and Administrative Divisions was provided, and is attached to this report.

RESULTS AND RECOMMENDATIONS

The results of our audit are discussed below along with recommendations for improvement.

1. Six purchase orders over \$5,000 were not registered in the State Contract and Procurement Registration System and they were not reported to the Department of Fair Employment and Housing after the award of the procurement, as required.

The California State Contracting Manual, Volume 3, section 8.1.1 states “Any and all purchase documents valued over \$5,000 shall be registered in the SCPRS [State Contract and Procurement Registration System], regardless of the contract type. This includes, but is not limited to grants, subvention contracts, and exempt contracts. Departments are encouraged to also enter information for lower dollar-value transactions.” In addition, sections 8.1.4 – 8.1.5 state “A department failing to record transactions in the SCPRS registration system will be considered non-compliant with purchasing authority requirements, which may adversely impact the department’s purchasing authority. This requirement is subject to the DGS audits. Purchase document amendments must be registered with the SCPRS”

Title 2, Division 4, Chapter 5, section 8117.5 of the California Code of Regulations requires contract awarding agencies to notify the Department of Fair Employment and Housing, Office of Compliance Programs of any contract award in excess of \$5,000.

Recommendations:

- The Office of Procurement and Contracts should comply with the procurement process to ensure all purchases, and applicable amendments, over \$5,000 are registered in the State Contract and Procurement Registration System.
 - The Office of Procurement and Contracts should comply with the procurement process to ensure that all purchases over \$5,000 are reported to the Department of Fair Employment and Housing.
2. The Budget Office does not document its verification of the availability of funds before approving purchase documents. However, the Budget Office provides financial coding information for purchase documents reviewed.

Failure to verify the availability of funds in compliance with purchasing requirements may adversely impact the department’s purchasing authority. The California State Contracting Manual, Volume 2, section 6.G3.0, states, in part “... The department that has been granted the delegated purchasing authority must complete the STD. 65 which includes: ... Ensuring both signature blocks, “Authorizing Signature” and the “Certified Correct” (certifying the availability of funds) are completed ...”

Recommendation:

The Budget Office should develop specific procedures to verify the availability of funds before approving purchase documents.

3. Sixteen of twenty-seven purchases reviewed were not processed and approved within the three to six week timeframe set by the Office of Procurement and Contracts.

Our review identified the following reasons why the prescribed timeframe was exceeded:

- The review process of the purchase documents was not adequate. We noted that three purchase orders were returned by the vendors due to clerical errors. In addition, the processing of two purchases was delayed because the unit price was incorrect for one purchase and the other purchase was sent to the Department of General Services for approval without the need to because the purchase was within the department purchasing authority limits. Furthermore, in one instance, the wrong software version was ordered by the requestor, however the approval process did not identify that the version requested was not the version currently used by the Authority.
- Procurement workload was not managed to assure timely processing of purchases in fourteen instances. Purchases were delayed because procurement staff did not initiate processing purchases until several days or weeks after receiving purchase requests. Also, the Office of Procurement and Contracts did not properly follow up during the approval process to ensure that purchases are approved in a timely manner.
- Changes in specifications by the Office of Information Technology required the bidding process to be repeated. We noted that staff changed the specifications for two purchases after the bidding process was completed which caused the procurement analyst to repeat the bidding process.

The Office of Procurement and Contracts' internal timeframe to process purchase requests within the Authority's delegation is within two to three weeks. However, purchases outside of the Authority's delegation need to be submitted to the Department of General Services, which take four to six weeks to process. Failure to process and approve purchases within the established timeframes will affect the efficiency of the Authority.

Recommendations:

- The Office of Procurement and Contracts should improve the review process of the purchase documents (purchase requests, purchase orders, and purchase estimates) to ensure that the workload is managed properly and timely follow up.
- The Office of Information Technology should improve the review process of the purchase documents to ensure that the goods/services requested meet established criteria.

4. The review process includes duplicate approvals by the contract manager or the Chief Information Officer for a second review after the bidding process regardless if any changes were made to the purchase documents.

The current practice is to have the contract manager for non-information technology purchases or Chief Information Officer for information technology purchases review and approve the purchase documents after the bidding process to make sure that the cost and specification of the goods and/or services did not change. This step in the procurement process causes an unnecessary delay in approving and processing purchase documents.

Recommendation:

The Office of Procurement and Contracts should streamline the approval process to eliminate unnecessary approvals such as the required second review and approval by the contract manager or Chief Information Officer after the bidding process unless changes are made to the purchase documents.

5. The review process is not adequate to prevent errors in purchase documents and omissions in the purchasing process. Purchase estimates were not always properly approved. Also, purchase forms were not properly completed and not all of the required documents were attached to the purchase order package.

Based on our review, we noted various compliance issues. Specifically, three purchase estimates were not properly approved because they were only approved by the Budget Office without having management approval as well. Per direction from the Department of General Services, at least two people should sign purchase estimates; one person from accounting or budgets verifying that funds are available and another person from management approving the purchases.

Also, one purchase request is missing budget's approval. According to the flow chart included in the Manual, budget approval is required to verify available funding under identified project code which is indicated on the purchase request.

Furthermore, the procurement files for two purchases did not include a copy of the Leverage Procurement Agreement contract. The State Contracting Manual (SCM), Volume 3, section 6.A1.4 states, in part "In order to use LPA [Leveraged Purchase Agreement] contracts, departments must - Obtain a complete copy of the LPA contract to be used, - Read through the specific LPA contract and corresponding user instructions to understand the parameters for using a particular LPA. The user instructions include limitations and/or restrictions (if any), the contracting process, requirements, how to secure pricing and how to ultimately execute the proper purchase document to complete a transaction..."

Also, handwritten corrections were not initialed or dated for four purchase orders. The State Contracting Manual, Volume 3, Section 8.3.5 states "Handwritten notations and/or corrections are not generally acceptable methods to make changes to purchase documents. In any event any handwritten

corrections that are not initialed and dated will be rejected by the DGS. All corrections and changes must be formalized by an amendment to the purchase document.”

In addition, the "Procurement Method" box (Competitive, Leveraged, etc.) on the purchase order was not checked or the wrong procurement method was selected for fourteen purchase orders.

Failing to complete the purchase forms properly, attach the required documents, and obtain the required approvals is considered non-compliance with purchasing authority requirements, and may adversely impact the department’s purchasing authority and cause a delay in approving and processing purchase orders.

Recommendation:

The Office of Procurement and Contracts should perform a thorough review of purchase documents to ensure all purchase documents are properly completed and approved, and all required documents are included in the purchase order package.

April 27, 2015

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Rami Mazhar
Associate Management Auditor
California High-Speed Rail Authority
770 L Street, Suite 620
Sacramento, CA 95814

Dear Mr. Mazhar:

Attached you will find the California High-Speed Rail Authority (Authority) Financial Office's response to the 2015 Procurement Process Draft Audit Report.

The report contains five findings. Mitigation methods for the recommendations are already in place and policies and processes have been revised.

The recommendations largely stem from weaknesses in the review of documents. The Authority has identified processes that required improvements and has revised policies and processes to ensure the recommendations are mitigated for future Purchase Orders.

Please contact Rachel Weninger, Staff Services Manager, at (916) 324-9456 with any questions or concerns.

Sincerely,



Derek Boughton
Financial Officer

cc: Jeff Morales, CEO
Dennis Trujillo, Chief Deputy Director
Russell Fong, Chief Financial Officer
Deborah Harper, Chief Administrative Officer

Enclosure (Response to 2015 Procurement Process Draft Audit Report)

EDMUND G. BROWN JR.
GOVERNOR



Issue # 1:

Six purchase orders over \$5,000 were not registered in the State Contract and Procurement Registration System and they were not reported to the Department of Fair Employment and Housing after the award of the procurement, as required.

Recommendation:

- The Office of Procurement and Contracts should comply with the procurement process to ensure all purchases, and applicable amendments, over \$5,000 are registered in the State Contract and Procurement Registration System.
- The Office of Procurement and Contracts should comply with the procurement process to ensure that all purchases over \$5,000 are reported to the Department of Fair Employment and Housing.

OPAC Response:

We concur with this finding. Processes were enhanced in June 2014 to add SCPRS entry and DFEH submittal dates to the Procurement Tracking Log. Processes have been updated to require the DFEH email submittal to be included in the qualifying Purchase Order file for OPAC manager review. Processes have been updated to ensure SCPRS registration numbers will be added to qualifying Purchase Order prior to an OPAC Manager's Review. An indicator for SCPRS was added to the Purchase Order Review Checklist that was developed in November 2014 to ensure adequate review of purchase documents. In July 2015, SCPRS entries will be automatically entered and recorded in FISCAL which will eliminate the need for this manual process. OPAC has upgraded staff positions to better meet our business needs. OPAC has newly created two (2) SSM1 Management positions to oversee these processes.

Issue # 2:

The Budget Office does not document its verification of the availability of funds before approving purchase documents. However, the Budget Office provides financial coding information for purchase documents reviewed.

Recommendation:

The Budget Office should develop specific procedures to verify the availability of funds before approving purchase documents.

OPAC Response:

We concur with this finding. Prior processes validated the funds available for the Purchase Requests and Purchase Orders on a monthly basis and not at the time of the Budget review. Processes have been updated to verify funding for each request before the Purchase Orders have final approval. The prior process did not result in over spending of the Authority's budget.

Issue # 3:

Sixteen of twenty-seven purchases reviewed were not processed and approved within the three to six week timeframe set by the Office of Procurement and Contracts.

Recommendation:

- The Office of Procurement and Contracts should improve the review process of the purchase documents (purchase requests, purchase orders, and purchase estimates) to ensure that the workload is managed properly and follow up timely.
- The Office of Information Technology should improve the review process of the purchase documents to ensure that the goods/services requested meet established criteria.

OPAC Response:

We concur with this finding. OPAC has improved the submittal process with better documentation requirements to record the date of received and denied purchase requests. The procurement Process and Procedures Manual was updated in February 2015 which provides a more defined process for review, including the requirement of an OPAC manager signed approval in the review process. The procurement tracking log was updated in June 2014 to include more information during the procurement process which will allow for easier status retrieval. Procurement Checklists for the buyer and reviewer were developed in November 2014. OPAC Managers recently developed a reference guideline to purchasing with Frequently Asked Questions that will be rolled out in May 2015. OPAC is currently in the process of updating all procurement processes to include FISCAL prior to the July 1st implementation. OPAC has upgraded staff positions to better meet our business needs. OPAC has newly created two (2) SSM1 Management positions to oversee these processes.

OPAC and the Office of Information Technology have had several process meetings since December 2014 to improve IT procurement processes and update IT review processes. IT is working with OPAC sooner in the IT procurement planning phase to reduce modifications or changes to purchase requests already in process.

Issue # 4:

The review process includes duplicate approvals by the Chief Information Officer and contract manager for a second review after the bidding process regardless if any changes were made to the purchase documents.

Recommendation:

The Office of Procurement and Contracts should streamline the approval process to eliminate unnecessary approvals such as the required second review and approval by the contract manager and or Chief Information Officer after the bidding process unless changes are made to the purchase documents.

OPAC Response:

OPAC and IT are aware of the duplication of reviews in the process. The duplication is temporary to assist both units with the oversight necessary to continue to develop and improve internal processes under the Authority's developing infrastructure. OPAC and IT Managers will continue to review the processes on a quarterly basis to ascertain when a secondary approval is no longer beneficial. OPAC and IT managers are also updating review processes for the implementation of FISCAL in July 2015.

Issue #5:

The review process is not adequate to prevent errors in purchase documents and omissions in the purchasing process. Purchase estimates were not always properly approved. Also, purchase forms were not properly completed and not all of the required documents were attached to the purchase order package.

Recommendation:

The Office of Procurement and Contracts should perform a thorough review of purchase documents to ensure all purchase documents are properly completed and approved, and all required documents are included in the purchase order package.

OPAC Response:

We concur with this finding. Procedures were modified to have purchase documents signed and reviewed by OPAC managers. A checklist was developed in November 2014 to assist managers to ensure an adequate review and approval of purchase documents. OPAC has been reevaluating procurement processes annually after year end since 2013 to assist in the development of improved processes. OPAC managers are also developing an updated review process for the implementation of FISCAL in July 2015. OPAC has upgraded staff positions to better meet our business needs. OPAC has newly created two (2) SSM1 Management positions to oversee these processes.