

Memorandum

*Making Conservation
a California Way of Life.*

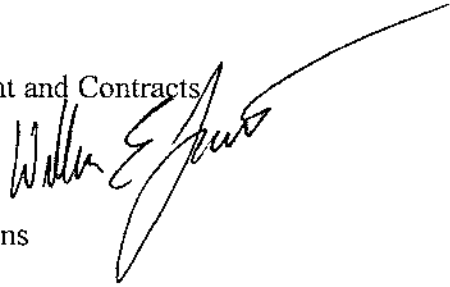
To: GEORGE AKIYAMA
CHIEF INFORMATION OFFICER
Information Technology

Date: June 5, 2017

File: P3010-0629

ANGELA SHELL
CHIEF
Division of Procurement and Contracts

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations



Subject: **FINAL AUDIT REPORT OF INFORMATION TECHNOLOGY PROCUREMENT**

Attached is Audits and Investigations final audit report of Information Technology Procurement. Your responses are included as part of our final report. This report is intended for your information and for Department Management. Please provide our office with status reports on the implementation of your audit finding disposition 60-day, 180-day, and 360-day subsequent to the date of this transmittal memorandum. 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.

As a matter of public record, this report and the status reports will be posted on Caltrans website. We thank you and your staff for the assistance provided during this audit. If you have any questions or need additional information, please contact Zilan Chen, Chief, Internal Audits, at (916) 323-7877 or myself at (916) 323-7122.

Attachment

c: Susan Bransen, Executive Director, California Transportation Commission
Michael R. Tritz, Deputy Secretary, California State Transportation Agency
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Malcolm Dougherty, Director, Caltrans
Kome Ajise, Chief Deputy Director, Caltrans
Cristina Rojas, Deputy Director, Administration, Caltrans
Gregory Gollaher, Acting Chief, Customer Service Division, Information Technology
Louise Lozoya, Assistant Division Chief, Division of Procurement and Contracts
Zilan Chen, Chief, Internal Audits, Audits and Investigations

California Department of Transportation Information Technology Procurement



Audit Report

April 2017

PREPARED BY:

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Zilan Chen, Chief, Internal Audits
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P3010-0629

TABLE OF CONTENTS

SUMMARY	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
BACKGROUND	2
CONCLUSION	2
VIEWS OF RESPONSIBLE OFFICIALS	3
FINDING 1 – Information Technology Procurement Process Can Be More Efficient	4
FINDING 2 – Internal Controls Over the IT Procurement Process Can Be Improved	5
FINDING 3 – Procurement Compliance Can Be Improved	6
ATTACHMENT	
1) Response from Division of Information Technology	8
2) Response from Division of Contracts and Procurements	11

SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The California Department of Transportation (Caltrans), Audits and Investigations, completed an audit of the Information Technology (IT) Procurement process. The purpose of the audit was to determine if Caltrans follows proper procurement practices for IT purchases and to determine if the procurement process is efficient and effective.

Our audit disclosed that Caltrans has in general, established policies and internal controls with respect to IT procurement. However, our audit identified the following areas for improvement:

- IT Procurement Process Can Be More Efficient
- Controls over the IT Procurement Process Can Be Improved
- Procurement Compliance Can Be Improved

OBJECTIVES, SCOPE, AND METHODOLOGY

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

- Determine if established policies and procedures exist for IT procurement
- Assess compliance with identified policies and procedures over IT procurement
- Determine whether sufficient controls are in place to enable proper, efficient, and effective IT procurement activities
- Determine whether there is adequate separation of duties over the purchasing functions
- Verify that Caltrans uses the proper procurement method for IT purchases

The scope of the audit included IT procurement activities for the period of July 1, 2012 to June 30, 2016. We conducted field work at IT and Division of Procurement and Contracts (DPAC) from August 30, 2016 to September 15, 2016.

The audit methodology and procedures included:

- Obtaining an understanding of the system of internal controls over procurement function
- Reviewing policies and procedures to determine if they are adequate
- Interviewing staff within IT and DPAC
- Identifying IT and DPAC's role in the IT procurement process
- Testing procurement files to determine compliance with rules and regulations

BACKGROUND

The Department of General Services (DGS) has statutory responsibility for procurement of information technology goods and services, including approval of the acquisition methods used and the establishment and interpretation of related procedures. DGS also has statutory authority to grant purchasing authority to those departments demonstrating the capability to make purchases that adhere to state statutes, regulations, policies, and procedures. These IT policies and procedures are established in State Contracting Manual (SCM), Volume 3, which is provided as a resource to those persons in California state government who are involved in the state's procurement of IT goods and services. It provides the policies, procedures and methods to promote sound business decision practices in securing necessary goods and services for the state. DGS has delegated to DPAC the authority for statewide acquisition of IT goods and services to meet Caltrans objectives.

State Administrative Manual (SAM), Section 4800 et seq. requires Caltrans to certify all information technology procurements costing \$100,000 or more. Caltrans guidelines require all IT acquisitions to be reviewed and certified by the IT Certification Unit before a purchase is made. The IT Certification Unit reviews IT procurements to ensure compliance with state information technology policies, and Caltrans IT standards by certifying IT purchases. In addition, this unit is also responsible for creating electronic purchase requests in Advantage, Caltrans financial system, for headquarters and district IT staff.

DPAC IT Acquisitions Unit is responsible for processing a variety of IT procurement, including purchase orders for goods and/or services, as well as service contracts by performing solicitations on behalf of the purchase requestor. Procurements are processed by DPAC's IT Acquisitions Unit after the IT Certification Unit certifies the purchase request, in compliance with statutory, regulatory and policy requirements.

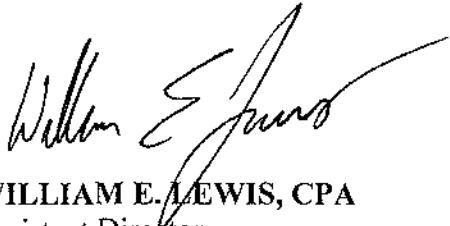
CONCLUSION

Our audit disclosed that Caltrans has in general, established policies and internal controls with respect to IT procurement. However, our audit identified the following areas for improvement:

- IT Procurement Process Can Be More Efficient
- Controls over the IT Procurement Process Can Be Improved
- Procurement Compliance Can Be Improved

VIEWS OF RESPONSIBLE OFFICIALS

We are requested and received a written response to our findings from the Chief Information Officer and the Division Chief of Procurement and Contracts.



WILLIAM E. LEWIS, CPA
Assistant Director
Audits and Investigations

April 24, 2017

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Information Technology Procurement Process Can Be More Efficient

Although the following are not compliance issues, we found aspects of the acquisition process within Information Technology (IT) and Division of Procurement and Contracts (DPAC) can be more efficient:

- There is a duplication of effort within the IT procurement process which increases the IT Certification workload. Once a request for procurement of IT goods and services has been identified, headquarters and district IT staff prepare paper purchase requests. The paper purchase request is then forwarded to the IT Certification Unit. If the description of the goods and services requested is unclear, the IT Certification Unit then contacts the original requestor for clarification. The IT Certification Unit enters the information contained on the paper request into the electronic version of the purchase request in Advantage, the financial system for the California Department of Transportation (Caltrans). In the implementation of Advantage, IT Staff statewide relied on a handful of individuals within the headquarters IT to process purchase request into Advantage to reduce the possibility of errors.
- DPAC can improve its Acquisitions Manual for information technology purchases as follows:
 - Provide guidance and instructions to assist requestors in developing an accurate and complete statements of work for service contracts. An incomplete statement of work requires DPAC to expend their limited resources to clarify the statement of work prior to solicitation. A clear statement of work is necessary to ensure the solicitation results in selecting the proper vendor to address the requestor's needs.
 - Provide information on the procurement timelines for requestors. In general, Information Technology procurement takes significant more time due to additional levels of approval and IT certification. In fiscal year 2016, the average number of business days to process a non-information technology purchase order was 19, while an information technology purchase order was 34. The lack of information leads to expedited requests for IT procurement which interrupts DPAC procurement workflow. If the requestors are aware of the procurement timelines, they can better prepare and plan IT related purchases.

One of Caltrans' goals is stewardship and efficiency, which requires Caltrans to provide good business practice by responsibly managing California's transportation-related assets efficiently. These inefficiencies can result in delays of information technology related procurement.

RECOMMENDATION:

We recommend:

- IT change the process to require district IT staff who request the procurement to also create the electronic purchase request.
- DPAC work with IT to update the Acquisition Manual:
 - To assist the requestor in creating an accurate and complete statement of work.
 - To inform requestors of the procurement timelines.

DIVISION OF INFORMATION TECHNOLOGY RESPONSE

Starting July 1, 2017, procurement originating in districts will be completed by District IT staff. However, the IT acquisition unit will continue to be responsible for the electronic version of the purchase request in Advantage from headquarters. Please see Attachment 1 for details of their response and action plan.

DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE

DPAC concurred with the finding and recommendations. Please see Attachment 2 for details of their responses and action plans.

FINDING 2 – Internal Controls Over the IT Procurement Process Can Be Improved

Our audit of the information technology procurement process within IT and DPAC identified several areas where internal controls can be improved. Specifically, we found the following:

- All IT Certification Unit staff tested did not sign the conflict of interest statement as required. SCM Volume 3, Chapter 1.A3.0, requires signed Conflict of Interest statements for every staff member involved in the procurement process. IT was unaware of the conflict of interest requirement. When the IT analyst is not aware of the conflict of interest policy, this may increase the risk to Caltrans of improper information technology procurement.
- Ten out of twenty-five procurement files were missing various SCM required forms, such as contract award, and agreement summary. In addition, key information was missing from some of the IT justification forms. Moreover, two evaluators did not sign the evaluations sheet for two purchase orders. Government Code, Section 13403(3) states, “A system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.” At the time of audit, DPAC lacked a procedures desk manual which may be the cause of these issues. This could result in an inappropriate use of State funds. DPAC is currently developing a desk manual for IT procurement.
- One of the procurement files had a five percent (5%) small business (SB) preference which should not have been applied in a non-competitive procurement. SCM, Volume 3, Chapter 6.0 states, in part, “A five percent (5%) preference shall be offered to California certified

small businesses when a competitive solicitation is being conducted." In this instance, the requestor inappropriately applied the small business preference to the second lowest bidder and the DPAC analyst was new to the position and did not identify the error. As a result, the lowest bidder was not awarded and Caltrans overpaid for the service. During the field exit, DPAC provided documentation demonstrating the analyst identified has been provided training in applying the small business preference.

RECOMMENDATION:

We recommend:

- IT management require IT personnel involved in the procurement process to sign the conflict of interest statement and retain the signed statement.
- DPAC to continue developing a procurement desk procedure manual for their IT Acquisition Unit to ensure the procurement files are complete.
- DPAC ensure its IT analysts receive training on how to properly apply the small business preference.

DIVISION OF INFORMATION TECHNOLOGY RESPONSE

IT concurred with the finding and recommendation. Please see Attachment 1 for details of their response and action plan.

DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE

DPAC concurred with the finding and recommendations. Please see Attachment 2 for details of their responses and action plans.

FINDING 3 – Procurement Compliance Can Be Improved

We reviewed twenty-five procurement files from DPAC and found four procurements which appeared to have circumvented the procurement process. Specifically, we found the following:

- One of the information technology purchases approved by the IT Certification unit was not information technology related. The purchase was for a highway planning study. SCM, Volume 3, Chapter 2.B1.0, states, in part, that the ability to properly classify purchases enables correct execution of procurements applying the appropriate laws, regulations, policies, and procedures. The impact of not correctly classifying a purchase may result in delaying a project, waste of time and effort, loss of funding, disputes, protests, and/or lawsuits, and illegal contracts. DPAC and IT are unclear of their respective roles and responsibilities in evaluating the scope of work to determine if the purchase request is information technology related.
- Two procurements tested were split into four purchase requests to circumvent the dollar threshold for formal bidding and to qualify for California Multiple Award Schedules.

SCM, Volume 3, Chapter 1.A2.5, Order Splitting, states in part, "departments also may not split orders to circumvent approved purchasing authority dollar threshold limits."

- A consultant in a consulting services contract was part of a committee that recommended a product in which the same consultant was subsequently awarded the contract, resulting in a follow-on procurement. Public Contracting Code 10365.5 defines follow-on procurement as, "No person, firm, or subsidiary thereof who has been awarded a consulting services contract may submit a bid for, nor be awarded a contract for, the provision of services, procurement of goods or supplies, or any other related action which is required, suggested, or otherwise deemed appropriate in the end product of the consulting services contract."

We found DPAC processes to detect inappropriate procurements could be improved. Failure to do so could result in Caltrans losing its purchasing delegation and overpaying for goods and services.

RECOMMENDATION:

We recommend:

- DPAC and IT work together in clarifying their roles and responsibilities in determining what procurement is IT related.
- DPAC continue to utilize the tool developed during our audit to detect and prevent inappropriate procurements.

DIVISION OF PROCUREMENT AND CONTRACTS RESPONSE

DPAC concurred with the finding and recommendations. Please see Attachment 2 for details of their responses and action plans.


**ATTACHMENT 1
RESPONSE FROM DIVISION OF INFORMATION TECHNOLOGY**

Memorandum

To: ZILAN CHEN
Internal Audit Chief
Audits and Investigations

Date: May 25, 2017

File: P3000-0629

From: GREG GOLLAHER 
Chief (acting)
Customer Service Division

Subject: **RESPONSE TO THE IT PROCUREMENT DRAFT AUDIT REPORT**

Caltrans Information Technology (Caltrans IT) appreciates the opportunity to respond to the 2017 IT Procurement Audit Report. In keeping with the goal to improve the effectiveness and efficiency of IT procurement and certification processes, while complying with all state contract guidelines, Caltrans IT offers the attached responses to the referenced audit findings.

Please feel free to contact Greg Gollaher (916-217-9257) should you have any questions or require further assistance.

Attachment

Auditee response to draft report (IT).

c: George Akiyama, Chief Information Officer, Caltrans
William E. Lewis, Assistant Director, Caltrans, Audits and Investigations

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

Audit Name: IT Procurement

Audit No. P3010-0629

Auditee: Information Technology

Audit Report Finding # 1

Information Technology Procurement Process can be more Efficient

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
IT create a policy and procedure to require the IT unit requesting the procurement also create the electronic purchase request.	Starting July 1, 2017, procurements originating in districts will be completed by district IT staff (IT staff in the districts will create the electronic purchase request). Furthermore, an IT reorganization is forthcoming which will separate IT certification and IT acquisition responsibilities. IT Certification responsibility will be moved to the Project Management Office and the IT Acquisition Unit will be responsible for preparing and processing headquarter based procurements (including electronic purchase requests). The reorganization is pending Division of Human Resource approval and is anticipated to take effect in Mid July 2017.	July 1, 2017	Greg Gollaher	

Audit Report Finding # 2

Controls over the IT Procurement Process can be Improved

IT management requires IT personnel in the procurement process to sign the conflict of interest statement and be retained.	As of May 3, 2017, all IT personnel in the procurement process have a signed conflict of interest statement on record with their supervisor.	May 3, 2017	Mitrelle Dahn	
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**ATTACHMENT 2
RESPONSE FROM DIVISION OF PROCUREMENT AND CONTRACTS**


Memorandum

*Making Conservation
a California Way of Life.*

To: WILLIAM E. LEWIS
ASSISTANT DIRECTOR
AUDITS AND INVESTIGATIONS

Date: May 22, 2017

File: P3010-0629

From: ANGELA SHELL 
Chief
Division of Procurement and Contracts

Subject: **RESPONSE TO DRAFT REPORT – INFORMATION TECHNOLOGY PROCUREMENT
AUDIT**

The Division of Procurement and Contracts (DPAC) has attached the Response to the Draft Report for the Information Technology Procurement Audit.

If you have any questions regarding this status response, please contact Char Krantz by phone at (916) 227-6071 or by email at Char.Krantz@dot.ca.gov.

Attachments:

- (1) P0310-0629 Response to Draft Report
- (2) Finding 3.1— Signed Roles and Responsibilities
- (3) Finding 3.2— DPAC Sample of New Database Tool

c: Zilan Chen, Chief, Internal Audits, Audits and Investigations
Jaunita Baier, Senior Audit Manager, Internal Audits, Audits and Investigations
Gerald Lee, Auditor Manager, Internal Audits, Audits and Investigations
Veronica Kaldani, Audit Manager, Internal Audits, Audits and Investigations
Louise Lozoya, Assistant Division Chief, IT Acquisitions, Non-IT Procurement and
CAL-Card, DPAC
Tracy Gentry, Assistant Division Chief, Policy, Protests, Communications and Materiel
Management, DPAC
Char Krantz, Branch Chief, Policy, DPAC

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

Audit No. P3010-0629

Audit Name: Information Technology Procurement

Auditee: Department of Procurement and Contracts

Audit Report Finding # 1

Finding 1 - Information Technology Procurement Process can be more Efficient

A&I Audit Recommendation	Auditee Response to Draft Report	Estimated Completion Date	Staff Responsible	A&I Analysis
1.1 DPAC work with IT to update the Acquisition Manual. To assist the requestor in creating an accurate and complete statement of work.	DPAC will work with the IT Program to develop Statement of Work templates and provide additional guidance in the Acquisitions Manual.	5/31/2018	Gabriel Cronan Louise Lozoya Greg Gollaher	
1.2 To inform requestors of the procurement timelines.	DPAC will develop an IT Acquisitions timeline and publish on the DPAC IT intranet site.	12/17/2017	Gabriel Cronan	

Audit Report Finding # 2

Finding 2 - Controls over the IT Procurement Process can be Improved

2.1 DPAC to continue developing a procurement desk procedure manual for its IT Acquisition Unit to ensure the procurement files are complete.	DPAC will continue creating its internal desk procedures to ensure its staff process and file work consistently and completely.	3/28/2018	Mari Jo Snider Gabriel Cronan Louise Lozoya	
2.2 DPAC ensure its IT analysts receive training on how to properly apply the small business preference.	DPAC will ensure its IT staff receive SB Training to properly apply preferences to its acquisitions.	9/7/2017	Gabriel Cronan	

Audit Report Finding # 3

Finding 3 - Non-compliance Procurement Requirements

3.1 DPAC and IT clarify whose roles and responsibilities in determining that the scope of work from the purchase request is IT related.	DPAC and the IT Program will create a Roles and Responsibilities agreement to clarify its roles.	2/27/2017 Complete	Greg Gollaher Louise Lozoya	
3.2 DPAC continue to utilize the tool developed during our audit to detect and prevent inappropriate procurements.	DPAC further developed its tool to detect and prevent inappropriate procurements due to constructive audit feedback. DPAC will continue to gather the necessary information and will utilize this tool.	2/27/2017 Complete	Gabriel Cronan	

Roles and Responsibilities
Division of Procurement and Contracts (DPAC) and Information Technology (IT)
February 2017


DPAC and IT's partnership includes developing new ideas, sharing information, and resolving issues to the benefit of both programs and in line with the Caltrans' mission, vision, and goals. The defined Roles and Responsibilities of each program are:

Information Technology (IT):

1. Ensures consistency with IT policy and standards for all IT Acquisition Requests (Procurement Type 23)
2. Reviews and authorizes, or develops specifications and/or scope of work for IT services.
3. For specifications and SOW developed by the program, the IT Cert document is considered IT's concurrence with the content and approval for DPAC to process as an IT acquisition.
4. Completes SIMM 71B, Certification of Compliance with IT Policies (New 01/2017)
5. Determines oversight of the IT Acquisition with respect to the following
 - a. Caltrans – procurement amount is under the Purchasing Authority and is a non-reportable project
 - b. Department of General Services – procurement amount is above the Purchasing Authority and is a non-reportable project
 - c. Department of Technology – procurement amount is above the Purchasing Authority and is a reportable project

Division of Procurement and Contracts (DPAC):

1. Provides guidance and/or consultation to assist IT or program partners with determining acquisition methods.
2. Develops and maintains acquisition processes and procedures (contracts and solicitations) in compliance with State and Federal laws, regulations, policies and procedures;
3. Develops and maintains process timelines and end-of-year deadlines
4. Develops and maintains acquisition boilerplate (contracts and solicitations)
5. Maintains the procurement and contract delegation (i.e. Purchasing Authority) with DGS
6. Reviews and/or develops solicitations and contracts (includes purchase orders) and processes the acquisition thru execution. This includes obtaining required documents, approvals (internal and external such as Unit Manager, Resource Manager, Contract Manager, Consultant/Contractor, Contract Officer, Caltrans legal, DGS, etc.)


PAMY NISONGER, Acting Chief
Division of IT Customer Service

Date

For Pamy 2/27/17


ANGELA SHELL, Chief
Division of Procurement and Contracts

Date

2/24/17

DPAC Sample of New Database Tool

Date IT Cost Approved In Advantage	Number of Days it takes IT to send to DPAC	DATE RECEIVED	ASSIGNED ANALYST	RQS #	DISTRICT	REQUESTOR	DESCRIPTION	SYSTEM	DATE ASSIGNED TO ANALYST	CT/PO #	DATE EXCLUDED	AWARDED VENDOR NAME	DATE CT/PO EXPIRES (IF APPLICABLE)	AMOUNT \$\$	Orange Lines are for Expeditas STATUS/COMMENTS
42765	12	42780	Aaron Knowles	6517*319	65	Bob Kogelvar	Software Maintenance and Support	Bidtab.MET	42783	0517*149	42809	OHAN Systems Inc	42807	1756	
42765	23	42785	Aaron Knowles	6517*65	65	Esther Valdez	EMIE Oracle Software Maintenance	Oracle	42766	0517*14	42809	Safe Software Inc	43263	22860	
42765	51	42785	Adriana Navarro	2017*024	10	Rachel Ambin	Madison Platform Usage Credits	Madison	42780	1017*95	42780	Microdon Technology Inc		10000	
42767	1	42787	Rocky Sen	2017*222	20	Tasay Connely	Adobe Life Cycle Amendment to PO 2214*651	Adobe	42780	2114*051	42780	IBM IRI	63311	150000	
42801	39	42828	Rouff/ Sen	14217*31	44	Rashid Asad	PSM Contract Services	PSM	42835	1440*080	42810	US-Camesco Project Management	43173	239717	14217/16: Medication rec'd gave to PS-VC