



INSPECTOR GENERAL

California Department of Transportation

Department of General Services Contract Delegation Audit



Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Diana Antony, Chief Deputy

April 2024
24A.PROG02



For questions or assistance concerning the contents of this report, please contact (916) 323-7111 or email ioai.reports@dot.ca.gov.



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

April 12, 2024

Tony Tavares
Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report — Department of General Services Contract Delegation, Program Audit

Dear Director Tavares:

Pursuant to Public Contract Code, Section 10351(a)(4), the Independent Office of Audits and Investigations (IOAI) has completed its audit of the California Department of Transportation's (Caltrans) contract delegation. The Department of General Services exempts contracts under \$150,000 from its approval under the condition that Caltrans meet the biennial audit requirement. This audit is the second of the two required audits.

Because there were no audit findings requiring a response, we are issuing the report as final. The final report is a matter of public record and will be posted on IOAI's website.

If you have any questions regarding this report, please contact Fabiola Torres, Deputy Inspector General, at (916) 323-7111.

Sincerely,

Diana Antony, CPA, CIG
Chief Deputy Inspector General

Gavin Newsom, Governor

Independent Office of Audits and Investigations
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cc: Michael Keever, Chief Deputy Director, California Department of Transportation
Aaron Ochoco, Deputy Director, Administration, California Department of Transportation
David Prizmich, Division Chief, Division of Procurement and Contracts, California Department of Transportation
Ben Shelton, Audit Chief, Internal Audits Office, California Department of Transportation

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Terms Used in Report

Term/Acronym	Definition
Audit Guide	DGS Contracting Program Audit Guide for Departments With \$150K Exemption
Caltrans	California Department of Transportation
CATS	Contract Administration and Tracking System
DGS	California Department of General Services
DPAC	Caltrans Division of Procurement and Contracts
Exemption Letter	DGS Exemption Letter No. 14.0
FI\$Cal	Financial Information System for California
IT	Information Technology
PCC	Public Contract Code
SCPRS	State Contract and Procurement Registration System

Summary

The California Department of General Services (DGS) has statutory authority for the procurement of non-information technology (IT) and IT goods and services for California state agencies. Specifically, Public Contract Code (PCC), Section 10335 requires all state contracts to be approved by DGS with certain exceptions. For example, DGS may exempt from its approval contracts under \$150,000 if the awarding state agency meets all the requirements set forth in PCC, Section 10351. On June 15, 2020, DGS issued Caltrans Exemption Letter 14.0 (exemption letter), covering the period July 1, 2020, through June 30, 2024. The exemption letter grants Caltrans delegated authority to procure contracts for non-IT goods and services under \$150,000. As part of the delegated authority, two audits are required during this exemption period. This audit is the second of the two required audits, and its purpose is to determine whether Caltrans:

- Complied with the legal requirements for exemption.
- Documented and implemented a system of internal controls over contracting that can be reasonably relied upon and is effective to ensure compliance with the exemption letter.
- Implemented appropriate corrective actions in response to previous audit findings.

Based on our audit, we obtained reasonable assurance that Caltrans complies with the legal requirements for exemption and maintains an adequate and effective system of internal control over contracting. We also determined Caltrans implemented corrective action in response to our prior audit and fully implemented all five recommendations.

We conducted this audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Introduction

Background

DGS has statutory authority for the procurement of non-IT and IT goods and services for California state agencies, with certain exceptions. For example, DGS may exempt from its approval contracts under \$150,000 if the awarding state agency meets all the requirements set forth in PCC, Section 10351. On June 15, 2020, DGS issued Caltrans an exemption letter, covering the period July 1, 2020, through June 30, 2024, which grants Caltrans delegated authority to procure contracts for non-IT goods and services under \$150,000. Pursuant to PCC, Section 10351(a)(4), two audits are required during this exemption period and must be conducted in accordance with the *DGS Contracting Program Audit Guide for Departments With \$150K Exemption* (audit guide). This audit is the second of the two required audits.

Caltrans' Division of Procurement and Contracts (DPAC) is responsible for delegated procurement and contracting functions, including the procurement of IT and non-IT commodities, service contracts, architectural and engineering contracts, minor public works contracts, the CAL-Card Administration and Compliance Program, property control, and compliance reporting. Other divisions within Caltrans execute additional types of contracts consistent with applicable statutes and may be statutorily exempt from contracting regulations, including DGS approval and/or competitive bidding. For example, Caltrans Division of Engineering Services is responsible for major public works contracts, which are not subject to DGS approval. DPAC uses the Contract Administration and Tracking System (CATS) to track Caltrans contracts and capture data from contract creation to execution. CATS is also used to generate statistical data reports and manage records retention of completed contracts¹.

In December 2022, we issued the first required audit report for this exemption period. We identified one finding and recommended Caltrans to:

1. Update CATS to reflect the correct contract information supported by corresponding documentation maintained in the contract files.
2. Update guidance to provide clear direction and provide training to key staff to emphasize the importance of data accuracy.
3. Establish and implement data quality controls to ensure that CATS includes accurate information, including, but not limited to, category codes, contract values, and effective start and end contract execution dates.

¹Excerpt from DPAC's Instruction Manual for Non-IT Service Contracts.

4. Submit contracts timely for DGS approval to ensure costs are incurred within the effective contract execution dates.
5. Establish and implement data quality controls to ensure the transfer of contract information to State Contract and Procurement Registration System (SCPRS) is accurate, complete, consistent, timely, and valid.

Audit Results

We obtained reasonable assurance that Caltrans complies with the legal requirements for exemption and maintains an adequate and effective system of internal control over contracting. We also determined Caltrans implemented corrective action in response to our prior audit and fully implemented all five recommendations. Table 1 summarizes the status of Caltrans' corrective actions.

Table 1. Summary of Caltrans' Corrective Action Plan Status

Finding #	December 2022 Audit Report Recommendations	Corrective Action Implemented?
1.a	Update CATS to reflect the correct contract information supported by corresponding documentation maintained in the contract files.	Yes
1.b	Update guidance to provide clear direction and provide training to key staff to emphasize the importance of data accuracy.	Yes
1.c	Establish and implement data quality controls to ensure that CATS includes accurate information, including, but not limited to, category codes, contract values, and effective start and end contract execution dates.	Yes
1.d	Submit contracts timely for DGS approval to ensure costs are incurred within the effective contract execution dates.	Yes
1.e	Establish and implement data quality controls to ensure the transfer of contract information to SCPRS is accurate, complete, consistent, timely, and valid.	Yes

Source: Analysis of Caltrans' Corrective Action Plans by the Independent Office of Audits and Investigations

In response to our prior audit, Caltrans made significant progress, including but not limited to, updating guidance and providing training to key staff. Specifically, DPAC updated the following guides and manuals:

- Task Order Reference Guide
- Caltrans' Non-IT Service Contract Manual
- CATS Instruction Manual for Non-IT, Architectural and Engineering, and IT Contracts

Additionally, we found that Caltrans complied with the State Contracting Manual, Volume 1, Chapter 4.12D, which requires agencies to report all acquisitions of goods and services in the Financial Information System for California (FI\$Cal) SCPRS regardless of dollar amount.

Further, based on a sample tested under our current audit, we found all contract files were accurately reflected in CATS, contract costs were incurred within the effective contract execution dates, and DPAC submitted contracts timely to DGS for approval.

Appendix A. Scope and Methodology

The purpose of this audit was to determine whether Caltrans:

- Complied with the legal requirements for exemption.
- Documented and implemented a system of internal controls over contracting that can be reasonably relied upon and is effective to ensure compliance with the exemption letter.
- Implemented appropriate corrective actions in response to previous audit findings.

The audit scope included all non-IT executed contracts and service agreements paid through Cal-Card for the audit period of August 27, 2022, to October 16, 2023. The audit population included 3,979 non-IT executed contracts and 1,789 Cal-Card service agreements. The contracts consisted of exempted contracts from DGS approval, contracts within and outside the delegated amount of \$150,000, and small dollar value contracts (under \$10,000). We limited our audit planning and performed procedures in accordance with the audit guide, which prescribes specific audit procedures on the abovementioned types of non-IT executed contracts and service agreements paid through Cal-Card.

Based on our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methodology included understanding of relevant policies and procedures, inspected documentation provided by DPAC and obtained from Caltrans' website, collected and analyzed data, and interviewed DPAC and Caltrans Division of Accounting staff with direct knowledge of areas relevant to the audit objectives. The table below details the methods we used to address the audit objectives.

Audit Objective	Methods
<p>Objective 1</p> <p>To determine whether Caltrans complied with the legal requirements for exemption.</p>	<p>Reviewed the exemption letter to determine the requirements, which includes:</p> <p>Notation on Contracts</p> <ul style="list-style-type: none"> Judgmentally selected 15 contracts and verified that contracts exempted by authority of the exemption letter are stamped as “Exempt from DGS Approval Per DGS Exemption Letter.” <p>DGS Exemption Requirements</p> <ul style="list-style-type: none"> Confirmed Caltrans designates an agency officer as responsible and directly accountable for the agency’s contracting program. Determined whether Caltrans established written policies and procedures and a management system that will ensure the agency’s contracting activities comply with applicable provisions of law and regulations. Reviewed Caltrans’ plan for ensuring that contracting personnel are adequately trained in contract administration and contract management. Reviewed established procedures for reporting to DGS and the Legislature on such contracts as the Legislature may require in the Budget Act.
<p>Objective 2</p> <p>To determine whether Caltrans documented and implemented a system of internal controls over contracting that can be reasonably relied upon and is effective to ensure compliance with the exemption letter.</p>	<p>Obtained a list of contracts and Cal-Card purchases from DPAC, which included executed non-IT contracts and Cal-Card service agreements from DPAC from August 27, 2022, to October 16, 2023. The list comprised of the following:</p> <ul style="list-style-type: none"> 3,979 contracts with a value of \$5,310,602,193. 1,789 CAL-Card service agreements with a value of \$1,933,616. <p>Stratified the 3,979 contracts using CATS category codes as follows:</p> <ul style="list-style-type: none"> Contracts exempted from DGS approval DGS approval and approved contracts compliance (\$150,000 and over) Contracts delegated to Caltrans for approval (\$10,000 - \$149,999.99) Small Dollar Value Contracts (under \$10,000) Interagency agreements <p>This resulted in our review of 85 contracts.</p> <p>In addition, two sub-samples were selected from the 85 contracts to determine whether:</p> <ul style="list-style-type: none"> Payments were made in accordance with the contract terms. Contract information was entered into FI\$Cal SCPRS. Contractors reported DVBE sub-contractor usage.

Audit Objective	Methods
	<p>From the list of 1,789 Cal-Card service agreements, reviewed 30 agreements to determine whether transactions are allowable, properly documented, and approved by management.</p> <p>Used testing tools prescribed by the audit guide to determine whether the system of internal controls over contracting was documented, can be reasonably relied upon, and was effective to ensure compliance with the exemption letter issued by DGS.</p>
<p>Objective 3 To determine whether Caltrans implemented appropriate corrective actions in response to previous audit findings.</p>	<p>Reviewed our December 2022 prior audit report.</p> <p>Confirmed that Caltrans submitted corrective action plans and assessed whether appropriate corrective action was taken by reviewing supporting documentation.</p>

Assessment of Data Reliability

Generally accepted government auditing standards require we assess the sufficiency and appropriateness of the computer processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we relied on data obtained from Caltrans’ CATS related to contract information. To assess the reliability of CATS, we performed electronic testing for obvious errors in accuracy and completeness and reviewed related documentation. We determined the data was sufficiently reliable for the purposes of responding to our audit objectives.



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