



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

October 14, 2022

Chair Blakespear
SANDAG Board of Directors

Audit Committee Chair Zito
SANDAG Audit Committee

Dear Chair Blakespear and Audit Committee Chair Zito:

Subject: Results – Contracts and Procurement Operational and System Control Audit (Part I) for the period of July 1, 2017 to June 30, 2021

The objective of this engagement is to audit SANDAG's management of contracts and procurement. Specific objectives are to review policies and procedures; evaluate internal controls over processes to determine whether they exist, are being followed, and functioning effectively. Lastly, the objective includes testing contracts and procurement transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, we will not express such an opinion.

The audit consists primarily of gaining an understanding of the relevant laws, rules, and regulations; inquiries and observations from management and staff, gaining an understanding of system controls, testing controls, and a review of contracts and procurement processes and transactions.

The Office of the Independent Performance Auditor's (OIPA's) reviewed the contracts and procurement process and system controls of transactions for the period of July 1, 2017 to June 30, 2021.

The audit was performed as part of the board approved annual Audit Plan. The Audit Plan is risk based and prioritized by the level of risk to the agency. Risks are considered both in qualitative and quantitative perspectives.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards, as required by federal and state governing code and under Assembly Bill 805.

As with prior audit reports performed by the OIPA, the causes identified were primarily due to weaknesses in system controls, inadequate department systems and record management, lack of procedures, and a need for employee training, especially around roles and responsibilities and proper documenting.

The OIPA has been working proactively with the Executive Director, Hasan Ikhata, and SANDAG staff to provide guidance and help bring improvements to system controls and strengthen policies and training. We will continue to support Hasan and his desire to make SANDAG more successful.

Due to the nature and complexity of this audit, auditors determined that it would be beneficial for readers to issue the report in two parts. Part I (attached) consists of a review of system controls and operations, essentially the "cause". Part II will follow and consists of a review of contractors and the "effect" or results of the findings identified in Part I. Auditors are in the process of performing substantive testing and estimate the completion of Part II to be January of 2023.

In past audits, the OIPA identified a need for additional resources as part of the cause, however, it should be noted in this audit, the OIPA determined that the Contracts and Procurement department could function more effectively and efficiently with the current level of staff if the processes, procedures, departmental functions, and systems were current, clear, accurate and consistent. Therefore, auditors are not recommending additional resources due to the results of this audit.

Further, it should be noted that the OIPA has been keeping management informed during the audit process as issues are identified. One step that management and the OIPA quickly implemented was to move an experienced contract analyst into the OIPA as an auditor with a focus on contracts and quality control. This independent body will work in the OIPA while providing audits and quality control on a continuous basis over contracts and procurement. This movement is just one of many impactful steps in helping to bring improvements to the contract and procurement process. I appreciate and applaud Hasan in his efforts to work jointly and proactively with the OIPA.

The OIPA would like to thank the Chief Executive Officer, Hasan Ikhata, and SANDAG management and staff. If you have additional questions, please contact me at (619) 595-5323 or mary.khoshmashrab@sandag.org.

Respectfully,



MARY E. KHOSHMAHRAB, MSBA, CFE, CPA
Independent Performance Auditor, Office of the Independent Performance Auditor

cc: Members of the Board of Directors
Members of the Audit Committee
Hasan Ikhata, Chief Executive Officer
John Kirk, General Counsel
Andre Douzajian, Chief Financial Officer
Melissa Coffelt, Senior Director of Organization Effectiveness
Kelly Mikhail, Manager of Contracts and Procurement
OIPA Website and Files

Enclosure: Contracts and Procurement Operational and System Control Audit Report (Part I) – Audit ID. 2022-05



Office of the Independent
Performance Auditor

CONTRACTS AND
PROCUREMENT
OPERATIONAL AND SYSTEM
CONTROL AUDIT – PART I

AUDIT No. 2022-05

Independent Performance Auditor, Mary Khoshmashrab, MSBA, CPA

OCTOBER 2022

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October 2022
Report 2022-05

Fact Sheet

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CONTRACTS AND PROCUREMENT OPERATIONAL AND SYSTEM CONTROL AUDIT (PART I)

The Office of the Independent Performance Auditors' Audit Objectives

The objective of this engagement is to audit SANDAG's management of contracts and procurement. Specific objectives are to review policies and procedures; evaluate internal controls over contracts and procurement to determine whether they exist, are being followed, and functioning effectively. Lastly, the objective includes testing system controls, and contracts and procurement transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, will not express such an opinion.

The audit consists primarily of gaining an understanding of the relevant laws, rules, and regulations; inquiries and observations from management and staff; gaining an understanding of system controls; testing controls; and a review of contracts and procurement processes and transactions. An audit does not provide assurance that auditors will become aware of all significant matters that would be disclosed in an audit.

During the audit, auditors encountered/identified some matters that require further review. In these cases, where the auditors deemed material or require further attention these matters were referred to the IPA and will be independently reviewed.

AUDIT FINDING HIGHLIGHTS

INADEQUATE ADMINISTRATIVE STANDARD OPERATING PROCEDURES (SOPs) FOR CONTRACT ANALYSTS AND PROJECT MANAGERS (Report Page no. 14)

Both contract analysts and project managers were lacking adequate SOPs. What was commonly cited as procedures was the SANDAG Procurement Manual, Board Policies, and project plans but these are not SOPs.

INSUFFICIENT TRAINING OF CONTRACT ANALYSTS AND PROJECT MANAGERS AND INSUFFICIENT REQUIREMENTS TO QUALIFY AS A PROJECT MANAGER

(Report Page no. 15)

Training for contract analysts is internally conducted, minimal, informal, and inconsistent. Formal training is not required for an employee to qualify to be a project manager. Though few project managers have been formally trained, most have not; approximately half of SANDAG employees are active project managers in the Contract Management System (CMS), and even more have the ability to be project managers. Thus, leading to situations where duties are not being properly segregated and contract analysts are doing tasks project managers should be responsible for performing.

ITEMIZED BREAKDOWN OF WORK PERFORMED NOT REQUIRED FOR INVOICE PAYMENT

(Report Page no. 17)

Some project managers required detailed support for work performed to be provided with the invoice to include what tasks were completed, detailed labor hours, and other forms of support, as required in the contract, while others did not. In both cases, invoices were approved and paid.

INADEQUATE CONTRACT MANAGEMENT SYSTEM (CMS) WITH LIMITED CAPABILITIES AND USAGE AND INACCURATE AND MISSING INFORMATION

(Report Page no. 18)

Auditors noted that the list of contracts from CMS provided by staff was inaccurate and incomplete. Employees who are not the project manager of the contract are listed as the project manager, inconsistent naming conventions are used, and various fields have missing (blank) entries.

MODIFICATIONS OF DETAILS IN RECORDS OF NEGOTIATION (RONs)

(Report Page no. 22)

Auditors noted a project manager providing leading information in the record of negotiation for a task order amendment, such as providing the estimated hours and cost identified in the Independent Cost Estimate. Staff deleted that communication and summarized it as a request for a cost proposal. Auditors noted that this is not a widespread practice.

INNADEQUATE DOCUMENTATION FOR SOLE SOURCE TRANSACTIONS

(Report Page no. 23)

In a sample of 38 Sole Source transactions, auditors found:

- 2 transactions were missing sole source justification forms
- Inconsistent labeling and filing of sole source justification forms, for example some

can be found in CMS, SharePoint “pre-CMS Working Folders”, SharePoint “CMS Working Folders”, and SharePoint “Contracts Library”

- 5 transactions were missing at least one signature on the justification form which requires two signatures
- Sole Source transactions are not properly labeled as sole source in CMS. For example, when an RFP solicitation resulted in a single bid/proposal which would then justify an award that would appear as a sole source award, CMS identified it as an actual sole source rather than a competitive bid with only one proposal.
- Method of Procurement Selection is not always submitted with a sole source

MATERIAL WEAKNESSES WITH THE IDENTIFICATION OF ON-CALL AND SOLE SOURCE CONTRACTS AND AMENDMENTS

(Report Page no. 26)

Auditors identified that there are material weaknesses within the ability to identify when an increase to the original amount awarded to a vendor is due to the authorization of competed task orders, sole sources, amendments, etc.

Based on CMS Report 1 (received on July 28, 2022), auditors noted the following:

- CMS Report 1 does not clearly identify which amendments are tied to on-call contracts nor which are accurately sole source procurements.
- While CMS Report 1 lists sole sources and amendments, there are errors within the report, including:
 - records being mislabeled under incorrect base contracts
 - record titles not specifying which contract or task order they are related to.
- **1,627** total contracts
- **447** contracts (of all contracts) have the field ‘original amount’ left blank.
- **308** total on-call contracts
- **271** on-call contracts (approximately **88%** of all on-call contracts) have their original amount left blank

CMS Report 1 includes all contracts that were open and/or active during the audit period (specifically from July 1, 2017 – July 1, 2022). This report includes the following¹:

- Contracts that may have been initiated prior to the audit period
- Contracts that may have remained open/active beyond the audit period

After excluding all entries with blank *original* amounts and all *on-call* contracts from CMS Report 1, auditors conducted an analysis to determine the vendors with the largest increases from original to current amounts. The ‘current amount’ field in the report represents the current maximum amount that could potentially be paid to the contractor(s) over the life of their contract(s), not the actual amounts paid to a contractor². To avoid what contract staff referred to as “double counting” auditors excluded listed task orders, amendments, and other offsets to ensure that an accurate

¹ The following also applies to CMS Report 2 which will be discussed later

² This is also the case with CMS Report 2

representation for each contract's current amount.

The following tables show contractors with the **10 highest percentage change** between the original and current amounts (Table 1.1) and the **10 highest dollar differences** between original and current amounts (Table 1.2) respectively. The **total percentage increase** from original to current amount for **all contracts (excluding those with blanks in the 'original amount' field and on-call contracts)** is 5%.

Table 1.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (No Blanks or On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change ³	Vendor Type
Vendor A	\$4,529,303	\$25,333,445	\$20,804,142	459%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor C	1,000,000	2,084,312	1,084,312	108%	Construction
Vendor D	1,350,340	2,702,605	1,352,265	100%	Services
Vendor E	2,887,873	5,095,629	2,207,756	76%	Services
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services
Vendor G	1,096,164	1,861,245	765,080	70%	Services
Vendor H	1,200,000	2,000,000	800,000	67%	Services
Vendor I	15,881,019	26,302,039	10,421,019	66%	Services
Vendor J	7,467,530	12,162,981	4,695,451	63%	Services

³ Vendors were only considered if the total original amount was greater than \$1,000,000.

Table 1.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (No Blanks or On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor A ⁴	\$4,529,303	\$25,333,445	\$20,804,142	459%	Services
Vendor I	15,881,019	\$26,302,039	10,421,019	66%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services
Vendor K	26,337,660	33,305,001	6,967,340	26%	Public Agency
Vendor L	39,914,596	46,720,603	6,806,006	17%	Construction
Vendor M	58,071,354	63,907,698	5,836,344	10%	Public Agency
Vendor N	11,142,611	16,221,470	5,078,859	46%	Construction
Vendor J	7,467,530	12,162,981	4,695,451	63%	Services
Vendor O	29,864,686	32,788,499	2,923,813	10%	Construction

Auditors later requested additional CMS data to include *only on-call contracts* for the same time period, CMS Report 2 (received on September 20, 2022). Auditors conducted a similar analysis on CMS Report 2. The following tables show contractors with the **10 highest percentage change** between the original and current amounts (Table 2.1) and the **10 highest dollar differences** between original and current amounts (Table 2.2) respectively. The **total percentage increase** from original to current amount for **all on-call contracts** is **46%**.

⁴This vendor A is the same vendor as in the previous table. Any repeat names correspond to the same vendor.

Table 2.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	\$ Difference	% Change ⁵	Vendor Type
Vendor P	\$1,289,810	\$10,289,100	\$8,999,290	698%	Services
Vendor Q	6,657,981	15,140,577	8,482,596	127%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor S	1,311,000	2,606,000	1,295,000	99%	Services
Vendor T	2,194,935	4,347,559	2,152,625	98%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor V	8,168,701	13,356,401	5,187,700	64%	Services
Vendor W	9,098,295	14,545,304	5,447,009	60%	Services
Vendor X	35,390,247	56,538,676	21,148,429	60%	Services
Vendor Y	5,234,852	7,821,560	2,586,708	49%	Services

Table 2.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor Z	\$140,307,107	\$204,290,405	\$63,983,298	46%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor AA	57,076,879	84,561,618	27,484,739	48%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor X	35,390,247	56,538,676	21,148,429	60%	Services
Vendor BB	37,337,211	52,205,418	14,868,207	40%	Services
Vendor CC	62,759,209	75,508,508	12,749,298	20%	Services
Vendor DD	28,646,269	39,906,977	11,260,707	39%	Services
Vendor P	1,289,810	10,289,100	8,999,290	698%	Services
Vendor Q	6,657,981	15,140,577	8,482,596	127%	Services

Lastly, the following tables reflect data for the on-call and non-on-call contracts combined. The tables show the **10 highest percentage change** between the original and current amounts (Table 3.1) and the **10 highest dollar differences** between original and current amounts (Table 3.2) respectively when both the **on-call and non-on-call**

⁵ Vendors were only considered if the total original amount was greater than \$1,000,000.

contracts are combined. The total percentage increase from original to current amount for all contracts⁶ combined is 19%.

Table 3.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-Call and Non-On-Call Combined)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	\$ Difference	% Change ⁷	Vendor Type
Vendor P	\$1,289,810	\$10,289,100	\$8,999,290	698%	Services
Vendor A	4,529,303	25,333,445	20,804,142	459%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor D	1,350,340	2,702,605	1,352,265	100%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor T	2,194,935	4,347,559	2,152,625	98%	Services
Vendor Q	10,422,638	19,884,304	9,461,666	91%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor E	2,887,873	5,095,629	2,207,756	76%	Services
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services

Table 3.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-Call and Non-On-Call Combined)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor Z	\$140,307,107	\$204,290,405	\$63,983,298	46%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor AA	58,166,991	88,015,358	29,848,367	51%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor X	35,396,122	56,538,676	21,142,554	60%	Services
Vendor A	4,529,303	25,333,445	20,804,142	459%	Services
Vendor BB	44,400,092	59,268,299	14,868,207	40%	Services
Vendor CC	62,759,209	75,508,508	12,749,298	20%	Services
Vendor DD	28,816,904	40,077,611	11,260,707	39%	Services
Vendor I	15,881,019	26,302,039	10,421,019	66%	Services

There are 5 contractors that appear in the top 10 largest percentage increase of original to current amount for both the on-call and the total combined tables. There are also 8

⁶ Any contracts with blank original amounts that are also not on-call contracts would still necessarily be excluded

⁷ Vendors were only considered if the total original amount was greater than \$1,000,000.

contractors that are in the top 10 **largest dollar increase** of original to current amount for both the **on-call** and the **total combined** tables. Based on the above, there appears to be a disproportionate preference to certain vendors based on the totality of contract amounts. The results of this finding exhibit how much a contractor has the ability to be reimbursed, based on the maximum amount of their contract(s) to date.

Part II of this audit will allow auditors to determine if the on-call contracts have been amended, sole sourced, and if all requirements were followed. Due to the potential of human error and the ability to manipulate within CMS, identifying these will require a manual effort by opening each procurement record and their documents. Specifically, auditors will verify the following in Part II:

- solicitations are sufficiently advertised
- solicitation requirements and documents are adequate
- procurements are competed through full and open competition
- proposals/bids are evaluated fairly
- amendments and sole sources meet all applicable requirements
- amendments and sole sources are accurately and sufficiently justified
- sole source justifications are not due to lack of or poor planning

Independent Performance Auditor: Mary Khoshmashrab, MSBA, CFE, CPA

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AUDIT OBJECTIVES

UNDERSTANDING SANDAG'S CONTRACTS AND PROCUREMENT PROGRAM

As a recipient of public funds, the San Diego Association of Governments (SANDAG) is responsible for ensuring that funds are properly spent for the public purposes for which they are intended. SANDAG has a Procurement Manual to make certain that all funds are expended according to sound procurement principles and to provide uniform procurement procedures to be followed by all SANDAG personnel. It is not intended to create rights for third parties. While the Federal Transit Administration (FTA), the Federal Highway Administration (FHWA), the California Department of Transportation (Caltrans), and other government agencies providing funds to SANDAG expect SANDAG to use its own procurement procedures to administer its projects SANDAG must also adhere to the standards established by applicable state and federal laws, as well as the rules and regulations imposed by various funding agencies.

The procedures in the Procurement Manual are intended to ensure SANDAG is following its Board Policies and, when applicable, the FTA's Third-Party Contracting Guidance; as well as the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Uniform Guidance), as these documents establish the standards and guidelines for procurement under all federal programs.

SANDAG is responsible for ensuring full and open competition and equitable treatment of all potential sources in the procurement process. SANDAG staff is responsible for the planning, solicitation, award, and documentation of procurements. The Procurement Manual describes the steps necessary to ensure public funds are expended properly and to protect the integrity of SANDAG's procurement process.

GENERAL AUDIT OBJECTIVES

The general objective of this engagement is to audit SANDAG's management of contracts and procurement. Specific objectives are to review policies and procedures and to evaluate internal controls over contracts and procurement to determine whether they exist, are being followed, and are functioning effectively. Lastly, objectives include testing system controls, contracts, and procurement transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

The audit consists primarily of gaining an understanding of the relevant laws, rules, and regulations; inquiries and observations from management and staff; gaining an understanding of system controls; testing controls; and a review of contracts and procurement processes and transactions.

This audit will be divided into two reports:

Part I will consist of an audit of SANDAG's system controls and operations of the contract and procurement process to ensure effective and efficient controls exist and are followed in addition to reviewing SANDAG's contract and procurement procedures

and policies to also ensure that policies are consistent with Federal and State regulations and other applicable governing laws, rules, and regulations.

Part II will consist of the audit tests applied and the procedures performed to verify that incurred cost records are sufficient and consist of third-party supporting documentation, and other relevant data to assess SANDAG's ability to track, obtain support with sufficient documentation, and keep adequate records of incurred costs that adhere to policies and procedures and have been accurately billed properly and sufficiently. Additionally, Part II will include a review of contractors to ensure that both parties (Contractors and SANDAG) adhered to the final contract.

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, we do not express an opinion.

PROCUREMENT FRAUD DEFINED

Procurement Fraud is any methodology or plan designed to defraud a buying activity or degrade the integrity of the acquisition process. It is also defined as "dishonestly obtaining an advantage, avoiding an obligation, or causing a loss to public property or various funds during the procurement process by public servants, contractors or any other person involved in the procurement." It can occur within or outside the Government by vendors/contractors or by federal, state, or local procurement personnel. Vendors need to be confident that the systems designed to spend those funds is fair and equitable. Taxpayers need to be comfortable knowing government employees are performing acquisition tasks in the best interests of the government and not their own.

Procurement fraud can take many forms, from taking bribes, to bid rigging, and to unjustified sole source selection and award. Part II of this audit will focus on risks related to procurement fraud from the contractors.

It should be noted that due to the lack of controls and ineffectiveness identified in the current Contracting Management System referred to as CMS, the ability for auditors to successfully test for procurement fraud schemes such as bid rigging, price fixing, etc. in Part II of the audit will be difficult.

Further, during our review of Part I of the audit, auditors have not identified any fraud or intentional wrongdoing over areas reviewed.

AUDIT RESULTS

FINDING I – INADEQUATE ADMINISTRATIVE STANDARD OPERATING PROCEDURES (SOP) FOR CONTRACT ANALYSTS AND PROJECT MANAGERS

During the audit, auditors noted inadequate administrative standard operating procedures (SOPs) for both contract analysts and project managers. Neither have SOPs that provide step-by-step instructions on how to complete their assigned tasks. The contract analysts and project managers cited the following as their procedures:

- The SANDAG Procurement Manual
- Various contract document templates
- Forms on the shared SANDAG website and SharePoint
- Board Policies
- Project plans

Auditors later became aware of a Procedures subfolder within the Contracts Analyst Resources SharePoint folder. However, this folder includes informal procedures for only some administrative-related tasks but is missing procedures for primary/major procurement functions and processes such as solicitations, contracts, and task orders.

Section 49 of the Code of Federal Regulations (CFR) part 18.36(b) states that “grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations.”

The contract analysts and project managers viewed the items cited above as SOPs. The Procurement Manual explains what tasks need to be completed but does not provide step-by-step SOPs on how to complete tasks. Additionally, the Procurement Manual has conflicting and outdated policies and tasks outlined throughout. The templates, board policies, and project plans also do not outline step-by-step procedures for all tasks required of contract analysts and project managers.

A lack of SOPs contributes to the following:

- Staff not being clear on what their duties are
- Staff duties not properly segregated
- Overlap in assignment of duties/responsibilities
- Contract analysts completing project manager tasks
- Staff tasks being overlooked, missed, or inconsistently completed
- Delays in projects when staff must spend time researching and seeking consensus on common or correct processes to be followed
- Difficulty and inconsistency in training new staff on how to perform tasks

RECOMMENDATIONS

The OIPA recommends the following:

1. Creating formalized SOPs with step-by-step instructions for tasks for both contract analysts and project managers (e.g., desk procedures).
2. Providing formal and regular training to contract analysts and project managers on their assigned roles, responsibilities, and procedures.
3. Updating the Procurement Manual to clearly identify and segregate roles and responsibilities for contract analysts and project managers.

FINDING II – INSUFFICIENT TRAINING OF CONTRACT ANALYSTS AND PROJECT MANAGERS AND INSUFFICIENT REQUIREMENTS TO QUALIFY AS A PROJECT MANAGER

During the audit, auditors noted insufficient training for both contract analysts and project managers. Most training for *contract analysts* is conducted internally and is minimal, informal, and inconsistent. Auditors also noted that only some *project managers* had formal training. Furthermore, auditors identified inconsistencies as follows:

- 4 of the 13 contract analysts did not have formal training or certifications.
- Some contract analysts received training from outside sources such as:
 - The Institute for Supply Management;
 - San Diego State University;
 - The National Transit Institute; and
 - The California Association of Public Procurement Officials.
- Contract analysts are not encouraged to join professional associations⁸ or seek outside training
- Interns are training other interns
- Contract analysts provide training in addition to their daily workload
- Contract analysts are completing project manager tasks, including:
 - writing scopes and creating independent cost estimates
 - initiating and maintaining communications and discussions related to the procurement with vendors
 - submitting the procurement request in CMS on behalf of a project manager
- Contract analysts sometimes are required to remind project managers of procurement restrictions on awarding to firms where conflicts of interests exist
- There are 192 project managers listed as active in CMS and 238 employees at SANDAG that have the ability to be a project manager

Beginning in June 2021, the contracts department began offering contract analyst staff training in the form of training modules that include short informative presentations

⁸ Professional associations include CAPPO, NIGP, NPI, among others.

on a particular topic. However, auditors noted that the trainings are optional, do not include the use of formal SOPs, and only sometimes provide a reference document to guide the contract analyst through the process. The staff training modules are also not offered or scheduled on a consistent basis.

The FTA Best Practices Procurement & Lessons Learned Manual (FTA BPPM) recommends that, as part of the planning phase of the procurement cycle, entities must have the internal organizational capability with the proper checks and balances to facilitate the procurement process, which includes having trained, experienced contract personnel (e.g., Chief Procurement Officer, Contracting Officer, Contract Administrator, buyers, advisors, etc.) that have the authority to contractually bind the agency. Furthermore, agencies that use federal funds must ensure that contract personnel are fully knowledgeable of the numerous Federal laws and regulations that apply to federally funded procurements. It is imperative that an agency comply with the requisite Federal laws and regulations or risk losing Federal financial support.

The Procurement Manual specifies the responsibilities and tasks assigned to both of the contract analyst and project manager roles. In accordance with applicable laws, rules and policies, SANDAG (and staff) is required to follow any and all requirements and procedures to ensure compliance. The Procurement Manual also states that training is provided to contract analysts and that training is also provided annually.

Formal training on the procurement process is not required for an employee to qualify to be a project manager. Training on the Procurement Manual is only provided upon request or on an “as-needed basis” for all other departments outside of Contracts. The Procurement Manual specifies what a project manager’s duties and responsibilities are but does not provide detailed or specific requirements for an employee to qualify to be a project manager other than being a full-time employee. The Procurement Manual also does not provide step-by-step SOPs on how to complete contract analyst or project manager tasks.

Lack of required training can cause the following:

- Inconsistencies in contract analysts and project managers following policies and procedures
- Contract analysts potentially missing steps in the procurement process and/or not meeting requirements needed to be compliant with laws, rules, regulations, etc.
- Loss of federal funding due to non-compliance of applicable laws, rules, regulations
- Delays in procurement requests being submitted, processed, and executed
- Improper segregation of duties if contract analysts continually must do the work of project managers
- A higher risk of vendors taking advantage of project managers’ lack of knowledge

- of processes and procedures such as scope writing and required documentation
- Assigning unqualified employees to project manager roles
- Excessive assignment of project managers

These risks are increased due to approximately half of SANDAG's staff currently being active project managers and even more having the ability to be a project manager.

RECOMMENDATIONS

The OIPA recommends:

1. Creating SOPs for contract analyst and project manager specific tasks.
2. More clearly segregating the duties of contract analysts and project managers.
3. Providing consistent training for contract analysts provided by contracts subject matter experts and/or management.
4. Providing annual and/or continuous training on the Procurement Manual and SOPs for both contract analysts and project managers.
5. Identifying and requiring that employees meet specific qualifications and have attended external formal project manager specific training prior to being assigned to a project manager role; for employees assigned as project managers over higher risk and dollar projects, formal certified project manager training should be required.
6. Encouraging external training provided by professional associations specific to contracts (such as CAPPO and NIGP) and project management.

FINDING III – ITEMIZED BREAKDOWN OF WORK PERFORMED NOT REQUIRED FOR INVOICE PAYMENT

During interviews with project managers, auditors noted the following:

- An itemized breakdown of work performed is not required to process invoices for payment.
- The required documentation submitted by vendors for payment is inconsistent.
- Only some project managers required detailed support for work performed to be provided with the invoice to include tasks completed, detailed labor hours, and other forms of support, as required in the contract, while others did not. In both cases, invoices were approved and paid.
- Detailed summaries from vendors are only provided to the project managers when explicitly requested.

According to the Procurement Manual, project managers are responsible for reviewing invoices closely for conformance to contract terms and for erroneous or fraudulent charges, reviewing the timeliness and accuracy of invoices, and ensuring vendor's billed costs are allowable and consistent with the contract terms as well as the acceptability and process of the vendor's work.

The standard services agreement does not require a detailed/itemized invoice nor a progress report to be submitted as part of the invoice. The only mention of detailed/itemized invoices is under a subsection of 'Invoicing' titled "Timing of Payment".

The SANDAG Request for Payment form also does not require a detailed/itemized invoice to request or authorize payment of the invoice. Auditors could not confirm if there is a formal finance/accounts payable procedure provided to staff who submit invoices for payment.

Not requiring detailed work summaries and itemized invoices increases SANDAG's risk of the following occurring:

- Paying for services that are not completed
- Paying for subpar work
- Paying for services that are not authorized in the contract or task order, beyond the scope of work
- Overpayment
- Duplicate payments for completed work

RECOMMENDATIONS

The OIPA recommends:

1. Requiring detailed/itemized invoices and progress reports or detailed summary of work performed for a payment to be processed e.g., source documents such as detailed timesheets or task specific assignment sheets that supports labor or work product results, goods and/or receiving receipts from third parties, etc.
2. Updating Request for Payment Form to explicitly require itemized invoices to be attached.
3. Creating formal SOPs and training for invoice payment to include instructions/methods for verifying invoiced work is included in the contract/task order.
4. Updating contract templates to require detailed/itemized invoices as well as progress reports or detailed summaries of work performed to be included with invoices.

FINDING IV – INADEQUATE CONTRACT MANAGEMENT SYSTEM (CMS) WITH LIMITED CAPABILITIES AND USAGE AND INACCURATE AND MISSING INFORMATION

During the review of the CMS and a detailed CMS report provided by the Contracts department, auditors noted that the current CMS has limited capabilities as a contract management system and is not fully being used as a document management database nor document sorting and filing system as intended. Only some contracts

and contract records are found in the CMS system while others are found in various SharePoint folders.

Through discussions with the Contracts department, auditors confirmed the following:

- The Contracts department must manually calculate the current sum of a contract to provide the total not-to-exceed amount because the CMS does not record, track, or report this information.
- The Contracts department must manually calculate the current sum of all contracts for a vendor to provide the total not-to-exceed amount authorized to a vendor because CMS does not record, track, or report the total not-to-exceed amount issued or authorized per vendor.
- The Contracts department can only provide the approved encumbrance amounts as recorded in CMS when the procurement was executed because CMS does not track up-to-date encumbrance amounts or amounts paid to a vendor against a contract or task order.
- The Contracts department cannot easily provide a list or number of subcontractors on a contract or task order because CMS does not track this information.
- The CMS allows fields to be edited at any point in the procurement cycle by users with write-rights, even after execution of a contract.
- The CMS allows procurement requests to be submitted when funds aren't available.
- The CMS system allows requesters to submit procurement requests with some auto-populated fields being left blank.
- The CMS allows contracts/documents to be replaced after execution while only recording that the change occurred in the history. This requires staff and auditors to manually search the history for each record to determine if such a change was made.
- Only 1 contracts employee is trained to run advanced reports; succession planning issues can occur

Additionally, during the review of the CMS report provided by the Contracts department, auditors noted that the records had inaccurate or incomplete contract details. Auditors identified the following issues:

- Multiple staff members have multiple versions of their name due to misspellings, use of nicknames (i.e., Mike instead of Michael), or only sometimes including the hyphenated portion of a last name
- Project manager labeled as "USER390200" instead of their actual name
- 80 records where project manager field is left blank
- 1,052 records where the Department field is left blank
- 1,056 records where the 'Division' field is left blank

- An employee may be listed as the project manager for a contract while not actually acting as the project manager
- The CMS system allowed requesters to submit procurement requests with some auto-populated fields being left blank.

The FTA Best Practices Procurement & Lessons Learned Manual (FTA BPPM) recommends that, as part of the planning phase of the procurement cycle, entities must have the internal organizational capability with the proper checks and balances to facilitate the procurement process. Furthermore, in an organization with no checks and balances, there is greater opportunity for abuse to arise, whether actual or perceived.

According to the Procurement Manual, project managers are responsible for “maintaining contract administrative records”, and contract analysts “ensure transactions are recorded in CMS as applicable and records are maintained in good order”.

The CMS User Guide, Version 1.0 (10/1/19), describes that it is intended to be used as a reference to assist in understanding the utilization of CMS and that a manual to include procedures and standard business rules is being drafted. The CMS User Guide also explains that the system helps lock and track contract/document revisions to ensure document integrity and security, including proof of tampering, and intelligently automating document sorting, filing, and workflows. Additionally, the CMS User Guide explains that the requester, project manager, department, and division fields are “auto-populated” by the system.

Limited capabilities/usage of the CMS and inaccurate and missing information within CMS is due to the following:

- The current CMS system does not have sufficiently advanced reporting capabilities to meet the agency’s auditing or reporting needs.
- The current CMS stores and provides limited information and therefore cannot accurately and easily track and ensure policies and procedures are being followed.
- Contracts staff are not fully trained to provide all CMS reports easily or efficiently.
- Project managers/requesters are not trained or required to follow any specific format or rules on CMS entries when submitting procurement requests and are only required to complete the fields specified as required by the CMS.
- Contracts staff is not trained to follow or enforce consistent CMS entries for the various fields.
- There is no quality assurance or controls around the storage of contract documents and contract-related documents to ensure all are stored

consistently, efficiently, and in an organized and centralized manner.

- The CMS locking and tracking capability does not limit or restrict a user from replacing documents; document replacements are only recorded in the history.

Using the current CMS has inherent risks such as:

- Errors and inconsistencies with the reported total amounts per contract and total amounts per vendor as they must be manually calculated from an extensive report with potential for double counting.
- Project managers and contract analysts can execute task orders under a fully expended contract through the CMS.
- The Contracts department and any other user with write-rights access can make changes to a CMS record after execution of the contract, amendment, or task order. Discovery of changes must be identified through search or review of each individual record's history which could take extensive effort and limits the ability to conduct any quality control or accurate auditing.
- CMS records and reports cannot be relied on due to allowed changes.
- Amounts in the CMS system may not always match the finance system as changes to encumbrances are not tracked within the CMS system.
- Project managers and vendors may authorize and/or allow a non-approved/non-authorized subconsultant to work on a project and be paid for work since CMS does not efficiently provide or track the list of actively approved/authorized subcontractors for PMs to verify against. This information must be identified by reviewing each contract, amendment and/or task order PDF document.
- Delay in report running.
- Delay in locating required documents due to inefficient storage of records in various places.
- Not being able to determine who is managing a project.
- Not knowing who to contact with any questions or concerns regarding the request or documents submitted.
- Not being able to easily identify bid rigging schemes, collusion amongst contractors, collusion between contractors and employees by bid tailoring, bid manipulation, bid splitting, and leaking of bid data.

RECOMMENDATIONS

The OIPA recommends:

1. Replacing the CMS with a system that properly interfaces with the agency's enterprise resource planning system (ERP) or is a system within the agency's ERP, with the ability to communicate/integrate with finance encumbrance, invoice, and payment records to include tracking, searching, and recording invoice payments against contracts, task orders, etc. The replacement ERP and

the data stored within should also be user-friendly, easily accessible, and easily reportable.

2. Providing staff training and step-by-step SOPs on using the replacement CMS and submitting all types of procurement requests.
3. Ensuring staff can query to identify the contractor and subcontractor efficiently and easily within the replacement CMS without going to various other platforms or documents.
4. Ensuring that all contracts and contract-related records and documents are stored in 1 easily accessible location, preferably within the replacement CMS.
5. Ensuring the replacement CMS is updated with correct and complete information and data to correct the inaccuracies and blanks from the current CMS records.
6. Requiring that the listed project manager for a contract is the actual project manager in the replacement CMS
7. Specify required fields in the replacement CMS and require all mandatory fields to be completed.
8. Providing staff certain access to the replacement CMS, based on their job duties.
9. Ensuring that the replacement CMS can provide an audit trail for review.
10. For continuity and efficiency, at least more than 1 employee but preferably more than 3 should have an in-depth knowledge, training, and skill in the replacement CMS and should be able to provide reports to auditors and/or other authorized recipients.
11. If recommendation one is chosen not to be accepted and SANDAG continues to use the current CMS, auditors recommend applying recommendations 2-10 to the current CMS.

FINDING V – MODIFICATIONS OF DETAILS IN RECORDS OF NEGOTIATION (RON)

During the audit, auditors noted that a project manager provided leading information to the vendor when requesting a cost proposal for a task order amendment, including the estimated hours and cost identified in the Independent Cost Estimate (ICE). In addition, auditors noted that Contracts staff deleted that communication and summarized it as a request for a cost proposal in the record of negotiation (RON). It should be noted that auditors reviewed other contracts and determined that this is not a widespread practice.

According to the Procurement Manual, all negotiated procurements should have a RON to document the negotiation process and that determines the prices negotiated are fair and reasonable in comparison to the (ICE). The project manager should take the lead on preparing the RON when they lead the contract negotiations, while the contracts staff member is responsible for documenting negotiations in the RON when it takes the lead on contract negotiations.

The negotiation and RON procedures were not properly followed and therefore the task order amendment procurement should not have been authorized.

Providing leading information to the vendor eliminates any of SANDAG's negotiating power to receive the best possible price and violates the integrity of the procurement process. The lack of controls presents a potential risk of employee and contractor collusion. Also, deleting that information shows a lack of transparency of the negotiating process.

RECOMMENDATIONS

The OIPA recommends:

1. Creating a formal SOP and provide training on completing a RON to both project managers and contract analysts.
2. Providing negotiation training and/or guidelines to project managers and contract analysts to include reasons/intent of negotiations, best practices, and risks of not negotiating and/or not following best practices.

FINDING VI – INADEQUATE DOCUMENTATION FOR SOLE SOURCE TRANSACTIONS

Auditors reviewed a judgmental sample of **38** out of 363 sole source transactions⁹ (sole sources) that were provided by the Contracts and Procurement department and noted the following:

- 2 transactions were missing sole source justification forms.
- Inconsistent labeling and filing of sole source justification forms, for example some can be found in CMS, SharePoint “pre-CMS Working Folders”, SharePoint “CMS Working Folders”, and SharePoint “Contracts Library”.
- 13 sole source justification forms had a listed contract amount that did not match the amount on the provided list of sole source transactions. This included just having explicitly differing dollar amounts, the contract amount saying, “up to” a certain amount and “\$ aggregate total of all task orders”.
- 5 transactions were missing at least one signature on the justification form which requires two signatures.
- Sole Source transactions are not properly labeled as sole source in CMS. For example, when an RFP solicitation resulted in a single bid/proposal which would then justify an award that would appear as a sole source award, CMS identified it as an actual sole source rather than a competitive bid with only one proposal.
- Method of Procurement Selection (MOPS) form is not always submitted with a sole source transaction.

⁹ Sole Source transactions are a noncompetitive procurement method where only one contractor is solicited.

2 CFR Part 200.320(c) states that a noncompetitive procurement method can be used if at least one of the following circumstances apply: The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold, the item is available only from a single source, the public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation, the Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity, or after solicitation of a number of sources, competition is determined inadequate.

According to SANDAG Board Policy 16, SANDAG typically utilizes full and open competition for procurements in excess of \$100,000. However, there are certain circumstances such as if a project is paid in whole or in part by federal funds, there, there is only one consultant capable of providing the service needed, among other circumstances as outlined in sections 5.1 and 5.2 of Board Policy 16, where both noncompetitive (sole source) and limited competition procurements are permitted. Board Policies 23 and 24 outline the policies for specifically procuring equipment and supplies, and construction respectively. The language in Board Policies 23 and 24 is similar to the Board Policy 16 however, the main difference is that \$50,000 is the dollar amount where SANDAG will normally use full and open competition unless certain circumstances are met rather than \$100,000.

According to the SANDAG Procurement Manual, Contracts staff should not commence a sole source unless the Method of Procurement Selection form indicates a sole source is appropriate and a Sole Source Recommendation form has been provided.

In accordance with SANDAG's sole source justification form, staff is required to attest both of the following:

- The need for a sole source is not due to a failure to plan or a lack of advanced planning.
- The need for a sole source is not due to concerns about the amount of federal assistance available to support the procurement (for example, expiration of federal assistance available for award)

In addition to the above requirements, at least one of a multitude of potential justifications must be met. Some justifications can be used for all funding sources, others for non-Caltrans and non-FHWA funding sources, and the last being for local funding sources. Some examples of which include:

- Single bid or single proposal
- Public interest
- Substantial duplication costs – equipment

- Only one contractor/consultant/vendor/ who can provide unique/highly specialized item or service

The justification form also requires an explanation for the sole source as well as project manager and director signatures. Once that all has been completed, the sole source transaction has been properly justified. However, the current version of sole source justification forms, 'Version 3.0', does not require signatures, but instead explains that the director's approval in CMS also approves the sole source.

The lack of controls within the routing/approval process does not ensure sole source justification forms are complete, labeled correctly, and filed correctly. Furthermore, contract analysts file sole source records in 4 different locations making it difficult to confirm whether or not sole source processes were followed. Formal training and administrative procedures on sole sources are not provided by SANDAG to project managers.

The potential risks to SANDAG are as follows:

- SANDAG not properly justifying its sole source transactions increases the risk of SANDAG being out of compliance with funding regulations.
- Noncompliance of funding regulations could disqualify SANDAG from future funding opportunities.
- The disorganization of record keeping makes it difficult to locate files such as justification forms
- Disorganization increases the risk of delays of processing and approving sole sources and other contract documents. It also limits SANDAG's ability to easily confirm processes were followed.

RECOMMENDATIONS

The OIPA recommends:

1. Providing training to staff on sole source laws, rules, regulations, and processes
2. Creating formal administrative procedures on sole source processes
3. Updating the current sole source justification template to include procurement request details such as contract/task order/amendment number, project manager name, vendor name, etc.
4. Reorganizing contract and sole source records in one centralized location
5. Updating CMS to have accurate information.
6. Ensuring required documents are saved as separate files and labeled accordingly, such as saving a sole source justification form as such.

FINDING VII – MATERIAL WEAKNESSES WITH THE IDENTIFICATION OF ON-CALL AND SOLE SOURCE CONTRACTS AND AMENDMENTS

Auditors identified that there are material weaknesses within the ability to identify when an increase to the original amount awarded to a vendor is due to the authorization of competed task orders, sole sources, amendments, etc.

Based on CMS Report 1 (received on July 28, 2022), auditors noted the following:

- CMS Report 1 does not clearly identify which amendments are tied to on-call contracts nor which are accurately sole source procurements.
- While CMS Report 1 lists sole sources and amendments, there are errors within the report, including:
 - records being mislabeled under incorrect base contracts
 - record titles not specifying which contract or task order they are related to.
- **1,627** total contracts
- **447** contracts (of all contracts) have the field 'original amount' left blank.
- **308** total on-call contracts
- **271** on-call contracts (approximately **88%** of all on-call contracts) have their original amount left blank

CMS Report 1 includes all contracts that were open and/or active during the audit period (specifically from July 1, 2017 – July 1, 2022). This report includes the following¹⁰:

- Contracts that may have been initiated prior to the audit period
- Contracts that may have remained open/active beyond the audit period

After excluding all entries with blank *original* amounts and all *on-call* contracts from CMS Report 1, auditors conducted an analysis to determine the vendors with the largest increases from original to current amounts. The 'current amount' field in the report represents the current maximum amount that could potentially be paid to the contractor(s) over the life of their contract(s), not the actual amounts paid to a contractor¹¹. To avoid what contract staff referred to as "double counting" auditors excluded listed task orders, amendments, and other offsets to ensure that an accurate representation for each contract's current amount.

The following tables show contractors with the **10 highest percentage change** between the original and current amounts (Table 1.1) and the **10 highest dollar differences** between original and current amounts (Table 1.2) respectively. The **total percentage increase** from original to current amount for **all contracts (excluding those with blanks in the 'original amount' field and on-call contracts)** is 5%.

¹⁰ The following also applies to CMS Report 2 which will be discussed later

¹¹ This is also the case with CMS Report 2

Table 1.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (No Blanks or On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change ¹²	Vendor Type
Vendor A	\$4,529,303	\$25,333,445	\$20,804,142	459%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor C	1,000,000	2,084,312	1,084,312	108%	Construction
Vendor D	1,350,340	2,702,605	1,352,265	100%	Services
Vendor E	2,887,873	5,095,629	2,207,756	76%	Services
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services
Vendor G	1,096,164	1,861,245	765,080	70%	Services
Vendor H	1,200,000	2,000,000	800,000	67%	Services
Vendor I	15,881,019	26,302,039	10,421,019	66%	Services
Vendor J	7,467,530	12,162,981	4,695,451	63%	Services

Table 1.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (No Blanks or On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor A ¹³	\$4,529,303	\$25,333,445	\$20,804,142	459%	Services
Vendor I	15,881,019	\$26,302,039	10,421,019	66%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services
Vendor K	26,337,660	33,305,001	6,967,340	26%	Public Agency
Vendor L	39,914,596	46,720,603	6,806,006	17%	Construction
Vendor M	58,071,354	63,907,698	5,836,344	10%	Public Agency
Vendor N	11,142,611	16,221,470	5,078,859	46%	Construction
Vendor J	7,467,530	12,162,981	4,695,451	63%	Services
Vendor O	29,864,686	32,788,499	2,923,813	10%	Construction

Auditors later requested additional CMS data to include *only on-call contracts* for the same time period, CMS Report 2 (received on September 20, 2022). Auditors conducted a similar analysis on CMS Report 2. The following tables show contractors with the 10

¹² Vendors were only considered if the total original amount was greater than \$1,000,000.

¹³This vendor A is the same vendor as in the previous table. Any repeat names correspond to the same vendor.

highest percentage change between the original and current amounts (Table 2.1) and the 10 highest dollar differences between original and current amounts (Table 2.2) respectively. The total percentage increase from original to current amount for all on-call contracts is 46%.

Table 2.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	\$ Difference	% Change ¹⁴	Vendor Type
Vendor P	\$1,289,810	\$10,289,100	\$8,999,290	698%	Services
Vendor Q	6,657,981	15,140,577	8,482,596	127%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor S	1,311,000	2,606,000	1,295,000	99%	Services
Vendor T	2,194,935	4,347,559	2,152,625	98%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor V	8,168,701	13,356,401	5,187,700	64%	Services
Vendor W	9,098,295	14,545,304	5,447,009	60%	Services
Vendor X	35,390,247	56,538,676	21,148,429	60%	Services
Vendor Y	5,234,852	7,821,560	2,586,708	49%	Services

Table 2.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-call)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor Z	\$140,307,107	\$204,290,405	\$63,983,298	46%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor AA	57,076,879	84,561,618	27,484,739	48%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor X	35,390,247	56,538,676	21,148,429	60%	Services
Vendor BB	37,337,211	52,205,418	14,868,207	40%	Services
Vendor CC	62,759,209	75,508,508	12,749,298	20%	Services
Vendor DD	28,646,269	39,906,977	11,260,707	39%	Services
Vendor P	1,289,810	10,289,100	8,999,290	698%	Services
Vendor Q	6,657,981	15,140,577	8,482,596	127%	Services

¹⁴ Vendors were only considered if the total original amount was greater than \$1,000,000.

Lastly, the following tables reflect data for the on-call and non-on-call contracts combined. The tables show the **10 highest percentage change** between the original and current amounts (Table 3.1) and the **10 highest dollar differences** between original and current amounts (Table 3.2) respectively when both the **on-call and non-on-call contracts are combined**. The **total percentage increase** from original to current amount for **all contracts¹⁵** combined is 19%.

Table 3.1

CONTRACTORS WITH 10 HIGHEST PERCENTAGE CHANGE BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-Call and Non-On-Call Combined)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	\$ Difference	% Change ¹⁶	Vendor Type
Vendor P	\$1,289,810	\$10,289,100	\$8,999,290	698%	Services
Vendor A	4,529,303	25,333,445	20,804,142	459%	Services
Vendor B	2,848,800	11,187,910	8,339,110	293%	Construction
Vendor D	1,350,340	2,702,605	1,352,265	100%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor T	2,194,935	4,347,559	2,152,625	98%	Services
Vendor Q	10,422,638	19,884,304	9,461,666	91%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor E	2,887,873	5,095,629	2,207,756	76%	Services
Vendor F	9,646,701	16,925,950	7,279,249	75%	Services

¹⁵ Any contracts with blank original amounts that are also not on-call contracts would still necessarily be excluded

¹⁶ Vendors were only considered if the total original amount was greater than \$1,000,000.

Table 3.2

CONTRACTORS WITH 10 HIGHEST DOLLAR DIFFERENCES BETWEEN ORIGINAL AND CURRENT AMOUNTS AWARDED (On-Call and Non-On-Call Combined)					
Vendor	Original Amount Awarded (All Contracts Combined)	Current Amount Awarded (All Contracts Combined)	Difference	% Change	Vendor Type
Vendor Z	\$140,307,107	\$204,290,405	\$63,983,298	46%	Services
Vendor R	31,713,659	63,245,356	31,531,696	99%	Services
Vendor AA	58,166,991	88,015,358	29,848,367	51%	Services
Vendor U	33,483,362	59,959,958	26,476,596	79%	Services
Vendor X	35,396,122	56,538,676	21,142,554	60%	Services
Vendor A	4,529,303	25,333,445	20,804,142	459%	Services
Vendor BB	44,400,092	59,268,299	14,868,207	40%	Services
Vendor CC	62,759,209	75,508,508	12,749,298	20%	Services
Vendor DD	28,816,904	40,077,611	11,260,707	39%	Services
Vendor I	15,881,019	26,302,039	10,421,019	66%	Services

There are **5 contractors** that appear in the top **10 largest percentage increase** of original to current amount **for both the on-call and the total combined** tables. There are also **8 contractors** that are in the top **10 largest dollar increase** of original to current amount **for both the on-call and the total combined** tables. Based on the above, there appears to be a disproportionate preference to certain vendors based on the totality of contract amounts. The results of this finding exhibit how much a contractor has the ability to be reimbursed, based on the maximum amount of their contract(s) to date.

Part II of this audit will allow auditors to determine if the on-call contracts have been amended, sole sourced, and if all requirements were followed. Due to the potential of human error and ability to potentially manipulate within CMS, identifying these will require a manual effort by opening each procurement record and their documents. Specifically, auditors will verify the following in Part II:

- solicitations are sufficiently advertised
- solicitation requirements and documents are adequate
- procurements are competed through full and open competition
- proposals/bids are evaluated fairly
- amendments and sole sources meet all applicable requirements
- amendments and sole sources are accurately and sufficiently justified
- sole source justifications are not due to lack of or poor planning

The Department of Transportation's Local Assistance Procedures Manual (LAPM) states that Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under sealed bids or competitive proposals (23 CFR 172.7(a)(3)). Additionally, the local agency must carefully document details of the special conditions,

obtain Caltrans approval on a Public Interest Finding and retain all documents in the project files for future Caltrans' or FHWA's review.

2 CFR Part 200.320(c) states that a noncompetitive procurement method can be used if at least one of the following circumstances apply: The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold; the item is available only from a single source; the public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation; the Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or after solicitation of a number of sources, competition is determined inadequate.

49 CFR Part 18.36 (c)(1) explains that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 18.36.

According to SANDAG Board Policy 16, SANDAG is required to utilize full and open competition for procurements in excess of \$100,000. However, there are certain circumstances such as if a project is paid in whole or in part by federal funds, there is only one consultant capable of providing the service needed, among other circumstances as outlined in sections 5.1 and 5.2 of Board Policy 16, where both noncompetitive (sole source) and limited competition procurements are permitted. Board Policies 23 and 24 outline the policies for specifically procuring equipment and supplies; and construction respectively. The language in Board Policies 23 and 24 is similar to the Board Policy 16 however, the main difference is that \$50,000 is the dollar amount where SANDAG will normally use full and open competition unless certain circumstances are met rather than \$100,000.

The Procurement Manual explains that particular attention should be paid when a procurement provides for on-call services on a wide range of services for more than five years. Such procurements limit the vendors eligible for award to a specific list of on-call vendors and may lead to missed opportunities for better pricing and/or experience from other vendors that have been established or have gained the necessary experience to be eligible for award if a new procurement was issued at an earlier interval.

The FTA BPPM explains that because it is often easier to deal with fewer familiar contractors than potential new offerors/contractors, recipients must vigilantly cultivate ways to increase competition at reasonable expense.

The FTA BPPM warns about favoritism and profiteering in the competition process. A

constant concern associated with government procurements is that poor procurement practices result in suppliers or public agents unjustly profiting at the public's expense. Vulnerabilities associated with a transit system's procurement processes that result in exploitation of public procurements by suppliers or public officials significantly affect the public's overall confidence in that transit agency's ability to safeguard its stakeholder's investments (i.e., passengers, funding partners, local community, and other vested parties.)

There is a potential lack of controls within the on-call solicitation process that limits the fairness and equity in selecting contractors and awarding subsequent task orders to contractors on the on-call bench. There is also a lack of controls around the sole source process that allows for abuse of amendments and sole sources to award contracts and task orders to the same contractors repeatedly. There are no strict rules or descriptions of poor/lack of planning as related to justifying a sole source procurement. The Procurement Manual has conflicting and outdated direction and processes, particularly with regards to the on-call, solicitation, and amendment processes. An example of this is the Procurement Manual explaining that for A&E contracts, the contract manager should carefully track the dollar value capacity to avoid exceeding the stated maximum amount(s). Additionally, it explains that amendments or task orders issued in excess of the stated maximum time or amount set forth in the original solicitation may be treated as sole source procurements.

The potential risks to SANDAG are as follows:

- Overpaying for contracted work
- Costs exceeding estimated budgets
- DBE goals not being met
- Limited or lack of full and open competition
- Favoritism of contractors within the solicitation process
- Repeated award of contracts and task orders to the same contractors
- Authorizing sole sources caused by unjustified reasons due to lack of verifying or requiring sufficient support for sole source requests
- Overuse of sole sources to authorize amendments and task orders
- Lack of trust from the public
- Not being able to easily identify bid rigging schemes, collusion amongst contractors, collusion between contractors and employees, bid manipulation, bid splitting, and leaking of bid data

RECOMMENDATIONS

The OIPA recommends:

1. Revising the on-call process to ensure fairness and equity throughout the entire process.

2. Providing training on procurement planning to include the steps and timeline needed to prepare for various sized and timed projects to contract analysts, project managers and any approving staff.
3. Ensuring sufficient procurement planning efforts are being made to avoid sole sources and amendments.
4. Reviewing the sole source policies, processes, and procedures to ensure a clear understanding of allowed sole sources, limitations around sole sources, and the review and approval requirements of sole sources.
5. Creating sole source SOPs for all levels of the approval process.
6. Creating and providing training related to sole sources to include examples of allowable/approvable situations when a sole source is or can be justified and an explanation and examples of when poor planning does not suffice in requesting a sole source procurement.
7. Ensuring that on-call procurements are being appropriately advertised to reach sufficient, qualified and a variety of contractors and subcontractors, including outreach efforts using public platforms and attendance of outreach events to attract new and disadvantaged contractors and subcontractors.
8. Revising the Procurement Manual to avoid conflicting language, particularly with the contract management of A&E contracts and allowance of sole sources.

BACKGROUND, SCOPE, AND METHODOLOGY

AGENCY BACKGROUND AND CREATION OF THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

Founded in 1980, San Diego Association of Governments (SANDAG) was created by local governments as a long-range planning agency within the San Diego County government as a state-authorized joint powers authority. Currently SANDAG is defined by the State Controller's Office as an Independent Special District. This public agency serves as the forum for regional decision-making. The agency builds consensus; makes strategic plans for the region; obtains and allocates resources; plans, engineers, and builds public transportation; conducts criminal justice research; and provides information on a broad range of topics pertinent to the region's quality of life.

SANDAG is governed by a Board of Directors composed of mayors, council members, and county supervisors from each of the region's 18 cities and County. Supplementing these voting members are advisory member representatives from Imperial County, the U.S. Department of Defense, California Department of Transportation, Metropolitan Transit System, North County Transit District, San Diego County Water Authority, San Diego Unified Port District, San Diego Regional Airport Authority, Southern California Tribal Chairmen's Association, and Mexico.

SANDAG currently has approximately 375 employees. The agency's program budget for fiscal year 2022-23 was \$1.04 billion. This budget includes \$76.9 million in projected costs for the overall work program, \$62.1 million for regional operations, and the annual portion of the capital program is projected to be \$470.9 million, of which \$215 million will be passed through to Caltrans District 11 and other local agencies. The SANDAG financial outlook is tied to the health of the regional, state, national, and global economy. Economic performance can impact sales tax receipts and other sources of revenue that the agency depends on to carry out its projects and programs. Sales tax-based revenues such as Transportation Development Act and TransNet are a significant source of funding for both the Capital Program and the Overall Work Program (OWP).

On January 1, 2018, a new California Assembly Bill ([AB 805](#)) required the creation of the SANDAG Audit Committee, and an independent performance auditor (IPA) position. The Audit Committee is responsible for making recommendations to the SANDAG Board of Directors regarding the hiring and oversight of the work of the SANDAG independent performance auditor, the SANDAG annual audit plan, the external financial auditors for SANDAG, and internal control guidelines for the agency. The Audit Committee also is responsible for monitoring the implementation of any corrective actions arising from the audits. Prior to the creation of the Audit Committee and IPA, SANDAG had only 1.5 full-time equivalent internal audit positions reporting directly to management.

SCOPE

The OIPA audited the processes and procedures for the period of July 1, 2017 to the June 30, 2021.

METHODOLOGY

The audit of internal controls was performed. The procedures included gaining an understanding of the internal control structure including documenting the understanding of internal controls and the controls components to help plan the audit and to determine the nature, timing, and extent of tests to be performed. Gaining an understanding of internal controls may consist of reviewing, verifying, interviewing, and identifying internal controls strengths and weaknesses by way of a questionnaire, narratives, flowcharting processes, and performing a walk-through of transactions as necessary, to develop appropriate auditing procedures. Part II of this audit will include dual testing to determine if controls were in place and being followed.

Additionally, auditors followed procedures in accordance with SAS No. 122 and with SAS No. 99 that included performing a brainstorming session regarding potential fraud as it relates to the audit and document the process.

The substantive audit procedures (dual testing) consisted of an examination of the evidence that supports the recording, authorizing, and approving; reviewing and reporting; and the monitoring and maintenance processes and procedures relevant to the audit. The examination entailed testing, on a sample basis, a portion of the population of transactions and the controls around the process.

Auditors' consideration of audit risk and materiality is a matter of professional judgment. There are quantitative and qualitative elements to consider when establishing a materiality factor, including risk of fact and appearance.



September 30, 2022

TO: Mary Khoshmashrab, Independent Performance Auditor

FROM: Hasan Ikhata, Chief Executive Officer

SUBJECT: Management Response to the OIPA Contracts and Procurement Operational and System Control Audit (Part 1)

The SANDAG Management Team appreciates the opportunity to respond to the Draft OIPA Contracts and Procurement Operational and System Control Audit (Part I), for the review period July 1, 2017 to June 30, 2021.

Management has reviewed the draft audit report and agrees with the findings. Management also has considered OIPA's recommendations for responding to the audit findings and believes a more comprehensive work plan, beyond the proposed actions recommended by OIPA, is warranted to address the organizational and systemic issues that currently impact the overall effectiveness of the agency's contracts and procurement program. Some of this work is already underway.

The Contracts audit started soon after the adoption of the agency's Strategic Plan in early 2022 - five initiatives designed to strengthen resource allocation, technology infrastructure, communication, recruitment and retention of employees, and access to outside resources. The Strategic Plan reflects the operational priorities of the Senior Executive team and includes the following work efforts that align to the audit recommendations:

- Transition to a matrixed approach to project delivery and resource allocation. Department functions may need to be restructured and positions repurposed to achieve this organization design; the emphasis is on establishing a robust and effective project management infrastructure that includes capabilities with respect to contract management responsibilities.
- Implementation of an Enterprise Resource Planning (ERP) system. The decision to replace the existing financial, budgeting, contracts management, and human resources/payroll systems with an ERP was initiated in 2019. Since the time the project commenced in early 2022, opportunities to leverage the ERP's capabilities in additional program areas have been evaluated.
- Improving practices that streamline the procurement of goods and services. Feedback has been sought from internal customers regarding actions that can be



taken to become more efficient in accessing consultants, contractors, vendors, etc. while ensuring compliance with all applicable laws, regulations, and policies. Changes to the workflows and processes used within the Contracts team have been implemented as an initial first step. Other actions have been contemplated but not yet acted upon while waiting for the OIPA audit to be complete.

As noted, Management agrees with the audit findings, and with the outcomes expected to be achieved via the recommended actions, specifically ensuring the agency has effective policies, procedures, and processes; capable and proficient staff who are aware of their roles, responsibilities, and performance expectations; and a robust technology solution that improves efficiency and supports recordkeeping, reporting, and controls. The contracts and procurement program is one of the agency's most essential business functions, and as such, it is Management's intention to prepare a work plan that will result in operational excellence as well as effective oversight, administration, and regulatory compliance. Once developed, the work plan will be shared with OIPA, the Audit Committee, and the Board of Directors for consideration. In the interim, Management shall consider OIPA's recommendations and implement changes where these align to existing work efforts and planned activities.

With respect to Finding VII, Management agrees the agency's contracts and procurement program must be designed and managed to ensure that fair, competitive, and legally compliant processes are used. Due to the diversity of SANDAG's programs, projects, and business needs, various industry-standard procurement methods are used to obtain goods and services, including sole source awards and on-call solicitations. The audit results are consistent with the use of these practices.

Sole source awards, by definition, are the result of limited competition and Management agrees this procurement method should be used only when there is reasonable and justifiable business necessity that is in both SANDAG's and the public's best interest. Supported by the results from Part II of the audit, Management will examine existing practices and approval criteria to ensure sole sources are being used appropriately and judicially.

On-call procurements, which are conducted following a competitive process, serve to identify one or more qualified firms who are ready, willing, and able to perform a general category of work for SANDAG. Following the initial selection of firms, specific projects are defined by SANDAG, and work is awarded incrementally through the issuance of task orders. (In situations where two or more firms are available to perform the defined project, SANDAG conducts a second competitive process to award the task order.) Due to practices used for administering certain on-call master agreements, the total contract amount increases over time. This is because the total contract amount equals the cumulative value of all task orders issued to a firm. Again, supported by results from Part II of the audit, Management intends to fully evaluate the use of on-call agreements and where warranted, will implement policy, program, and process improvements that ensure the most fair and competitive procurement practices that engage all qualified firms in contracting opportunities with SANDAG.

SANDAG Management has initiated organization changes to drive accountability, increase transparency and efficiency, and instill a continuous improvement culture when it comes to business practices. Management's past efforts in responding to the Salaries and Compensation Audit and Purchase Card Audit are testament to this commitment, and I am confident that Management's response to the Contracts and Procurement Audit (Part 1) will bring foundational improvements to one of SANDAG's most important programs.

Please contact me with any questions regarding the information provided.

Sincerely,

A handwritten signature in black ink, appearing to read "Hasan Ikhata". The signature is fluid and cursive, with a large loop at the end.

HASAN IKHRATA
Chief Executive Officer

Attachment:

Outline of Management Actions to Respond to the Contracts and Procurement
Operational and System Control Audit (Part 1)

OUTLINE OF MANAGEMENT ACTIONS TO RESPOND TO THE CONTRACTS AND PROCUREMENT OPERATIONAL AND SYSTEM CONTROL AUDIT (Part I)

The SANDAG Office of the Independent Performance Auditor (OIPA) completed the Contracts and Procurement (Part I) Operational and System Control Audit ("audit") in September 2022.

The audit resulted in 7 findings and 40 recommendations for consideration by SANDAG Management. The recommendations fall into the following four categories: inadequate policies and a lack of standardized procedures; insufficient training provided to staff; inadequate Contract Management System; and poor documentation related to on-call procurements and sole source transactions.

Management intends prepare a work plan that will result in effective oversight, administration, and regulatory compliance for the contracts and procurement program. Once developed, the work plan will be shared with OIPA, the Audit Committee, and the Board of Directors. Until such a plan is developed, Management will implement changes consistent with the audit recommendations where these align to existing work efforts and planned activities.

Finding I: Inadequate administrative Standard Operating Procedures (SOPs) for Contract Analysts and Project Managers

Both contract analysts and project managers were lacking adequate SOPs. What was commonly cited as procedures was the SANDAG Procurement Manual, Board Policies, and project plans but these are not SOPs.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Creating formalized SOPs with step-by-step instructions for tasks for both contract analysts and project managers.
- Providing formalized and regular training to contract analysts and project managers on their assigned roles, responsibilities, and procedures.
- Updating the Procurement Manual to clearly identify and segregate roles and responsibilities for contract analysts and project managers.

Finding II: Insufficient training of Contract Analysts and Project Managers and insufficient requirements to qualify as a Project Manager

Training for contract analysts is internally conducted, minimal, informal and inconsistent. Formal training is not required for an employee to qualify to be a project manager since not every project manager had formal training, approximately half of SANDAG employees are active project managers in the Contract Management System (CMS), and even more have the ability to be project managers. This is leading to situations where duties are not being properly segregated and contract analysts are doing tasks project managers are supposed to do.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Creating SOPs for contract analyst and project manager specific tasks.
- More clearly segregating the duties of contract analysts and project managers.
- Providing consistent training for contract analysts provided by contracts subject matter experts and/or management.
- Providing annual and/or continuous training on the Procurement Manual and SOPs for both contract analysts and project managers.
- Identify and requiring that employees meet specific qualifications and have attended external formal project manager specific training prior to being assigned to a project manager role; for employees assigned as project managers over higher risk and dollar projects, formal certified project manager training should be required.
- Encouraging external training provided by professional associations specific to contracts (such as CAPPO and NIGP) and project management.

Finding III: Itemized breakdown of work performed not required for invoice payment

Some project managers required detailed support for work performed to be provided with the invoice to include what tasks were completed, detailed labor hours, and other forms of support, as required in the contract, while others did not. In both cases, invoices were approved and paid.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Requiring detailed/itemized invoices and progress reports or detailed summary of work performed for a payment to be processed e.g., source documents such as detailed timesheets or task specific assignment sheets that supports labor or work product results, goods and/or receiving receipts from third parties, etc.
- Updating Request for Payment Form to explicitly require itemized invoices to be attached.
- Creating formal SOPs and training for invoice payment to include instructions/methods for verifying invoiced work is included in the contract/task order.
- Updating contract templates to require detailed/itemized invoices as well as progress reports or detailed summaries of work performed to be included with invoice.

Finding IV: Inadequate Contract Management System (CMS) with limited capabilities and usage and inaccurate and missing information

Auditors noted that the current CMS has limited capabilities as a contract management system and is not fully being used as a document management database. Auditors also noted that the list of contracts from CMS provided by staff was inaccurate and incomplete. Employees who are not the project manager of the contract are listed as the project manager, inconsistent naming conventions are used, and various fields have missing (blank) entries.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Replacing the CMS with a system that properly interfaces with the agency's enterprise resource planning system (ERP) or is a system within the agency's ERP, with the ability to communicate/ integrate with finance encumbrance, invoice and payment records to include tracking, searching, and recording invoice payments against contracts, task orders, etc. The replacement ERP and the data stored within should also be user-friendly, easily accessible and easily reportable.
- Providing staff training and step-by-step SOPs on using the replacement CMS and submitting all types of procurement requests

- Ensuring staff can query to identify the contractor and subcontractor efficiently and easily within the replacement CMS without going to various other platforms or documents
- Ensuring that all contracts and contract-related records and documents are stored in 1 easily accessible location, preferably within the replacement CMS
- Ensuring the replacement CMS is updated with correct and complete information and data to correct the inaccuracies and blanks from the current CMS records
- Requiring that the listed project manager for a contract is the actual project manager in the replacement CMS
- Specify required fields in the replacement CMS and require all mandatory fields to be completed
- Providing staff certain access to the replacement CMS, based on their job duties
- Ensuring that the replacement CMS can provide an audit trail for review
- For continuity and efficiency, at least more than 1 employee but preferably more than 3 should have an in-depth knowledge, training, and skill in the replacement CMS and should be able to provide reports to auditors and/or other authorized recipients
- If recommendation one is chosen not to be accepted and SANDAG continues to use the current CMS, auditors recommend applying recommendations 2-10 to the current CMS.

Finding V: Modifications of details in Records of Negotiation (RON)

Auditors noted a project manager providing leading information to the vendor when requesting a cost proposal including providing the estimated hours and cost identified in the Independent Cost Estimate. Contracts staff deleted that communication and summarized it as a request for a cost proposal. Auditors noted that this is not a widespread practice.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Creating a formal SOP and provide training on completing a RON to both project managers and contract analysts.
- Providing negotiation training and/or guidelines to project managers and contract analysts to include reasons/intent of negotiations, best practices, and risks of not negotiating and/or not following best practices.

Finding VI: Inadequate documentation for Sole Source transactions

In a sample of 38 Sole Source transactions, auditors found:

- *2 transactions were missing sole source justification forms*
- *Inconsistent labeling and filing of sole source justification forms, for example some can be found in CMS, SharePoint “pre-CMS Working Folders”, SharePoint “CMS Working Folders”, and SharePoint “Contracts Library”*
- *12 sole source justification forms had a listed contract amount that did not match the amount on the provided list of sole source transactions. This included just having explicitly differing dollar amounts, the contract amount saying, “up to” a certain amount and “\$ aggregate total of all task orders”.*
- *5 transactions were missing at least one signature on the justification form which requires two signatures*
- *Sole source transactions not properly labeled as sole source in CMS. An example was when an RFP solicitation resulted in a single bid/proposal justifying a sole source award, but CMS did not reflect this as a sole source.*
- *Method of Procurement Selection is not always submitted with a sole source*

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Providing training to staff on sole source laws, rules, regulations, and processes.
- Creating formal administrative procedures on sole source processes.
- Updating the current sole source justification template to include procurement request details such as contract/task order/ amendment number, project manager name, vendor name, etc.
- Reorganizing contract and sole source records in one centralized location
- Updating CMS to have accurate information.
- Ensuring required documents are saved as separate files and labeled accordingly, such as saving a sole source justification form as such.

Finding VII: Material weaknesses with the identification of on-call and sole source contracts and amendments

Auditors identified that there are material weaknesses within the ability to identify when an increase to the original amount awarded to a vendor is due to the authorization of competed task orders, sole sources, amendments, etc. Specifically, auditors noted the following:

- *There appears to be bias with the totality of contract amounts with preference to certain vendors.*

- *CMS report 1 identifies which amendments are tied to on-call contracts nor which are accurately sole source procurements.*
- *While CMS report 1 can provide a list of sole sources and amendments, there are errors within the report, including:*
 - *records being mislabeled under incorrect base contracts*
 - *record titles not specifying which contract or task order they are related to.*

Though we have not yet audited the process of award to vendors to determine if proper solicitation processes were thoroughly followed, the results of the analysis performed thus far found that there may be a lack of processes or control weaknesses in the solicitation award process that allows some vendors to have more advantages over others.

Auditors were later provided with a second CMS report which contained only on-call related task orders. Based on review of both CMS report 1 and CMS report 2, there appears to be a potential overuse of on-call contracts with certain vendors.

Management agrees with this finding. Management intends to incorporate the following recommendations proposed by OIPA into a comprehensive work plan.

- Reviewing the on-call process to ensure fairness and equity throughout the entire process.
- Providing training on procurement planning to include the steps and timeline needed to prepare for various sized and timed projects to contract analysts, project managers and any approving staff.
- Ensuring sufficient procurement planning efforts are being made to avoid sole sources and amendments.
- Reviewing the sole source policies, processes, and procedures to ensure a clear understanding of allowed sole sources, limitations around sole sources, and the review and approval requirements of sole sources.
- Creating sole source SOPs for all levels of the approval process.
- Creating and providing training related to sole sources to include examples of allowable/approvable situations when a sole source is or can be justified and an explanation and examples of when poor planning does not suffice in requesting a sole source procurement.
- Ensuring that on-call procurements are being appropriately advertised to reach sufficient, qualified and a variety of contractors and subcontractors, including outreach efforts using public platforms and attendance of outreach events to attract new and disadvantaged contractors and subcontractors.
- Revising the Procurement Manual to avoid conflicting language, particularly with the contract management of A&E contracts and allowance of sole sources.