

## Memorandum

*Flex your power!  
Be energy efficient!*

To: FRANCESCA NEGRI, Chief  
Division of Procurement and Contracts

Date: February 13, 2013

JAMES E. DAVIS, Chief  
Division of Project Management

File: P3000-0413

CARRIE BOWEN  
Acting District Director  
District 7

LAURIE BERMAN  
District Director  
District 11

From: WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigation



Subject: **FINAL AUDIT REPORT – ARCHITECTURAL AND ENGINEERING CONTRACTING  
PROCESS AUDIT**

Audits and Investigations (A&I) completed an audit of the Department of Transportation's (Caltrans) Architectural and Engineering (A&E) contracting process. We performed the audit to determine if adequate internal controls exist and are working as intended in the A&E contracting process. We also assessed compliance with federal, state and department policies and procedures for A&E contract procurement and management. The scope of the audit covered expired and active A&E contracts from District 7 and 11 during July 2010 to April 2013.

The final audit report includes responses from the Divisions of Procurement and Contracts and Project Management, and Districts 7 and 11. We request that the status of corrective actions be provided to A&I within 60, 180, and 360 days from the date of the final report. If all the findings are not corrected within 360 days from the date of the final report, we also request that the status reports be provided every 180 days until the findings are fully resolved. As a matter of public record, this report and the status reports will be posted on A&I's website.

We thank you and your staff for their assistance during this audit. If you have any questions or need additional information, please contact Laurine Bohamera, Chief, Internal Audits at (916) 323-7107, or Juanita Baier, Internal Audit Manager at (916) 323-7951.

FRANCESCA NEGRI, et al.

February 13, 2014

Page 2 of 2

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<b>P3000-0413</b>
<b>Architectural and Engineering Contracting Process Audit</b>
<b>February 2014</b>

**William E. Lewis**  
**Assistant Director**  
**Audits and Investigations**  
**California Department of Transportation**

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## Summary

Audits and Investigations (A&I) completed an audit of the Department of Transportation's (Caltrans) Architectural and Engineering (A&E) contracting process. The purpose of the audit was to determine if adequate internal controls exist and are working as intended in the A&E contracting process. In addition, we assessed compliance with federal, state and department policies and procedures. The scope of the audit covered active and expired A&E contracts from Districts 7 and 11 during July 2010 to April 2013.

We performed field work in Districts 7 and 11, and conducted a survey of the remaining districts and the Division of Engineering Services (DES). Based on the survey results, A&I determined that the A&E process in the surveyed districts and DES is similar to Districts 7 and 11.

Our audit determined that the Division of Procurement and Contracts (DPAC) and Districts 7 & 11 have adequate internal controls in place for procuring and managing A&E contracts, except as follows:

- A&E Consultant Selection Process Needs Stronger Controls
- Missing Required Consultant Evaluations
- Missing Documents and Approving Signatures
- Contract Management Deficiencies
- Some District Consultant Services Units are Not Structured According to Project Management Directive 008

## Background

DPAC provides support and guidance to contract managers and is ultimately responsible for the execution of various types of service contracts. One of the major contract types that DPAC executes is A&E contracts to provide architectural, landscape architectural, environmental, engineering, land surveying, and construction project management services. Caltrans' A&E contract process involves the following four phases:

1. Planning - contract need is identified
2. Procurement - a contract is executed
3. Performance - work is completed
4. Post-Performance - consultants are evaluated

DPAC procures an average of 47 A&E contracts per fiscal year (FY) with a total dollar value of approximately \$271 million. The chart below depicts the number of contracts and dollar value awarded in the past three fiscal years.

<b>Fiscal Year</b>	<b>No. of Contracts</b>	<b>Annual Dollar Value (in millions)</b>
2010/11	47	\$341
2011/12	48	\$213
2012/13	46	\$260

**Background  
(continued)**

Proposition 35, passed in November 2000, created a constitutional amendment expanding Caltrans' authority to contract out for all A&E consultant services. The primary use of consultant services is to assist in the delivery of Caltrans' capital projects. Caltrans developed Project Management Directive (PMD) 008 which established Consultant Services Units in each district to manage the procurement of A&E consultant services for the delivery of projects. PMD 008 also defined the authority and responsibility of project managers, functional managers, and the Consultant Services Unit for A&E contract management.

In November 2005, an amendment to 23 U.S.C. ss112(b)(2) was signed into law. This amendment required that all A&E contracts directly related to the construction and use of federal-aid highway funding be awarded in the same manner as a contract negotiated under the "Brooks Act." The Brooks Act is a federal law that requires the U.S. federal government to select architecture and engineering firms based upon their competency, qualifications and experience, rather than by price. The Brooks Act also requires agencies to promote open competition by advertising, ranking, selecting, and negotiating contracts based on demonstrated competence and qualifications for the type of engineering and design services being procured, and at a fair and reasonable price.

In addition to the Brooks Act, Caltrans uses the following criteria when contracting out for A&E services:

- California Government Code 4525, et Seq., 11256, 14615
- State Administrative Manual (SAM)
- Public Contract Code 6106, 10295, 10351
- Department of General Services State Contracting Manual
- Caltrans Contract Manager's Handbook

The chief of a district's Consultant Services Unit (CSU) or the Headquarters' Division appoints the Contract Manager for each contract. The Contract Manager initiates the process by completing the required forms and sending them to DPAC for advertising and contract processing. The Contract Manager is responsible for the administration of the contract from initiation to contract closeout. In some cases, the Contract Managers come from functional units instead of the CSU. When the Contract Manager is from a functional unit, they coordinate all contracting activities with the chief of the district's CSU.

**Objectives, Scope  
and Methodology**

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

1. The Consultant Selection Committees are established according to applicable laws, rules and regulations for A&E contracts.

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

2. Competitive bidding requirements are followed during the solicitation process.
3. A&E contracts are awarded based on the requirements of the scope of work.
4. A&E contracts are properly managed.

The scope of the audit covered active and expired A&E contracts from Districts 7 and 11 during the period of July 2010 to April 2013. The audit included tests we considered necessary to achieve the above audit objectives.

We selected 20 contracts for testing, 11 from District 7 and 9 from District 11. However, two contract files were missing and one contract was not A&E related. Therefore, our sample size was reduced to 17 contracts.

**Conclusion**

Our audit disclosed that DPAC and Districts 7 & 11 have adequate internal controls in place for procuring and managing A&E contracts, except as follows:

- A&E Consultant Selection Process Needs Stronger Controls
- Missing Required Consultant Evaluations
- Missing Documents and Approving Signatures
- Contract Management Deficiencies
- Some District Consultant Services Units are Not Structured According to Project Management Directive 008

During the course of our audit, we learned that District 7 temporarily transferred the selection of A&E contracts to District 12. This action was taken to provide an additional measure of independence in the A&E contracting process. The Memorandum of Understanding formalizing the transfer became effective February 1, 2013, through the end of fiscal year 2013/14. Therefore, during this time, District 12 will be processing the A&E planning schedule, selecting panel members, creating interview questions, scoring consultants, interviewing consultants and determining the most qualified consultant.

**Views of Responsible Officials**

We requested and received a response to our findings and recommendations from the Chiefs of DPAC and Project Management, and the Deputy District Directors of Program Project Management in Districts 7 and 11.



**WILLIAM E. LEWIS**  
Assistant Director  
Audits and Investigations

**December 6, 2013**

## FINDINGS AND RECOMMENDATIONS

### **Background:**

The Department of Transportation (Caltrans) enters into contracts with Architectural and Engineering (A&E) firms as a means to fully resource capital projects so they can be delivered on schedule. In recent years, complaints have been made by some A&E firms that the Caltrans' A&E selection process is flawed, allowing for favoritism in the process. Each of these complaints have been thoroughly investigated and determined to be unfounded. However, as a result of the number of complaints received, it was determined that an audit should be conducted to assess the adequacy of the existing A&E contract selection process to determine if controls are in place, and make recommendations for improvement as appropriate.

The current process requires Caltrans to advertise, rank, select, and negotiate the cost proposal when awarding an A&E contract. When the contracting process begins, a Consultant Selection Committee (Selection Committee) is established to rank and select the most qualified consultant. The Selection Committee members are responsible for maintaining the integrity of the contracting process and are required to adhere to Caltrans' Code of Ethics.

When the need for an A&E contract is identified, the Division of Procurement and Contracts (DPAC) advertises the job and interested consultants submit a Statement of Qualifications (SOQ) package to DPAC. The district Selection Committee evaluates and rates each SOQ package based on established criteria for that particular contract to create a short list. The short list typically consists of three to five consultants. The district Selection Committee interviews the consultants on the short list using a set of prepared questions. These questions are developed in the district by an individual independent from the Selection Committee. The questions are supposed to be kept confidential and provided to the Selection Committee on the day of the interviews. Once interviews are conducted and results evaluated, the DPAC coordinator begins negotiations with the consultant determined to be the most qualified. When negotiations are completed, the contract is executed.

### **Finding 1 - A&E Consultant Selection Process Needs Stronger Controls**

Our review of the A&E contracting process determined that although there are statewide policies and procedures in place for the selection of A&E consultants, the existing process is not transparent and the integrity of the process can be compromised. Specifically, we found that there are no systematic processes for selecting the Selection Committee members, writing and securing the interview questions; and the processes for scoring the SOQs and evaluating the interviews are not always consistent. Therefore, we determined that DPAC's policy development and oversight role needs strengthening.

**Finding 1 -  
(continued)**

Our evaluation of the A&E consultant selection process was based on A&E contracts in District 7. We reviewed the Selection Committee participation for 10 contracts; and the entire selection process for the four most recently awarded contracts. We noted the following areas where statewide policies, procedures, and DPAC's oversight role needs strengthening.

**Selection Committee Participation**

We found that the existing statewide policies and procedures do not establish a consistent and systematic process for selecting employees to participate in the Selection Committee. To illustrate, in District 7 the Selection Committee is determined by the Consultant Services Unit (CSU) Chief based on the employee's availability and the employee's dependability or reputation. We found that the CSU Chief participated as a member of the Selection Committee in 6 out of the 10 contracts reviewed during the audit period. This practice gives the appearance that the same employees routinely participate in the committee responsible for contract selection. In March 2012, DPAC issued guidelines requiring that the selection of the Selection Committee members be documented in a memorandum approved by a Deputy District Director or a Division Chief. While the approval requirements are being met, the current method of selecting employees to participate in the Selection Committee may give the appearance of being subjective.

**Statement Of Qualifications Evaluation Scoring**

We also found that existing statewide policies and procedures do not provide for either resolution or documentation and retention of significant differences in scoring by Selection Committee members. We reviewed the SOQ evaluations for the four most recently awarded A&E contracts in District 7 and noted that in some cases, the end result of the SOQ ranking could give the appearance of favoritism by some Selection Committee members. For example, we noted three instances where some Selection Committee members ranked a consultant in the top three out of twelve, while other Selection Committee members ranked the same three consultants in the bottom half of consultants submitting applications. Since all Selection Committee members analyze the same information in the SOQ and should possess the same level of expertise, it is reasonable to expect that consultant rankings would either be closer, or there would be documentation supporting the reason for a significant variance.

**Interview Control Weaknesses**

We found that existing statewide policies and procedures do not address whether employee observers are allowed to be present during the A&E interview evaluation. When observers are allowed to be present, there is no requirement to ensure confidentiality and adherence to the Code of Ethical Conduct as the Selection Committee. District 7 stated it allows observers to attend the interview for training purposes. However, we found one observer with over 10 years of experience attends on a

**Finding 1 -  
(continued)**

regular basis which calls into question whether this person really needs training. Allowing the observers to attend all of the interviews and not abide by the same requirements as panel members is a weakness in the process. During the time of our review, observers were allowed to see the identity of the consultants and listen to the questions and the answers. Since some of these contracts are of a recurring nature, the same questions can be used to evaluate and award future contracts. Although the observers do not vote, allowing them to attend the interviews, especially without adhering to the Code of Ethical Conduct requirements, gives the appearance that questions could be shared with other consultants and jeopardizes the integrity of the process.

In addition, we found that there are no statewide policies and procedures requiring interview questions to be maintained confidentially both before and after the interviews. District 7 informed us that interview questions are not always kept secure before the interviews are conducted, and in some cases, they are retained by the contract managers for use in future interviews.

**Interview Evaluation Scoring Inconsistencies**

We found the existing statewide policies and procedures do not require documentation to show how significant variances are handled when evaluating consultants during interviews. We noted the following in the most recently awarded contracts:

- One case where an interview was held to award multiple contracts with similar work and different committee members gave high scores to one consultant on one contract, but very low scores for the same consultant on the other contracts. We did not see documentation to explain the reason for the differences in scoring.
- One committee member appeared to use a different scoring method than the other four members. However, it was unclear from the documentation reviewed, what criteria this committee member used to score the consultants.
- A committee member gave a perfect score of 90 percent to a consultant on the interview while the highest score received from the other four members was an average of 63 percent. Ninety percent was considered a perfect score because 10 percent is reserved for evaluations. Based on the information we reviewed, it was not clear whether committee members added, subtracted or took anything else into consideration when scoring the interview answers. However, a difference in scoring of 25 percent is significant and should have been discussed and the reasons documented. The documentation we reviewed did not have an

**Finding 1 -  
(continued)**

explanation for the differences. According to a DPAC coordinator, they are discouraged from discussing or questioning significant scoring variances.

Without documentation to explain the reason or provide justification for the variances in scoring, there is no way to verify that Caltrans performed an impartial evaluation in the selection of the recently awarded contracts.

DPAC's A&E Standards and Procedures for Initial and Final Evaluation/ Scoring, dated, December 6, 2007, states:

1. Scoring Initial Evaluation:
  - Do not add, subtract, or change any evaluation factor on the score sheet.
  - Document Consultants' abilities, significant weaknesses, and missing information as related in the SOQ.
  - Be clear and concise in documentation to support your scores.
  - Evaluate only what is written in the SOQ.
  - Do not substitute personal knowledge or judgment for what may or may not be written in the SOQ.
2. Scoring Final Evaluation:
  - Committee Chairperson is responsible for ensuring that the committee members have a common understanding of all scoring criteria, and an understanding of the evaluation process.
  - In order to ensure an objective scoring process, the Committee Chairperson will instruct the members on the scoring system.
  - Committee members shall be objective.
  - Do not deviate from criteria of the score sheet.

Even though the current guidelines state that the Committee Chairperson is responsible for ensuring that all members have a common understanding for all scoring criteria, it does not provide guidance on what to do if there are significant variances. Furthermore, according to the A&E coordinators, they do not have the authority to question the committee members on initial evaluation ranking and final evaluation scores. There are no checks and balances over how the Consultant Selection Committee ranks SOQ packages and score consultants' interviews. Even though a de-briefer is selected from the Selection Committee, the de-briefer is not required to collect and retain the relevant evaluation notes for a period of time. The guidelines recommend that notes are kept but not required.

**Recommendation**

We recommend that DPAC strengthen the evaluation process by:

1. Working with the Division of Project Management to formalize its existing A&E Contract Management Guidelines Issue No. 12-001 titled, "Makeup of Consultant Selection Committee" into a Caltrans Policy.
2. Requiring DPAC coordinators to discuss and document significant scoring variances with the Selection Committee.
3. Requiring that Selection Committee members initial and final evaluation notes and scoring sheets be collected by the de-briefer and submitted to DPAC.
4. Requiring that all documentation pertaining to the selection process be retained in DPAC's contract files, along with how the interview questions were weighted, for a specific period of time that is accordance with DPAC's record retention requirements.
5. Requiring that employees writing the interview questions keep the questions in a secure location until the time they are distributed to the panel members and submit signed Code of Ethical Conduct forms to DPAC.
6. Prohibiting observers from participating in the evaluation interview with the Selection Committee unless there is a valid business reason. If a valid reason exists, it should be documented and the observer should also be required to sign a Code of Ethical Conduct form.

**DPAC and Project Management Response**

DPAC and Project Management agreed for the most part with the findings and recommendations. DPAC believes that converting the guidelines into a policy will not strengthen the evaluation process. Instead, DPAC will continue reinforcing the need for the Districts and Headquarters Divisions to adhere to the guidelines. In addition, DPAC developed a new A&E consultant selection process that will include consensus scoring. This new process will eliminate scoring variances from the selection panel. For a copy of the complete response, please see Attachment No. 1.

**Finding 2 - Missing Required Consultant Evaluations**

Our review found that DPAC does not have a process in place to ensure that Consultant Performance Evaluations (evaluations) are completed as required. Of the 17 contracts reviewed, the required interim (annual), and final evaluations were missing for 6 contracts. Four contracts did not have an annual performance evaluation completed and one contract was missing a final performance evaluation.

DPAC issued a memorandum to all Deputy District Directors for Program Project Management and Division Chiefs on July 10, 2008, outlining the requirements for consultant evaluations as follows:

**Finding 2 -  
(continued)**

- Consultant evaluations are documented using form ADM 2031 “Consultant Performance Evaluations.”
- Contract managers are required to complete and submit an interim consultant evaluation on an annual basis.
- Districts may choose to submit interim evaluations upon completion of each task order if it’s more advantageous for the District.
- Interim evaluations are due beginning one year after the start of the contract or upon completion of a task order. The evaluation is considered “late” if it is not submitted within 30 days of the due date.
- Final evaluations should be prepared within 30 days of contract completion and sent to the Consultant for comment.
- For evaluations that are 60 or more days overdue, a memorandum from DPAC will be sent to the Deputy District Director of Project Development or to the Headquarters Division Chief.

According to the memo, the Federal Highway Administration (FHWA) conducted a Program Review that included a finding regarding evaluations. FHWA recommended that Caltrans utilize the ADM 2031 form to monitor, track, and document consultants’ performance. Caltrans agreed to begin using the consultant evaluations during the selection process when sufficient evaluations were submitted.

During our interviews we found that some employees are unaware of the purpose or value of the evaluations. One contract manger assistant indicated that they used to complete the annual and final evaluation. However, during a teleconference they learned that the evaluations were not being utilized for future selections and stopped preparing them unless instructed by DPAC.

Consultant evaluations are critical to on-going contract management as well as a tool to be used in future contractor selection processes. When evaluations are not completed, information on a consultants’ performance is not available for use as an evaluation factor in the selection of future consultant contracts.

**Recommendation**

We recommend that District Management require contract managers to complete evaluations as required.

We also recommend that DPAC:

1. Continue issuing non-compliance reports on a monthly basis to the Deputy District Directors or Headquarters Division Chiefs for evaluations that are overdue.
2. Incorporate consultant evaluations into the A&E consultant selection process.

**DPAC Response** Effective January 2014, DPAC will be sending the non-compliance report titled "Contract Evaluation Status Report" to the CSU Office Chiefs on a monthly basis and monthly notifications of overdue evaluations to the appropriate Deputy District Director or Headquarters Division Chief. For a copy of the complete response, please see Attachment No. 1.

**District 7 Response** The Deputy District Director of Program and Project Management will issue a memo to all A&E contract managers directing them to complete consultant evaluations as required. For a copy of the complete response, please see Attachment No. 2.

**District 11 Response** District 11 will develop internal controls within the Consultant Services Unit to ensure that contract managers are completing evaluations as required. For a copy of the complete response, please see Attachment No. 3.

**Finding 3 - Missing Documents and Approving Signatures** A&I determined that DPAC's A&E Consultant Selection Guidelines are not always followed and that DPAC staff do not always follow up with the Districts when items of non compliance are identified. Specifically, our review found that DPAC's A&E contract files were missing pertinent documents and/or approving signatures. We selected 19 contract files to review but two of them were missing from DPAC's office.

Of the 17 contract files reviewed, we found that 13 did not contain one or more of the following items:

- Four contract files did not have the appropriate consultant Selection Committee approvals as noted below:
  - Two contract files did not have an approved Consultant Selection Committee Participation Memo (Memo). One of these contracts also had a superior - subordinate relationship and there was no exception memo in the file.
  - One contract file had a Selection Committee member, who was not listed on the Memo and there was no revised Memo in the contract file.
  - Another contract file had Selection Committee members who were under the same chain of command.

DPAC's A&E Consultant Selection Guidelines dated March 13, 2012, provide that a Memo must be submitted to the DPAC with the ADM 360 Contract Request form. If modification is necessary, a modified Memo must be provided to DPAC. The nominating memo must adhere to the following:

- The Memo must be signed by a Deputy District Director or a Headquarters' Division Chief.

**Finding 3 -  
(continued)**

- A majority of the voting Selection Committee members can not be in the same chain of command.
  - To avoid the perception of a biased panel, Selection Committee members should not have a superior-subordinate relationship. Exceptions can be obtained with approval from the DPAC Division Chief.
  - Selection Committee members may be substituted during the initial evaluation. A revised Memo should be submitted to DPAC promptly after a substitution is made.
- Seven contract files were missing the approving signatures on the Service Contract Request form (ADM 0360) form and two of those files were also missing Caltrans Budget Department approvals on the Contract Encumbrance Distribution (ADM 0248) form.
  - Five contract files did not contain the Director's Estimate, Conflict of Interest Statement Certification (ADM 3043), Confidentiality of Interest Statement Certification (ADM 3038), SOQ Initial Acceptance Review Report, Debriefing Notification Letter, and/or the Cost Proposal Return Letters.

Caltrans' Contract Managers Handbook, Chapter 4.4 -- Records Management -- requires that contract managers maintain all contract records, invoices and relevant documentation for five years, unless otherwise specified by law, retention schedules, etc. Section 4.4.2 list the contract records that should be maintained in the contract file. Some of these records include the contract request and insurance certificates.

DPAC's contract file is considered Caltrans' official file and should include pertinent documents. DPAC often relies on emails or EFIS computer generated approvals as the basis to approve procurement documents. However, copies of these approvals were not retained in the contract file.

**Recommendation**

We recommend that DPAC:

1. Ensures that all pertinent documentation is included in the contract file and properly approved.
2. Document their review and approval of the Selection Committee Participation Memo.
3. Ensure that all exceptions or changes in the contract are documented in the contract file.
4. Ensure all files are retained in accordance with the records retention policy and available for review.

**DPAC Response**

DPAC developed an A&E Contract Checklist for use by the contract analyst that details the contract documents that are required to be included in the contract file. For a complete copy of DPAC's response, please see Attachment No. 1.

**Finding 4 -  
Contract  
Management  
Deficiencies:**

Our review of the 17 contracts in Districts 7 and 11 identified a number of contract management deficiencies. Specifically, we noted the following:

- Work was allowed to begin before task orders were executed in ten instances involving two contracts.
- Payments related to four contracts were made for expenses without supporting documentation or for unauthorized expenses.
- Payments were made for billing rates higher than the approved rates for five contracts.
- Payments were made for employees that were not included in the cost proposal and/or before the personnel request was approved for seven contracts.
- Employee check verification was not provided for six contracts.
- Missing invoice progress reports for five contracts.
- Contractors were allowed to continue working without a valid certificate of insurance in four contracts.

Caltrans' Service Contract Managers Handbook, Chapter 4.3, states that the primary responsibility of contract managers is to monitor the progress of work to ensure contracted services are performed according to the quality, quantity, and manner specified in the contract. In addition, Section 9.04 A.7, requires the contract manager to monitor the contract to ensure compliance with all contract provisions.

Without an executed task order, the contractor is running the risk of not being paid for work performed. In addition, without proper supporting documentation, Caltrans is not assured that it's paying for legitimate expenses.

**Recommendation**

We recommend that district management ensure A&E contracts are managed as required by the State Contractor's Manual and Caltrans policies and procedures.

**DPAC Response**

DPAC developed various manuals and training guidelines which facilitate efficient management of A&E contracts. In addition, DPAC will recommend to District Management that they ensure all their A&E contract managers take the training and maintain a record of the certifications. For a copy of the complete response, please see Attachment No. 1.

**District 7  
Response**

The Deputy District Director of Program and Project Management will issue a memo to all contract managers and the Consultant Services Unit Chief directing them to manage A&E contracts as required by the SCM and Caltrans policies and procedures. For a copy of the complete response, please see Attachment No. 2.

**District 11  
Response**

District 11 will develop and implement an annual workshop which will provide contract managers the most recent policy and procedure updates. In addition, District 11 will require that all contract managers and Consultant Services Unit staff retake the A&E on-line training module. For a copy of the complete response, please see Attachment No. 3.

**Finding 5 -  
Some District  
Consultant  
Services Units are  
Not Structured  
According to  
PMD-008**

Our review found that some CSUs are not structured according to Project Management Directive 008 (PMD-008). Specifically, A&E Contract Managers in District 11 and A&E environmental Contract Managers in District 7 do not report to the CSU Manager.

In District 11, all contract managers are from the functional area and outside of the CSU. However, CSU staff review task orders and invoices for compliance with the terms of the contract and all task orders are approved by the CSU Manager. Through our survey of the rest of the districts, we also learned that the North Region and District 12 are structured similarly to District 11.

A&E environmental contracts and task orders in District 7 are not approved by the CSU Manager. According to D7 Management, Environmental has been a standalone unit since the inception of A&E contracts and this arrangement appears to be working well.

According to PMD-008, Consultant Services Units will be established in each of the districts/regions for the purpose of managing the procurement of outside resources necessary to deliver projects. This set-up allows for a strong centralized unit to provide:

1. A higher quality and more responsive project procurement management.
2. A single point of contact between the Office of Procurement and Contracts now called DPAC.
3. A knowledge base that can be used for planning, processing, and managing outside resources for Capital Outlay Support work.

District 7 executive management considers PMD-008 as guidance rather than a mandate. According to District 7 executive management, the Contract Manager for environmental contracts has developed the expertise and experience in managing A&E contracts. At the time PMD-008 became effective, the district did not believe they had the operational need to make the change.

**Finding 5 -  
(continued)** District 11 executive management believes that although the contract managers are outside of the CSU, they have a centralized CSU with the authority and responsibility as described in PMD-008.

**Recommendation** We recommend that DPAC and Project Management work together to make a statewide determination as to whether PMD-008 is still applicable or whether it needs to be revised. Once a determination is made, Project Management should require that all districts comply with the revised PMD-008.

**DPAC and  
Project  
Management  
Response** Project Management will review PMD-008 and evaluate the necessity for continuing with the directive and make updates accordingly. DPAC will comply with the updated PMD-008. For a copy of the complete response, please see Attachment No. 1.

**Audit Team** Laurine Bohamera, Chief, Internal Audits  
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# Memorandum

*Flex your power!  
Be energy efficient!*

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

**Date:** January 28, 2014

**File:** P3000-0413

**From:** JAMES E. DAVIS, Chief  
Division of Project Management

*F.N.R.* **FRANCESCA NEGRI, Chief**  
Division of Procurement and Contracts

**Subject:** Audit Report for the Architectural and Engineering Contracting Process

The Division of Procurement and Contracts has attached the response to the Draft Audit Report – Architectural and Engineering Contracting Process Audit dated December 6, 2013.

Attachments: Audit Response

c: Zoe Bayar, Assistant Division Chief, A&E  
Liz Salinas, Branch Chief, A&E

**Audit Name:** Architectural and Engineering (A&E) Contracting Process (01-10-14)

**Audit Number:** P3000-0413

**Audit Series:** Response

<b>FINDINGS AND RECOMMENDATIONS 1</b>			
<b>A&amp;E Consultant Selection Process Needs Stronger Controls</b>	<b>Status</b>	<b>Response Date(s)</b>	<b>Audit Series</b>
<p>Audits recommend that the Division of Procurement and Contracts (DPAC) formalize its existing A&amp;E Contract Management Guidelines Issue No. 12-001 titled, "Makeup of Consultant Selection Committee" into a Caltrans Policy.</p>	On Going	01/09/2014	Final Audit
<p><b>Response:</b></p> <p>1:1 Existing guidelines for A&amp;E selection panels, which have been in place since 1991, include procedures and requirements for serving on selection panels. These guidelines are updated as needed to provide clarity and consistency and used when Districts are evaluating available subject matter experts to serve on selection panels. The current version of these guidelines is dated March 13, 2012. Conversion of these guidelines into a policy will not strengthen the evaluation process; however, DPAC will continue to review selection panels submitted by Districts or Headquarters Divisions to ensure consistency with current guidelines. DPAC will continue reinforcing the need for the Districts and Headquarters Divisions to adhere to the guidelines.</p>			
<p>1:2 Audits recommend that DPAC require coordinators to discuss and document significant scoring variances with the Selection Committee.</p>	In Process	01/08/2014	Final Audit
<p><b>Response:</b></p> <p>DPAC has developed a new A&amp;E consultant selection process that will include consensus scoring. Since the selection panel will build consensus and develop one score for each consultant, this will eliminate scoring variances from the selection panel. This new process with consensus scoring is being piloted in January 2014. DPAC Coordinators will facilitate the consensus scoring process.</p>			
<p>1:3 Audits recommend that Selection Committee members' initial and final evaluation notes and scoring sheets be collected by the de-briefer and submitted to DPAC.</p>	In Process	01/08/2014	Final Audit
<p><b>Response:</b></p> <p>The new A&amp;E consultant selection process referenced in the response to finding 1:2 will require Selection Committee members' notes and consensus scores during the initial and final evaluation stages to be collected by the de-briefer and submitted to DPAC.</p>			
<p>1:4 Audits recommend that DPAC retain all documentation pertaining to the selection process in its contract files, along with how the interview questions were weighted, for a specific period of time that is in accordance with DPAC's record retention requirements.</p>	In Process	12/20/2013	Final Audit
<p> </p>			

**Audit Name:** Architectural and Engineering (A&E) Contracting Process (01-10-14)

**Audit Number:** P3000-0413

**Audit Series:** Response

<p><b>Response:</b></p> <p>The new A&amp;E consultant selection process referenced in the response to finding 1:2 will eliminate the need for interview questions, and documentation of the associated weight. The only questions that will be asked in the final evaluation will be clarifying questions about the consultant's Statement of Qualifications (SOQs). This process will require that all documentation pertaining to the selection process, including clarifying questions asked in the final evaluation, be submitted to DPAC for retention in the contract file.</p>				
1:5	<p>Audits recommend that employees writing the interview questions be required to keep the questions in a secure location until the time they are distributed to the panel members and submit signed Code of Ethical Conduct forms to DPAC.</p>	In Process	12/20/2013	Final Audit
<p><b>Response:</b></p> <p>The new A&amp;E consultant selection process referenced in the response to finding 1:2 will eliminate the need for interview questions. This will also eliminate the need to have question writers sign and submit Code of Ethical Conduct forms to DPAC</p>				
1:6	<p>Audits recommend observers be prohibited from participating in the evaluation interview with the Selection Committee unless there is a valid business reason. If a valid reason exists, it should be documented and the observer should also be required to sign the Code of Ethical Conduct forms.</p>	In Process	12/20/2013	Final Audit
<p><b>Response:</b></p> <p>As referenced in the response to finding 1:1, DPAC's continuous updates of the Guidelines for A&amp;E selection panels will address observers, including the reasons for an observer to attend the initial and final evaluation meetings and the requirement to sign the Code of Ethical Conduct forms.</p>				
<p><b>FINDINGS AND RECOMMENDATIONS 2</b></p> <p>Missing Required Consultant Evaluations</p>				
2:1	<p>Audits recommend that DPAC continue issuing non-compliance reports on a monthly basis to the Deputy District Directors or Headquarters Division Chiefs for evaluations that are overdue.</p>	Completed	01/10/14	Final Audit
<p><b>Response:</b></p> <p>DPAC's non-compliance report is titled Contract Evaluation Status Report (CESR). The CESR was being distributed on quarterly basis. Effective January 2014, DPAC will be sending the CESR to the Consultant Services Unit Office Chiefs on a monthly basis and send monthly notifications of overdue evaluations to the appropriate Deputy District Director or Headquarters Division Chief.</p>				

**Audit Name:** Architectural and Engineering (A&E) Contracting Process (01-10-14)

**Audit Number:** P3000-0413

**Audit Series:** Response

2:2	Audits recommend that DPAC incorporate consultant evaluations into the A&E consultant selection process.	In Process	12/20/2013	Final Audit
<b>Response:</b> The new A&E consultant selection process referenced in the response to finding 1:2 includes the use of consultant evaluations in the A&E consultant selection process.				
<b>FINDINGS AND RECOMMENDATIONS 3</b> Missing Documents and Approving Signatures		<b>Status</b>	<b>Response Date(s)</b>	<b>Audit Series</b>
3:1	Audits recommend that DPAC ensures all pertinent documentation is included in the contract file and properly approved.	Completed	01/10/14	Final Audit
<b>Response:</b> DPAC has developed an A&E Contract Checklist for use by the contract analyst that details the contract documents that are required to be included in the contract file. DPAC also performs a peer review of the procurement documents to ensure that the contract file is complete and all documents are properly approved. DPAC management will perform updates as needed to the A&E Contract Checklist to describe all required documents.				
3:2	Audits recommend that DPAC document their review and approval of the Selection Committee Participation Memo.	In Process	01/08/14	Final Audit
<b>Response:</b> The current process is to have the DPAC A&E coordinator review the Selection Committee Participation Memo and email the approval to the District Contact Manager (CM). This approval is submitted to DPAC by the CM as part of the contract request package (also known as ADM 0360 submittal package). The approval is then documented by the assigned DPAC contract analyst using the A&E Contract Checklist described in the response to finding 3:1. DPAC will ensure that the approval of the Selection Committee Participation Memo is documented in the A&E Contract Checklist and be included in the contract file.				
3:3	Audits recommend that DPAC ensure all exceptions or changes are documented in the contract file.	Completed	01/10/14	Final Audit
<b>Response:</b> DPAC has revised the A&E Contract Checklist described in the response to finding 3:1 on 1/2/14, to address this finding. The A&E Contract Checklist has been revised to document revisions/changes/exceptions and directions to include this documentation and applicable approvals in the contract file.				
3:4	Audits recommend that DPAC ensure all files are retained in accordance with the records retention policy and available for review.	On Going	01/08/14	Final Audit

**Audit Name:** Architectural and Engineering (A&E) Contracting Process (01-10-14)

**Audit Number:** P3000-0413

**Audit Series:** Response

**Response:**

DPAC has a record retention policy. DPAC's Policy Unit is responsible for maintaining this policy. DPAC has updated the A&E Contract Checklist described in the response to finding 3:1 on 1/2/14, to include an item confirming that the contract analyst has completed the procurement and archived the contract file in accordance with the current records retention policy. DPAC's files are available for review by all staff from the archive cabinets using an "out card" for documenting the removal and replacement of archived files.

FINDINGS AND RECOMMENDATIONS 4 Contract Management Deficiencies	Status	Response Date(s)	Audit Series
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Audits recommend that District Management ensure A&E contracts are managed as required by the State Contractor's Manual and Caltrans policies and procedures.	In Process	01/08/14	Final Audit
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**Response:**

DPAC has developed various manuals and training guidelines which facilitate efficient management of A&E contracts. The manuals and guidelines including Contract Management Handbook have been incorporated by reference in the online A&E Contract Manager Training module. The certificate provided by the training module states that the CM has taken the training and has a responsibility to adhere to all policies, regulations, and laws related to A&E contracting. DPAC has recommended that all A&E contract managers take the training. At the next A&E Statewide Video Conference in February 2014, DPAC will discuss this audit and recommend that District Management ensure all of their A&E CMs take this training and maintain a record of the certifications.

FINDINGS AND RECOMMENDATIONS 5 Some District Consultant Services Units are not Structured According to PMD-008	Status	Response Date(s)	Audit Series
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Audits recommend that DPAC and Project Management work together to make a statewide determination as to whether PMD-008 is still applicable or whether it needs to be revised. Once that determination is made, Project Management should require that all Districts comply with the revised PMD-008.	In Process	01/10/14	Final Audit
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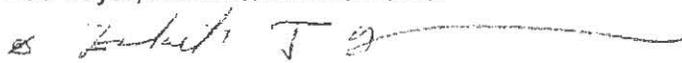
**Response:**

Project Management will review PMD-800 and evaluate the necessity for continuing with the directive and make updates accordingly. DPAC will comply with the updated PMD-800.

**Audit Name:** Architectural and Engineering (A&E) Contracting Process (01-10-14)

**Audit Number:** P3000-0413

**Audit Series:** Response

Approving Managers	Approval Date
Liz Salinas, SSM I 	01/14/14
XXXXXXXXXXXX, SSM II 	
Zoe Bayar, Assistant Division Chief 	01/14/14

**ATTACHMENT NO. 2**

**DISTRICT 7 RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Flex your power!  
Be energy efficient!*

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

**Date:** February 3, 2014

**File:**

**From:** CARRIE L. BOWEN   
Acting, District 7 Director

**Subject:** ARCHITECTURAL AND ENGINEERING CONTRACTING PROCESS  
AUDIT (P3000-0413)

This is District 7's response to the draft Architectural and Engineering Contracting Process Audit report, dated December 6, 2013.

*Finding 2: Missing Required Consultant Evaluations*

*Audit Recommendation*

District 7 recommends that district management require contract managers to complete evaluations as required.

*District Response*

The Deputy District Director of Program and Project Management will issue a memo to all A&E contract managers, directing them to complete consultant evaluations, as required, and to have the Chief, Office of Program Management and Consultant Services (OPMCS) to establish a process to obtain and track consultant evaluations.

*Finding 4: Contract Management Deficiencies*

*Audit Recommendation*

District 7 recommends that district management ensure A&E contracts are managed as required by the State Contractors Manual and Caltrans policies and procedures.

*District Response*

The Deputy District Director of Program and Project Management will issue a memo to all contract managers and to the Chief, OPMCS highlighting the findings identified in the draft Architectural and Engineering Contracting Process Audit report, dated December 6, 2013, and directing them to manage A&E contracts as required by the State Contractors Manual and Caltrans policies and procedures. The memo will also require that the Chief, OPMCS establish a process to provide contract management reviews to ensure A&E contracts are managed properly.

**ATTACHMENT NO. 3**

**DISTRICT 11 RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Flex your power!  
Be energy efficient!*

To: WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigation

Date: February 7, 2014

From: LAURIE BERMAN  
District Director  
District 11

Subject: **RESPONSE TO DRAFT ARCHITECTURAL AND ENGINEERING CONTRACTING  
PROCESS AUDIT**

Thank you for the opportunity to provide a response to the Draft Architectural and Engineering Contracting Process Audit (P3000-0413) dated December 2013. District 11 considers this audit an important opportunity to improve our business processes, and we thank you for your efforts. There were two audit finding that applied to District 11, and therefore our response will be limited to just those two findings.

Finding 2: Missing Required Consultant Evaluations

### Audit Recommendation

We recommend that District Management require Contract Managers to complete evaluations as required.

We also recommend that DPAC:

1. Continue issuing non-compliance reports on a monthly basis to the Deputy District Directors or Headquarters Division Chiefs for evaluations that are overdue.
2. Incorporate consultant evaluations into the Architectural and Engineering (A&E) consultant selection process.

### District 11 Response

- District 11 recognizes that the completion of contract evaluations is a Federal Code Regulation requirement (23 CFR 172.13(b)). We also support the incorporation of these evaluations into the A&E consultant selection process.
- District 11 is committed to ensuring that all of our Contract Managers retake the Contract Manager on-line training module within the next six months.
- District 11 will also develop internal controls within the Consultant Services Unit to ensure that Contract Managers are completing evaluations as required.

#### Finding 4: Contract Management Deficiencies

##### Audit Recommendation

We recommend that District Management ensure A&E contracts are managed as required by the State Contractor's Manual and Caltrans policies and procedures.

##### District 11 Response

- District 11 is committed to ensuring that all of our Contract Managers and all of our Consultant Services Unit staff retake the DPAC's A&E on-line training module within the next six months.
- District 11 will also provide each Contract Manager with a copy of the Contract Manager Handbook.
- District 11 will also develop and implement an annual workshop which will provide Contract Managers the most recent policies and procedures updates.

Again, we thank you for providing this very important audit of our A&E contracting process. In addition to the above responses, District 11 also commits to sending Audits and Investigations a follow-up Memo within one year documenting that these process improvements have been implemented.