



Internal Audit of MBTA Procurement

Internal Audit Report

Prepared By:

The MassDOT Internal Audit Unit

September 17, 2018

EXECUTIVE SUMMARY

To: Betsy Taylor, Chair, Steve Poftak and Tim King
MassDOT Finance and Audit Committee
From: James Logan, Director of Audit Operations *Jim*
Date: September 17, 2018
RE: MBTA Procurement – Internal Audit Report

We have completed a performance audit of the MBTA Procurement Process performed by the Procurement and Logistics Department.

Our audit focused on procurement transactions that occurred from October 2016 to the present.

The purpose of this internal audit was to focus on evaluating internal controls, policies and procedures to ensure that procurement processes are functioning effectively and performed efficiently for the purchase of inventory and non-inventory items.

Audit fieldwork included meetings with management and personnel from the MBTA Procurement & Logistic Department and also an on-site review of MANCON's warehousing and operations of the MBTA's inventory in Stoughton, MA.

Based upon the results of our review, we concluded that internal controls, standards, and policies and procedures are in place and support the overall objectives. We identified four opportunities for improvements.

The opportunities for improvement include:

- Review the contract agreement with MANCON to ensure that they are fulfilling their contractual responsibilities:
 - Identify what the current inventory practices are or should be.
 - Implement an inventory software system to improve the efficiency and effectiveness of the logistics operations and management for the Central Warehouse in Stoughton, MA and the MBTA Base stockroom locations.
 - Determine who will have ownership of the MANCON Contractual Agreement.
 - Draft a Service Level Agreement (SLA) and conduct a System Organization Controls (SOC 1) review of MANCON to assess their internal controls.
- Consider establishing a formal contract management system for processing recurring expenses that are categorized as "Process Exceptions".
- Continue to work together with FairMarkIT representatives to create new reports that can be used to identify potential fraudulent activities.
- Consider implementing the Online Bid Express Bidding program that is used by MassDOT Construction Highway Division. This program will improve the effectiveness of how competitive bids are processed, received and awarded for both State and Federal projects.

Our audit findings and recommendations were discussed with management and corrective action plans have been included in this report for our findings.

We would like to thank management and personnel of the MBTA Procurement & Logistics Department that supported and assisted with our audit.

Please contact me if you have any questions or concerns at 857-368-9777 or via email at James.Logan@state.ma.us.

Cc: Stephanie Pollack, MassDOT Secretary and CEO
Rob Garrity, MassDOT Chief of Staff
Marie Breen, MassDOT Acting General Counsel
Owen Kane, MassDOT Board of Directors Legal Counsel Representative

Luis Ramirez, MBTA General Manager
Dave Abdoo, MBTA Chief of Staff
Paul Brandley, MBTA Acting Chief Financial Officer
Nick Easley, MBTA Chief Transformation Officer
Jeff Cook, MBTA Chief Procurement Officer
Daniel Sullivan, MassDOT Policy Assistant

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I. Introduction

We have completed a performance audit of the MBTA Procurement Process. This audit was conducted in accordance with Generally Accepted Government Auditing Standards [GAGAS].

The purpose of this Procurement Process internal audit was to review internal controls, policies and procedures for the procurement of inventory and non-inventory items (i.e., goods & services) for various MBTA departments, the Central Inventory Warehouse in Stoughton, MA and MBTA Base Stock rooms.

II. Background

Procurement & Logistics Department

The Procurement & Logistics (P&L) Department is responsible for the oversight of procuring good and services for MBTA Departments. In accordance with (Procurement Manual) policies and procedures, the P&L Department must ensure that the MBTA expends funds in accordance with Federal Transit Administration [FTA] regulations, the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (49 CFR Part 18) and the contractual agreements between FTA and the MBTA.

Roles & Responsibilities

The Procurement & Logistics (P&L) Department is divided into 3 areas as follows:

1. Source Executives - This unit provides solutions to problems and helps to change/improve the process. Major procurements are handled through this unit (i.e., snow removal equipment, vehicles, trains, etc.) In addition, the unit is responsible for drafting the following:
 - RFI – Request for information
 - RFR – Request for response (needed for COMMBUYS)
 - RFP – Request for proposal
2. Inventory Buyers - Certain MBTA commodities are processed through this unit. There are currently 6 buyers:
 - 1 heavy equipment buyer
 - 1 maintenance repair operations buyer
 - 1 rail buyer
 - 3 bus buyers (for components, body, electrical, etc.)
3. Non-inventory Buyers - The MBTA Chief Procurement Officer is responsible for reviews of the RFIs and RFRs and also monitors COMMBUYS.

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Procurement Funding

All inventory items are purchased with state monies funded and not with federal funds. Purchases are based on minimum and maximum inventory standards.

Minimum purchase thresholds are as follows:

- o \$3,500 follow Federal Standards
- o \$50,000 follow State and Federal Standards

Procurement Purchasing Sign-Off Authority

As part of new changes/improvement to the procurement process, the MBTA is providing more oversight for all procurements. The following changes to the purchasing sign-off authority have been made:

- o Buyers - up to \$5,000
- o MBTA P&L Supervisor of Inventory Planning & Purchasing - \$5,001 up to \$50,000
- o MBTA Chief Procurement Officer - greater than \$50,000 and up to \$500,000
- o MBTA CAO/CFO & others in the MBTA Legal department - up to \$1,000,000
- o MBTA General Manager - up to \$15,000,000
- o Fiscal Management Control Board (FMCB) - greater than \$15,000,000

Bidding Process

The bidding process for inventory items is all based on e-mail quotes. A minimum of three quotes is needed for micro purchases less than \$3,500 and small purchases between \$3,500 and \$49,999. For non-inventory items (i.e., goods & services), the process is similar but, in accordance with standard policies and procedures.

Any procurement that is \$50,000 or more and is above the MBTA small procurement threshold should be advertised and handled through a sealed bid process. Sole-sourced procurements (greater than or equal to \$50,000) are not advertised nor require sealed bids. These procurements have their own set of criteria according to FTA guidelines.

MANCON

In February 2017, the MBTA signed a contract with MANCON, a vendor responsible for the MBTA's central inventory warehousing and logistics operation in Stoughton, MA. The five year contract expires on January 31, 2022.

On 02/19/18, the MBTA hired A&M Consulting Agency to review the warehouse and logistic operations.

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III. Scope and Objectives

Our performance audit of the MBTA Procurement process includes appropriate, sufficient evidence, obtained through reviews of procurement transactions that occurred from October 2016 to the present. Audit meetings were conducted with the Procurement & Logistics management and personnel.

The primary objectives of this audit are to evaluate the internal controls and to determine whether the procurement processes are effective and efficient.

The criteria for this audit will be to verify that:

- Procurement controls are in place and functioning adequately to help ensure compliance with relevant state and federal regulations.
- Effective reporting and monitoring controls are in place to ensure oversight for bidding, solicitation, and awarded contracts.
- Procurement results are clearly monitored, defined, and reported in a timely manner.
- Preventative and detective controls are in place to deter fraudulent activities.

Risk Rating Scale

| Risk Rating | Action to be Taken | Issues |
|--------------------|---|---------------|
| H (High) | Close supervisory attention is required. | 1 |
| M (Medium) | The audited area requires increased attention. | 3 |
| L (Low) | Issues can be corrected within the normal course of business. | 0 |

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| Issue | Risk | Recommendation | Management Action Plan |
|---|------|---|---|
| 1. Procurement & Logistics Department | | | |
| <p>1. The Procurement & Logistics [P&L] Department implemented a new procurement process in which the MBTA departments (end users) are responsible for preparing a request (requisition), and obtaining financial authorization through their internal budget approval process. Documentation must be provided for procurement compliance.</p> <p>As part of audit fieldwork testing, thirty-six procurement packages were reviewed from October 2016 to December 2017. Eight of the thirty-six packages were invoice based requisitions processed as a payment voucher.</p> <p>In addition, nine procurement packages, from February 12 to 20, 2018 were also reviewed. Two of the nine were invoice based requisitions processed as a payment voucher with minimal supporting documentation.</p> <p>(This issue continues on the next page)</p> | M | <p>1. “Process Exceptions” or recurring expenses are not considered a procurement and should not go through the P&L procurement process.</p> <ul style="list-style-type: none"> Consider establishing a formal contract management system for those items identified as recurring expenses. Continue to work with the Chief Financial Officer and the Chief Procurement Officer to implement a new system for processing recurring expenses. | <p>Responsible Party: Jeff Cook, Chief Procurement and Contracts Administration Officer (CPCAO)</p> <p>Action: As Chief Procurement Officer, I do not recommend or agree at this time that invoices should go directly to Accounts Payable without having a purchase order assigned. There would be a lack of checks and balances that exist today.</p> <p>As of today, the Procurement group requires all invoices to be paid through a purchase order. During this audit review, the policy was not in full effect. Any exceptions are reviewed and approved by the CPO or CAO.</p> |

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| Issue | Risk | Recommendation | Management Action Plan |
|---|------|----------------|--|
| 1. Procurement & Logistics Department (continued) | | | |
| Internal Audit determined that these invoice based requisitions, categorized as “process exceptions” by the Procurement & Logistics department, are recurring expenses (for fees, utilities, consultant services, lease agreements, etc.) | | | <p>During this audit review, exceptions were paid two ways, by paper voucher or electronic voucher.</p> <p>The paper voucher has been eliminated. An electronic voucher is still being used and approved by either the Chief Procurement Officer or Chief Administration Officer.</p> <p>Implementation Date: N/A</p> |

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| Issue | Risk | Recommendation | Management Action Plan |
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| 2. MANCON | | | |
| <p>2. In February 2017, the MBTA signed a contract with MANCON, a vendor responsible for the MBTA's warehousing and logistics operations.</p> <p>According to the contract, MANCON should be performing all logistics operations with the use of their own equipment and inventory software system.</p> <p>On February 02, 2018 Internal Audit conducted an on-site review of MANCON's warehousing and logistics operations in Stoughton, MA.</p> <p>(This issue continues on the next page)</p> | H | <p>2.1 Improve MBTA inventory logistics operations and management by working with MBTA IT Personnel, MANCON and the A&M Consulting Agency to:</p> <ul style="list-style-type: none"> Identify and formalize what the current inventory practices are / should be. Implement an inventory software system that will improve the efficiency and effectiveness of the logistics operations and management for the Central Inventory Warehouse in Stoughton, MA, and all MBTA Base stockroom locations. Determine who will have ownership of the MANCON Contractual Agreement. (i.e., Vendor Management or Procurement & Logistics Department) | <p>Responsible Party: Joe Carreiro, Director of Vendor Management</p> <p>Action: Contract to be restructure to realign service expectations.</p> <ul style="list-style-type: none"> Schedule weekly supply chain performance review meetings. Review inventory accuracy targets. <p>The decision was made not to use MANCON's inventory system. MANCON is using the MBTA's Inventory Data Collection System [IDCS]. Day to day contract management of the MANCON contract will be transferred to Operations.</p> <p>Since the audit, the following changes have occurred.</p> <ul style="list-style-type: none"> MBTA hired a new manager to oversee the MANCON contract. |

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| Issue | Risk | Recommendation | Management Action Plan |
|------------------------------|------|----------------|--|
| 2. MANCON (continued) | | | |
| | | | <ul style="list-style-type: none"> - MBTA hired a consultant firm to review the warehouse and logistics operations. - A new MANCON contract is being established. <p>Implementation Date: August 31, 2018</p> |

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| Issue | Risk | Recommendation | Management Action Plan |
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| 2. MANCON (continued) Our review identified the following: <ul style="list-style-type: none"> • There is no inventory software in place. The overall process is being performed by MANCON employees, without MANCON's inventory software system. • MANCON employees are currently scanning the bar codes of new inventory items into the MBTA FMIS via MBTA's Inventory Data Collection System [IDCS] - an application that captures and transmits scanned inventory into FMIS. • A Service Level Agreement [SLA] does not exist and a System Organization Controls [SOC1] review / report has not been performed / issued for MANCON. Notes <ul style="list-style-type: none"> • The need for the SLA and SOC1 was not addressed in the MANCON contract. • On 02/19/18, the MBTA hired A&M Consulting Agency to review the warehouse and logistic operations. | | | |
| | | 2.2 MBTA Vendor Management, Procurement & Logistics Management and the Legal Department need to: <ul style="list-style-type: none"> • Review the contractual agreement with MANCON to ensure that they are fulfilling their contractual responsibilities. • Draft a Service Level Agreement [SLA] and require MANCON to conduct a System Organization Controls [SOC1] review of MANCON. The SLA agreement and SOC1 review will benefit management by documenting service level requirements and providing an assessment of the internal controls at MANCON. | Responsible Party: Joe Carreiro, Director of Vendor Management Action: A Service Level Agreement [SLA] and System Organization Controls [SOC1] review are being established in updated MANCON contract agreement. Once new contract agreement is in place, monthly KPI and Scorecard meetings will happen as well as weekly supply chain performance reviews and daily execution meetings/calls. The P&L Vendor Management group will support managing contract compliance. Implementation Date: August 31, 2018 |

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| Issue | Risk | Recommendation | Management Action Plan |
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| 3. Bidding Process, Evaluation and Awarding the Bid | | | |
| <p>3. Internal Audit observed the opening of a competitive bid for a federally funded construction project greater than \$50,000.</p> <p>The opening of this bid was performed manually, by two Procurement and Logistics Department Buyers, in the presence of the participating contractor. (i.e., the public)</p> | M | <p>3. Implement the Online BID Express Bidding program that is used by the MassDOT Construction Highway Division. New standards and operating procedures would also need to be established for participating contractors / vendors to use as reference for online bidding.</p> <p>Implementing this online bidding program will improve the effectiveness of how competitive bids are processed, received and awarded for both State and Federal projects.</p> | <p>Responsible Party: Jeff Cook, Chief Procurement and Contracts Administration Officer (CPCAO)</p> <p>Action: MBTA is required on federal funded construction bids to have a public opening.</p> <p>As for non-federal funded bids, the MBTA is stopping the opening of these bids publically and will post the award electronically.</p> <p>There is already an online bidding application system called Fair MarkIT for the majority of bids. Other applications used are state wide agreements and Business Center for Invitation for Bid (IFB).</p> <p>Implementation Date: Complete</p> |

| Issue | Risk | Recommendation | Management Action Plan |
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| 4. Fair MarkIT System | | | |
| <p>4. In October 2017, the MBTA implemented the Fair MarkIT System (FMS) for the use of bidding, soliciting, and awarding a contract (bid) to the external supplier (vendor) with the best lowest price (quote) for the product (goods and services) – requested by the end user. With the use of FMS, the MBTA is able to manage risk and to ensure that the most appropriate goods and services are sourced.</p> <p>This new public e-bidding forum modernizes the MBTA procurement processes from a combination of electronic and paper system, to an easy to monitor, transparent, web-based system.</p> <p>Management and Operations are now able to generate a report that assists with monitoring and viewing all buyers bid requests to ensure that MBTA purchases the correct products and services. However, there are no recurring reports in place to identify potential fraudulent activities.</p> | M | <p>4. Continue to work together with Fair MarkIT representatives to create new reports that can be used to identify potential fraudulent activities.</p> <p>Recurring reports can assist Management and Operations to perform their continued due diligence of identifying potential fraudulent activities.</p> | <p>Responsible Party: Jeff Cook, Chief Procurement and Contracts Administration Officer (CPCAO)</p> <p>Action: The Fair MarkIT System (FMS) has developed various reports for management which some relate to risk review.</p> <p>Currently, the CPCAO is working directly with Fair MarkIT to finalize dashboard monthly reports for risk and non risk reviews.</p> <p>Implementation Date: July 31, 2018</p> |

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Audit Contacts

To support our conclusions, sufficient, appropriate audit evidence was obtained through examining documentation and through correspondence with the individuals listed below.

| # | NAME | TITLE | SECTION/LOCATION | ROOM |
|---|-------------------|---|-------------------------------------|------|
| 1 | Nick Easley | Chief Transformation Officer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 2 | Mounir Ouhadi | Director of Procurement | MBTA 10 Park Plaza Boston, MA | 2810 |
| 3 | Peter Papagno | Manager of Procurement Contract Compliance | MBTA 10 Park Plaza Boston, MA | 2810 |
| 4 | Frank Scabin | Supervisor of Inventory Planning & Purchasing | MBTA 10 Park Plaza Boston, MA | 2810 |
| 5 | Joe Carreiro | Director of Vendor Management | MBTA 10 Park Plaza Boston, MA | 2810 |
| 6 | Dan Maloney | Transformation Project Assistant | MBTA 10 Park Plaza Boston, MA | 2810 |
| 7 | Michael Bernstein | Sourcing Executive, Procurement & Logistics | MBTA 10 Park Plaza Boston, MA | 2810 |
| 8 | Timothy Sullivan | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |

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|----|--------------------------|---|-------------------------------------|------|
| 9 | Philip Hong | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 10 | Judi Kidd | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 11 | Julie Lebbossiere-Pitts | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 12 | Dimtrios M. Martinos | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 13 | Kiana Hall | Buyer | MBTA 10 Park Plaza Boston, MA | 2810 |
| 14 | Steve Groff | Director of Technology Infrastructure and Operations | MBTA 10 Park Plaza Boston, MA | 8830 |
| 15 | David Metraux | Director of IT Applications | MBTA 10 Park Plaza Boston, MA | 8830 |
| 16 | Stephanie Shaughnessy | Project Manager, Financials | MBTA 10 Park Plaza Boston, MA | 8830 |
| 17 | Lilee Dethchan | Director of Financial Strategy | MBTA 10 Park Plaza Boston, MA | 4150 |
| 18 | Michael Abramo | Chief Financial Officer | MBTA 10 Park Plaza Boston, MA | 4150 |
| 19 | Joe Connolly | Director of Accounting | MBTA 10 Park Plaza Boston, MA | 3150 |

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|----|-----------------|---------------------------|--|---|
| 20 | Jeff Nunes | Manager | MBTA Central Warehouse, Stoughton , MA | - |
| 21 | Carla Garcia | Storekeeper | MBTA Central Warehouse, Stoughton , MA | - |
| 22 | Martin Teed | Warranty Coordinator | MBTA Vehicle Engineering | - |
| 23 | Kevin Frechette | Co-Founder, FairMarkIT | FairMarkIT Back Bay,Copley PL Boston, MA | - |