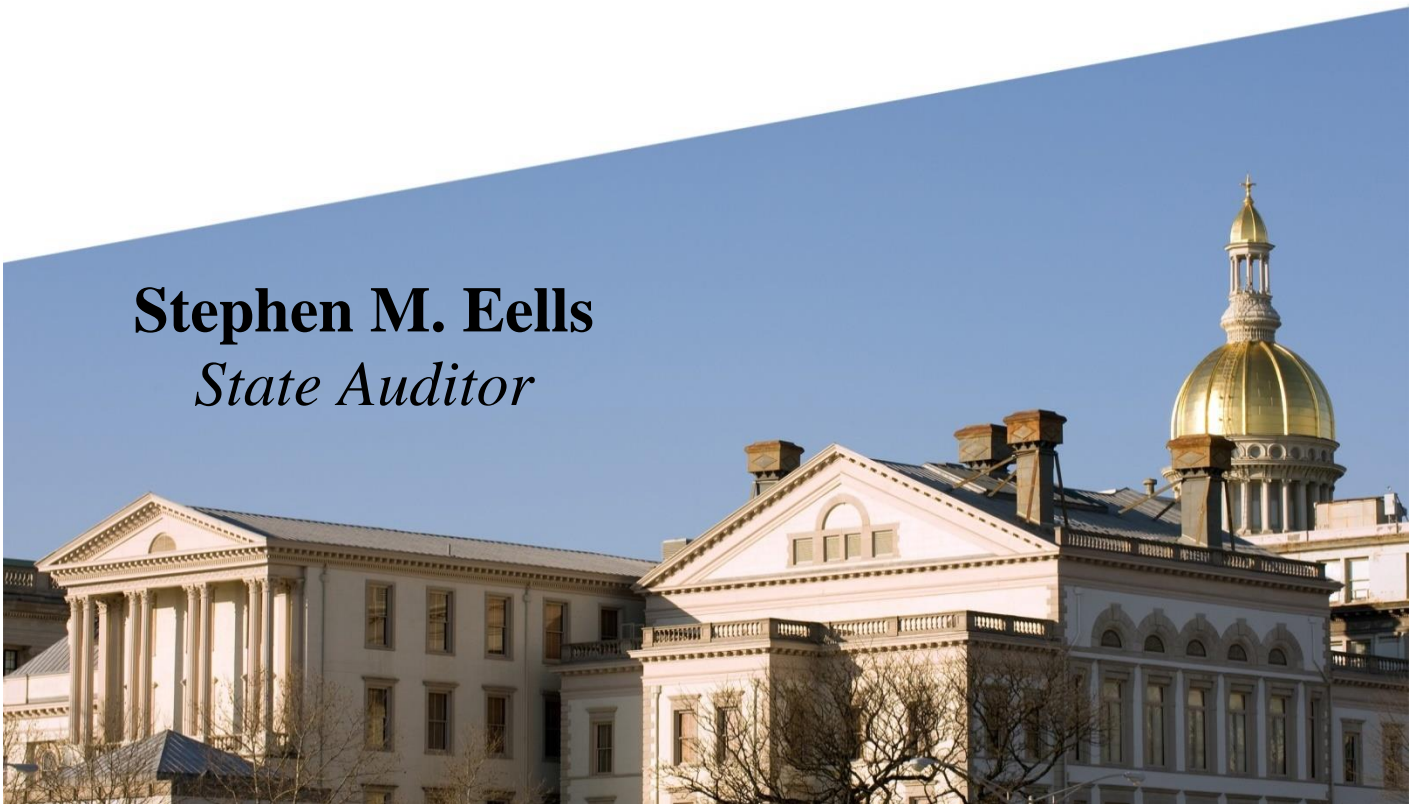


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Department of Transportation
Non-Payroll Expenditures

July 1, 2015 to October 31, 2018

Stephen M. Eells
State Auditor



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The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

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Enclosed is our report on the audit of the Department of Transportation, Non-Payroll Expenditures for the period of July 1, 2015 to October 31, 2018. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in blue ink, reading "Stephen M. Eells".

Stephen M. Eells
State Auditor
May 2, 2019

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Scope

We have completed an audit of the Department of Transportation, Non-Payroll Expenditures for the period July 1, 2015 to October 31, 2018. Our audit included financial activities accounted for in the state's General Fund and the Special Transportation Fund. Our audit did not include the Motor Vehicle Commission or transactions involving NJ TRANSIT.

The primary mission of the New Jersey Department of Transportation (department) is to provide a safe, reliable, and efficient multi-modal transportation network which serves the mobility needs of residents, commerce, and visitors in a manner that promotes economic development and ensures environmental responsibility. The following chart shows a breakdown of non-payroll expenditures from fiscal years 2016 through 2018.

Category	Non-Payroll Expenditures		
	2016	2017	2018
Construction	\$2,643,496,051	\$2,528,724,599	\$3,018,095,857
Other	359,347,248	517,522,032	489,887,238
Total Non-Salary Expenditures	\$3,002,843,299	\$3,046,246,630	\$3,507,983,096

Objectives

The objectives of our audit were to determine whether financial transactions were related to the department's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circulars promulgated by the Department of the Treasury, and policies of the department. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the department's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted areas meriting management's attention regarding compliance with state purchasing regulations.

Background

The Department of Transportation, Division of Procurement consists of the Bureau of Construction Services; the Bureau of Professional Services; and the Bureau of Equipment, Materials, and Supplies. The Bureau of Construction Services' responsibilities include advertising, prequalifying, awarding, and executing construction contracts; approving subcontractors; and maintaining contractors' past performance evaluations. The Bureau of Professional Services' responsibilities include notifying the industry of anticipated projects and consultant selections, reviewing and coordinating the prequalification and selection of consultants, and soliciting technical proposals. The Bureau of Equipment, Materials, and Supplies purchases goods and services for the department.

The Division of Operations purchases specific goods and services for highway and vehicle maintenance. The Division of Operations consists of three regions (North, Central, and South) and Winter Operations and Operations Support. The Division of Operations' responsibilities include maintenance of state highways, rest areas, roadsides and bridges, equipment repair, and winter preparations.

Purchasing

The department did not comply with applicable purchasing regulations.

Department of the Treasury Circular No. 16-02-DPP (circular) defines a delegated purchase authority (DPA) transaction as a transaction that cannot be procured through one of the four primary contracting methods and does not exceed the DPA threshold of \$40,000. These purchases do not include construction projects. At least three telephone quotes are required for purchases over \$1,000 and up to \$17,500 and three written quotes are required for purchases greater than \$17,500 and less than \$40,000. These thresholds are established to provide competition and ensure the state obtains the lowest cost. Purchases should not be divided by vendor, dollar amount, or items to circumvent the dollar limits imposed by the circular. If a purchase is from a sole-source vendor, a memorandum of sole-source justification must be written and signed by the Agency Approval Officer.

We found the circular was not complied with for 18 of 31 sampled DPA transactions over \$1,000. We noted 11 DPA transactions where the department indicated that a purchase was from a sole-source vendor, however, there was no written justification provided. In addition, 6 transactions (33 percent) did not have supporting documentation of quotes, and in one other instance, only telephone quotes were obtained for a purchase of \$21,250 rather than the required written quotes.

From July 1, 2015 through May 4, 2018, the department processed approximately 41,800 purchase orders totaling \$206.7 million. Our analysis of the department's purchase orders noted 7,000 instances in which multiple purchase orders were created for the same vendors on the same day. This created excessive processing for up to 12,150 (29 percent) of all purchase orders during this review period.

We judgmentally sampled 20 instances where multiple purchase orders were created for the same vendors on the same day and noted 16 exceptions where the number of purchase orders could have been reduced because they were ordered for the same department location. Within these 16 exceptions, we noted two instances where the department split purchase orders in order to avoid obtaining vendor quotes. We further noted at least 780 instances where multiple DPA purchase orders were processed for the same vendor on the same day. This allowed for the possible circumvention of bidding thresholds established by state purchasing regulations. Based on our testing, in cooperation with the department, an issue was reviewed with the Division of Criminal Justice.

Recommendation

We recommend the department follow all purchasing regulations and plan purchases more efficiently to reduce the processing of excess purchase orders.



Confirming Orders

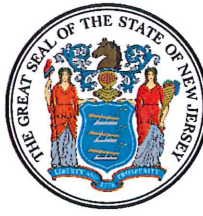
The use of confirming orders is prevalent at the department.

From July 1, 2015 through May 4, 2018, the Department of Transportation (department) processed 41,800 purchase orders. Of these, 15,900 were confirming orders (38 percent) totaling \$16.5 million. At least 5,300 of the confirming orders (33 percent) were DPA transactions, as described in the previous finding. A confirming order occurs when goods or services are purchased, and sometimes received, before a purchase order is processed. The use of confirming orders, other than in emergency situations, typically violates state procurement laws, policies, and procedures, and risks the possibility of purchasing goods and services without the proper funding being available and authorized.

Recommendation

We recommend the department adhere to state procurement laws, policies, and procedures before purchasing goods or services.





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*Assistant Commissioner
Finance and Administration*

April 17, 2019

David J. Kaschak, State Auditor
Office of the State Auditor
PO Box 67
Trenton, NJ 08625-0067

SUBJECT: NJ Department of Transportation (NJDOT)
Non-Payroll Expenditures Audit (July 1, 2015 to October 31, 2018)
Auditee Response to Audit Recommendations

Dear Mr. Kaschak:

I am responding on the behalf of Commissioner Gutierrez-Scaccetti.

The Office of Legislative Services, Office of the State Auditor conducted an audit and concluded that the financial transactions included in its testing were related to the NJDOT'S programs, were reasonable and were recorded properly in the accounting systems. In making this determination, areas were noted meriting management's attention regarding compliance with state purchasing regulations. NJDOT's responses follow.

Audit Conclusion

- 1) Department of Treasury Circular No. 16-02-DPP (Delegated Purchasing Authority - DPA) was not complied with in certain instances where NJDOT indicated that a purchase was from a sole-source vendor and no written justification was provided.
- 2) Analysis of the NJDOT's purchase orders noted 7,000 instances (out of 41,800 purchase orders) in which multiple purchase orders were created for the same vendors on the same day; Potentially allowing for the possible circumvention of state purchasing regulations bidding thresholds.

NJDOT Response

The NJDOT, Division of Procurement consists of three (3) bureaus: Construction Services, Professional Services and Equipment, Materials & Supplies (EMS). EMS oversees the procurement of equipment, materials and supplies for the department and delegates the purchasing of these commodities to three (3) regions within the Division of Operations for the maintenance of state highways, rest areas, roadsides, bridges, equipment repair and winter preparations. These regions report to the Assistant Commissioner of Transportation Operations Systems and Support and primarily procure from established Treasury State contracts.

1) Often, NJDOT requests vendor confirmation of sole source status, but it does not receive written validation. In these cases, buyers are instructed to note sole source status themselves. EMS will re-communicate the Policy and Procedure for sole sources to all Buyers, both within EMS and the regions, to ensure that there is no misunderstanding of the requirements for justification and documentation of sole source procurements.

2) With over 100 properties and buildings to maintain throughout the State along with thousands of vehicles and pieces of equipment, it is not uncommon for procurement requests to come from multiple employees in multiple divisions for multiple items from the same vendor during the course of a single day. The immediate need for the requested items is the reason for multiple purchase orders being created for the same vendors throughout the course of the same day. In particular, storekeepers in the garages simply do not have the luxury to compile procurement requests until they receive multiple requests for the same vendor. Additionally, as the vehicles and equipment are being serviced, other issues are identified requiring supplementary parts. Policies regarding the circumvention of the bidding thresholds are frequently discussed.

Finally, as noted in the audit, a number of the circumstances were addressed through an investigation by the NJDOT and Division of Criminal Justice.

Audit Conclusion

15,900 confirming orders (out of 41,800 purchase orders) were placed from July 1, 2015 through May 4, 2018. Confirming orders occur when goods or services are purchased and sometimes received before a purchase order is processed.

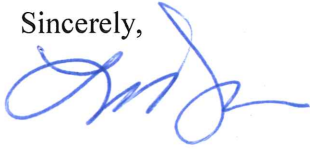
NJDOT Response

The majority of confirming orders placed by NJDOT are for vehicle and equipment parts. As these machines are inspected and diagnosed, they are not only out of service, but they are also taking up space, lifts and the mechanic's time in the garages in which they are being repaired. In order for the mechanics to repair these machines as quickly as possible they need parts ASAP. As a result, confirming orders for parts must be used, followed by the appropriate purchase order after receipt.

Daidone to Kaschak
April 17, 2019

Since 2015 NJDOT has been attempting to establish a new business model for an outsourced Parts Warehouse Management Contract. The approval from multiple State Agencies including the Civil Service Commission, State Comptroller's Office and the Division of Purchase and Property is required to do so. Once established, this contract will virtually end all confirming orders for machine parts. NJDOT anticipates the effective date of the contract to be sometime during the first quarter of FY20.

Sincerely,



Lewis Daidone
Assistant Commissioner
Finance and Administration

LD/tm

c: Diane Gutierrez-Scaccetti, Commissioner, NJDOT
Joseph Bertoni, Deputy Commissioner, NJDOT
Amalia McShane, Inspector General, NJDOT
Jonathan Trauger, Manager of Internal Audit, NJDOT
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