

**Performance Audit 24-02:
Chattanooga Area Regional
Transportation Authority
Procurement Process**

November 2024

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

November 13, 2024

To: Mayor Kelly
City Council Members
CARTA Board Members

Subject: CARTA Procurement Process Audit (Report #24-02)

Dear Mayor Kelly, City Council Members and CARTA Board Members:

The attached report contains the results of our audit of the Chattanooga Area Regional Transportation Authority (CARTA) procurement process. Our audit found that CARTA's procurement procedures generally align with federal and state laws governing procurements. However, policies and procedures are not always followed resulting in key internal control weaknesses and violations of state purchasing laws. In order to address the noted areas for improvement, we recommended actions to update policies, train personnel, and implement procedures to improve efficiency and accuracy of purchasing.

Prior to the release of this report, CARTA's new leadership has reorganized and realigned procurement roles and implemented mandatory board approval for any expenditure over \$50,000 to further enhance its financial oversight and accountability. We thank the CARTA management and staff for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Charles D. Frazier, CARTA Chief Executive Officer
Sonya Sparks, CARTA Chief Financial Officer
Jermaine Freeman, Chief of Staff
Mande Green, Chief Operating Officer
Steven Wilson, Deputy Chief Operating Officer
Javid Majid, Chief Financial Officer
Jim Arnette, Tennessee Local Government Audit jim.arnette@cot.tn.gov

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2024 Audit Agenda. The objectives of this audit were to determine if CARTA's procurement process complies with federal and state regulations as well as *CARTA's Purchasing Policy*.¹

BACKGROUND

CARTA operates Chattanooga's multimodal transportation system serving the City of Chattanooga (hereinafter the "City") and surrounding areas. CARTA was established in 1973 as a component unit of the City under the authority of T.C.A. § 7-56-101, *et seq.*, which allows municipalities and local governments to create and operate public transportation systems.²



CARTA is independently governed by an eleven-member board of directors, ten (10) of which are appointed by the City.³ The U.S. Department of Transportation and State of Tennessee, under contracts with CARTA, have funded a significant portion of the cost of acquisition and development of the CARTA transit system. CARTA also receives substantial planning grants and operating subsidies from

¹ The purchasing policy was revised in February 2024 and approved by the board on February 15, 2024 with a retroactive effective date of July 1, 2023. According to staff, the updated policies and procedures were in effect as of July 1, 2023.

² The Governmental Accounting Standards Board (GASB) defines a component unit as "a legally separate organization for which the elected officials of the primary government are financially accountable; or where the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading." [GASBS 14, ¶12 and ¶20]

³ Hamilton County appoints one (1) CARTA board member.

the Federal Transit Administration (FTA), the Tennessee Department of Transportation (TDOT), and the City.

Recipients of FTA assistance must abide by Federal regulations applicable to federally subsidized procurements. To comply with Federal procurement requirements, CARTA developed and implemented the *CARTA Purchasing Policy* (hereinafter the “Purchasing Policy”), which establishes CARTA’s policies and procedures for procuring goods and services.⁴



Procurement Process

The Purchasing Policy establishes different procurement requirements depending on the amount of the purchase. Micro purchases under \$10,000 do not require competitive quotes if the purchase price is determined to be fair and reasonable.⁵ The policy prefers the buyer to obtain at least two quotes and document using the telephone quote form.

For small procurements between \$10,000 and \$49,999, two (2) competitive quotes, written or verbal, are required. Once quotes are received and the low bidder determined, an approved requisition form should be submitted to the Procurement Manager. The Procurement Manager is responsible for verifying support documentation and

⁴ The Purchasing Policy was designed to comply with the guidance set forth in FTA Circular 4220.1F. The FTA developed Circular 4220.1F to assist recipients of FTA funding in complying with Federal procurement regulations.

⁵ In the absence of a fair and reasonable price determination, procurements less than \$10,000 require at least two (2) competitive quotes. In addition, Davis-Bacon prevailing wage requirements apply to purchases exceeding \$2,000.

creating the purchase order. All documentation must be submitted to the Accounts Payable Administrator to ensure proper payments.

For large procurements over \$50,000, competitive solicitations in the form of either sealed bids or request for proposals are required and bid solicitations must be publicly advertised to promote open and fair competition. Purchase orders are not required.

CARTA’s purchase order management and its financial accounting systems⁶ are not integrated.

Financial Information

As shown in Exhibit 1, expenditures have increased 14% since fiscal year ending June 30, 2021. Current year expenditures are estimated to be similar in total to the prior fiscal year ending June 30, 2023.

Exhibit 1: Operating Expenses

	FY21	FY22	FY23
Operations	12,379,663	12,718,392	14,315,456
Maintenance	7,182,091	7,155,598	7,241,206
Administrative	4,620,367	5,203,737	6,041,352
Total Expenditures	24,182,121	25,077,727	27,598,014

Source: CARTA Financials

FINDINGS AND RECOMMENDATIONS

Improve efficiency and accuracy with an integrated financial system.

Our review of purchase invoices and the purchasing process found the lack of an integrated system resulted in invoices paid without purchase orders and invoice payments exceeding the approved purchase order amount. Overall, we found 29% (15 of 52 sampled items) of procurements did not adhere to CARTA’s policies and procedures.

Requisitions and purchase orders were not executed and approved.

We sampled 52 invoices that included 19 procurements classified as micro, 14 small and 19 large purchases. As part of our review, we confirmed whether or not requisitions were properly approved, quotes were obtained and documented, purchase orders were approved and

⁶ RTA Fleet Software is used for purchase orders, maintenance and inventory tracking. CARTA uses Microsoft Dynamics for its accounting. The organization is undergoing an upgrade to Oracle Financial Systems.

executed, and invoices matched the purchase order amounts. The detailed results of our analysis is presented in Exhibit 2 below.

Exhibit 2: Exceptions Noted in Sample

Exceptions	Error Rate	Policy Requirement
14	27%	Purchase orders are attached to invoices, including all support documentation
11	21%	Requisition and purchase orders executed and approved.
5	10%	Two written or verbal quotes obtained for purchases between \$10,000 and \$49,999.
3	6%	When invoices exceed the purchase order amount by 10%, a new purchase order is required.
3	6%	Blanket purchase orders may be issued if quoted or bid.

Source: Compiled by Auditor

Purchasing Policy Section V, Part E requires the execution of a purchase order for all purchases of goods and services unless a formal bid or proposal is issued.⁷ Section V, Part B states the Procurement Manager has authority to sign purchase orders under \$500. Anything exceeding \$500 must be approved by the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, or Director of Grants, Technology and Research.

As indicated, our review found various violations of policy. We noted department managers did not always obtain and/or document quotes; twenty-seven percent of invoices did not have a purchase order or approved contract attached; and twenty-one percent of the invoices reviewed were paid without executing a purchase order. The lack of compliance indicates the need for additional employee training and supervisory review.

Requisition and purchase order approvals are essential to ensure spending aligns with the organization’s budget and purchases are made from vetted suppliers. If purchase orders are not used, contracts should be provided to the accounts payable department to reduce the risk of overpaying. In addition, adequate support documentation reduces the risk of unauthorized or fraudulent purchases.

⁷ Policies state purchase orders are also not required in emergency situations or in instances where dues, fees, etc. automatically renew.

Recommendation 1:

We recommend CARTA provide training on its procurement policies to all staff responsible for purchasing goods and services for the organization.

***Auditee Response:** CARTA intends to update its procurement policies based on recent changes to contract authority approved by CARTA's Board of Directors as well as findings/recommendations provided by the City of Chattanooga Office of Internal Audit. Once updates have been completed, CARTA will schedule training for all staff responsible for purchasing goods and services.*

***Estimated Implementation Date:** March 31, 2025*

***Priority Level:** 2*

Recommendation 2:

We recommend providing adequate support documentation to accounts payable to ensure invoicing matches the agreed upon pricing.

***Auditee Response:** CARTA will ensure that accounts payable has adequate support documentation providing access to contracts and blanket purchase order agreements as well as purchase order documentation.*

***Estimated Implementation Date:** March 31, 2025*

***Priority Level:** 2*

Recommendation 3:

We recommend CARTA management take appropriate disciplinary action when policies are violated.

***Auditee Response:** CARTA will outline disciplinary action when policies are violated as part of its update to its purchasing policy. Disciplinary action will be discussed during associated training of CARTA staff responsible for purchasing goods and services for the organization.*

***Estimated Implementation Date:** March 31, 2025*

***Priority Level:** 2*

Invoice payments exceeded the approved purchase order amount.

The test work and analysis of invoice payments found three instances where the invoice amounts exceeded the purchase order amount as shown in Exhibit 3. A new purchase order was not issued when the expenditures exceeded 10% of the approved purchase order amount. Purchase orders for the waste container and waste oil removal services were blanket purchase orders that were not supported with two or more quotes. The blanket purchase orders did not contain line item cost, rather a total for all items/services purchased.

Exhibit 3: Invoice Payments versus Purchase Order Amounts

PO #	Type of Goods or Services	Approved Amount	Invoices Paid	Variance
59616	Waste container services	\$ 9,000	\$ 62,847	(\$53,847)
59623	Waste oil removal services	\$ 6,000	\$ 13,465	(\$7,465)
59699	Forklift rental	\$ 1,833	\$ 7,985	(\$6,152)

Source: Compiled by Auditor

Section V, Part E of the purchasing policy requires a new purchase order if the invoice(s) are greater than 10% above the purchase order. The policies also requires quotes or bids for all blanket purchase orders. In addition to not obtaining quotes, we found the total cost for waste container services exceeded \$50,000 for the year. Our test work also identified three additional purchases not procured by competitive bidding, as required by policy and Tennessee law.

The lack of an integrated financial system contributed to the exceptions noted in the audit. Integrated financial systems ensure invoice payments match purchase orders and total payments do not exceed the approved purchase order amount.

Recommendation 4:

We recommend CARTA obtain and document quotes for blanket purchase orders that include detailed pricing (not lump sum).

Auditee Response: CARTA will ensure that more detail be provided with blanket purchase orders including quotes or associated contracts.

Estimated Implementation Date: March 31, 2025

Priority Level: 2

Recommendation 5:

We recommend CARTA analyze the feasibility of incorporating the procurement module as part of its upgrade to the Oracle Financial system or integrating the RTA system with Oracle.

***Auditee Response:** CARTA has requested that Oracle investigate whether integrating with RTA is feasible as part of its deployment. If this isn't feasible, other alternatives will be explored.*

***Estimated Implementation Date:** May, 31, 2025*

***Priority Level:** 3*

Recommendation 6:

We also recommend CARTA periodically audit and reconcile payments to purchase order.

***Auditee Response:** CARTA will schedule internal audits on a quarterly basis. CARTA will update its purchasing policy to include this schedule and develop a standard operating procedure for implementation.*

***Estimated Implementation Date:** May 31, 2025*

***Priority Level:** 2*

Recommendation 7:

We recommend CARTA implement a procedure to ensure competitive bids are obtained for purchases of goods or services that exceed \$50,000 annually.

***Auditee Response:** CARTA will update its policies and procedures to ensure competitive bids are obtained for purchases of goods or services that exceed \$50,000 annually.*

Estimated Implementation Date:

***Priority Level:** 1*

Update policies to ensure compliance with State laws.

Our review of CARTA's policies noted procedures are not in place to ensure compliance with all State regulations. Areas not covered included written quotes for small purchases and requirements for request for proposal (RFP) and sole source procurement methods.

Our review of 19 large procurements found 4 were procured using the RFP method and 4 were determined to be sole source. We found CARTA's board did not approve the RFP method for procurements or award the responsible respondents. Our review of board minutes found sole source purchases were not reported. We also noted the policy allows verbal quotes for small purchases which does not comply with state regulations.

Since CARTA was established by the City under T.C.A. § 7-56-101, the transit authority is subject to the same purchasing laws that apply to municipalities. Those laws require board approval when competitive sealed proposals are used.⁸ T.C.A. § 6-56-304 (2) also requires reporting sole source purchases to the governing board. Lastly, T.C.A. § 12-3-1212 (c) requires at least three written quotes for purchases between \$20,000 and \$50,000.

CARTA's procurement process and current policies do not require board review or approval for RFP and sole source purchases. In addition, we noted the policies require either verbal or written quotes for small purchases.

Recommendation 8:

We recommend CARTA receive board approval to procure goods and services using the RFP method and to award the responsible respondent.

***Auditee Response:** CARTA will implement this recommendation as it updates its purchasing policy. A template has been prepared for CARTA's procurement report to the Board that includes this information.*

***Estimated Implementation Date:** March 31, 2025*

***Priority Level:** 1*

Recommendation 9:

We recommend reporting sole source or proprietary procurements to CARTA's board as soon as possible. The report should specify the

⁸ T.C.A. § 12-3-1207 (a) allows the use of competitive sealed proposals to purchase goods and services when the governing body determines that the use of competitive sealed bidding is either not practicable or not advantageous. Per part (i) "the award shall be made to the responsible respondent whose proposal the governing body determines is the most advantageous".

amount paid, the items purchased, and from whom the purchase was made.

Auditee Response: CARTA will implement this recommendation as it updates its purchasing policy. A template has been prepared for CARTA's procurement report to the Board that includes this information.

Estimated Implementation Date: March 31, 2025

Priority Level: 1

Recommendation 10:

We recommend CARTA update its purchasing policy to ensure compliance with State laws governing procurements.

Auditee Response CARTA is in the process of updating its purchasing policy to capture changes made related to contract authority by the Board and to ensure compliance with State laws governing procurements.

Estimated Implementation Date: March 31, 2025

Priority Level: 1

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers CARTA's procurement process from July 1, 2023 to March 31, 2024. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from CARTA. Original records as well as copies were used as evidence and verified through physical examination.

We reviewed applicable Federal and State procurement laws and regulations. To evaluate the efficiency of the process, we interviewed staff to gain an understanding of the process, reviewed policies and procedures and sampled a selection of procurements.

The sample size and selection were statistically generated using a desired confidence level of 95 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We analyzed the data obtained from RTA and Microsoft Dynamics. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the RTA data was not sufficiently reliable to be used in meeting the audit's objectives. However, we concluded the Microsoft Dynamics data was reliable for purposes of selecting a sample of procurements to test for policy compliance.

We conducted this performance audit from March 2024 to September 2024 in accordance with generally accepted government auditing standards. 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.

APPENDIX B: PRIORITY LEVEL DEFINITIONS

Priority 1: Critical control weakness exists that exposes the City to a high degree of risk. Noncompliance with federal, state or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the City to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.

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