# Performance Audit of
# Citywide Contract Oversight

## The City Should Strengthen and Standardize the Contract Administration Process to Ensure Contractual Commitments Are Properly Monitored and All Payments Meet Contractual Obligations

APRIL 2015

**Audit Report**

Office of the City Auditor
City of San Diego

OCA
Independent · Objective · Accurate

This Page Intentionally Left Blank

April 24, 2015

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

This report was conducted in accordance with the City Auditor's Fiscal Year 2015 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 47 of the report.

We would like to thank staff from the Purchasing & Contracting and Public Works Departments, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information are greatly appreciated. The audit staff responsible for this audit report are Danielle Knighten, Stephen Gomez, Megan Garth, Arlys Erickson and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

cc:     Scott Chadwick, Chief Operating Officer
        Stacey LoMedico, Assistant Chief Operating Officer
        Ron Villa, Deputy Chief Operating Officer, Internal Operations
        Jan Goldsmith, City Attorney
        Ken So, Deputy City Attorney
        Mara Elliott, Deputy City Attorney
        Lara Easton, Deputy City Attorney
        Rolando Charvel, City Comptroller
        Dennis Gakunga, Director, Purchasing & Contracting
        E.J. Harbin, Deputy Director, Purchasing & Contracting
        James Nagelvoort, Director, Public Works
        Al Rechany, Deputy Director, Public Works - Contracts
        Myrna Dayton, Deputy Director, Public Works - Engineering
        Andrea Tevlin, Independent Budget Analyst
        Brian Pepin, Director of Council Affairs

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 555, WEST TOWER ● SAN DIEGO, CA 92101
PHONE (619) 533-3165 ● FAX (619) 533-3036

TO REPORT FRAUD, WASTE, OR ABUSE, CALL OUR FRAUD HOTLINE (866) 809-3500

DIVERSITY
BRINGS US ALL TOGETHER

This Page Intentionally Left Blank

# Table of Contents

# Results in Brief

Within the City of San Diego (City), the Purchasing and Contracting Department (P&C)  manages the awarding of contract for goods, services and consulting contracts necessary to support the City's operational and administrative functions. For contracts and purchases procured through P&C, designated contract administrators within each of the City's 25 departments administer the contracts. Separately, the Public Works Department conducts all aspects of the contract process for construction, architectural, and Capital Improvements Program (CIP) projects.

We identified opportunities to strengthen the process for contract administration on a Citywide basis. Our findings impact both CIP and non-CIP contracts to varying degrees, regardless of the nuances associated with the two types of contracts.

First, we found that the City does not provide sufficiently accurate and reliable contract award data with supporting documentation through its Citywide financial system, SAP, even though these capabilities and controls exist in SAP. As a result, the City cannot determine the level of compliance with contractual terms or the full value and the corresponding commitments of contracts throughout the City. We also found that City departments inconsistently review deliverables to confirm compliance with contractual requirements. The City does not have a standardized contract administration process to ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, goods and services. We conducted a survey of the City's contract administrator; 44 percent of respondents stated they had not been provided clear guidance on their roles and responsibilities as a contract administrator/monitor and only 23 percent of respondents stated they use a contract monitoring plan (documented steps that cover all contractual requirements) We recommend that the Chief Operating Officer (COO) establish policies and procedures to address the above issues identified, and establish responsibility for training contracting staff to ensure that information is tracked, and monitoring is performed in a uniform manner.

Second, we found that the City's contract modification and closeout processes require improvement. The City needs to standardize and automate the contract modification and closeout processes to reduce lengthy processing times and ensure contractor evaluations

are performed and utilized, where appropriate, in future contracting decisions. We found the Purchasing & Contracting Citywide Contracting Guidelines were incomplete and outdated, with the last update in 2008. Since the last issuance of these guidelines, the City has switched data management systems, rendering many of the guidelines inapplicable to the City's contracting practices and often resulting in inconsistently applied processes. Similarly, we found that the Public Works Field Engineering Division's policies and procedures to be outdated and lacking definitive performance measures. We recommended the Purchasing & Contracting Department should develop policies and procedures and clearly define the contract close-out and contract amendment process for goods, services and consultant contracts. We recommended the Public Works Department should clearly define the CIP and CIP related contract change order and closeout processes, and continue to pursue the automation of these processes to increase the efficiency and effectiveness of their operations. We also recommended the Chief Operating Officer should require a standardized performance evaluation upon contract completion for both CIP and non-CIP contracts, as well as establishing training responsibilities to ensure established policies and procedures are followed.

Finally, we found that although the City's Municipal Code allows for the debarment of poor performing vendors, the City has not defined and developed a debarment process. A well established vendor debarment process is essential in the contracting process to safeguard the City from vendors who pose financial, legal, and material risks to the City. We recommended the Chief Operating Officer should design policies and procedures detailing a vendor debarment process to mitigate the City's contractual risks, and to develop a debarment appeals policy and procedure to bring before the City Council for approval.

We made nine recommendations to address the issues identified in this report, and management agreed to implement nine.

# Background

Organizations in both the public and private sectors are facing increasing pressure to reduce costs and improve financial and operational performance. The growing recognition of the need to automate and improve contractual processes and satisfy increasing compliance and analytical needs has also led to an increase in the adoption of more formal and structured contract management procedures and an increase in the availability of software applications designed to address these needs.

Issues to be addressed and appropriate processes and procedures set out in the contract management plan include:

- Processes for managing contracts in a manner that provide the required level of control, such as contract governance;

- Through an in-depth vendor pre-qualification process, assure the vendor[1] is able to provide sufficient resources;

- Clearly define roles for employees, contract administrators, and vendors;

- Establish vendor performance measures to ensure contract compliance;

- Require performance evaluation at the close-out of each contract;

- Regularly review and analyze all vendors' performances, collectively;

- Automate certain contracting functions and contract data management through the use of software applications; and

- Implement comprehensive and regular training for employees, contract administrators, and vendors on the organization's contract management system.

---

[1] Vendor is used in this report to describe both Capital Improvement Program (CIP) vendors and non-CIP vendors.

The Contract Administration Lifecycle, shown in Exhibit 1, refers to the five phases of the contracting process: (1) pre-award, (2) award and execution, (3) monitoring, (4) closeout, and (5) post-contract review. Contract administration encompasses the oversight of the last three phases – monitoring, close-out, and post contract review.

*Exhibit 1*

**Contract Administration Lifecycle**



**1.Pre- Award**
*Identify contract need
*Develop scope of work
*Determine type of bid solicitiation

**2. Award & Execution**
*Select winning bidder
*Execute contract

**3. Monitoring**
*Process payments
*Issue amendments, renewals, and carry out corrective actions

**4. Closeout**
*Verify all invoices are paid and all goods and services are received
*Perform vendor evaluations

**5. Post Contract Review**
*Determine if monitoring needs improvment
*Gather factors influencing vendor performance

Source: OCA generated, based on analysis of the Contract Administration Lifecycle

In Fiscal Year (FY) 2014, the City of San Diego (City) managed at least 674 active contracts through the Public Works-Field Engineering (FE) and Purchasing & Contracting (P&C) departments. FE provided contract administration to 177 Capital Improvements Program (CIP) contracts while City departments administered 497[2] goods, services, and consultant contracts.

Given the number and scope of contracts the City manages, it is important for the City to maintain a comprehensive contract management process to ensure receipt of quality goods and services. Contract administration, which involves monitoring, closing-out, and evaluating the contract and vendor, is an essential part of the contract management process. Effective contract administration can significantly increase the quality of the contracting process every time the cycle begins anew.

The City's management of contracts is decentralized. P&C manages the awarding of contracts for professional and general services that are necessary to support the City's operational and administrative functions. Once these contracts are awarded, designated contract administrators within each of the City's 25 departments are responsible for contract administration. Separately, the Public Works Department conducts all aspects of the contract process for construction, architectural, and Capital Improvements Program (CIP) projects. FE is responsible for the administration of CIP contracts.

**City Maintains Contract and Vendor Information in Multiple Information Systems**

The City currently maintains limited contract information within its resource management system, SAP[3], an Enterprise Resource Planning system. Specifically, contract origination, monitoring, and close-out are managed in SAP. Monitoring involves the electronic issuing of purchase requisitions (requests for the procurement of goods and services from a vendor) and purchase orders (the authorization of the purchase requisitions). For most contracts, a contract outline agreement (a long-term agreement between the City and respective vendor regarding the supply of materials or performance of services within predefined terms, conditions, and time period) is entered into the system before purchase orders are recorded and approved electronically. Upon receipt of contractual items, the department

---

[2] The 497 Purchasing & Contracting contracts were identified through an SAP extraction of Outline Agreements at the time of our analysis. This number does not capture any contracts not entered into SAP as an Outline Agreement.

[3] The City uses SAP as its Enterprise Resource Planning system to manage its centralized and Citywide financial, logistical (which includes the purchasing/contracting component) and human resource information.

receiver enters the items into an SAP Goods Receipt, which is compared against the items ordered (Purchase Order), items received, and the vendor's invoice (SAP Invoice) to confirm the payment amount is correct. SAP stores all payment-related transactions within the system. The closing out of a contract involves much the same process in SAP as the contract monitoring phase; whereby all goods and services purchased are accounted for at the agreed-upon prices, and all invoices are paid.

Although the implementation of SAP in FY 2009 was intended to help the City centrally and more efficiently manage its financial and business operations, and automate the purchasing and contracting process, the City did not implement the SAP component that allows vendors and contract administrators to mutually manage a contract within SAP. As a result, some essential functions of the contract management cycle are managed outside of the system.

In an effort to address SAP's missing module for vendor and contract administrator communication, the City purchased Planet Bids, a web-based procurement software, in December 2012. Specifically, Planet Bids facilitates cooperative agreements with other municipalities' contracts. Additionally, Planet Bids provides for online interaction between vendors and buyers during the contract procurement process. A major drawback for Planet Bids, however, is that the system duplicates many of the functions available in SAP's missing module and its data is not currently transferable to SAP. As a result, the City continues to have a decentralized procurement process that SAP was meant to address. Due to the City's desire for a centralized contracting process within a single software application, our audit focuses on addressing issues within contract management and the associated resolutions with the implementation of contract management through SAP.

**City's Contract Administration Guidelines**

A number of Citywide policies provide authority and guidance over the contract management cycle, including the San Diego City Charter, San Diego Municipal Code (SDMC), City Council policies, administrative regulations, and policies and procedures promulgated by P&C. However, many of these guiding documents are outdated or do not contain provisions with which to administer the key elements of contract administration: monitoring, close-out, and vendor performance evaluation. For example, P&C has not issued formal policies and procedures to City departments regarding contract administration since the last release of its purchasing manual in 2006.

Currently, the majority of the processes and guidelines provided in the manual are inapplicable since the City has changed data management systems – moving from OPIS to SAP in FY 2009. Also, P&C no longer has oversight of the procurement and administration of CIP contracts; this responsibility was moved to two divisions within Public Works in FY 2013. Consequently, City departments, including Public Works, have developed their own internal processes to administer contracts which have lead to inconsistent processes and oversight.

**Performance Evaluation and Vendor Debarment Are Critical Components of Contract Management Cycle**

Performance evaluations for vendors at the end of each contract can help to ensure that the City receives quality goods, services, and work on construction projects. Additionally, an established vendor suspension and debarment process could aid City departments in escalating cases of poorly performing vendors by using performance evaluations as supporting evidence. Furthermore, evaluations used in the vendor pre-qualification process during the pre-award phase of the contracting management cycle can help to minimize the risk of renewing or contracting again with a poor performer.

Due to the City's outdated guidelines for contract administration, decentralized nature of contract administration, and absence of a requirement to consider a vendor's past performance with the City during the pre-qualification process, the conducting of performance evaluations is inconsistent citywide. Moreover, while the SDMC outlines a process for vendor suspension and debarment, this process has not been formalized into written policies and procedures. Consequently, contract administrators are without access to an escalation process which can potentially terminate a vendor's relationship with the City, and thereby remove the City's risk of future contracting with a particular poor performing vendor. Lastly, the absence of collective review of performance evaluations does not allow for procurement staff to mitigate poor performance by addressing these concerns within future contracts.

In FY 2014, the City modified the way it manages lower value contracts. Specifically, the San Diego City Council (City Council) approved increases to authorization thresholds for purchasing goods, in effect giving City departments greater authority to purchase goods under $25,000 without P&C's involvement. Additionally, P&C can award contracts of up to $3 million without Council approval, which is an increase from the prior threshold of $2 million.

Without necessary contract administration guidelines in place, the City risks greater instances of contract mismanagement due to the application of inconsistent processes.

# Audit Results

## *Finding 1:* *The City Does Not Have Sufficient Controls in Place to Ensure the Quality and Completeness of Contract Deliverables, or Determine the City's Total Contractual Commitments*

The City does not provide accurate, reliable contract award data and supporting documentation through its Citywide financial system, even though these capabilities and controls exist in the system. As a result, the City cannot determine the level of compliance with contractual terms or the full value and corresponding commitments of contracts throughout the City. The City's contract commitments include Capital Improvements Program (CIP) and non-CIP contracts. Our findings impact both types of contracts to varying degrees regardless of the nuances associated with the two types of contracts. Specifically, our review found the following:

1. The City is not fully utilizing system controls to ensure that contract data is reliable, and as a result cannot effectively report or monitor key contract thresholds.

2. The City's departmental invoice review controls do not ensure the full receipt of contractual deliverables prior to payment.

3. The City does not have a standardized contract administration process to ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, and goods and services.

During our review of contract data reliability we found that the City is not effectively utilizing SAP's centralized contract management controls already available in the system, and did not configure other additional controls SAP offers when the City implemented the system.

**The City is Not Fully Utilizing SAP's Existing Contracting Controls**

The City is ineffectively utilizing the existing centralized contracting controls embedded in SAP by using non-standardized data entry practices, not attaching core contract data and supporting documentation, and incorrectly setting contract thresholds and values.

SAP has designed its integrated system to help eliminate duplication and redundancy in data, provide real-time information across all departments, provide control over various business processes (i.e. purchasing, payroll, and invoice payments), increase productivity and reduce costs, all the while providing better customer service. Faster access to contract and supporting data can promote more efficient, informed, and controlled management of the City's contracts. SAP can ensure more control and better compliance throughout the contract lifecycle when configured and utilized properly.

When the system is configured and utilized properly for contracting, SAP will provide any authorized user access to all aspects of the contracts – from the bidding process to the close-out of the contract. All central details of the contract should be stored or linked in SAP under its Outline Agreement. The Outline Agreement centralizes several key contract controls within the system. These controls include the Target Value control, which sets the dollar threshold for a given period4, and the Total Award control, which sets the total dollar not-to-exceed amount for the life of the contract and the contract life (contract validity dates) itself. When purchases against the contract have reached its target value, SAP prevents any additional purchases against the contract from initiating until P&C staff adjusts the limit in accordance with their internal processes and controls.

However, we found that information needed for these key contract controls embedded in SAP is inconsistently or incorrectly uploaded, and therefore may be meaningless to any user accessing it. Furthermore, without the details stored in SAP, contract information is not readily available to contract administrators and monitors to validate terms of the contract without delay because paper documents are sought from Purchasing & Contracting (P&C), which results in untimely access to accurate data.

---

[4] The SAP Target Value field should show the cumulative "not to exceed" (NTE) amount for the contract based on the previous contract year NTE value added to the current NTE value (i.e. a contract with a $2 million/ year in the third year would have a Target Value NTE of $6 million. This configuration of the Target Value control partially results from the City's common use of approving a contract for one fiscal year with (4) one year extensions and resulting the need to track each year's value.

Our survey of Citywide contract administrators5 shows that many administrators maintain files for their contracts. However, these files vary widely in the documentation level and are stored in a decentralized manner, primarily utilizing local hard drives, department shared drives, file cabinets and personal drives, which may not be available to all the users of a contract. A centrally maintained electronic contract repository results in faster contract availability, significant cost savings, and strategic advantages.

This partially results from P&C's process documentation being outdated and incomplete. The general policies and procedures for contract management were last updated in 2006, prior to implementation of SAP, and Process Narratives that have been more recently created do not fully address the process of managing contracts in SAP. For example, the Process Narrative defining how to create a Goods Receipt requires that the payer obtain and review supporting documentation for an invoice, but it does not require that they retain the documentation for any amount of time or upload it to SAP to support the payment information. However, departments are instructed to maintain documentation according to their approved records disposition schedule and California Government Code of at least two years.

P&C management has informed us that they are in the process of revising and updating all contracting policies and procedures under their purview.

**The City Did Not Configure Other Available Contracting Controls During SAP Implementation**

The City did not configure a separate Contract Total Award field when they initially configured SAP based on decisions made at the time of the SAP system implementation, nor has the City standardized their use of the SAP Target Value field to facilitate accurate reporting and contract threshold controls. As a result, the department cannot report on the total contract awards values to determine the City's cumulative contract values and corresponding Citywide commitments.

P&C informed us that they have requested that the City's SAP Support Team create the Contract Total Award field in SAP, and that they plan to standardize the use of the Target Value field.

---

[5] We surveyed 642 contract administrators throughout the City and received 393 total responses. Of those responses, 271 completed the survey while 122 partially completed it.

However, the addition of the two fields may not facilitate reporting on all contracts throughout the City unless there is full Citywide utilization of SAP's Outline Agreements to manage contracts. For example, the Public Works' Contracting Group Deputy Director informed us that Public Works does not regularly utilize Outline Agreements, as they track their projects and contracts through their own system.

## The City Cannot Effectively Report or Monitor Contract Core Thresholds Because They Are Not Maintaining SAP Contract Information in a Standardized and Accurate Manner

Since contracts and their supporting documentation are not readily available through a centralized and controlled system, the terms of contracts are difficult to review and confirm compliance for a third party or a party other than the ones maintaining them. Thus, controls supported by the Outline Agreements may be incorrectly or inconsistently entered for the City's contracts. In our review of the SoCo Group City Fleet Fuel Contract, and the Staples Citywide Office Supplies Contract – both of which are five-year contracts with annual not-to-exceed values – we found inconsistencies and incorrect information uploaded to SAP that is not supported by City Council approved documents.

- The SoCo contractual threshold for the contract's third year should be approximately $586 million based on the award amount approved by City Council. However, the contract's current threshold (target value) is currently set at $95 million, enables departments to exceed City Council's approved spending limits on the contract. Additionally, the SoCo Contract is entered into SAP as a five-year contract, rather than a one-year contract with options for four one-year renewals, as approved by City Council. The Council Resolution further required that the City's Chief Financial Officer provide certificates demonstrating that the funds necessary for each option year are on deposit in the City Treasury. The certificate was only provided for the first partial year of the contract and was not provided for the following three years the contract has been extended.

---

[6] The $58 million is projected from the initial year-and-a-half value that Council approved as no additional certificates were provided for the following years as the Council Resolution approving the contract required. The City had expended $62.9 million against the contract as of February 2015 with 4 months remaining in the Fiscal Year.

- Whereas the Staples current contractual threshold should be $2 million for FY 2015 based on the award amount approved by City Council – and while this was the configured threshold when we initially reviewed it, it was increased to $3 million in February 2015, which is no longer in compliance with the City Council Resolution's approved contract annual spending limits. Furthermore, the Staples Contract is entered into SAP as a one-year contract even through the Council also approved four one-year extensions, as they did with the SoCo Contract.

The inconsistent maintenance of contract information facilitates exceeding contractual limits (or the limits established by the Council Resolutions approving the contract), and impacts reporting accuracy and the City's ability to determine its total contractual commitments. As the controls are not consistently configured according to contractual terms utilizing a standardized method, they are burdensome to enforce and can be bypassed, as is the case with the target value of the Staples contract increasing to $3 million where the contractual limit is $2 million.

During the course of the audit, we attempted to reconcile Staples pricing for FY 2014. However, the City could not provide the various price lists that were in effect during that period. This information should be maintained with the Staples contract and available for anyone, especially the contract administrator/monitor, to compare the vendor-prepared quarterly reports to the contract pricing to ensure contract compliance for goods purchased. However, because the City has not preserved the contracted price lists and made them accessible to contract administrators, the City cannot verify through analysis that it has received appropriate pricing for Citywide office supplies. Instead, the City must rely on vendor-provided quarterly summaries and periodic discussions with the vendor to attempt to reconcile pricing.

We also attempted to determine the total Citywide contract commitments through several avenues, but determined that the information is either too inconsistent to be relied upon, or is non-existent to the extent that a complete picture is unavailable.

**Recommendation #1**  To ensure accurate contractual information and supporting documentation are available to Citywide contract administrators and users, the Chief Operating Officer should establish policies and procedures to require:

   a)  All City contracts utilize an SAP Outline Agreement to centralize contract information and utilize centralized controls, access and reporting in the Citywide financial system;

   b)  The City should track total contract awards in SAP in accordance with the full value of the awarded contract to facilitate accurate controls and reporting;

   c)  The configuration of contract terms is standardized in SAP, in accordance to contractual terms, to facilitate better control and reporting across all contract, including the Target Value, Total Award Value, and Contract Validity Dates; and

   d)  Supporting contracting documentation is centralized and stored electronically in SAP, i.e. attaching all contracts and related documentation to an SAP Outline Agreement.

Additionally, the Chief Operating Officer should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked uniformly in SAP according to the developed policies and procedures. (Priority 2)

**The City's Departmental Invoice Review Controls Do Not Ensure Full Receipt of Contractual Deliverables Prior to Payment**

During our review of the contract payment process we found that the City's invoice review process does not have sufficient controls to ensure full receipt of contractual deliverables prior to payment by the City. Specifically, we found that the payment process for contractual deliverables was clearly divided into two separate functions. The first addresses receiving the contractual deliverable and entering it into SAP, while the second portion addresses the SAP processing and payment. We found that while the payment processing within SAP and the review performed by the Office of the City Comptroller (Comptroller) was mostly automated, consistent and reliable, the contractual payment risk primarily resided on the manual receiving portion of the process.

The Comptroller owns the payment processing portion, which utilizes SAP processing and user controls to ensure that each payment complies with City payment processing requirements. The Comptroller's staff manages the process and reviews each invoice to confirm that it was entered correctly and matches the attached invoice document and payee, while the system ensures that the City is paying the amount it expected to pay. The Purchasing & Contracting (P&C) department owns the contractual receivables process in SAP; however, the actual receiving of contractual deliverables is a manual process within each department at each receiving location. Ensuring contract compliance is the responsibility of the department receivers at these locations. In the case of CIP projects, an Engineer is assigned to manage each CIP project and the associated contracts. Additionally, the Engineer approves payments at standard stages of the project and must complete a change order for any changes in total project cost, which should result in stronger payment controls.

However, we found that the guidance to the departments to receive contract deliverables is very limited and outdated. This is primarily a result of the decentralized contract administration program, high staff turnover, and several reorganizations of City offices including P&C. Additionally, defining what an approval of an invoice means and the responsibility to monitor the approval of contract invoices has not been established in Citywide policies and procedures. Furthermore, as previously mentioned, the contractual documentation is not always available to compare the deliverables to the contractual requirement.

As a result, the process of ensuring that the deliverables meet contractual requirements is inconsistent and varies from reviewer to reviewer.

**The Office of Federal Procurement Policy Best Practices For Effective Contract Monitoring**

According to the Office of Federal Procurement Policy, an employee needs the tools, training and understanding of what is expected of them in order to effectively monitor a contract and ensure proper approval is granted. Written policies and procedures should define roles and responsibilities, such as an approver's role and responsibility to examine the original invoice for accuracy, completeness and ensure it meets the contract terms and conditions.

Employees responsible for contract oversight should understand that no rubber stamping should be allowed, and that all invoices should have the proper supporting documentation such as monitoring a vendor's performance through review of monthly reports, onsite visits, and surveillance reviews. It is important they understand their written approval on the original invoice ensures the invoice is mathematically accurate and to question any unusual items. If there are any errors they should contact the vendor immediately to correct the error.

Analytics should be performed periodically to ensure approved thresholds have not been exceeded and pricing is consistent with the contract and there are no unexplained or unapproved increases. These analytics should be defined in the Quality Assurance Surveillance Plan (QASP) described below. Additionally, the required documentation used to justify the payments made to a vendor should be identified in the QASP.

**City Departments Inconsistently Review Deliverables to Confirm Compliance with Contractual Requirements**

We identified three contracts, two with weak and one with strong invoice review controls. The Citywide contract for MEK Enterprise (MEK), which provides moving services to all City departments on an as-needed basis, does not have good invoice controls. The MEK contract is not centrally administered and any department in need of moving services is required to open a purchase order against the contract. To open a purchase order, a department is required to obtain a quote for services from the vendor. Based upon said quote and proper approvals, a purchase order is issued and ready to use.

In August 2013, a department requested a quote to move approximately 450 office personnel from 600 B Street to 525 B Street. MEK submitted a quote for $630,925. Upon completion of the move, invoices totaling $632,724 were approved and paid to MEK without

sufficient supporting documentation maintained by City employees. The vendor invoice supporting documentation was not verified, validated, or retained by the City employees. Invoices attached to SAP payment documentation included overtime hours charged for driver and truck at a rate of regular time and a half, and Sunday premium pay charged for driver and truck at a double pay rate. Although it may be appropriate to pay overtime and Sunday pay for the driver, if properly approved, there is no rationale to pay an overtime rate for a truck. Since both the driver and truck were included in the contract at a regular rate of $41.36 per hour, City personnel approving and processing the nine invoices ignored the rationale and failed to prohibit increased payment for the truck.

Additionally, as previously mentioned with the Staples contract, departments do not have the ability to confirm the prices they are paying for office supplies as no one has access to the contract price lists used to procure the office supplies.

Conversely, the City's copier program has relatively strong controls. The City leases its copiers from Sharp Business Solutions. A department who has a need for copier services within their department is eligible to participate in the Convenience Copier Program. The copiers are "all-in-one" machines that are used as copiers, computer printers, scanning and fax machines.

On a monthly basis, the contract administrator/monitor reviews the electronically submitted copier reads to determine if any reads are missing, reviews the usage by each machine for reasonableness, and follows up on inconsistent or abnormal counts. The monitor compares the City-generated numbers with the Sharp invoice and reconciles any differences monthly. Any differences are discussed with Sharp and rectified by an adjustment to the invoice, or via a credit memo for any invoices already paid. The administrator/monitor maintains constant communication with department contacts that participate in the copier program and Sharp to address any issues that may arise.

Our survey of contract administrators results illustrated that the types of problems identified with the MEK and Staples contracts may be more widespread. Although 83 percent of contract administrators who approve invoice payments indicated they always reviewed invoice documentation prior to processing for payment, there is still a significant risk to the City for invoices approved by the other 17 percent of the respondents, who said they "sometimes" or "never" review this documentation prior to approving payments. Further,

employees who are responsible for processing the approved invoice payments stated that over 70 percent of the approvers verified that their "Ok to Pay" were in compliance with the contract terms and conditions for either goods or services, leaving the City at risk with the less than 30 percent that do not know or do not ensure contract compliance prior to granting approval. While CIP contracts have assigned engineers to manage their contracts, they still need standardized receiving policies and procedures to ensure consistency of payment review.

**Recommendation #2**     **The Chief Operating Officer should establish procedures detailing requirements for contract administrators, defining the responsibilities they have to complete prior to approving invoices for payment and submitting them to Comptrollers for processing. Specifically, the procedures should include:**

  a)  **Develop analytical procedures to ensure that payments are made in compliance with contractual costs and fees.**

  b)  **Attach the pertinent documentation supporting the payment approval in the SAP Invoice as defined in the contract's Quality Assurance Surveillance Plan to ensure the payment can be verified as appropriate.**

  c)  **Establish responsibility for training contract administrators on procedures that must be accomplished prior to recommending or approving invoices for payment.**

  d)  **Establish responsibility for monitoring the contract administrators' responsibilities prior to recommending or approving invoices for payment.**

  e)  **An annual review of the City's contract administration invoice approval process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)**

**The City Decentralized the Contract Administration Compliance Process Without Proper Guidance and Planning to Mitigate the Risks Associated With Government Contracts**     The City does not have a standardized contract administration process to ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, goods and services. Specific contract administration requirements are not currently defined as part of the contract award package to mitigate the City's contractual risks. Specific performance measurement and outcome criteria, developed by the contracting department and clearly communicated to the vendor, are crucial for effective contract

oversight. These requirements are not currently required to be incorporated into a quality assurance surveillance plan (QASP)[7] to provide the minimum cost effective actions required of contract administrators and monitors.

Contract Administrators surveyed indicated that they have not been properly trained or provided the proper tools to understand how to monitor a contract effectively. They often develop their own tools, since the City has not developed an effective contract administration program that is leveraged off best practices which would provide the proper guidance to contract administrators/monitors. As a result, not having the proper guidance and training, lax contract oversight is a risk to the City. A common deficiency in many local agencies is not having one department to ensure that contracts are properly and consistently executed and monitored which results in a decentralized administration program that varies from department to department.

**Without the Proper Tools and Guidance, Contract Administrators Cannot Effectively Monitor Contracts, As Evidenced by Our Survey**

Our survey revealed that only 23 percent of respondents used a Contract Monitoring Plan (documented steps that cover all contractual requirements). Also, 44 percent of respondents had not been provided clear guidance on their roles and responsibilities as a contract administrator/monitor. When we asked who determined what is being monitored in our survey, we found that the level of monitoring performed on the contract was determined by 61 percent of respondents and by 23 percent of their supervisors. As evidenced in Exhibit 2, the respondents were often not included in post award meetings and did not always review reports or perform on-site reviews of vendor's performance.

---

[7] A tool that provides a means for evaluating whether the vendor is meeting the performance standards/quality levels identified in the contract and to ensure that the government pays only for the level of services received. It defines the roles and responsibilities of all contracting parties, identifies the performance objectives, defines the methodologies used to monitor and evaluate the vendor's performance, describes quality assurance documentation requirements, and describes the analysis of quality assurance monitoring results.

*Exhibit 2*

## Contract Administration Survey Results

| Survey Questions | Response | Respondents | Combined Percentage |
|---|---|---|---|
| Have you conducted or participated in post award meetings (once the contract is awarded) with the contractors/vendors? | Sometimes | 73 | 67 |
| | Never | 117 | |
| Do you review routine and special contractually required reports (including but not limited to financial and performance related) from vendors? | Sometimes | 67 | 68 |
| | Never | 110 | |
| Do you perform on-site review of the vendor's performance? | Sometimes | 82 | 72 |
| | Never | 108 | |
| Do you review/inspect the services/goods received/delivered to ensure compliance with the scope of work/description of products you are to receive per the contract? | Sometimes | 58 | 43 |
| | Never | 54 | |

Source: OCA-Issued Contract Administration Survey to Citywide Contract Administration Personnel.

In addition to lack of quality assurance surveillance plan to guide contract administrators we also noted that there were no City guidelines establishing minimum training required for contract administrators or monitoring contract administrators actions on behalf of the City as shown in Exhibit 3.

Exhibit 3

## Contract Administration Roles, Responsibility and Training Survey Results

| Survey Questions | Response | Respondents | Percentage |
|---|---|---|---|
| Does anyone check on the administration/monitoring tasks you accomplish? | No | 71 | 26 |
| | Not Known | 48 | 18 |
| When you were assigned your present role, were you provided contract administration/monitoring training? | No | 204 | 72 |
| Do you need or want more training related to contract administration/ monitoring? | Yes | 147 | 52 |

Source: OCA-Issued Contract Administration Survey to Citywide Contract Administration Personnel.

**Best Practices Related to Quality Assurance Surveillance Plans (QASP)**

Best practices related to both federal and state contract administration include developing written policies and procedures that include requirements for Quality Assurance Surveillance Plans (QASP) for each contract. These practices require contract administration training and a recordkeeping plan to provide contract administrators with the tools they need to properly discharge their monitoring and closeout duties, and make their records available for the lessons learned phase of the contracting cycle. Additionally, best practices require periodic monitoring to ensure that the contract administrators understand their duties and perform them in accordance with established policies and procedures.

Citywide written policies and procedures for contract administration should include:

1. Contract administration plan (Quality Assurance Surveillance Plan)

   a) Well-defined relationship between the buyer/contracting officer and the contract administrator (if applicable to monitors)

   b) Defined roles and responsibilities, and authority limitations specific to the contract

   c) On-site monitoring requirements, if applicable

   d) Contract changes/additions, if applicable

   e) Invoice review responsibilities and approval requirements

   f) Voucher processing

   g) Payments linked to satisfactory performance
   h) Access to records and right to audit

   i) Closeout procedures

2. Training employees in contract monitoring and ethics

3. Contract administration files

   a) Organization

   b) Content

   c) Accessibility for all users

4. Implementation of Oversight by the Public Works Contracting Division and the Purchasing & Contracting Department:

    a) Regular programmatic reports

    b) Dispute resolution procedures

    c) Measuring customer satisfaction

    d) Post-contract review

Essentially, a QASP should provide a brief overview of key contract components and how they are followed for consistency between reviewers and for supervisory review.

## Lax Contract Oversight Can Have a Significant Impact On City Programs and Services

Lax oversight has detrimental impacts for the people served by a program or service, and for the public at large. An organization released a study[8] in December 2014 citing over 40 audits of public entities that reported pervasive problems with contract oversight. Poor oversight of government contracts can mean wasted tax dollars; fraud and abuse; poor quality of service and underperformance by vendors; and risk to residents and public health and safety. The report discusses common problems such as inadequate performance requirements, lack of trained contract managers, few formal rules about oversight, and ignored non-compliance information.

Every contract awarded by the City without a QASP is a missed opportunity to mitigate contractual risk for taxpayers. While we cannot quantify the dollar value of risk without conducting audits of each City contract, past audits have identified contract administration risks with both capital improvement projects and goods and services contracts. We previously identified contract administration risks in the following reports (See Appendix C for a summary):

- Performance Audit of Public Utilities Department's Valve Maintenance Program, December 2012

- Performance Audit of the Graffiti Control Program, March 2014

- Performance Audit of Balboa Park Celebration, Inc., October 2014

---

[8] S*tanding Guard How Unaccountable Contracting Fails Governments and Taxpayers,* http://www.afscme.org/news/publications/privatization/power-tools-to-fight-privatization/pdf/Standing-Guard.pdf

Although highly skilled personnel, such as engineers, are assigned to administer some City contracts, such as CIP contracts, those departments would still benefit from a QASP as well. Specifically, some of the lower risk administrative tasks can be delegated to trained staff allowing the engineers to perform more complex on-site inspections or similar detailed tasks associated with contract monitoring. The plans will also mitigate the inherent risk that even professionals may overlook an important aspect of that specific contract that requires surveillance, thereby leaving the city vulnerable to the risk of not receiving what is paid for City by taxpayers.

### Multiple Reorganizations to the Purchasing and Contracting Functions Have Resulted in Insufficient Planning for Contract Administration

The City has decentralized its contract administration program, which assigned the responsibility for managing the contracts to departments without establishing comprehensive Citywide guidance, training, or oversight to ensure appropriate contract administration. The City has split contract award responsibilities between Public Works and Purchasing & Contracting (P&C) Departments.

Public Works-Contracting awards CIP contracts including construction, reconstruction, and repairs. Contract administration/monitoring has been delegated to Field Engineering for CIP contracts.

P&C contracts for goods, services and consultants. The Department that requested a contract for goods services or consultants is responsible for contract administration/monitoring.

The lack of comprehensive City guidance, training and oversight was not identified because Department Directors are responsible for their own contract administration and no citywide risk assessment was conducted of contract administration. The goal of risk assessment is to enable management to prevent or minimize harm. Risks generally arise either because of changes in the government's operating environment (political and organizational) or because of inherent risk (complex issues, large dollars, history of prior problems), both of which are present in San Diego's contracting environment.

According to City management, contracting has been an issue with the City for years. Prior to the City's fiscal issues resulting from misstating their financial statements, the City's Purchasing Department managed the contracts after procurement and was more of a "one stop shop" for Citywide contracting; however, during the

beginning of the City's fiscal crisis in 2005, City Management scaled back the size and services of P&C and limited them primarily to procurement, while moving the responsibility of contract management to the departments using the contracts. However, there were no plans detailing how departments would manage the contracts and what their responsibilities would entail, nor did they provide guidance or training to perform the management. Complicating matter, the departments throughout the City, who were responsible for managing their contracts, were also laying off staff and reducing positions to address Citywide budget shortfalls.

**Recommendation #3**     **The Chief Operating Officer should design policies and procedures detailing a standardized citywide contract administration process to mitigate the City's contractual risks and ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, goods, and services. At a minimum the contract administration requirements should include:**

    a)  **Preparation of a Quality Assurance Surveillance Plan for each contract awarded to be attached and maintained with supporting documentation to the SAP Outline Agreement**

    b)  **Mandatory training for contract administrators in contract monitoring and ethics and**

    c)  **An annual review of the City's contract administration oversight process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)**

## *Finding 2:* The City's Contract Modification and Closeout Processes Require Improvement

Contract modification and contract closeout are essential components of contract administration. Contract modifications, known as amendments for goods, services and consultant contracts and as change orders for Capital Improvement Program (CIP) contracts, occur for a variety of reasons including changes in the scope of work, project duration, and differing site conditions. During our review of the City's contract modification and closeout process, we found that the City needs to standardize and automate the processes to reduce associated timeframes and strengthen the control environment. Specifically, we found that:

1. The City needs to define and develop policies and procedures around the contract amendment and closeout processes.

2. The Public Works Department's change order and closeout processes take excessively long times to complete and are highly manual paper processes.

3. The City has not standardized an evaluation process for contract vendors to facilitate improved contracts, vendor performance and the quality of future contract deliverables.

We found the Purchasing & Contracting Citywide Contracting Guidelines to be incomplete and outdated, with the last update in 2008. Since the last issuance of these guidelines, the City has switched data management systems, rendering many of the guidelines inapplicable to the City's contracting practices and often resulting in inconsistently applied processes. Similarly, we found that the Public Works Field Engineering Division's (FE) policies and procedures to be outdated and lacking definitive performance measures.

Guidelines for contract management are especially important for citywide operations due to the wide variety of contractual goods and services that the City relies on. Based on data available for FY 2014, we determined the City had 674 active contracts, including 197 CIP contracts managed by FE and 497 goods, services and consultant contracts that are overseen by various City departments. Given the number and scope of contracts, it is important for the City to have a

comprehensive contract administration plan, beginning with developing clear, concise performance-based statements of work to the extent possible, and preparing a contract administration plan that cost effectively measures the vendor's performance.

**The Purchasing & Contracting Department Needs to Develop Current Policies and Procedures to Ensure Consistency in the Contract Amendment and Closeout Processes**

Currently, P&C authorizes contract amendments for goods, services and consultant contracts while City departments are responsible for determining the reason for an amendment, gathering the requisite documentation, and notifying staff at P&C of the need for an amendment. However, we were unable to find any current standardized policies and procedures outlining the amendment process which departments are required to follow, and staff at P&C confirmed that existing policies and procedures for contract amendments are not current. As a result, departments follow their own processes to determine how contract amendments are conducted, leading to the application of inconsistent processes.

Similarly, we found, and P&C staff confirmed, that there are no standardized procedures for City departments to follow when closing out goods, services and consultant contracts. Contract closeout begins when the contract has been completed, with all services performed and goods received. Best practices indicate that the closeout process should involve verifying payment of all invoices, ensuring the return of all property, settlement of all disputed costs, receipt of required reports, and acceptance of all deliverables. According to interviews with P&C staff, departments administratively close out contracts internally while P&C closes out contracts in SAP. As part of P&C's authority over the basic procurement process within the City, the Director is authorized to prepare procedural rules and regulations that implement and supplement the applicable statutes and provisions of codes relating to the Department's performance.

**Recommendation #4**

**The Purchasing & Contracting Department should clearly define the contract amendment and close-out processes for goods, services and consultant contracts, including amendment and close-out tasks and responsible parties. Specifically, P&C should:**

a) **Develop contract amendment and contract close-out policies and procedures around the process to ensure that it is performed uniformly across contract types, but with adjustable scope based on contract size and type.**

b) **Indentify aspects of the process that can be automated in the Citywide Financial System where possible.**

c) Provide training to Citywide Contract Administrators on the new policies and procedures developed for the contract amendment and close-out processes.   (Priority 3)

**Lack of Standardized Procedures and Manual Processes Contribute to Lengthy Change Order Process for Capital Improvement Program Contracts**

In our review of Field Engineering's (FE) Contract Change Order (CCO) process for CIP projects, we found that the complex, multi-step manual process to approve an additive or deductive change resulted in lengthy processing times.

Interviews with FE staff and City vendors indicated that the change order process can take three to four months, perhaps even longer for changes that would increase the contract value by more than $500,000, which requires City Council approval. One of the reasons for the delay include a highly manual process whereby negotiated changes involve the circulation of several copies of colored paper between several high-level staff within FE, the vendor, the Office of the Comptroller (if the change increases the contract value), the City Attorney's Office, and the Public Works Contracting Group (PWCG) for final processing in SAP. Our interviews with City vendors identified the lack of transparency in this process as result of the limited access to live updates on the status of CCOs from Resident Engineers (RE) and an overreliance on the RE to be the single point of contact for the contractor and to coordinate all meetings between himself, the contractor, the project manager and other departments.

Additionally, City vendors identified the protracted cost negotiations for project changes between the RE and the vendor as contributing to delays in the CCO process. Specifically, if a disagreement occurs over the cost, the Greenbook[9] and Whitebook[10] give the Resident Engineer (RE) the authority to direct the vendor to continue the work while they are negotiating the price. As a result, vendors are still required to perform the disputed work until an agreement can be reached. Once a cost agreement is reached, the official CCO process begins its routing through multiple approvals, and only after its approval and entrance into SAP will the vendor recoup their costs for the extra work.

---

[9] The Greenbook, formally known as the Standards Specifications for Public Works Construction, is designed to aid in furthering uniformity of plans and specifications accepted and used by those involved in public works construction; it provides specifications that have general applicability to public works projects.

[10] The Whitebook is the City's supplement to the Greenbook and takes precedence over the Greenbook's specifications.

Lack of department-wide performance measures and analysis of the change order process also contribute to the delays as there is no agreed-upon standard as to how long each step in the process should take and how potential problems can be mitigated. While FE keeps track of CCOs in progress in an Excel spreadsheet, we found that the spreadsheet contained a number of typographical errors and did not include the length of the change negotiation phase, which can often arise months before a draft CCO is approved, thereby greatly underreporting the average length of the CCO process. Interviews with FE staff confirm that there is little understanding within the division.

Changes during most construction projects are inevitable and can lead to cost and schedule overruns. Examples of common changes encountered on construction projects include changes in scope or project duration, drawing and specification errors and omissions, equipment procurement and manufacturing issues, and contractual non-compliance by the owner. Although the City adheres to the Greenbook and the Whitebook (the City's supplement to the Greenbook) these sources do not proscribe a specific change order process that the City must follow.

Although there is no widely accepted industry standard related to the change management process, best practices indicate that the following steps can be taken to effectively manage change on a construction project: 1) Address potential changes in the contract documents, 2) Identify potential changes before they occur, 3) Create a proposed change order and document the proposed change, 4) Review and evaluate the proposed change order timely and 5) Execute the change order and document the executed change. FE staff has confirmed in interviews that they are currently in the process of re-evaluating the length of the change order process and finding ways to streamline the process.

## Lack of Automation, Defined Procedures, and Timelines Contribute to Lengthy Close-out Process for Capital Improvement Program Contracts

In our evaluation for the City's closeout process for CIP contracts, we found that the average process length, beginning with the vendor's notification of project completion and ending with payment of final retention, takes approximately nine months to complete. Interviews with FE staff and City vendors corroborated our finding.

In the City, the closeout phase of a construction contract typically begins when the vendor notifies the Resident Engineer (RE) that the physical construction of a project is complete. The notification sets in

motion a lengthy administrative process whereby City officials perform the following:

1. Conduct site inspections

2. Request minor repairs from the vendors

3. Provide formal acceptance of the project

4. Review the contractor payment data to subcontractors and suppliers to ensure compliance with the Equal Opportunity Contracting Program

5. Process a final change order

6. Complete the vendor's performance evaluation

7. Record a formal Notice of Completion at the San Diego County Recorder (County Recorder) and

8. Issue the final retention payment to the vendor

These phases typically occur concurrently, with the project acceptance phase occurring alongside the final CCO processing, for example.

Numerous issues add to the complexity and length of the process. Specifically, the City does not have formal definitions of what constitutes project completion, agency acceptance of a project, and the start of the warranty period codified in any policies, procedures, or other official City documents. As a result, REs, other City officials involved in public works projects, and City vendors define and understand these terms differently, often leading to differing views as to when the actual closeout period begins. For example, while the Greenbook specifies that a vendor must notify the RE in writing of project completion, interviews with City staff and vendors stated that notification to City officials can be communicated informally using emails or verbal communication. Similarly, interviews with City vendors indicated that they considered a project complete when the City takes beneficial use of a project, such as cars driving on a newly paved street, in accordance with the California Public Contract Code (Contract Code). However, as the City has opted out of following the Contract Code and no other definitions of project completion exist in City policies or procedures, FE staff and City vendors alike differ, even among themselves, as to what constitutes actual project completion in the purview of the City.

Adding to the disputed time period when a project is considered physically complete, FE staff and City vendors expressed a lengthy

agency acceptance period, whereby the client departments – for whom the project was constructed – can take up to several months to conduct site visits and issue requests for minor repairs, or punch lists, to the vendor. We found that the acceptance phase of the closeout process, combined with the site inspection and punch list phases, can last up to seven months.

Moreover, the closeout process, like the CCO process, is primarily manual, greatly slowing the speed of the closeout process as various documents must move by mail, fax, or email through many departments and City staff. Interviews with City vendors indicated frustration at the lack of transparency in the closeout process, inconsistent practices among REs, lack of access to updated information, explicit timelines, or requirements expressed by the City to the vendors.

Recommendation #5    The Public Works Department should clearly define the CIP and CIP related contract change order and closeout processes, including closeout tasks, clearly defined roles and responsibilities for all involved parties, and timelines. (Priority 3)

Recommendation #6    The Public Works Department should continue to pursue the automation of these processes to increase the efficiency and effectiveness of their operations. Specifically, the department should:

a) Complete the refined requirements for automating their construction project management process (from cradle to grave), ensuring the software is process driven, effective at document storage & management and user friendly to mitigate current inefficiencies, and pursue the acquisition of the Construction Management Software.

b) Develop a robust implementation plan that includes a detailed user acceptance strategy to ensure the system is fully utilized in the daily process of construction project management. (Priority 3)

**The City Has Not Standardized a Vendor Evaluation Process to Facilitate Improved Contracts, Vendor Performance, and Quality of Future Goods and Services**

Upon contract completion for non-CIP, the City does not require that contract administrators within City departments or in P&C, perform vendor evaluations. Furthermore, prior contract performance with the City is not accounted for in pre-awarding process.

Although P&C does not require that client departments complete vendor evaluations, P&C staff indicated that procurement staff will unofficially contact departments prior to renewing contracts to determine if they should be renewed.

The Resident Engineers (RE) in Field Engineering (FE) perform a written final vendor evaluation upon contract completion for CIP contracts as part of the close out process. However, interviews with FE staff and City vendors strongly indicated the evaluations were not advantageous to either party due to the City's lack of a formal debarment process and the absence of the consideration of evaluations in the pre-qualification process during the pre-award phase. Lastly, according to FE staff, FE does not perform overall analysis on the completed evaluations due to the way the evaluations are filed: they are stored in a local file share and are not easily accessible (and searchable) to utilize for a comprehensive analysis.

Performance evaluations can help improve vendor performance and may minimize the City's risk of contracting with repeat poor performing vendors if considered in the vendor pre-awarding process. Best practices indicate that a performance evaluation should include the following:

1. Assessing the vendor's overall conformance to contract requirements and to standards of good workmanship

2. Forecasting and controlling costs

3. Adherence to schedules, including the administrative aspects of performance

4. Reasonable and cooperative behavior and commitment to customer satisfaction

5. Reporting into databases

6. Integrity and business ethics and

7. Business-like concern for the interest of the customer.

Additionally, past vendor performance should be taken into account prior to issuing or renewing contracts with that vendor.

**Recommendation #7**  The Chief Operating Officer (COO) should require the completion of a standardized performance evaluation upon contract completion for both CIP and non-CIP contracts. Specifically, the COO should develop policies and procedures for vendor performance evaluations that:

  a) Are defined at a high enough level for both the Purchasing and Public Works departments to use and add more detailed information as appropriate

  b) Define specified periods in a contract lifespan

  c) Ensure that all evaluations are centrally attached to vendor record, such as the SAP Vendor Master files Attachment

  d) Ensure that past Vendor Performance is taken into account prior to issuing or renewing contracts with that vendor

  e) Design a formalized vendor dispute and arbitration process to ensure evaluations are performed equitably and

  f) Ensure that the process is robust enough to pursue vendor debarment when appropriate.

Additionally, the COO should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked in SAP in a uniform manner according to the developed policies and procedures. (Priority 2)

## Finding 3: The City Has Not Implemented the Vendor Debarment Process to Mitigate Potential Future Issues With Known Problem Vendors

The City has not implemented vendor debarment policies and procedures in accordance with the City's Municipal Code (SDMC) to mitigate the risks posed by known problem vendor. Vendor debarment is a core contracting process to safeguard the City from known problem vendors who pose financial, legal, and material risks to the City. While SDMC Sections 22.0801 through 22.0826 authorizes the City to debar a person who contracts with the City, the City has not created implementation procedures.

Without an effective debarment process, the City continues contracting relationships that place the City at risk. The need for policy, procedures, or an administrative regulation is evidenced by our survey that revealed 68.4 percent of the responding City contracting professionals were not aware of the process for vendor suspension or debarment.

**City Management Should Evaluate Performance And Hold Individuals (Employees and Vendors) Accountable**

The SDMC as it currently stands, establishes procedures for determining whether a vendor is to be debarred or suspended and sets forth the grounds for the action. It also requires the Mayor[11] create and maintain a list of debarred and suspended persons. It is management's responsibility to develop a system of internal controls (processes) to ensure compliance with applicable laws and regulations. However, the intent of the municipal code has not been captured into the City's control environment and drilled down to staff responsible for monitoring contracts.

As discussed in the previous section where vendor performance evaluations could be used as grounds for debarment or suspension, the City does not have a requirement to evaluate all vendors, only Capital Improvement Projects vendors are evaluated. The City does not maintain a central repository for the completed vendor evaluations that can be used to evaluate performance. Some department management personnel have concerns with taking debarment or suspension action using the vendor performance

---

[11] The Municipal Code states that the City Manager was responsible for maintaining the debarment list; however, the Strong Mayor Form of Governance approved by voters moved all authority, power, and responsibility of the City Manager to the Mayor. See City Charter Article XV, Section 265.

evaluations since the City has not developed an appeals process to ensure that vendors are treated equitably.

Since inception of the debarment section of the Municipal Code in 1996, the City has debarred four companies (effective in February 1998, May 2001, July 2001 and May 2012) along with associated key personnel. The information is neither readily available for use by City employees nor transparent to the public. A Public Works Contracting Division employee maintains the debarment list on his individually assigned server space and updates the information as necessary from the City Attorney's Office. When updates occur the revised list is provided to other members of the Public Works Contracting staff and is only available to other departments upon request.

**Debarment Processes Implemented Utilizing the COSO[12] Control Framework Standards**

Debarment and suspension are designed to protect the City by ensuring full and open competition by having contractual relationships only with responsible persons. The serious nature of debarment and suspension requires that these sanctions be imposed only in the public interest for the City's protection.

San Diego Municipal Code Sections 22.0801 – 22.0826, provides an overall debarment process description, the grounds for debarment, and the role of a debarment board, the appeals process to the City Council, the creation of the list of Debarred and Suspended Persons, and the effects of debarment or suspension.

However, in order to implement a strong internal control system requires a commitment from management to design and implement a control system that is effective and efficient to achieve an organizations objective. COSO has defined this commitment as the following:

- Demonstrate a commitment to recruit, develop and retain competent individuals

- Designs control activities which are the policies, procedures, techniques and mechanisms that enforce management's directives to achieve objectives and address related risks

- Periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives and addressing related risks

- Use separate evaluations to monitor the design and

---

[12] COSO, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

operating effectiveness of internal control systems at a specific time or of a specific function or process

As indicated in our survey results, the City has not made a commitment to ensure that a proper control system is developed for the debarment process.

**The City Has Not Implemented Policies and Procedures Due To Competing Priorities and High Turnover**

According to City Management, the lack of policies and procedures to implement the SDMC related to vendor debarment occurred because of competing priorities within City purchasing and contracting. There has been high turnover and several reorganizations of City purchasing and contracting staff along with many initiatives such as requirements consolidation to achieve savings and utilizing local/small businesses that took priority over developing the debarment process.

As a result, the City of San Diego is continuing contract relationships that are not in the public's interest, potentially increasing contract cost and decreasing quality. Thirty-one City contracting professionals indicated they believed suspensions or debarments of a vendor were warranted but did not have the required management support to facilitate the action. Additionally, a request to consider debarment of a vendor for a Living Wage ordinance violation was submitted to the Chief Operating Officer, Internal Operations on July 28, 2014 and no sanction action has been taken. Also a request to consider debarment of another vendor for participating in a scheme that defrauded the City was reported on March 18, 2014 by the City Auditor, and Public Utilities officially submitted to Purchasing and Contracting on April 23, 2014, which again has had no sanction action taken.

Recommendation #8    The Chief Operating Officer should design policies and procedures detailing a vendor debarment process to mitigate the City's contractual risks. At a minimum the vendor debarment process should include:

  a) Defined submission steps and requirement.

  b) Assignment of accountability for the process.

  c) Establishment of a monitoring process.

  d) Designation of a location for and maintenance of the debarred vendor list.

  e) An annual review of the City's debarment process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review.

Additionally, the Chief Operating Officer should establish responsibility for and provide debarment training for contract administrators and managers. At a minimum the training should identify how, when and to whom they should submit a vendor for consideration of debarment or suspension. (Priority 2)

Recommendation #9    The Chief Operating Officer should develop a debarment appeals policy and procedure to bring before the City Council for approval. (Priority 2)

# Conclusion

The awarding of City non-CIP and general service contracts is the responsibility of the Purchasing & Contracting Department, while responsibility for awarding CIP contracts resides with Public Works. Once these contracts are awarded, the administration and monitoring of the awarded contracts are delegated to City departments. Our review indentified areas where controls should be strengthened for all contracts – both CIP and non-CIP. Specifically, we found that:

1. The City does not have sufficient controls in place to ensure the quality and completeness of contract deliverables or determine the City's total contractual commitments.

2. The City's contract modification and close-out processes require standardization and automation.

3. The City has not implemented the vendor debarment process to mitigate potential future issues with known problem vendors.

We made nine recommendations to address the issues identified in this report, and management agreed to implement all nine.

# Recommendations

Recommendation #1    To ensure accurate contractual information and supporting documentation are available to Citywide contract administrators and users, the Chief Operating Officer should establish policies and procedures to require:

a) All City contracts utilize an SAP Outline Agreement to centralize contract information and utilize centralized controls, access and reporting in the Citywide financial system;

b) The City should track total contract awards in SAP in accordance with the full value of the awarded contract to facilitate accurate controls and reporting;

c) The configuration of contract terms is standardized in SAP, in accordance to contractual terms, to facilitate better control and reporting across all contract, including the Target Value, Total Award Value, and Contract Validity Dates; and

d) Supporting contracting documentation is centralized and stored electronically in SAP, i.e. attaching all contracts and related documentation to an SAP Outline Agreement.

Additionally, the Chief Operating Officer should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked uniformly in SAP according to the developed policies and procedures. (Priority 2)

Recommendation #2    The Chief Operating Officer should establish procedures detailing requirements for contract administrators, defining the responsibilities they have to complete prior to approving invoices for payment and submitting them to Comptrollers for processing. Specifically, the procedures should include:

a) Develop analytical procedures to ensure that payments are made in compliance with contractual costs and fees.

b) Attach the pertinent documentation supporting the payment approval in the SAP Invoice as defined in the contract's Quality Assurance Surveillance Plan to ensure the payment can be verified as appropriate.

c) Establish responsibility for training contract administrators on procedures that must be accomplished prior to recommending or approving invoices for payment.

d) Establish responsibility for monitoring the contract administrators' responsibilities prior to recommending or approving invoices for payment.

e) An annual review of the City's contract administration invoice approval process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)

Recommendation #3    The Chief Operating Officer should design policies and procedures detailing a standardized citywide contract administration process to mitigate the City's contractual risks and ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, goods, and services. At a minimum the contract administration requirements should include:

a) Preparation of a Quality Assurance Surveillance Plan for each contract awarded to be attached and maintained with supporting documentation to the SAP Outline Agreement

b) Mandatory training for contract administrators in contract monitoring and ethics and

c) An annual review of the City's contract administration

oversight process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)

Recommendation #4    The Purchasing & Contracting Department should clearly define the contract amendment and close-out processes for goods, services and consultant contracts, including amendment and close-out tasks and responsible parties. Specifically, P&C should:

    a) Develop contract amendment and contract close-out policies and procedures around the process to ensure that it is performed uniformly across contract types, but with adjustable scope based on contract size and type.

    b) Indentify aspects of the process that can be automated in the Citywide Financial System where possible.

    c) Provide training to Citywide Contract Administrators on the new policies and procedures developed for the contract amendment and close-out processes.   (Priority 3)

Recommendation #5    The Public Works Department should clearly define the CIP and CIP related contract change order and closeout processes, including closeout tasks, clearly defined roles and responsibilities for all involved parties, and timelines. (Priority 3)

Recommendation #6    The Public Works Department should continue to pursue the automation of these processes to increase the efficiency and effectiveness of their operations. Specifically, the department should:

    a) Complete the refined requirements for automating their construction project management process (from cradle to grave), ensuring the software is process driven, effective at document storage & management and user friendly to mitigate current inefficiencies, and pursue the acquisition of the Construction Management Software.

    b) Develop a robust implementation plan that includes a detailed user acceptance strategy to ensure the system is fully utilized in the daily process of construction project management. (Priority 3)

Recommendation #7   The Chief Operating Officer (COO) should require the completion of a standardized performance evaluation upon contract completion for both CIP and non-CIP contracts. Specifically, the COO should develop policies and procedures for vendor performance evaluations that:

  a)  Are defined at a high enough level for both the Purchasing and Public Works departments to use and add more detailed information as appropriate;

  b)  Define specified periods in a contract lifespan;

  c)  Ensure that all evaluations are centrally attached to vendor record, such as the SAP Vendor Master files Attachment;

  d)  Ensure that past Vendor Performance is taken into account prior to issuing or renewing contracts with that vendor;

  e)  Design a formalized vendor dispute and arbitration process to ensure evaluations are performed equitably; and

  f)  Ensure that the process is robust enough to pursue vendor debarment when appropriate.

Additionally, the COO should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked in SAP in a uniform manner according to the developed policies and procedures. (Priority 2)

Recommendation #8    The Chief Operating Officer should design policies and procedures detailing a vendor debarment process to mitigate the City's contractual risks. At a minimum the vendor debarment process should include:

    a) Defined submission steps and requirement.

    b) Assignment of accountability for the process.

    c) Establishment of a monitoring process.

    d) Designation of a location for and maintenance of the debarred vendor list.

    e) An annual review of the City's debarment process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review.

Additionally, the Chief Operating Officer should establish responsibility for and provide debarment training for contract administrators and managers. At a minimum the training should identify how, when and to whom they should submit a vendor for consideration of debarment or suspension. (Priority 2)

Recommendation #9    The Chief Operating Officer should develop a debarment appeals policy and procedure to bring before the City Council for approval. (Priority 2)

# Appendix A: Definition of Audit Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3

### AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations

| Priority Class[13] | Description |
|---|---|
| 1 | Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified. |
| 2 | The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls. |
| 3 | Operation or administrative process will be improved. |

---

[13] The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

# Appendix B: Audit Objectives, Scope, and Methodology

Objectives    In accordance with the City Auditor's FY 2015 Work Plan, we conducted a performance audit of the City of San Diego's (City) contract oversight. Our audit focused on the risks related to the decentralized contract administration functions. We reviewed open contracts during FY 2014 and examined the City Charter and San Diego Municipal Code (SDMC) related to contract administration, along with policies and procedures currently used by contract administrators and monitors for contract administration and close-out. Additionally, we reviewed implementation of the contractor debarment process outlined in the SDMC, contract administrators assigned to Citywide contracts, and system controls designed to prevent City staff from exceeding contract thresholds. The objectives were to determine whether the City has:

1. Adequate controls to address key risks in the contract administration process.

2. Well-defined and standardized contract close-out processes.

3. A well-defined and implemented contractor debarment process.

Scope and Methodology    To access all of the objectives, we reviewed the related sections of the City Charter and SDMC. We discussed the inconsistencies in policies and procedures with key personnel in the Chief Operating Office, Purchasing & Contracting Department and Public Works Department. We surveyed 658 City employees identified by the City and Executive Directors with responsibility for their respective department's contract administration, monitoring, and payment approval responsibilities and analyzed the responses. Federal contract administration and close-out best practices were identified and analyzed for applicability to the City. Previous audit reports related to contract administration that had been issued to the City were also reviewed.

To access the City's controls to address key risks in the contract administration process, we evaluated the policy and procedures related to contract administration. We reviewed controls over contract system entries, voucher approvals, document retention, and changes or modifications to contracts. The controls reviews included

interviews, review of contracts and related system entries, and analysis of the policies and procedures being used.

To assess the City's contract close-out process, we interviewed current contractors to obtain their view of the close-out process. We also analyzed contractor reviews, interviewed City employees that prepared the reviews, mapped the contract close-out process, and identified bottle necks in the processes' timelines.

Finally, to assess the City's defined and implemented contractor debarment process; we reviewed the establishment and maintenance of the City's List of Debarred Contractors, existing policies and procedures for contractor evaluations and debarment, and performed a gap analysis against best practices and the SDMC. We also interviewed City personnel that had successfully initiated the only debarment of a City contractor since 2001 and were involved with initiating additional requests for debarment that had not been acted upon timely.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These 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 the audit objectives.

# Appendix C: Summary of Previous Audit Reports Identifying Contract Administration Risks

### PERFORMANCE AUDIT OF PUBLIC UTILITIES DEPARTMENT'S VALVE MAINTENANCE PROGRAM, DECEMBER 2012

The audit identified that Public Utilities would pay $14,556 to adjust valve covers for FY 2012 as a result of asphalt overlay projects. City contract monitoring personnel are required to review contractor work on a daily basis, but did not have up-to-date copies of valve locations making it difficult to fulfill their contractual obligation to locate covered valves and uncover them. The report also references a 2010 Street Maintenance Audit where the city lacked the requirements to ensure compliance with acceptable standards. Valuable time spent by Public Utilities staff locating, uncovering, and adjusting covered values takes away from other maintenance activities.

### PERFORMANCE AUDIT OF THE GRAFFITI CONTROL PROGRAM, MARCH 2014

The audit found contract oversight was minimal and did not conform to City standards or industry best practices for expenditures exceeding $460,000 per year on a contract with Urban Corps. The City cannot ensure that the contractor is fulfilling performance obligations or reporting accurate performance statistics. The City did not require the contractor to provide sufficient information to substantiate work performed, compare differences between reported and actual work or validate completion.

### PERFORMANCE AUDIT OF BALBOA PARK CELEBRATION, INC., OCTOBER 2014

The audit identified that City staff had limited oversight over the agreements involving approximately $1.6 million City funds. The City's Deputy Director of Economic Development was designated to review reports and documentation of expenditures for compliance with the agreement. Auditors found that City staff had limited interaction regarding the deliverables and City staff indicated that the broad scope of the agreements and lack of detailed invoicing requirements may have also impeded contract oversight. The City's Director of Special Events was responsible for receiving, reviewing, and providing feedback on mandated deliverables. Auditors found there was little to no comment or feedback provided by City staff on any of the reports and City staff confirmed that no substantive discussion took place concerning the contents of the documents. The report also included that the City Attorney's Office noted that the agreements contained sufficient language for enforcement.

THE CITY OF SAN DIEGO

# MEMORANDUM

DATE:   April 23, 2015

TO:     Eduardo Luna, City Auditor

FROM:   Scott Chadwick, Chief Operating Officer

SUBJECT: Management Response to the Performance Audit of the Citywide Contract Oversight Process

---

This memorandum is management's response to the audit recommendations within the Performance Audit of the Citywide Contract Oversight Process.

Management is in the process of enhancing the procurement function within SAP, revising policies and procedures over procurement and contract administration functions, assessing staffing needs to ensure adequate oversight of contracts and developing a Contract Administration Handbook for citywide use.

Generally, management agrees with the nine recommendations included in the report and will implement changes to address the risks as identified. Because of the comprehensive changes anticipated over the course of the next eighteen months, there could be alternative solutions from those identified within the audit. Management will work with the Office of the City Auditor to ensure the changes implemented to satisfy each of the audit recommendations.

**Recommendation 1:**
To ensure accurate contractual information and supporting documentation are available to citywide contract administrators and users, the Chief Operating Officer should establish policies and procedures to require:

   a. All City contracts utilize an SAP Outline Agreement to centralize contract information and utilize centralized controls, access and reporting in the Citywide financial system;
   b. The City should finish configuring the additional "Total Contract Award" field in the SAP Outline Agreement, and ensure that they utilize this field in accordance with the full value of the awarded contract to facilitate accurate controls and reporting;
   c. The configuration of contract terms are standardized in SAP in accordance to contractual terms to facilitate better control and reporting across all contract, including the Target Value, Total Award Value, and Contract Validity Dates; and
   d. Supporting contracting documentation is centralized and stored electronically in SAP, i.e. attaching all contracts and related documentation to an SAP Outline Agreement.

Additionally, the Chief Operating Officer should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked in SAP in a uniform manner according to the developed policies and procedures. (Priority 2)

**Management Response:      Agree**
There are portions of this recommendation that are not applicable for Public Works Construction & Consultant Contracts:

a. All Public Works Projects are executed through the Project System Modular of SAP, which sets the project budget and provides accounting controls that prevent Public Works staff from exceeding without Comptroller authorization;

b. No Public Works contract for those projects can be awarded without an approved Purchase Order (PO). The PO cannot exceed the authorized project budget, is set at an amount equal to the contract amount, and is approved by the Comptroller. The SAP system does not allow invoice payments to exceed the authorized PO amount;

c. Public Works contracts are now advertised (and soon will be awarded) through Planet Bids; and

d. As required by the City's adopted Sunshine Act II awarded Public Works Construction & Consultant Contracts are posted on the City's website.

Notwithstanding the previously stated, Public Works is amiable to enter into the appropriate field in SAP the contract number utilized for the advertise and award process; thus, ensuring SAP can link the contract numbers in order to become the central point for CIP and CIP related financial contract information.

The Deputy Chief Operating Officer, Internal Operations, the Chief Information Officer and the Purchasing & Contracting Director in partnership with the City Comptroller, have initiated several programs to update and improve procurement policies and procedures:

a. SAP Purchasing and Inventory Management Solution Gap Analysis Initiative: In February 2015, experts from SAP America were engaged to conduct a comprehensive review of the City of San Diego's SAP Purchasing and Inventory Management Solution. The objective of the engagement is to analyze the City's use of the SAP Material Management (MM) Module and identify critical impediments and system deficiencies that have limited the City's ability to fully utilize the functionality of the SAP system. A draft gap analysis report has already been developed that outlines specific actions and steps necessary to address existing deficiencies for future operational success of the system. City staff will use this analysis to begin addressing findings outlined within the audit; and

b. A comprehensive SAP system enhancement project plan to ensure the successful completion of the gap analysis report recommendations has been developed. The project plan has specific start and completion dates and includes key milestones and deliverables. The level of this planned project effort is unprecedented and will impact all major procurement and contracting business processes. Overall the SAP system enhancement

project will redefine and develop policies, standards and procedures related to City contracts, vendors and materials master data governance and administration. These new or revised City policies, procedures and standards will serve as the foundation and framework for which the SAP system technical configuration will be conducted. The new policies and procedures will ensure consistency in the use of SAP Outline Agreements for City contracts, as well as increased automation to track contract award values, centralized contract information, controls, data access and more robust reporting. A kick-off meeting to launch this enhancement project was completed on April 20, 2015. The completion of all the SAP system enhancement project phases will also significantly improve the City's reporting and procurement oversight capability.

In addition to the SAP system enhancement project, joint efforts between the P&C and the City Comptroller's Office continue with the objective of improving monitoring, compliance and contract surveillance of citywide contracts. This includes the following specific report initiatives:

a. A report to ensure threshold limits are not bypassed  by the splitting of purchase orders *(purchases splitting report)*;
b. A report that checks for expired insurance policies linked to current vendors *(expired insurance report)*;
c. A report to detect where purchases have been made without utilization of existing contracts or agreements *(existing contracts purchases report)*;
d. A report to ensure that engaged vendors are licensed to perform business within the City *(vendor license report)*;
e. A report that checks that purchases are not being linked to expired contracts *(expired contracts report)*; and
f. A report to detect shell purchase orders for budget control purposes *(PO/budget control report)*.

**Recommendation 2:**
The Chief Operating Officer should establish procedures detailing requirements for contract administrators, defining the responsibilities they have to complete prior to approving invoices for payment and submitting them to Comptrollers for processing.  Specifically, the procedures should include:

a. Develop analytical procedures to ensure that payments are made in compliance with contractual costs and fees;
b. Attach documentation supporting the payment approval in the SAP Invoice to ensure the payment can be verified as appropriate;
c. Establish responsibility for training contract administrators on procedures that must be accomplished prior to recommending or approving invoices for payment;
d. Establish responsibility for monitoring the contract administrators' responsibilities prior to recommending or approving invoices for payment; and
e. An annual review of the City's contract administration invoice approval process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)

**Management Response:     Agree**

See response for recommendation #1. The following recommendation will be addressed as part of the SAP system enhancement project.

**Recommendation 3:**

The Chief Operating Officer should design policies and procedures detailing a standardized citywide contract administration process to mitigate the City's contractual risks and ensure compliance with contractual terms and receipt of contracted construction, reconstruction, repairs, goods, and services.  At a minimum the contract administration requirements should include:

a. Preparation of a Quality Assurance Surveillance Plan for each contact awarded to be attached and maintained with supporting documentation to the SAP Outline Agreement;
b. Mandatory training for contract administrators in contract monitoring and ethics; and
c. An annual review of the City's contract administration oversight process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review. (Priority 2)

**Management Response:     Agree**

The P&C department is in the process of developing a Contract Administration Handbook (CA handbook) that will provide guidelines and serve as a quick reference to all citywide contract administrators. The CA handbook will provide clear roles and responsibilities of contract administrators for citywide contracts and will detail a standardized citywide contract administration process to mitigate the City's contractual risks and ensure compliance with contractual terms and conditions. The new CA handbook will be released as part of the overall SAP system enhancement project to ensure that it is reflective of the most current SAP system configurations. The CA handbook will also include standard templates for the preparation of a Performance Assessment Plans for awarded citywide contacts.

In March 2015, the City engaged the National Institute of Public Procurement (NIGP), to conduct a three (3) day Contract Administration certificate training course. All P&C procurement staff and supervisors attended the training, were tested for comprehension and achieved a certificate. The contract administration training was instructor led and focused on the following government procurement industry best practices:

a. P&C staff and supervisors were trained to identify and define terms, concepts and principles of the contract administration process;
b. P&C staff and supervisors were trained on the steps needed to design, develop and formulate effective the Contract Administration Plans (CAP) and Performance Administration Plans (PAP); and
c. P&C staff and supervisors were trained on how contract administration can be continually improved to enhance contract performance in accordance with industry best practices and commonly accepted practices in public sector procurement.

It is estimated the P&C Procurement Specialist job classification has not been updated since the late 1990s or early 2000's and as such does not adequately reflect current contract administration requirements. The current job description does not appear to have been intended to assume the role of contract administrator. As a result there are potential limitations regarding the performance of specific contract administration functions throughout the City. The P&C department will work with the Personnel and Human Resources Departments and meet and confer, as required by law, with the Municipal Employee Association (MEA) with the objective of redefining job functions to improve contract administration as per the recommendation:

a. The audit findings identified a past reduction of Procurement personnel and a decentralized approach without proper training. Increases in FTE's may be necessary to provide increased centralized oversight however this assessment will not be completed until the SAP system enhancement project is complete;

b. The P&C department is also coordinating its efforts with peer agencies such as the County of San Diego, Purchasing Department to look for ways to leverage contract administration best practices; and

c. For the Public Works Construction & Consultant Contracts, the Public Works Department will include a Contract Monitoring and Ethics training in the City's Construction Management Academy for Resident Engineers which is a required academy for the classification.

**Recommendation 4:**
The Purchasing & Contracting Department should clearly define the contract close-out process for goods and services, including close-out tasks and responsible parties. Specifically, P&C should:

a. Develop Contract amendment and Contract Closeout policies and procedures around the process to ensure that it is performed uniformly across contract types, but with adjustable scope based on contract size and type;

b. Identify aspects of the process that can be automated in the Citywide Financial System where possible; and

c. Provide training to Citywide Contract Administrators on the new policies and procedures developed for the Contract Amendment and Closeout processes. (Priority 3)

**Management Response**:     **Agree**
See responses for recommendation #1 and #3.

**Recommendation 5:**
The Public Works Department should clearly define the CIP and CIP related contract change order and closeout processes, including closeout tasks, clearly defined roles and responsibilities for all involved parties, and timelines. (Priority 3)

**Management Response:**     **Agree**
The Public Works Department will work to further document procedures for roles and responsibilities for those working on these tasks within the standards already set for contracts via

the actual Public Works Construction & Consultant Contract. The Standard Specifications for all City contracts, as outlined/required by the State contracting laws, is the Public Works Construction (Green Book). The Green Book establishes Standing Operating Procedures already address construction changes, change orders, acceptance of work, and project close out.

**Recommendation 6:**
The Public Works Department should continue to pursue the automation of these processes to increase the efficiency and effectiveness of their operations. Specifically, the department should:

a. Complete the refined requirements for automating their construction project management process (from cradle to grave); ensuring the software is process driven, effective at document storage and management and user-friendly to mitigate current inefficiencies; and pursue the acquisition of the Construction Management Software; and

b. Develop a robust implementation plan that includes a detailed user acceptance strategy to ensure the system is fully utilized in the daily process of construction project management. (Priority 3)

**Management Response**:     **Agree**
The Public Works staff continues to identify efficiencies in their operations and agrees that another comprehensive review with the Department of Information Technology (DoIT) could achieve additional cost-effective changes to the daily operations.

**Recommendation 7:**
The Chief Operating Officer should require the completion of a standardized performance evaluation upon contract completion for both CIP and non-CIP contracts. Specifically, the Chief Operating Officer should develop policies and procedures for vendor performance evaluations that:

a. Are defined at a high enough level for both the Purchasing and Public Works departments to use and add more detailed information as appropriate;
b. Define specified periods in a contract lifespan;
c. Ensure that all evaluations are centrally attached to vendor record, such as the SAP Vendor Master files Attachment;
d. Ensure that past Vendor Performance is taken into account prior to issuing or renewing contracts with that vendor;
e. Design a formalized vendor dispute and arbitration process to ensure evaluations are performed equitably; and
f. Ensure that the process is robust enough to pursue vendor debarment when appropriate.

Additionally, the Chief Operating Officer should establish responsibility for training contracting staff in Purchasing & Contracting and Public Works Contracting Group to ensure that information is tracked in SAP in a uniform manner according to the developed policies and procedures. (Priority 2)

**Management Response**:     **Agree**
When new policies and procedures are in place such as the comprehensive SAP enhancements there are trainings that are developed for staff. Because these will be citywide enhancements that will impact and improve operations in both the Purchasing & Contracting and Public Works Departments it is envisioned that the training will be developed after SAP enhancements are implemented.

**Recommendation 8:**
The Chief Operating Officer should design policies and procedures detailing a vendor debarment process to mitigate the City's contractual risks. At a minimum the vendor debarment process should include:

   a.  Defined submission steps and requirement;
   b.  Assignment of accountability for the process;
   c.  Establishment of a monitoring process;
   d.  Designation of a location for and maintenance of the debarred vendor list; and
   e.  An annual review of the City's debarment process to ensure it is working as intended and effective; additionally, the policies and procedures should be updated as necessary resulting from this review.

Additionally, the Chief Operating Officer should establish responsibility for and provide debarment training for contract administrators and managers. At a minimum the training should identify how, when and to whom they should submit a vendor for consideration of debarment or suspension. (Priority 2)

**Management Response:**     **Agree**
Staff will work with the City Attorney's Office on policies and procedures for a vendor debarment process.

**Recommendation 9:**
The Chief Operating Officer should develop a debarment appeals policy and procedure to bring before the City Council for approval. (Priority 2)

**Management Response:**     **Agree**
Staff will work with the City Attorney's Office for a debarment appeals policy and procedure.

In closing, staff would like to thank the Office of the City Auditor for proactively meeting with staff to outline what they anticipated the key findings and recommendations would be prior to the release of the audit. We appreciate their efforts to engage the administration on these complex issues which will require comprehensive solutions to address the weaknesses outlined in the audit.
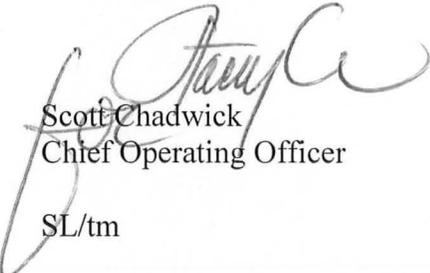
Scott Chadwick
Chief Operating Officer

SL/tm

cc: Brian Pepin, Director of Council Affairs, Office of the Mayor
   Stacey LoMedico, Assistant Chief Operating Officer
   Mary Lewis, Chief Financial Officer
   Ronald Villa, Deputy Chief Operating Officer, Internal Operations
   Rolando Charvel, City Comptroller
   Dennis Gakunga, Director, Purchasing & Contracting Department
   James Nagelvoort, Director, Public Works Department
   Al Rechany, Deputy Director, Public Works Department