

Performance Audit of the City's Contract Management Process

JULY 2024 | OCA-25-02

Finding 1

The City altered contract spending limits by at least \$15 million without required Council approval, diminishing transparency and governance.

Finding 2

Departments brought 19 percent of contract alterations totaling nearly \$64 million to Council for approval retroactively, creating risks for vendors and City services, and further reducing effective oversight.

Finding 3

Incomplete and inaccurate contract information and unwritten policies have led to work inefficiencies and staff errors.

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CITY OF SAN DIEGO



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The Office of the City Auditor would like to thank staff from the following departments and agencies for their assistance during this audit:

- Purchasing & Contracting Department
- Office of the City Attorney
- Department of Information Technology
- Homelessness Strategies & Solutions Department
- Public Utilities Department
- Office of the Independent Budget Analyst



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Performance Audit of the City’s Contract Management Process

Why OCA Did This Study

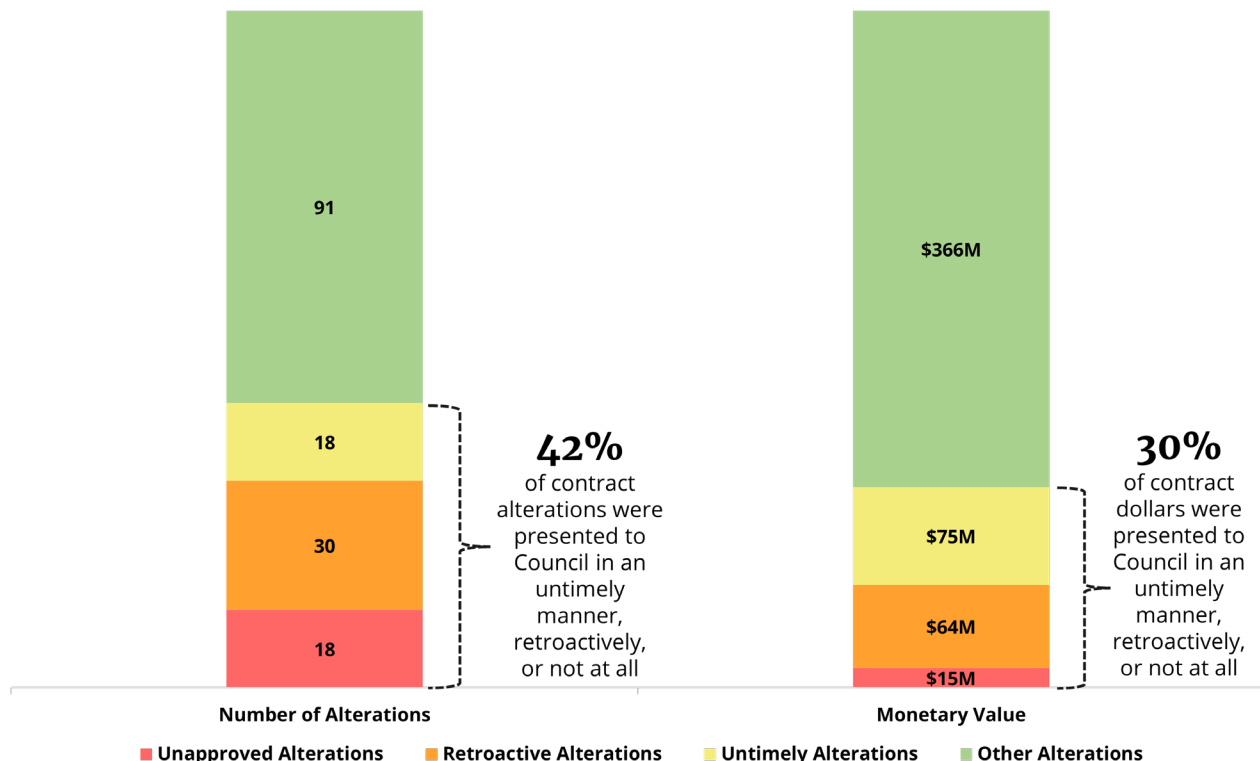
The City of San Diego (City) spends hundreds of millions of dollars annually on goods and services contracts to provide critical City services. The San Diego Municipal Code (SDMC) requires City Council to review and approve some larger value changes to those contracts to ensure public oversight and transparency in the use of taxpayer dollars. Therefore, we conducted a performance audit with the objective:

Determine whether the City appropriately extended or increased the value of goods and services contracts in accordance with the SDMC and best practices.

What OCA Found

Finding 1: The City altered contract spending limits by at least \$15 million without required Council approval, diminishing transparency and governance.

42% of Contract Alterations Totaling Approximately \$155M in Spending Were Presented to Council in an Untimely Manner, Retroactively, or Not at All



- **13 percent** of contract alterations we reviewed did not receive proper Council approval.
- Most contract alterations that did not receive Council approval as required increased the total value of the contract by more than \$200,000.
- Confusion around approval requirements was the leading reason contract alterations were not presented to Council.

Finding 2: Departments brought 19 percent of contract alterations totaling nearly \$64 million to Council for approval retroactively, creating risks for vendors and City services, and further reducing effective oversight.

- Retroactive approval, or “ratification,” is an exception that should be used as little as possible.
- More than one out of four contract alterations we reviewed were brought to Council for approval retroactively or with little time remaining.

Source: OCA generated on information from Ariba and the City Clerk’s Office. Source: OCA generated based on Exhibit 7 and information from Ariba and the City Clerk’s Office.

- Contract administration roles and responsibilities are not well-defined, and the City lacks a formalized contract alteration process.
- Benchmark agencies have stricter requirements for ratifications, including written justification and a plan for corrective action.
- Staff listed a variety of reasons for bringing contracts for retroactive approval, including:
 - COVID-19 and supply chain issues;
 - Staffing shortages and unbalanced work;
 - Active litigation; and
 - Updated legal guidance.

Finding 3: Incomplete and inaccurate contract information and unwritten policies have led to work inefficiencies and staff errors.

- We found numerous accuracy issues with contract information in Ariba.
- Many past audit recommendations related to system controls and accuracy remain unimplemented, contributing to persistent issues.
- The absence of formal documentation and comprehensive policies in contract management has led to challenges in ensuring proper procedures are followed as shown in **Exhibit 15**.

What OCA Recommends

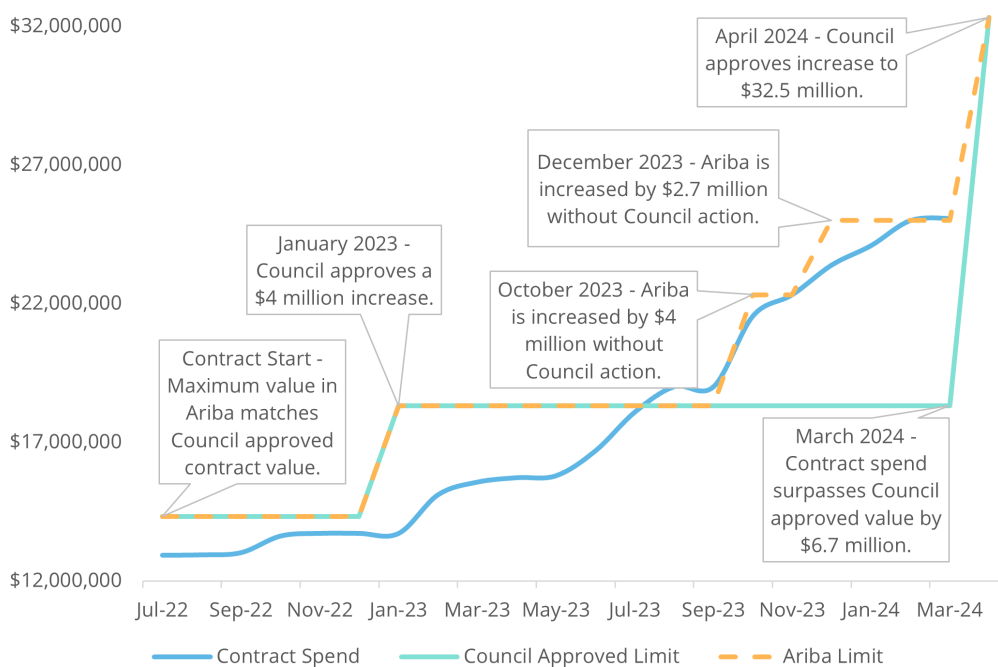
We made 13 recommendations to the Purchasing & Contracting Department. Key recommendations include:

- **Presenting any unapproved active contract alterations** identified in this audit to City Council for retroactive approval;
- Proposing changes to the San Diego Municipal Code **clarifying City Council approval requirements** for contract alterations;
- Developing a procedure and **template for ratification requests**;
- Designing guidelines for City departments to **provide Council with updates** on contract activities;
- Establishing and implementing a formalized **contract alteration process**; and
- Developing a policy outlining where contracts are **electronically stored and managed**.

City Management agreed with all 13 recommendations.

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.

Exhibit 15: Staff Increased a Contract Months Before Obtaining Council Approval to Allow Additional Spending



Note: Contract spend reflects the amount of purchase orders opened but does not reflect the actual funds spent on goods and services. Source: OCA generated based on information from Ariba and the City Clerk.

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Background

Over each of the last few years, the City of San Diego (City) paid hundreds of millions of dollars to outside contractors to provide goods and services. The San Diego Municipal Code (SDMC) requires City Council to review and approve certain changes to those contracts, such as larger changes in value. Council's review ensures public oversight and transparency in the use of taxpayer dollars.

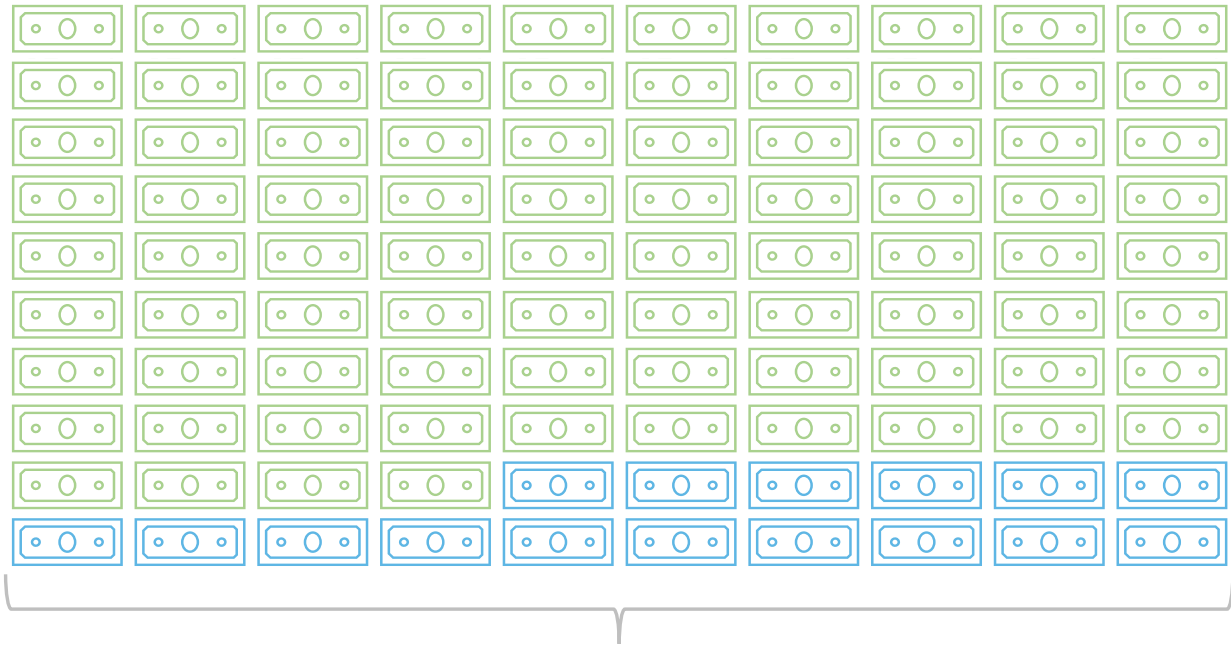
Thus, public oversight and transparency is reduced when changes to contracts are not brought to Council as required. Additionally, when contract alterations are brought to Council late, it puts pressure on Council's approval responsibility. As a result, Council's ability to provide meaningful oversight may be reduced if there is not time to consider other vendors without disrupting critical services.

Therefore, we conducted a performance audit of the City's contract management process in accordance with the Office of the City Auditor's Fiscal Year 2024 (FY2024) Audit Work Plan. The objective of the audit was to determine whether the City appropriately extended or increased the value of goods and services contracts in accordance with the SDMC and best practices.

This audit was scoped to include alterations to goods and services contracts that required City Council approval, active at any time from FY2017 through FY2023. The scope did not include public works contracts managed in part by the Engineering and Capital Projects Department. Please see Appendix B for more details.

The City spends hundreds of millions of dollars annually on goods and services contracts to provide critical City services.

In FY2024, the City budgeted over \$700 million for contractors to help provide City services like operating homeless shelters, supplying public safety equipment, and disposing of hazardous waste. This is approximately 16 percent of the City's operating budget as shown in **Exhibit 1**.

Exhibit 1**External Contracts will Count for \$16 Out of Every \$100 of the City's Budget**

\$16 out of every \$100 of the City's operating budget goes to external contracts

Source: OCA generated based on information from the FY2025 Proposed Budget.

The City has initiated several measures to improve contract management.

The City created the Purchasing & Contracting Department (P&C) to improve the quality and accountability of the procurement process. P&C oversees procurement and contracting for goods and services. P&C also performs contract management functions of Citywide contracts to ensure contracts are meeting City needs. Additionally, the Director of P&C has the responsibility of communicating the rules, policies, and processes that govern the City's procurement and contracting.

In 2017, the City implemented the SAP Ariba (Ariba) system to manage its contracts for goods and services and to address control weaknesses that OCA identified in contract management during audits conducted in 2015. As shown in **Exhibit 2**, the City uses information from Ariba to enforce and manage contract terms, such as who can use the contract, what they can buy, how long the contract lasts, and the cost.

Exhibit 2

Staff Use Ariba to Manage Contracts for Goods and Services

Ariba Contract Management System



Source: OCA generated based on Ariba and interviews with P&C.

OCA has issued numerous reports on deficiencies in the City’s contracting process.

Since 2015, OCA has issued four reports on the City’s contracting process, including:

- [The City Needs to Address the Lack of Contract Administration and Monitoring on Citywide Goods and Services Contracts \(2015\)](#);
- [Performance Audit of Citywide Contract Oversight \(2015\)](#);
- [Citywide Contract Oversight II - Contract Review \(2016\)](#); and
- [Fraud Hotline Report of Purchase Order Approvals \(2023\)](#).

While the City has implemented many of the associated recommendations, there are still several outstanding recommendations related to these reports. Notably, eight of these remaining recommendations relate to themes in this report: unclear responsibilities, the need for written policies, and improved internal controls. We provide more information on the status of these recommendations and their impact on our findings in Finding 3.

In part to address past audit recommendations by OCA, P&C has developed several initiatives to improve contract management. These initiatives include:

P&C stated multiple process improvement initiatives are in development, including an examination of issues related to the Ariba system and development of written procedures.

- Procurement Academy: P&C developed and began delivering this training to City employees in 2022. This 5-day course covers topics such as contract execution and administration.
- Contract Management Support: P&C and contract managing departments meet regularly to discuss the status of contracts and upcoming procurement.
- P&C Process Improvements: P&C stated multiple process improvement initiatives are in development, including an examination of issues related to the Ariba system and development of written procedures.

Additionally, the City’s 2023 City Management Fellowship cohort collaborated with P&C staff on a project to enhance City procurement. Recommendations from that project included enhancing cross-departmental information sharing, increasing monetary thresholds for goods and services contracts, and developing a Citywide contracting program.

Finding 1

The City altered contract spending limits by at least \$15 million without required Council approval, diminishing transparency and governance.

Finding Summary

City Council approval provides a critical check on Mayoral power and is required to alter certain contracts as per the San Diego Municipal Code (SDMC). However, due to staff confusion around Council approval requirements, about 11 percent of contract alterations we reviewed—totaling almost \$15 million in changes over the last 7 years—did not receive this necessary approval. Contract alterations without proper approvals prevent Council from exercising its responsibility of ensuring contracts are in the best interest of the City, and limit transparency in City government. Therefore, we recommend the Purchasing & Contracting Department bring any active, unapproved alterations to City Council for approval, propose Municipal Code changes to update sections relating to alterations, and provide updated guidance on approval requirements to City departments.

The Municipal Code describes when contract alterations require City Council approval.

The [San Diego Municipal Code](#) (SDMC) and the San Diego City Charter lay out when contract alterations¹ need to be approved by City Council. While there are a variety of reasons that trigger a requirement for Council approval, for the purposes of this audit, we focused on contract value and length.

City Council is required to authorize contract alterations if any of the following apply:

1. The cost of the alteration increases the contract amount by more than \$200,000;
2. The contract exceeds five years in length; or
3. The cost of the alterations causes the contract to exceed the amount of the Mayor's authority to award contracts.

¹ We define alterations as changes to the contract's value or length, either in Ariba or through agreed-upon written changes. For more information, see Appendix B: Objectives, Scope, and Methodology.

The MOL explains that contracts and contract alterations must be approved by City Council if the contract alteration exceeds \$200,000.

The City Attorney's Office also issued a [2015 Memorandum of Law](#) (MOL) to provide further clarification of the SDMC and City Charter's contract requirements. The MOL explains that contracts and contract alterations must be approved by City Council if the:

- Contract exceeds five years;
- Goods and services contract exceeds \$3 million if not approved and funded through the Annual Appropriation Ordinance;
- Agency and non-profit service contract exceeds \$1 million; or
- Contract alteration exceeds \$200,000.

The MOL also noted that a contract that does not follow City rules and regulations, including the Charter, is void or unenforceable.

11 percent of contract alterations we reviewed did not receive proper Council approval.

We reviewed 157 contract alterations that appeared to meet the criteria requiring Council approval. As shown in **Exhibit 3** below, our review identified notable oversights in presenting contract alterations for Council approval.

Key Findings:

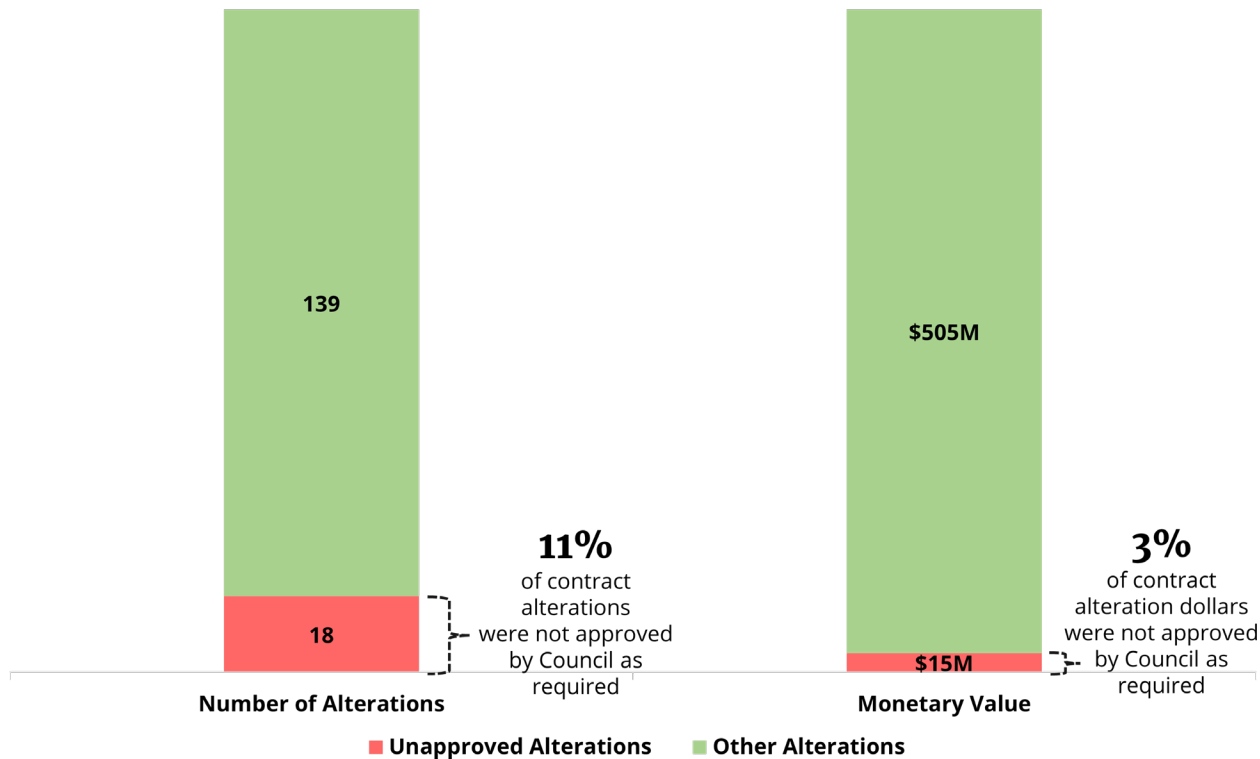
- 11 percent (18 out of 157) of reviewed contract alterations in Ariba did not receive proper Council approval.²
- These unapproved alterations totaled \$15 million (3 percent of the value of reviewed alterations), averaging \$856,000 per instance.
- These unapproved alterations spanned across multiple departments.
- Most of these unapproved alterations occurred on Citywide contracts and contracts managed by the Public Utilities and Parks & Recreation Departments.³

² We considered some alterations retroactively approved if a later contract alteration included any value changes (e.g., a change from \$2.5 million to \$2.8 million was not approved, but a change 11 months later from \$2.5 million to \$8.5 million was properly approved). Retroactively approved alterations are discussed in Finding 2.

³ The full list of contract alterations we identified can be found in Appendix C.

Exhibit 3

18 Contract Alterations, Totaling \$15 Million Were Not Brought to Council for Approval as Required



Source: OCA generated based on information from Ariba and the City Clerk’s Office.

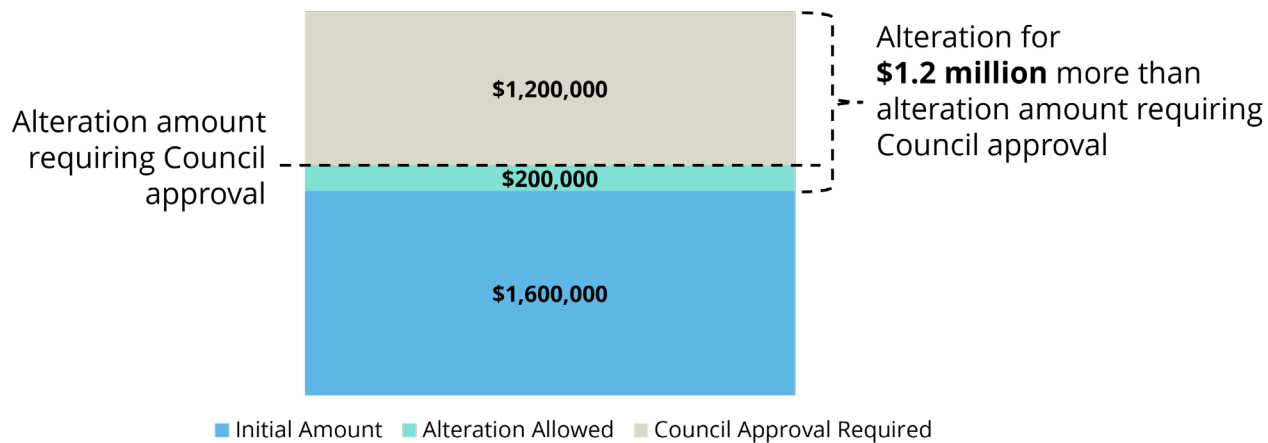
P&C and the City Attorney’s Office approved this alteration, even though it did not receive the required City Council approval.

Most contract alterations that did not receive Council approval as required increased the total value of the contract by more than \$200,000.⁴ For example, in 2017, the City initially awarded a three-year \$1.6 million contract for water treatment and supply equipment. However, in 2020, the City altered the contract, increasing its total value to \$3 million. This contract was increased by \$1.4 million, which is \$1.2 million greater than the \$200,000 threshold requiring Council approval. P&C and the City Attorney’s Office approved this alteration, even though it did not receive the required City Council approval. This contract is shown in **Exhibit 4** below.

⁴ Additionally, some contracts were altered in Ariba without any supporting documentation. We discuss issues relating to Ariba in greater detail in Finding 3.

Exhibit 4

City Staff Added \$1.4 Million to the City’s Contract with Parkson Corporation—\$1.2 Million More Than the \$200,000 Limit Requiring Council Approval



Source: OCA generated based on information from Ariba.

Bypassing Council approval diminishes transparency and oversight within City government.

Bypassing Council approval of contracts also deviates from City rules designed to guarantee transparency to the public.

Council’s review of contracts is an essential function of oversight and preserves the balance of power within the City’s government. The City Charter establishes a strong-Mayor governance system, outlining Council’s spending authority and responsibility to formulate policy, as well as the Mayor’s role in its implementation. This division of roles and responsibilities creates a system of checks and balances to ensure that contracts are vetted, costs are reasonable, and contracts align with City policy goals.

Bypassing Council approval of contracts also deviates from City rules designed to guarantee transparency to the public. Specifically, these rules provide members of the public an opportunity to review the proposed alteration and comment on each agenda item at City meetings. This process fosters transparency, informs decision-making, and promotes accountability. However, when contracts bypass Council approval, public accountability and transparency are diminished.

Confusion around approval requirements was the leading reason contract alterations were not presented to Council as mandated.

Despite the explanations within the 2015 Memorandum of Law, we found that generally, alterations were not presented to Council due to confusion around approval requirements.⁵ Staff noted that they defer to their department's Deputy City Attorney to determine the applicability for Council approval but have heard different interpretations depending on the attorney they speak with. The City Attorney's Office stated that the relevant SDMC section has several unclear terms that make its application to goods and services contracts difficult, and that any concerns could be resolved by clarifying amendments to the SDMC.

Updating the threshold amounts for Council approval could help the City identify and prioritize higher-value contract alterations.

We found that if the \$200,000 threshold, approved April 2012, were pegged to inflation, it would be at almost \$273,000 today.

Increasing the approval thresholds to keep up with inflation could allow staff to focus their efforts on bringing high-value alterations to Council for approval. Staff from multiple departments stated that the thresholds for Council approval are too low and that small changes should not require Council approval. We found that if the \$200,000 threshold, approved April 2012, were pegged to inflation, it would be at almost \$273,000 today.

Additionally, staff at the City Management Fellowship, discussed in the Background Section, recommended improving City contract management by considering the consumer price index, inflation, and thresholds in other California jurisdictions when setting new values. This recommendation tracks with the City of Los Angeles, which adjusts its threshold annually based on the Consumer Price Index. While the recommendations by the Management Fellowship applied to solicitation thresholds, a similar analysis should be conducted for alterations. Increasing the value for alterations would lower the number of alterations staff have to bring to Council and could help ensure the higher value contracts receive necessary oversight.

⁵ One contract was not approved as mandated due to confusion around which department was responsible for taking it for Council Action. We discuss this in more detail in Finding 2.

Recommendations

To ensure that contract alterations that increase contract amounts are recognized and brought to Council when required, we recommend:

Recommendation 1.1

(Priority 1)

The Purchasing & Contracting Department, or the applicable lead department, should present to City Council any active contract alterations identified in this audit or in their own internal review that have not been previously approved in accordance with San Diego Municipal Code requirements.

Management Response: Agree [See full response beginning on page 40.]

Target Implementation Date: TBD [P&C intends to work quickly on identifying contract alterations no later than December 2024; however, each department will be responsible for bringing their item forward for Council approval.]

Recommendation 1.2

(Priority 2)

The Purchasing & Contracting Department should propose updated City Council approval thresholds such as an inflation adjustment mechanism, mandated periodic review, or another control.

Management Response: Agree [See full response beginning on page 41.]

Target Implementation Date: June 2025

Recommendation 1.3

(Priority 2)

The Purchasing & Contracting Department should propose changes to the San Diego Municipal Code clarifying City Council approval requirements for goods and services contract alterations. (Priority 2)

Management Response: Agree [See full response beginning on page 41.]

Target Implementation Date: June 2025

Recommendation 1.4

(Priority 2)

Once Recommendations 1.2 and 1.3 are implemented, the City Attorney's Office, in consultation with the Purchasing & Contracting Department, should issue updated, written guidance clarifying San Diego Municipal Code requirements for contract alterations to ensure that departments and attorneys are aware of what the requirements are.

P&C Management Response: Agree [See full response beginning on page 41.]

P&C Target Implementation Date: December 2025

City Attorney Management Response: Agree [The City Attorney's Office did not provide a formal response memorandum, but indicated via email that it agrees with the recommendation.]

City Attorney Target Implementation Date: TBD [The City Attorney's Office indicated the implementation timeline is dependent on potential revisions to the San Diego Municipal Code per Recommendations 1.2 and 1.3.]

Finding 2

Departments brought 19 percent of contract alterations totaling nearly \$64 million to Council for approval retroactively, creating risks for vendors and City services, and further reducing effective oversight.

Finding Summary

When contract alterations require Council approval, such changes should be brought timely for Council review. We found that departments brought contract alterations to Council for retroactive approval approximately 19 percent of the time, totaling almost \$64 million in changes over the past 7 years. Departments also brought an additional 11 percent of contract alterations less than 90 days before contract expiration, totaling an additional \$75 million. Contracts and contract alterations without proper and timely approvals create risks for the City and its vendors. For example, Council may face pressure to approve contracts to ensure services are not disrupted and that City vendors are paid for their work. Several factors appear to have contributed to alterations not being brought to Council timely, including not well-defined contract administration roles and responsibilities, and the City lacking a formalized contract amendment process. To address this, we recommend that staff expand support for departmental contract administrators, develop procedures for formalized ratification requests and updates to Council, and document a formalized contract amendment process.

Retroactive approval, or “ratification,” is an exception that should be used as little as possible.

The MOL states that retroactive approval should be an exception that is used as little as possible.

City staff should seek City Council approval proactively to ensure compliance with municipal code requirements and avoid the need for retroactive approvals, known as “ratifications.” According to the City Attorney’s Office 2015 Memorandum of Law (MOL), City departments should assess the likelihood of a contract extending beyond five years and obtain Council approval either before the initial term begins, or before any extension would bring the contract term beyond five years. Furthermore, if a contract has extended beyond five years without Council approval, the responsible City department should immediately seek Council ratification. Finally, the MOL states that retroactive approval should be an exception that is used little as possible.

One out of four contract alterations we reviewed were brought to Council for approval retroactively or with little time remaining.

We found that departments brought 30 contract alterations (19 percent of reviewed alterations) to Council for retroactive approval⁶ and brought an additional 18 alterations (11 percent) less than 90 days before contract expiration.⁷

Key findings for retroactive alterations are listed below and shown in **Exhibit 5**:

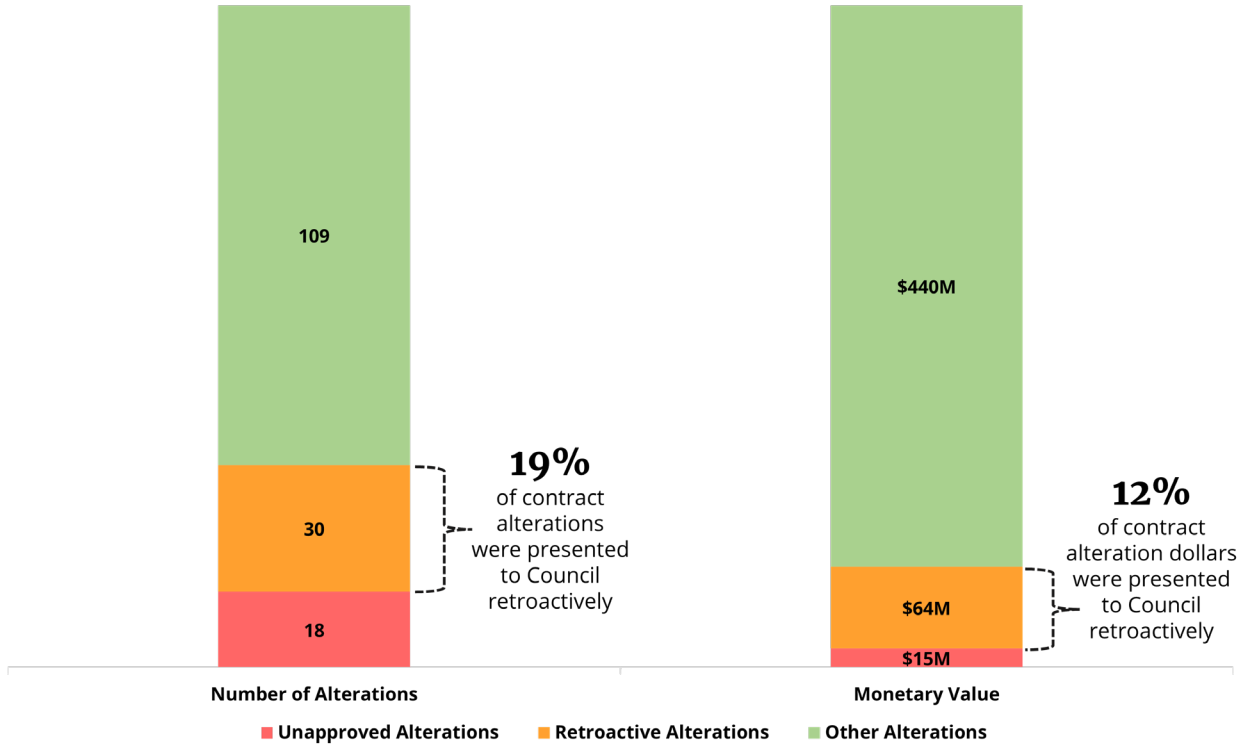
- The City Attorney's Office recommends that City departments immediately seek retroactive approval.
- Most reviewed retroactive alterations were brought more than 90 days after expiration, with only 2 alterations being brought within 60 days following contract expiration.
- Council heard retroactive alterations on average 175 days after contract expiration.
- Retroactive contract alterations were brought by a variety of departments and totaled over \$64 million in changes (12 percent of the value of reviewed alterations).

6 We use the term "retroactive" to describe approvals that were gained after the alteration was signed, after the contract expired, or exceeded the maximum value.

7 The full list of contract alterations we identified can be found in Appendices D-E.

Exhibit 5

Staff Presented Over \$64 Million in Contract Alterations to Council for Retroactive Approval

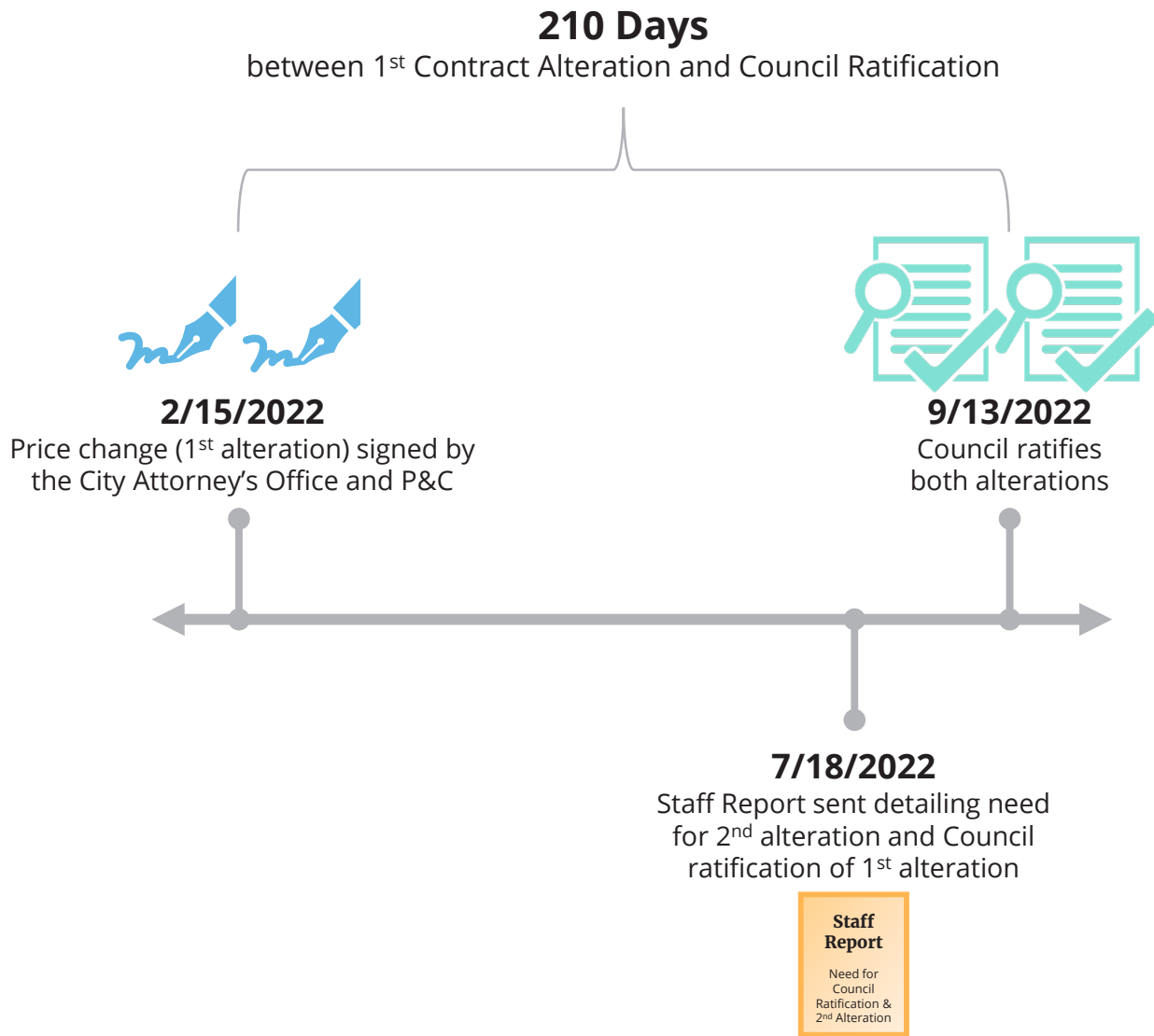


Source: OCA generated based on information from Ariba and the City Clerk's Office.

Staff presented two alterations for Council approval due to confusion around municipal code requirements on whether Council approval was required for price increases. In each case, while an initial alteration was approved by just P&C and the City Attorney's Office, upon further review, staff determined it needed to be approved retroactively by City Council. A timeline of one of these alterations is shown below in **Exhibit 6**.

Exhibit 6

While Initially Approved, PUD Had to Bring an Alteration for Retroactive Approval Due to Confusion Around Municipal Code Requirements



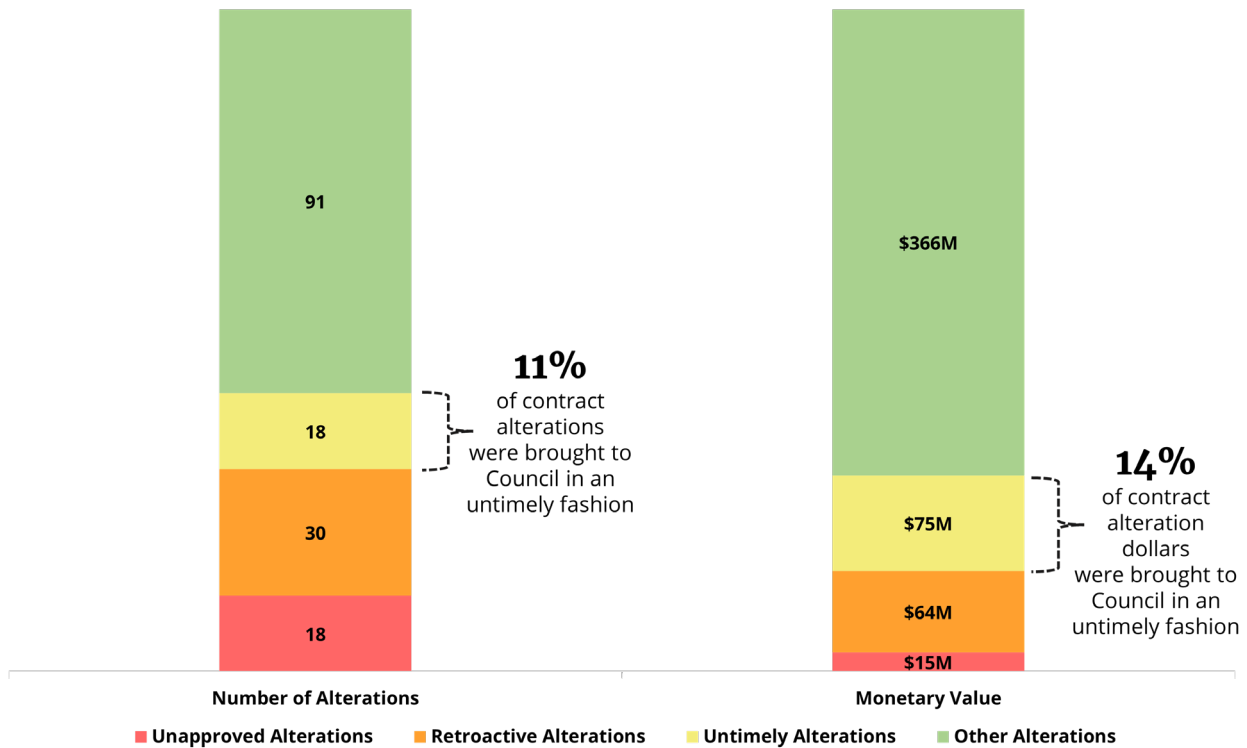
Source: OCA generated based on Ariba.

Key findings for alterations brought close to contract expiration are listed below and shown in **Exhibit 7**:

- Bringing a contract alteration less than 90 days before the contract expires gives decision-makers less time to consider alternatives, as the City may not have enough time to procure a new vendor.
- Contract alterations brought less than 90 days before contract expiration totaled almost \$75 million (14 percent of the value of reviewed alterations).
- One-third of the alterations were brought within just 30 days of the contract expiring.
- To help address this issue, P&C stated that Ariba now provides a notification 180 days before a contract is set to expire, an increase from the previous default of 120 days.

Exhibit 7

Staff Brought \$75 Million in Contract Alterations to Council in an Untimely Fashion

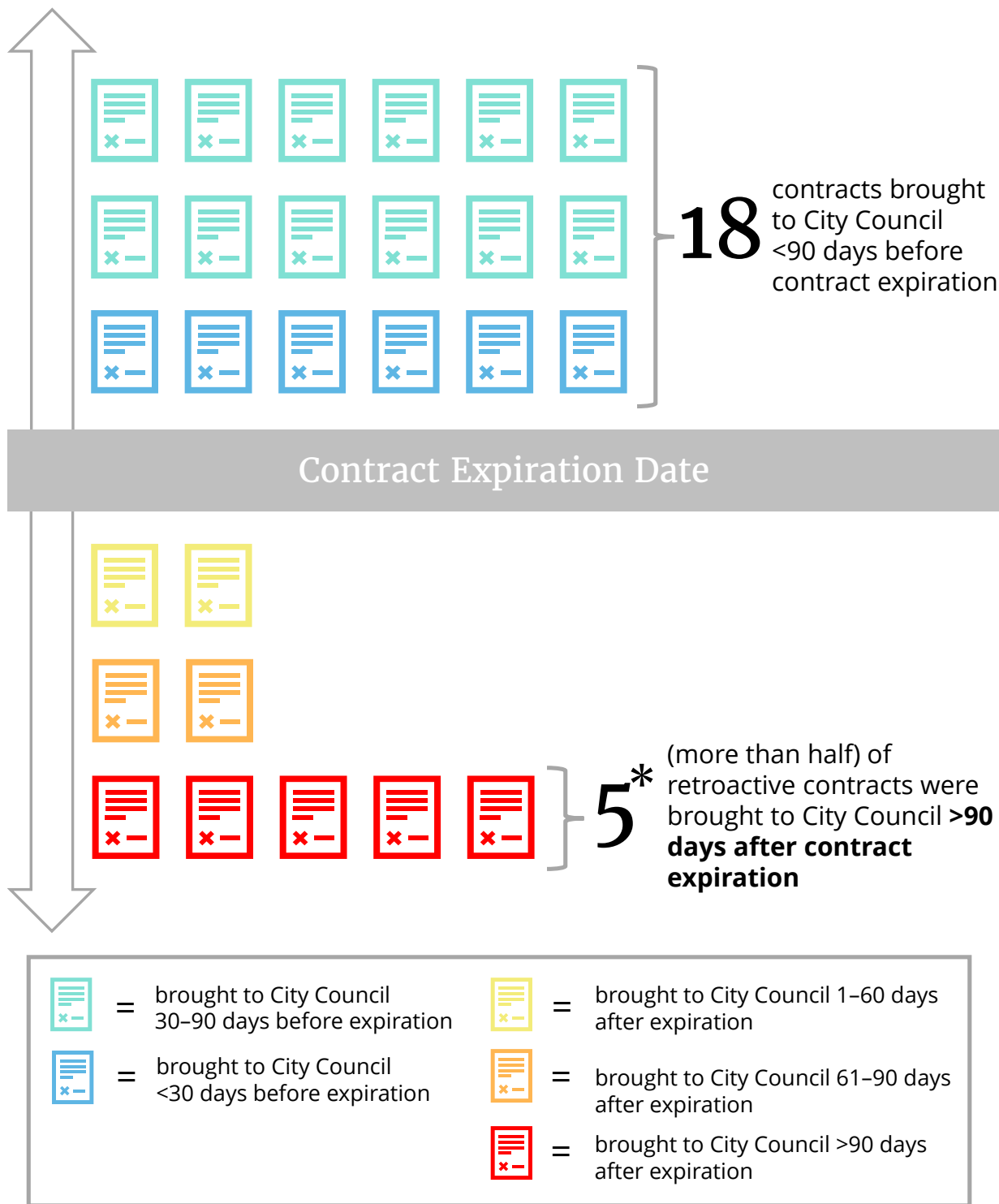


Source: OCA generated based on information from Ariba and the City Clerk's Office.

Additionally, our findings on retroactive, or near-expiration contracts are summarized in **Exhibit 8**.

Exhibit 8

27 Contracts Were Brought to Council With 90 Days or Less Until Expiration or After the Contract Had Expired



*As mentioned in footnote 6, 21 of the 30 retroactively approved alterations were done before the expiration date but had services that exceeded the maximum value of the contract. These are not included in this exhibit.

Source: OCA generated based on information from Ariba, the City Clerk, and P&C.

Contracts and contract alterations without proper approvals create risks for the City and its vendors.

Contracts need to go through proper approval procedures to ensure both the City and its vendors are protected. We found that when contracts reach their value or time limits, the City's system restricts staff from committing additional funds, which stops further payments under that contract. This restriction helps uphold the City's financial control requirements, preventing unapproved expenses. However, there is a risk that staff may authorize work to continue when contracts exceed their approved limits to ensure services are not disrupted. This leads to staff changing contract values in the system with the expectation of retroactive Council approval. While emergency circumstances might justify bypassing this requirement, without defined emergency procedures and a formalized contract alteration process, there is a risk of retroactive approvals becoming common practice rather than an exception.⁸

Council may face pressure to approve contracts, therefore ensuring services are not disrupted and that City vendors are paid for their work.

Further, bringing contracts for approval retroactively or with little time remaining presents risks to the City by impacting the approval process. For example, like the pressure staff faces to continue services, Council may face pressure to approve contracts, therefore ensuring services are not disrupted and that City vendors are paid for their work. This could compromise the review process, creating financial and accountability risks.

Vendors providing goods or services under contracts that did not receive proper Council approval are at risk of not being paid for their work.

Finally, services that continue without an approved contract could result in payment issues, affecting both the City and community businesses. Specifically, according to the City Attorney's Office, contracts not adhering to City rules and regulations become void or unenforceable. Therefore, vendors providing goods or services under contracts that did not receive proper Council approval are at risk of not being paid for their work. Moreover, if the vendor provides substandard services, the City will not have contractual recourse. Payments on improperly approved contracts could also result in late payments. For example, in one instance, the City took almost twice as long to pay one vendor in the months leading up to a Council action to increase the maximum limit of the contract. While this specific vendor continued the contract after the delays, smaller businesses could be affected by the late payments or choose to stop providing services to the City. This could lower competition, making it difficult for the City to attract vendors with competitive pricing.

⁸ In a separate report, the Office of the City Auditor found that the City's procedures for obtaining necessary goods and services outside the normal procurement process are unclear. For more information, see the [Fraud Hotline Report of Purchase Order Approvals](#).

Staff cited a wide variety of issues that resulted in late presentations to Council.

Staff listed a variety of reasons for bringing contracts for retroactive approval, including:

- COVID-19 and supply chain issues;
- Staffing shortages and unbalanced work;
- Active litigation; and
- Updated legal guidance.

Retroactively approved contracts covered a number of necessary City services, including debt collection services, chemicals necessary for clean and safe drinking water, and information system management. In multiple instances, staff cited the need for services to continue as the reason for altering, rather than re-bidding, the contract. One City staff member stated that while they would normally tell vendors to not perform work without an active contract, some services are necessary to protect public health and must continue.⁹

Contract administration roles and responsibilities are not well-defined, and the City lacks a formalized contract alteration process.

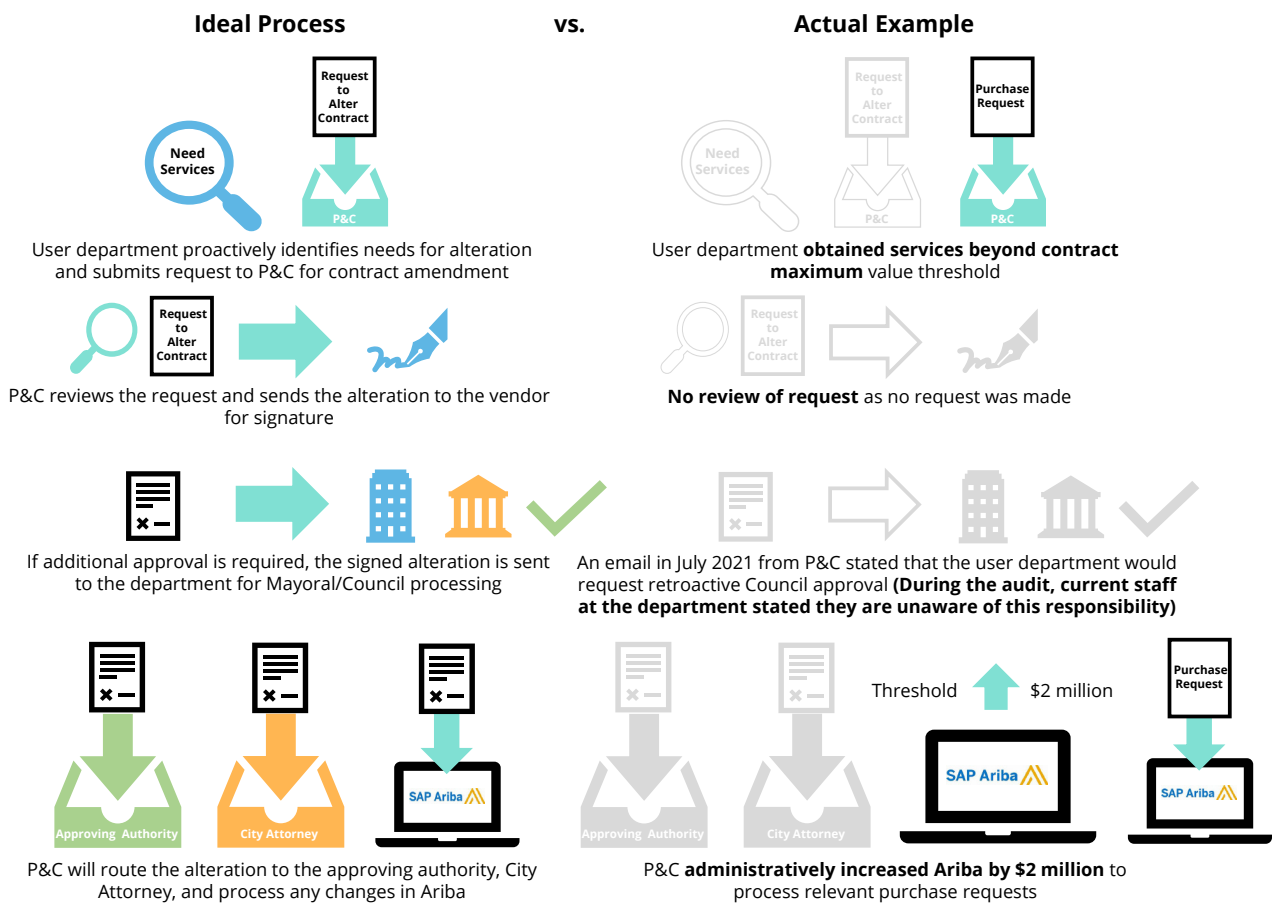
We also found that there appears to be confusion around roles and that responsibilities are not well-defined, particularly for contracts involving multiple departments. Generally, contract-managing department staff are in charge of administering contracts. However, staff stated that not all contract administrators may be fully experienced in those responsibilities, such as understanding the intricacies of financial management systems or how to navigate staff reports of the docketing procedures. For instance, contract administrators may not sufficiently budget their contract requests and may not estimate future price changes or wage increases. This could lead to alterations later in the life of the contract that could have been foreseen.

Additionally, not all contract alteration procedures are well-defined. For example, staff stated that if a contract is used by multiple departments, P&C would normally direct the highest spending

⁹ Additionally, amendments to contracts the City procured using a sole source justification could require an additional step of re-certification from the competitive process. The City should include guidance around these specific amendments in any formalized contract amendment process.

department of the contract to take the lead on obtaining necessary approvals for alterations. However, in practice, this is not always the case. **Exhibit 9** below shows the ideal contract alteration process for goods and services contracts as defined in training materials, and one example of a contract diverging from this process. We also note that while the ideal process for contract alterations is communicated at training, it is not formally documented.

Exhibit 9
Operations Do Not Always Follow Procedures Laid Out During Training



Source: OCA generated based on City training materials and Ariba supporting documentation.

In this example, email records showed that P&C believed the lower spending user department would seek Council approval for a \$2 million alteration since it had the most pressing issue. When we inquired about the current status of Council approval, staff from the user department did not have knowledge of that responsibility. P&C staff stated it was aware of the issue, but contract approval remains outstanding.

Benchmark agencies have a specific contract coordinator within operational departments with extra training and provide updates on contract activity to oversight bodies.

We found that other nearby agencies' contract management roles are better defined, involve extra training, and provide updates on contract activities to oversight bodies. At San Diego County, contract management responsibilities are assigned by department leadership, and staff are not authorized to manage contracts without proper training. The County's Purchasing and Contracting Department mandates the training and requires staff to re-certify at least every two years.

The City of Los Angeles requires that at least one person¹⁰ be designated as a Department Contract Coordinator who is responsible for ensuring their department's compliance with the contracting process. Responsibilities of this role include:

- Attending regular meetings as organized by the Office of Procurement;
- Representing the department as the initial point of contact for other City departments on contracting topics;
- Reporting any contracting quarterly reports to the Mayor's Office or other entities;
- Ensuring that contract award information is entered into the contract system; and
- Participating in mandatory introductory and specialized training.

We also found that while benchmark jurisdictions require updates to oversight bodies on contract activities, P&C does not provide these regular updates. Examples of other agencies' updates include:

- San Diego County prepares monthly and year-end reports on the number of ratifications and publishes a public list of contracts expiring over the next year.
- The City of Los Angeles is tasked with providing reports to the Mayor and Council on ongoing contract activities, including amended contracts that will subsequently require Council approval; and
- The City of San Jose is required to provide quarterly updates on contracts of \$140,000 or more Council appointees agreed to over the previous quarter. These updates include whether the contract was sole source and if the contract was retroactive.

¹⁰ Staff from LA noted that larger city departments may have multiple DCCs, whereas smaller departments may only have one.

Compiling and reporting information on contract activities could increase awareness on contracts before they reach their expiration date or run out of available contract spend.

Federal and County procurement guidelines require written justification and corrective action for ratifications.

We found that both federal and San Diego County requirements for ratifications are stricter than City requirements. While City staff are trained on how to request an alteration for a contract, these procedures are not formally documented. In contrast, the General Services Administration requires any request for ratification to include:

- A statement of facts detailing why the normal procedure was not followed;
- Agreement from legal counsel that the request is authorized; and
- A recommendation for corrective action from the requesting party.

San Diego County also requires written approval before establishing a contract or paying any invoice(s) in situations where the transaction occurred prior to gaining proper approval. This “Ratification Memo” requires:

- Background of purpose and need for the item;
- Why pricing is fair & reasonable; and
- Corrective action to prevent reoccurrence of the situation.

Staff complete written requests for approval regardless of whether approval authority lies with the Department Director or the Board of Supervisors. Additionally, according to County staff, recent reforms emphasizing accountability and corrective plans have helped to dramatically reduce the number of ratifications.

According to County staff, recent forms emphasizing accountability and corrective plans have helped to dramatically reduce the number of ratifications.

Recommendations

To ensure that contract alterations are timely brought to Council for approval:

Recommendation 2.1

(Priority 3)

The Purchasing & Contracting Department should work with each City department to identify at least one staff member to serve as an internal central point-of-contact for contract administration.

Management Response: Agree [See full response beginning on page 41.]

Target Implementation Date: December 2024

Recommendation 2.2

(Priority 3)

The Purchasing & Contracting Department should design and implement additional training for department-assigned contract administration points-of-contact.

Management Response: Agree [See full response beginning on page 42.]

Target Implementation Date: June 2025

Recommendation 2.3

(Priority 2)

The Purchasing & Contracting Department (P&C) should develop a procedure and template for ratification requests to be submitted in writing. These requests should:

- Explain why the ratification is necessary;
- Describe corrective action to prevent reoccurrence;
- Include when the contract exceeded expiration, if applicable;
- Include by how much the contract exceeded maximum value, if applicable;
- Be approved by P&C; and
- Be submitted as supporting documentation to Council for approval, if applicable.

Management Response: Agree [See full response beginning on page 42.]

Target Implementation Date: March 2025

Recommendation 2.4

(Priority 2)

The Purchasing & Contracting Department should design guidelines for City departments to provide Council with updates on contract activities, which could include:

- Information on soon to expire or soon to reach spend contracts;
- Number of ratifications; and/or
- A list of sole source contracts.

Management Response: Agree [See full response beginning on page 42.]

Target Implementation Date: December 2024

Recommendation 2.5

(Priority 2)

The Purchasing and Contracting department should establish and implement a formalized contract alteration process which at least addresses the:

- Value and length thresholds requiring City Council approval; and
- Requirements to re-certify sole source contracts if amended.

Management Response: Agree [See full response beginning on page 43.]

Target Implementation Date: December 2024

Finding 3

Incomplete and inaccurate contract information and unwritten policies have led to work inefficiencies and staff errors.

Finding Summary

Finding 1 discusses how City departments increased contracts by at least \$15 million without required Council approval. Finding 2 addresses how 19 percent of the contract alterations we reviewed, totaling \$64 million, were brought to Council for approval retroactively and 11 percent, totaling \$75 million, were brought to Council close to expiration. These scenarios highlight risks to transparency, governance, and the City, and call for improved contract management practices.

Although best practices and prior OCA reports identify and recommend implementing technology and other controls to address risks, we found numerous issues related to Ariba and the absence of written policies, leading to work inefficiencies and staff errors. These factors complicate the contract alteration process, contributing to less effective Council oversight and are shown below in **Exhibit 10**. Many past audit recommendations related to system controls and accuracy remain unimplemented, contributing to persistent issues. Therefore, we recommend written policies and procedures around the Ariba system and a policy to require written maximum values in all contracts.

Exhibit 10

The City Has Room to Improve in Achieving Contracting Best Practices

Standard	Benefits	Limitations in City Implementation
Technology should be acquired and implemented to aid the procurement process.	Technology can reduce costs and reduce risk by providing immediate and accurate information.	Ariba does not provide accurate contract spend information, leading to work inefficiencies and staff errors.
Public procurement should have a policy that clearly defines authority and responsibility.	Policies ensure everyone follows consistent processes and avoids the appearance of arbitrary or unfair decisions.	The City follows unwritten policies that lead to unapproved increases in contract totals.
Public procurement should be transparent in its practices, policies, processes, and relationships with stakeholders.	Transparency improves stakeholder relationships and helps achieve a sustainable procurement process.	Without clear “not-to-exceed” amounts, contracts lack spending limits and review checkpoints, reducing transparency in the alteration approval process.

Source: OCA generated based on best practices from the California Association of Public Procurement Officials and interviews with the City’s Purchasing & Contracting Department.

Best practices endorse the use of technology and other controls to provide access to reliable information and to ensure fair and equal treatment in contract administration.

Best practice organizations establish internal control standards to help governments mitigate risks. For example, the United States Government Accountability Office sets Standards for Internal Control, which are processes that help management achieve objectives, run operations efficiently, report reliable information, and comply with laws. These standards require management to establish control activities with clear policies and ensure quality information is available to address risks. OCA has published multiple reports highlighting the importance of internal controls relating to contract management, which are discussed in more detail below.

Additionally, the California Association of Public Procurement Officials (CAPPO) issued a series of principles and practices of public procurement that improve contract management and protect the interests of the organization and the public. **Exhibit 11** below describes the different standards and benefits that CAPPO recommends.

Exhibit 11

CAPPO Recommends Several Principles and Practices That Increase Reliable Information and Transparency

Standard	Elements	Benefits
Procurement professionals should identify and implement technology that aides the procurement process.	Technology in procurement should integrate financial systems with procurement system and automate process flows for approval. Metrics to measure process efficiency and technology performance should be clearly defined.	Technology in procurement can reduce time and costs associated with the process, provide accurate and immediate information, improve management of contracts and suppliers, and reduce financial and other types of risks.
Procurement organizations should develop a comprehensive policy that clearly defines authority and responsibility.	Procurement manuals should establish guidance for the organization and include definitions; authorities, roles, responsibilities; and personnel and professional development.	A comprehensive procurement manual is critical to ensuring that all stakeholders follow consistent and proper procedures. Lack of consistency leads to frustration and the appearance of arbitrary or unfair decisions.
Public procurement should, to the greatest extent practicable, be transparent in its practices, processes, policies, and relationships with all stakeholders.	Procurement should provide access to reliable information about the activities of the organization, both to external stakeholders and employees.	This improves stakeholder relationships, improves competition, and helps achieve a sustainable and transparent procurement process.

Source: OCA generated based on best practices from the California Association of Public Procurement Officials.

We found numerous accuracy issues with contract information in Ariba.

Although using accurate information is a critical best practice, we found that accurate information is not readily available in Ariba. Specifically, the “contract spend” field in Ariba shows how much money has been set aside for a contract, not the amount that has been spent. An emergency food services contract is shown below in **Exhibit 12** as an example. Staff also reported that updates made through SAP, such as invoices paid or goods receipts posted, are not shown in Ariba. Since City staff use Ariba to manage contracts, this system limitation means that staff do not have up-to-date information on contract spending. Consequently, this can lead to potential overspending, inefficient contract planning, and delays in bringing contract alterations to Council as required.

Staff do not have up-to-date information on contract spending.

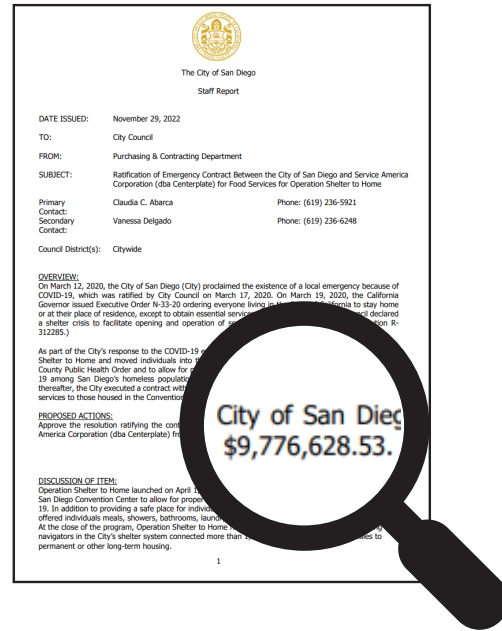
Exhibit 12

Contract Spend in Ariba Does Not Always Match Amount City Paid for Services

\$12,075,000 maximum limit
\$10,053,825 contract spend



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Source: OCA generated based on information from Ariba and the City Clerk.

Additionally, we found discrepancies between contract documents and information in Ariba. For example, out of the 121 contracts we reviewed, 15 (12 percent) contracts had contract expiration dates in Ariba that did not match with signed contract documents, and 11 (9 percent) had mismatched contract values. Some contract files in Ariba

were missing documents, such as alterations and signature pages, while some goods and services contracts were missing from Ariba completely. Lastly, Ariba indicators are not being used to track contract alterations or Council approvals. Consequently, the City cannot readily identify all contracts with alterations or those that required or received Council approval.

Many past audit recommendations related to system controls and accuracy remain unimplemented, contributing to persistent issues.

Since 2015, OCA has issued four reports about the City’s contracting procedures. While the Purchasing & Contracting Department (P&C) has implemented many of the recommendations made in the reports, there are still eight outstanding recommendations that relate to issues found in this audit. **Exhibit 13** below shows just some of the outstanding recommendations, their relevance to the issues above, and their status.

Exhibit 13

Past OCA Recommendations are Connected to Current Audit Findings

Previous Recommendation	Relevance to Current Audit	Current Status
Ensure Target Value control is enforced on contractual purchases by creating a policy defining the intervals of review and actions taken to correct the control weakness.	Purchase Orders are easily attached to the wrong contract due to a system deficiency and staff error. These errors cause Ariba to reflect incorrect total spend on some contracts and require manual adjustment.	Staff are developing a report to reconcile Ariba and SAP and developing an internal procedure for Purchase Requisition review and regular review of possible errors.
Ensure accurate contractual information by requiring supporting documentation is centralized and stored electronically, and staff are trained on policies and procedures to track information.	Contracts with missing documentation cannot be manually verified by users or reviewed by supervisors. Additionally, contracts that are missing from Ariba are not subject to system and process controls.	Staff stated that current efforts to create more streamlined Ariba templates should eliminate opportunities for staff error and provide additional opportunities for supervisory review.
Establish procedures detailing a standardized citywide contract administration process to mitigate the City’s contractual risks and ensure compliance with contractual terms.	Contracts and contract amendments do not always follow the same process both externally at the contract managing departments and internally at P&C.	Staff stated they are developing a citywide contract administration guide for contract managing departments. Training on the guide is expected to occur in September 2024.

Source: OCA generated based on OCA’s Audit Recommendation Follow-Up Report and interviews with P&C.

According to P&C, staff are currently reforming Ariba procedures and templates to decrease the opportunities for staff errors. However, while P&C staff verbally told us about some changes to P&C's policies and practices, not all of these had been documented at the time of this audit. The documentation of these changes and the implementation of past audit recommendations could substantially improve data reliability and contracting operations for the City.

The City should develop written policy to improve contract management and better respond to risks.

The absence of formal documentation and comprehensive policies in contract management has led to challenges in ensuring proper procedures are followed. According to best practices, comprehensive policies ensure consistent and proper procedures, preventing frustration and the appearance of arbitrary or unfair decisions. However, we found that several P&C policies have not yet been written.

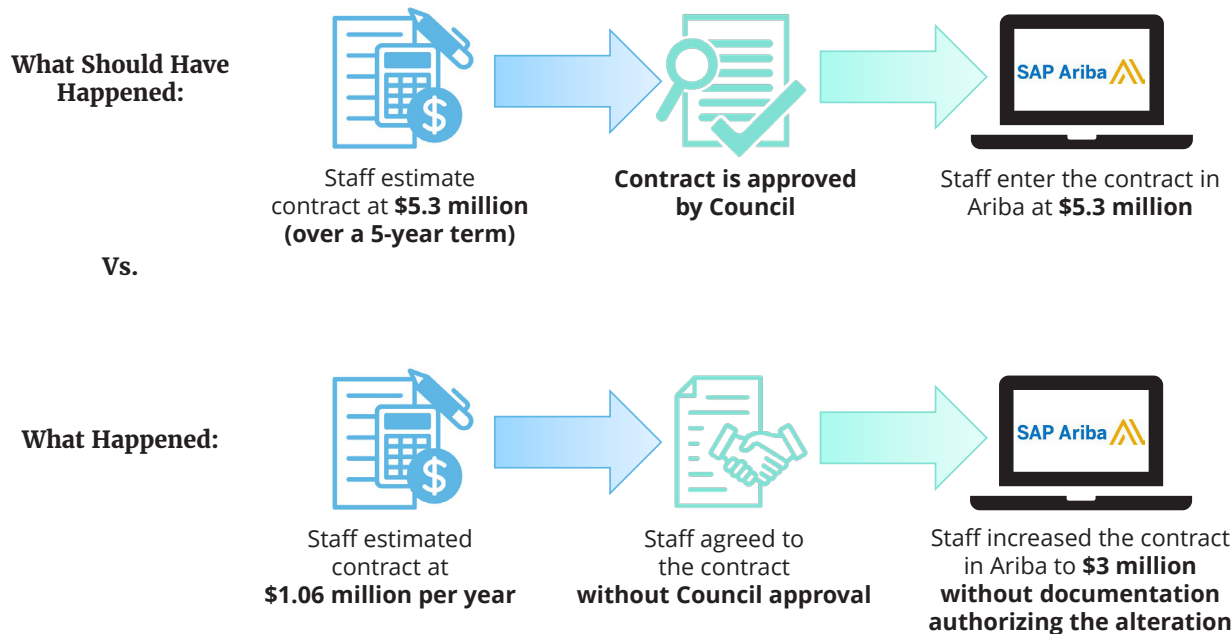
For example, prior unwritten P&C policy allowed some contracts to be established without a maximum spending limit. Rather, contract amounts were based on estimated quantities and pricing pages. However, "not-to-exceed" amounts establish clear, maximum spending limits on contracts, and are important controls to contain total spending. Additionally, benchmark cities generally require "not-to-exceed" amounts on their contracts. Although P&C does not have a written policy, staff noted that all new goods and service contracts are now required to include "not-to-exceed" amounts.

Without a clear threshold to signal the approval limit, it becomes challenging for staff to determine if the spending limit is approaching the need for Council approval.

Without a clear threshold to signal the approved limit, it becomes challenging for staff to determine if the spending limit is approaching the need for Council approval. In one instance, shown in **Exhibit 14** below, a contract was increased from approximately \$1.06 million to \$3 million in Ariba without documentation authorizing the alteration. The initial contract value based on the estimated quantities and pricing in the awarded contract amounted to \$5.3 million over its 5-year term. Thus, the contract would have required Council approval upon initial award.

Exhibit 14

Contract Values for Bullet Concrete Pumping Inc. in Ariba Differ from the Signed Contract



Source: OCA generated based on Ariba.

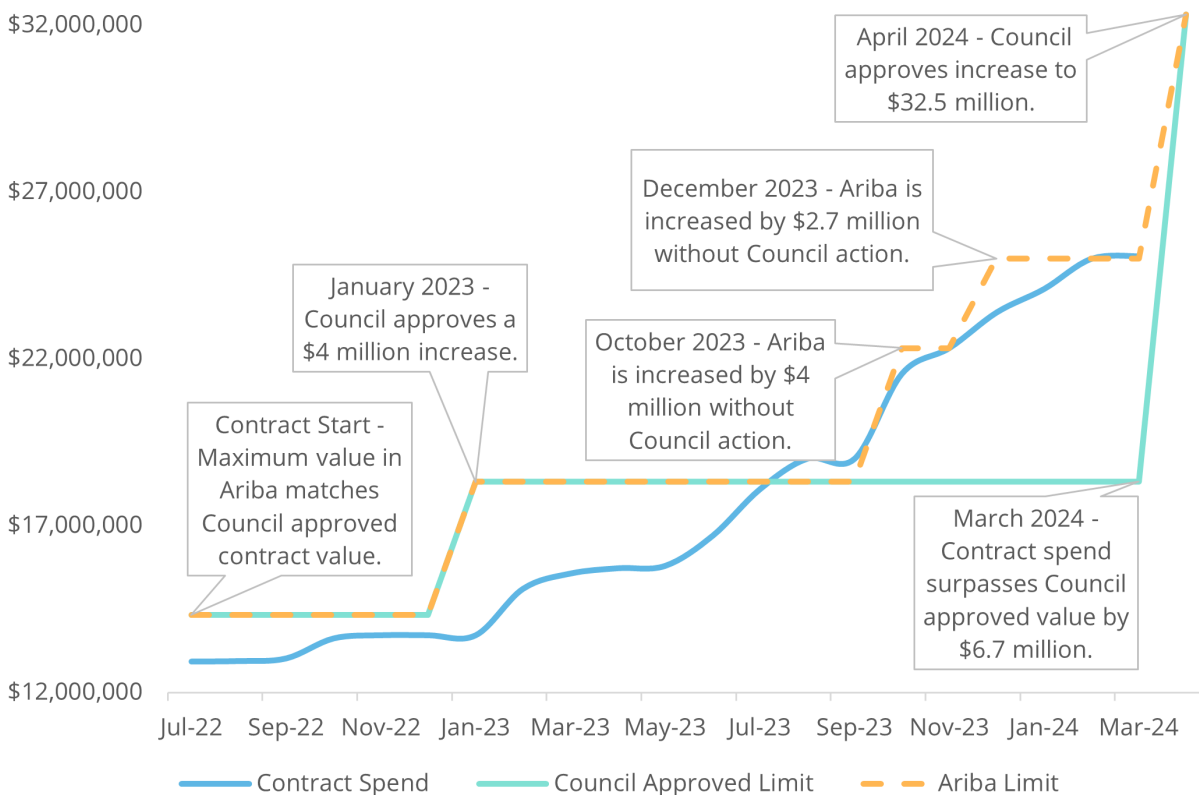
Due to the absence of a “not-to-exceed” amount to signal this contract required Council approval, the contract was not presented to Council and was entered into Ariba at a lower value.

Additionally, unwritten policy permitted contract values to be increased in Ariba without formal documentation or through an established procedure. Specifically, staff stated that previous P&C policy allowed contracts without “not-to-exceed” amounts to be altered in Ariba by more than \$200,000, provided that the value in Ariba did not exceed \$3 million. There were 23 instances where staff increased the Ariba spending limit on contracts without maximum limits by more than \$200,000 without supporting documentation. However, we also found that staff changed contract values in Ariba beyond \$3 million.

For example, as shown in **Exhibit 15**, the City’s contract with Herc Inc. for critical rental equipment was originally approved by Council for \$14.3 million, and was updated with Council approval to \$18.3 million. However, as the spend on the contract reached the value limit, Ariba was updated to increase the contract by \$4 million without Council approval or a new signed contract. Another increase without Council approval, this time of \$2.7 million happened two months later.

Exhibit 15

Staff Increased a Contract Months Before Obtaining Council Approval to Allow Additional Spending



Note: Contract spend reflects the amount of purchase orders opened but does not reflect actual funds spent on goods and services.

Source: OCA generated based on information in Ariba and SAP.

Four months later, Council finally approved a contract increase to \$32.5 million. While we acknowledge there may be a need for some flexibility to continue vital services, without documentation of policy allowing ad-hoc increases in Ariba over \$200,000, it cannot be determined whether changes were permissible or if proper procedures were followed. Ultimately, this lack of clarity can lead to challenges in managing and overseeing contract expenses effectively.

Incomplete and inaccurate contract information contributes to work inefficiencies and staff errors.

This scenario, combined with the absence of written policies to control system changes, create the risk of contracts exceeding their approved spending limits.

Inaccurate contract information complicates the contract alteration process, contributing to inefficiencies and errors that lead to compliance issues. For example, knowing a contract's actual spend is essential to determine if Council approval is needed to alter the contract. However, since spend values are inaccurate, staff must reconcile data between two systems to determine actual contract spend. This manual and lengthy process increases the likelihood of errors, including miscalculating the actual spend on contracts. This scenario, combined with the absence of written policies to control system changes, create the risk of contracts exceeding their approved spending limits.

Additionally, the lack of policies and procedures around data systems allows staff to bypass system controls. First, contracts must be managed within Ariba to benefit from these controls. Contracts missing from Ariba must be managed manually, which risks errors. Second, manual entry issues can allow staff to bypass system controls designed to prevent spending on contracts that have expired or reached their maximum limit. As mentioned in Finding 2, Ariba restricts staff from committing additional funds when contracts reach their value or time limits, which stops further payments under that contract. However, staff administratively increasing contract maximum values in Ariba would allow additional funds to be committed towards that contract.

Recommendations

To ensure the availability of accurate and up-to-date contract information:

Recommendation 3.1

(Priority 2)

The Purchasing & Contracting Department should develop a policy outlining where contracts are electronically stored and managed.

Management Response: Agree [See full response beginning on page 43.]

Target Implementation Date: December 2024

Recommendation 3.2

(Priority 2)

The Purchasing & Contracting Department should implement a monitoring control to integrate SAP and Ariba contract/spend information.

Management Response: Agree [See full response beginning on page 43.]

Target Implementation Date: March 2025

Recommendation 3.3

(Priority 2)

The Purchasing & Contracting Department should establish a written policy requiring a written maximum value to be specified on all goods and services contracts.

Management Response: Agree [See full response beginning on page 43.]

Target Implementation Date: December 2024

Recommendation 3.4

(Priority 2)

The Purchasing & Contracting Department should develop guidance for its staff on altering Ariba in the absence of formal contract alterations.

Management Response: Agree [See full response beginning on page 44.]

Target Implementation Date: December 2024

Appendix A

Definition of Audit Recommendation Priorities

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 consideration 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*	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 nonfiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

* The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B

Audit Objectives, Scope, and Methodology

Objective

In accordance with the Office of the City Auditor's approved Fiscal Year (FY) 2024 Audit Work Plan, we conducted a performance audit of the City's contract management process. Our objective was to determine whether the City appropriately extended or increased the value of goods and services contracts in accordance with SDMC and best practices.

Scope

The scope of this audit was alterations on goods and services contracts active from FY2017 through FY2023 that appeared to require Council approval. These included contracts over five years in length or contracts that had at least one alteration of \$200,000 or more. The scope did not include public works contracts managed in part by the Engineering and Capital Projects Department.

Methodology

To determine whether the City appropriately extended or increased the value of goods and services contracts in accordance with SDMC and best practices, we:

- Reviewed prior audits and recommendations related to contract management.
- Reviewed San Diego Municipal Code sections, San Diego City Charter, and City Attorney's Office legal guidance.
- Reviewed internal documents, such as the Purchasing & Contracting Department (P&C) procurement manual, Procurement Academy training, purchase order process narrative, and departmental contract management tools.
- Analyzed FY2025 Proposed Budget documents.
- Reviewed best practices materials from the Government Accountability Office, the General Services Administration, and the California Association of Public Procurement Officials.
- Benchmarked contract management practices with other California jurisdictions including the County of San Diego and the City of Los Angeles.
- Interviewed staff in the Purchasing & Contracting Department, Homelessness Strategies & Solutions Department, Public Utilities Department and Department of Information Technology.
- Analyzed 157 alterations made to contracts in Ariba by reviewing physical contract documents.
- Reviewed materials related to City Council approval of specific contracts, including staff reports, Council resolutions, and ordinances.

Data Reliability

The audit used data from the Ariba contract management system to pull an initial universe of alterations but was manually verified by comparing data against contract documents. We assessed the reliability of the data by: (1) interviewing P&C staff to determine internal processes; (2) attending an Ariba walkthrough where we observed system controls; and (3) testing a limited number of fields against physical contract documents. While we determined the data were sufficiently reliable for the purposes of responding to our objectives, we acknowledge the system and processes have limitations. Since Ariba may not list all goods and services contracts, we could not make conclusions about the entirety of the City's goods and services contracts, but rather just about the contracts we reviewed.

Internal Controls Statement

We limited our review of internal controls to specific controls relevant to our audit objective, described above. We tested the following controls:

- Extent of the City's standard processes and procedures for contract approval;
- Existence and use of a centralized contract database;
- Financial system controls preventing overspend of approved contract; and
- Information technology system controls on contract expiration dates and maximum values.

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C

Office of the City Auditor – List of Identified Unapproved Contracts

(Discussed in Finding 1)

Supplier	Department	Value Change	Status (as of June 26 th , 2024)
Allstar Fire Equipment	Fire-Rescue	\$ 1,162,500	Unapproved - Expired
Alpha Project for the Homeless	Park & Recreation	\$ 2,000,000	Unapproved
Aztec Landscaping Inc	Park & Recreation	\$ 799,680	Unapproved - Expired
Bibliotheca LLC	Multiple Departments	\$ 1,344,961	Unapproved - Expired
cAir 88 Inc	Multiple Departments	\$ 848,420	Unapproved - Expired
Carahsoft Technology Corporation	Multiple Departments	\$ 300,000	Unapproved
Carahsoft Technology Corporation	Multiple Departments	\$ 903,190	Unapproved - Expired
Cintas Corporation No 3	All Departments	\$ 2,000,000	Unapproved
Cintas Corporation No 3	All Departments	\$ 449,500	Unapproved
Cintas Corporation No 3	All Departments	\$ 500,000	Unapproved
Cintas Corporation No 3	All Departments		Unapproved*
Courtyard by Marriott	Human Resources	\$ 262,500	Unapproved - Expired
Flo Systems Inc	Public Utilities	\$ 1,950,000	Unapproved - Expired
I Love A Clean San Diego	Environmental Services	\$ 204,667	Unapproved - Expired
NMS Management Inc	Public Utilities	\$ 410,000	Unapproved - Expired
OW Investors LLC	Public Utilities	\$ 1,030,651	Unapproved
Parkson Corporation	Public Utilities	\$ 1,400,000	Unapproved - Expired
Pipe Rehab Specialists	Public Utilities	\$ 301,150	Unapproved - Expired
SuccessFactors	Information Technology	\$ 450,000	Unapproved - Expired
West Coast Arborists Inc	Park & Recreation	\$ 300,000	Unapproved - Expired
Westturf Landscape Maintenance	Park & Recreation	\$ 2,093,655	Unapproved - Expired

Note 1: The fourth unapproved alteration for the Cintas contract extended the contract beyond five years without City Council approval but did not increase the contract’s value.

Note 2: The “Department” column indicates City departments with ability to access the contract in Ariba. As mentioned in Finding 2, policies around which department is responsible for bringing alterations to Council for any necessary action are not well-defined.

Appendix D

Office of the City Auditor – List of Identified Retroactive Contracts

(Discussed in Finding 2)

Supplier	Department	Value Change	Council Date	Resolution/ Ordinance	Days After Expiration	Status
ADS Corp	Public Utilities	\$ 744,402				Retroactive
ADS Corp	Public Utilities	\$ 373,000				Retroactive
ADS Corp	Public Utilities	\$ 743,602				Retroactive
ADS Corp	Public Utilities	\$ 394,594				Retroactive
ADS Corp	Public Utilities	\$ 602,600	11/15/2022	R-314440	146	Retroactive
Bentley Systems Incorporated	Public Works – Contracts	\$ 1,123,831	10/18/2022	O-21554	110	Retroactive
Buck Global LLC	Risk Management	\$ 44,500	6/13/2023	R-314977	169	Retroactive
Colantuono Highsmith & Whatley PC	Multiple Departments	\$ 125,000	1/9/2024	O-21755	100	Retroactive
Colantuono Highsmith & Whatley PC	Multiple Departments	\$ 125,000	2/8/2022	R-313891		Retroactive
Columbia Ultimate Inc	City Treasurer	\$ 500,000	1/10/2023	O-21599	10	Retroactive
DNV GL Noble Denton USA LLC	Public Utilities	\$ 743,386	1/24/2023	O-21609	175	Retroactive
Herc Rentals Inc	All Departments	\$ 4,000,000				Retroactive
Herc Rentals Inc	All Departments	\$ 2,675,000				Retroactive
Herc Rentals Inc	All Departments	\$ 10,000,000	4/22/2024	O-21796		Retroactive
JCI Jones Chemicals Inc	Public Utilities					Retroactive
JCI Jones Chemicals Inc	Public Utilities	\$ 5,700,000	9/13/2022	O-21531	62	Retroactive
JCI Jones Chemicals Inc	Public Utilities	\$ 11,691,700				Retroactive
JCI Jones Chemicals Inc	Public Utilities	\$ 6,841,550	8/2/2022	R-314301		Retroactive
Kemira Water Solutions Inc	Public Utilities	\$ 13,469,900	8/2/2022	R-314304		Retroactive
Labworks LLC	Public Utilities		6/6/2023	O-21652	45	Retroactive
Liebert Cassidy Whitmore	Multiple Departments	\$ 600,000	6/21/2022	R-314183		Retroactive
Meyers Nave A Professional Corp	Multiple Departments	\$ 350,000	9/20/2021	R-313711		Retroactive
NAMI San Diego	Homelessness Strategies & Sol	\$ 335,324				Retroactive
Raftelis Financial Consultants Inc	Public Utilities	\$ 150,000	10/3/2022	O-21541	71	Retroactive
Service America Corporation	Homelessness Strategies & Sol	\$ (2,298,371)	1/10/2023	R-314563	645	Retroactive
United Site Services of CA Inc	Citywide Expenses	\$ 1,300,108				Retroactive
United Site Services of CA Inc	Citywide Expenses	\$ 566,311	4/9/2024	R-315458	391	Retroactive

Note: The “Department” column indicates City departments with ability to access the contract in Ariba. As mentioned in Finding 2, policies around which department is responsible for bringing alterations to Council for any necessary action are not well-defined.

Appendix E

Office of the City Auditor – List of Identified Untimely Contracts (Discussed in Finding 2)

Supplier	Department	Value Change	Council Date	Resolution/ Ordinance	Days Before Expiration	Status
AssetWorks Inc	General Services	\$ 219,506	5/16/2023	O-21645	45	Untimely
AT&T	All Departments	\$ 4,501,803	6/2/2020	R-313048	28	Untimely
AT&T	All Departments		7/13/2021	O-21359	36	Untimely
Bentley Systems Incorporated	Public Works - Contracts	\$ 1,103,482	4/25/2023	O-21643	66	Untimely
Clean Harbors Environmental Service	Multiple Departments		1/10/2023	O-21595	88	Untimely
Columbia Ultimate Inc	City Treasurer	\$ 690,000	11/15/2016	O-20748	46	Untimely
Columbia Ultimate Inc	City Treasurer	\$ 480,000	11/19/2019	O-21154	42	Untimely
Columbia Ultimate Inc	City Treasurer	\$ 250,000	10/19/2021	O-21384	73	Untimely
Dell Marketing LP	All Departments	\$ 18,633,600	9/12/2023	O-21721	49	Untimely
Hurrell Cantrall LLP	Multiple Departments	\$ 300,000	7/25/2023	O-21706	15	Untimely
Luth and Turley Inc	Public Utilities	\$ 10,000,000	6/6/2023	O-21657	18	Untimely
Meyers Nave A Professional Corporat	Multiple Departments		6/20/2023	O-21668	50	Untimely
Regents of the University of CA	Emergency Medical Services	\$ 2,432,182	12/6/2022	R-314483	44	Untimely
Rehrig Pacific Company	Multiple Departments	\$ 30,262,000	7/27/2021	O-21364	65	Untimely
University of San Diego	Sustainability & Mobility	\$ 260,940	6/8/2021	O-21324	23	Untimely
US Bank National Association	City Treasurer	\$ 63,000	6/27/2023	O-21670	12	Untimely
Ventiv Technology Inc	Risk Management	\$ 1,065,364	6/29/2021	O-21336	32	Untimely
West Coast Arborists Inc	Transportation	\$ 4,300,000	9/18/2023	R-315125	12	Untimely

Note: The “Department” column indicates City departments with ability to access the contract in Ariba. As mentioned in Finding 2, policies around which department is responsible for bringing alterations to Council for any necessary action are not well-defined.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: July 10, 2024

TO: Andy Hanau, City Auditor, Office of the City Auditor

FROM: Claudia C. Abarca, Director, Purchasing & Contracting Department

SUBJECT: Management Response to the Office of the City Auditor’s Performance Audit of Contracts Management

This memorandum serves as the Management Response to the Performance Audit of Contracts Management. Management appreciates the audit prepared by the Office of the City Auditor and thanks staff involved. Management agrees with all recommendations.

Good contract management in City contracting is crucial for ensuring public funds are used efficiently and responsibly. Effective contract management ensures that vendors and service providers fulfill their obligations according to the terms and conditions stipulated in their contract, which, in turn, helps deliver high-quality services and infrastructure to the communities we serve. In addition, good contract management enhances transparency and accountability, which are essential for maintaining public trust and confidence in government operations and helps minimize the risk of cost overruns, delays, and legal disputes, leading to better contract outcomes and fiscal responsibility.

The Purchasing and Contracting Department (P&C) is committed to developing policies and procedures to continue to assist City departments with contract oversight and management, help them promptly address issues, enforce compliance, and make necessary adjustments to avoid cost overruns and contracting delays.

Recommendation 1.1: The Purchasing & Contracting Department, or the applicable lead department, should present to City Council any active contract alterations identified in this audit or in their own internal review that have not been previously approved in accordance with San Diego Municipal Code requirements. (Priority 1)

Management Response: Agree. Purchasing & Contracting will review the list identified in this report and within the Ariba system to identify all active contract alterations that did not have appropriate approval. Based upon findings, P&C will provide information to the respective departments, and in consultation with the City Attorney’s Office, to take action in bringing items forward for appropriate approval.

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Target Implementation Date: To be determined. P&C intends to work quickly on identifying contract alterations no later than December 2024, however, each department will be responsible to bring their item forward for Council approval.

Recommendation 1.2: The Purchasing & Contracting Department should propose updated City Council approval thresholds such as an inflation adjustment mechanism, mandated periodic review, or another control. (Priority 2)

Management Response: Agree. Purchasing & Contracting will conduct benchmarking across other agencies to review best practices on current thresholds and include a mechanism to adjust thresholds based on inflation and/or consumer price index (CPI) increases on an annual basis.

Target Implementation Date: June 2025 P&C staff is in the process of updating additional sections of San Diego Municipal Code (SDMC), Chapter 2, Division 32: Contracts for Goods, Services, and Consultants, and will incorporate this recommendation alongside those changes.

Recommendation 1.3: The Purchasing & Contracting Department should propose changes to the San Diego Municipal Code clarifying City Council approval requirements for goods and services contract alterations. (Priority 2)

Management Response: Agree. As stated previously, staff is currently working on updates to SDMC and will incorporate this recommendation as well.

Target Implementation Date: June 2025.

Recommendation 1.4: Once Recommendations 1.2 and 1.3 are implemented, the City Attorney's Office, in consultation with the Purchasing & Contracting Department, should issue updated, written guidance clarifying San Diego Municipal Code requirements for contract alterations to ensure that departments and attorneys are aware of what the requirements are. (Priority 2)

Management Response: Agree. Purchasing & Contracting will work with the City Attorney's Office, and provide any information necessary, to help update written guidance regarding contract alterations.

Target Implementation Date: December 2025.

Recommendation 2.1: The Purchasing & Contracting Department should work with each City department to identify at least one staff member to serve as an internal central point-of-contact for contract administration. (Priority 3)

Management Response: Agree. While some Procurement Contracting Officers (PCOs) from Purchasing & Contracting meet with representatives from the City departments they assist

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on a regular basis, a central point-of-contact from each respective City department has not been identified. P&C will work with departments to establish a central point-of-contact that will work directly with the assigned PCO liaison.

Target Implementation Date: December 2024.

Recommendation 2.2: The Purchasing & Contracting Department should design and implement additional training for department-assigned contract administration points-of-contact. (Priority 3)

Management Response: Agree. Purchasing & Contracting has made a concerted effort to provide more training related to the procurement process over the past few years. This includes the development of Procurement Academy, a 5-day in-depth training which takes place twice a year, as well as departmental trainings covering routine procurement processes on an ad-hoc basis. Once point-of-contacts (POCs) have been identified for each City department, Purchasing & Contracting will assess what type of training, including Procurement Academy, will be required and create a schedule for POCs to attend.

Target Implementation Date: June 2025. Depending on the level of experience, the implementation of this recommendation may occur sooner, but if in-depth training is required, P&C is allotting additional time to meet those unexpected needs.

Recommendation 2.3: The Purchasing & Contracting Department (P&C) should develop a procedure and template for ratification requests to be submitted in writing. These requests should:

- Explain why the ratification is necessary;
 - Describe corrective action to prevent reoccurrence;
 - Include when the contract exceeded expiration, if applicable;
 - Include by how much the contract exceeded maximum value, if applicable;
 - Be approved by P&C; and
 - Be submitted as supporting documentation to Council for approval, if applicable.
- (Priority 2)

Management Response: Agree. Purchasing & Contracting will develop a procedure and standard template for City department use for ratification requests, when required.

Target Implementation Date: March 2025.

Recommendation 2.4: The Purchasing & Contracting Department should design guidelines for City departments to provide Council with updates on contract activities, which could include:

- Information on soon to expire or soon to reach spend contracts;
- Number of ratifications; and/or
- A list of sole source contracts. (Priority 2)

Management Response: Agree. Purchasing & Contracting will design guidelines related to each of these activities and how City departments can provide Council with updates.

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Target Implementation Date: December 2024.

Recommendation 2.5: The Purchasing and Contracting department should establish and implement a formalized contract alteration process which at least addresses the:

- Value and length thresholds requiring City Council approval; and
- Requirements to re-certify sole source contracts if amended. (Priority 2)

Management Response: Agree. Purchasing & Contracting will establish and implement a formalized contract alteration process addressing the items in this recommendation.

Target Implementation Date: December 2025. Once final changes to SDMC related to thresholds for alterations is adopted, staff will establish a formalized written process to address the items in the recommendation.

Recommendation 3.1: The Purchasing & Contracting Department should develop a policy outlining where contracts are electronically stored and managed. (Priority 2)

Management Response: Agree. Purchasing & Contracting management will work to identify the appropriate location for the contracts that are processed by the department.

Target Implementation Date: December 2024.

Recommendation 3.2: The Purchasing & Contracting Department should implement a monitoring control to integrate SAP and Ariba contract/spend information. (Priority 2)

Management Response: Agree. The management team of Purchasing & Contracting initiated a deep dive of the Ariba platform in October of 2023 to better understand how the system is supposed to work, how it is currently functioning based on the business process and implementation that occurred several years ago, and whether new business processes are in order. What P&C found is that while Ariba contract information flows into SAP, information from SAP, like total purchase order spend, does not flow back into the Ariba system. P&C is exploring options with the Department of IT to help address this recommendation.

Target Implementation Date: March 2025.

Recommendation 3.3: The Purchasing & Contracting Department should establish a written policy requiring a written maximum value to be specified on all goods and services contracts. (Priority 2)

Management Response: Agree. This policy was adopted in 2022, however it was not in written format. Purchasing & Contracting will ensure the policy is formalized in writing.

Target Implementation Date: December 2024.

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Recommendation 3.4: The Purchasing & Contracting Department should develop guidance for its staff on altering Ariba in the absence of formal contract alterations. (Priority 2)

Management Response: Agree. Purchasing & Contracting is currently working on formal, written procedures related to contract entry in the Ariba system. This recommendation will be included within those policies.

Target Implementation Date: December 2024.

In summary, Purchasing & Contracting acknowledges the critical importance of robust contract management practices in City contracting to ensure the efficient and responsible use of public funds. Effective contract management is vital for maintaining high standards of service delivery, infrastructure development, transparency, and accountability.

Thank you for the opportunity to provide responses to these recommendations. Management appreciates your team's professionalism throughout the review.



Claudia C. Abarca
Director
Purchasing & Contracting Department

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