

Performance Audit of the City’s Contract Management Process

Why OCA Did This Study

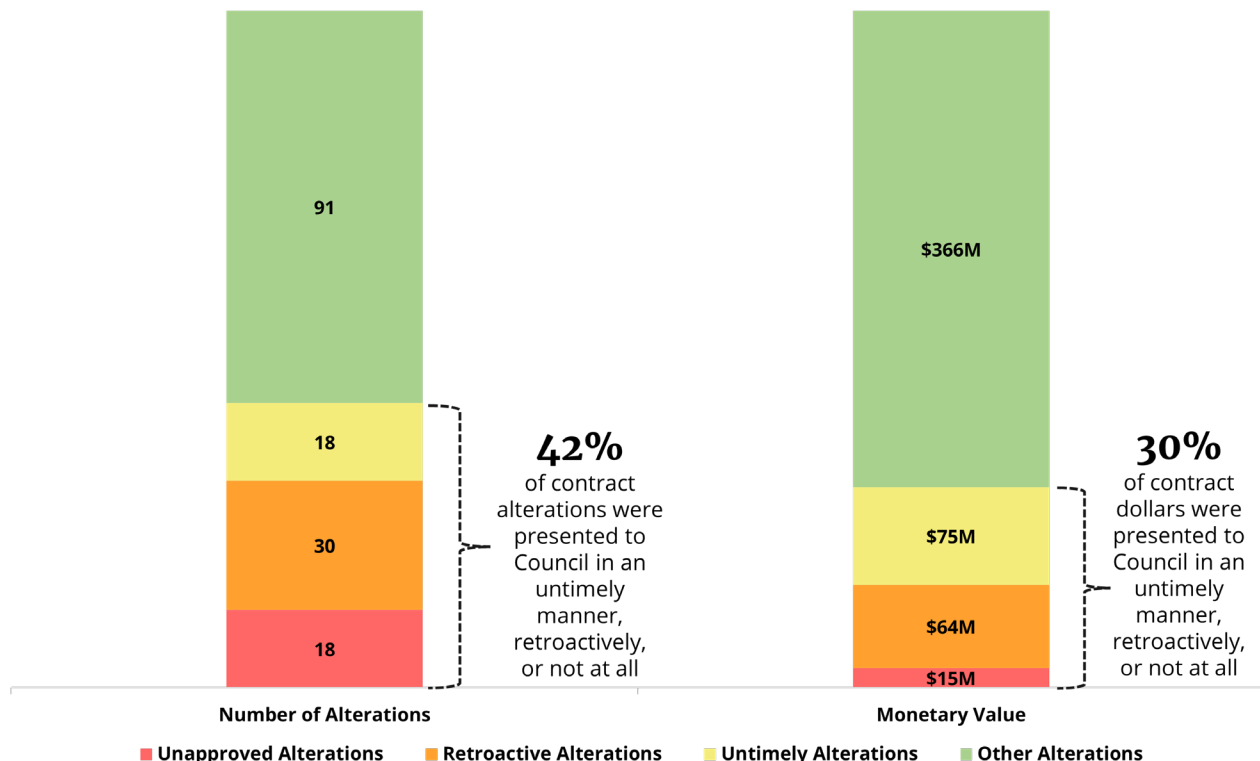
The City of San Diego (City) spends hundreds of millions of dollars annually on goods and services contracts to provide critical City services. The San Diego Municipal Code (SDMC) requires City Council to review and approve some larger value changes to those contracts to ensure public oversight and transparency 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

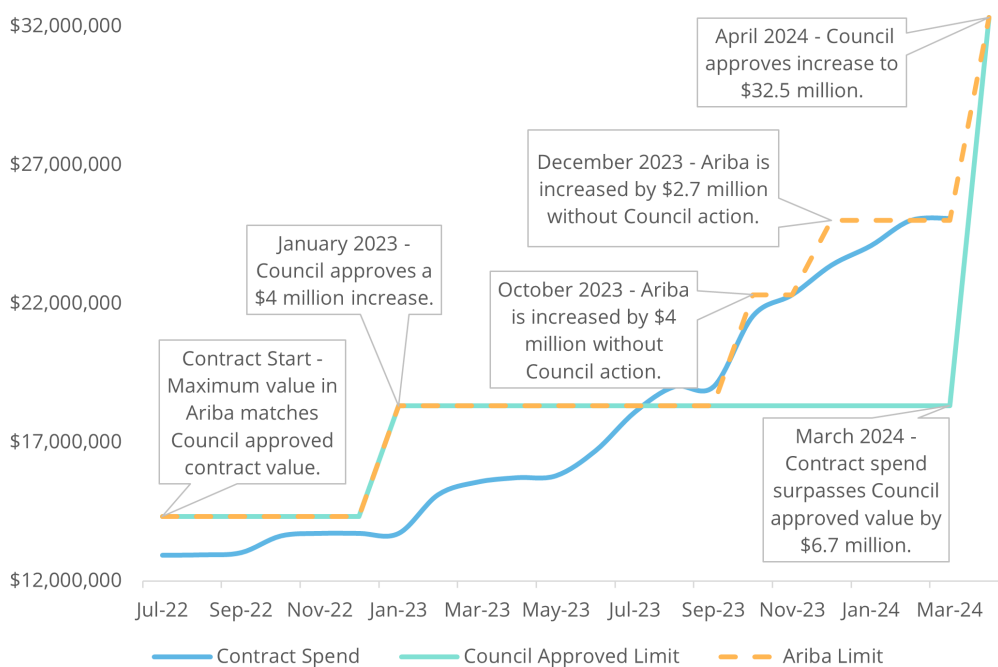
We made 13 recommendations to the Purchasing & Contracting Department. Key recommendations include:

- **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.