

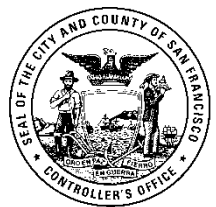
City and County of San Francisco

Office of the Controller – City Services Auditor

CITYWIDE CONTRACT COMPLIANCE PROGRAM:

Combined Audits

Fiscal Years 2011-12 and 2012-13



January 6, 2015

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

The City Services Auditor Division (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Charter Appendix F grants CSA broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and Web site and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Director of City Audits Tonia Lediju at Tonia.Lediju@sfgov.org or 415-554-5393, or CSA at 415-554-7469.

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City and County of San Francisco

Office of the Controller - City Services Auditor

**Citywide Contract Compliance Audits:
Combined Report, Fiscal Years 2011-12 and 2012-13**

January 6, 2015

Purpose of the Audits

The Office of the Controller's City Services Auditor Division (CSA) audited seven departments' management of and general compliance with ten City and County of San Francisco (City) contracts. The audits assessed whether departments adhere to and have adequate policies and procedures to properly and effectively administer the contract, monitor performance according to terms and conditions, and review contract expenditures related to costs and quality. This combined report summarizes the findings and recommendations of the ten contracts audited in fiscal years 2011-12 and 2012-13. In fiscal year 2011-12 CSA began a series of planned annual audits of compliance with selected city contracts. Also, CSA completed a citywide contract risk assessment to identify, measure, and prioritize each contract's potential level of risk to the City.

Highlights

The majority of the ten audits concluded that selected contractors generally complied with contract terms and conditions. However, city departments can strengthen their contract administration and oversight. The ten audit reports include a total of 43 findings and 87 recommendations. The overarching finding in this report summarizes the need for the seven departments audited to either develop or improve their contract administration and monitoring policies and procedures.

CSA audited the following ten city contracts:

- \$120 million Technology Store contracts, as used by the General Services Agency (General Services)–Administrative Services' Department of Technology and the San Francisco Public Utilities Commission.
- \$78 million Western States Oil Company contract with the San Francisco Municipal Transportation Agency and General Services.
- \$75 million AT&T Corporation contract with DT and the Department of Public Health (Public Health).
- \$27.1 million MedImpact HealthCare Systems, Inc., contract with Public Health.
- \$19.3 million Guardsmark, G.P., contract with the Human Services Agency.
- \$10 million Netsmart Technologies contract with Public Health.
- \$6 million Konica Minolta Business Solutions USA, Inc., citywide term contract, as used by Public Health.
- \$4.2 million Baker & Taylor Corporation contract with the Public Library.
- \$2.2 million KCI USA, Inc., (sole source) contract with Public Health.
- \$1 million GRM Information Management Services contract with Public Health.

Recommendations

The reports include a total of 87 recommendations made for city departments to strengthen their contract management, including that they:

- Create written procedures to guide employees in the invoice review and approval process.
- Implement contract monitoring procedures, including periodic trend analyses and vendor oversight.
- Collect amounts for any overcharges paid.
- Review invoices and supporting documentation to ensure that rates are accurately billed in compliance with the contract terms.
- Enforce contract requirements that vendors submit required service or machine uptime reports and bill in accordance with contract terms.
- Segregate duties among different employees involved in fiscal intermediary purchases and payments.

Copies of the full report may be obtained at:

*Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>*

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rysdstrom
Deputy Controller

January 6, 2015

Ms. Jaci Fong
Purchaser and Director
Office of Contract Administration

Ms. Naomi M. Kelly
City Administrator
General Services Agency

Ms. Anne Hinton
Executive Director
Department of Aging & Adult Services

Ms. Barbara A. Garcia
Director of Health
Department of Public Health

Mr. Trent Rhorer
Executive Director
Human Services Agency

Mr. Harlan Kelly, Jr.
General Manager
San Francisco Public Utilities Commission

Mr. Luis Herrera
City Librarian
Public Library

Mr. Miguel Gamiño
Chief Information Officer and Director
Department of Technology

Mr. Edward D. Reiskin
Director of Transportation
San Francisco Municipal Transportation Agency

Board of Directors, San Francisco Municipal Transportation Agency
President and Commissioners, Health Commission
President and Commissioners, Public Utilities Commission
President and Commissioners, Public Library Commission
President and Commissioners, Human Services Commission

Dear Board and Commission Members, Ladies, and Gentlemen:

The City Services Auditor Division (CSA) of the Office of the Controller (Controller) presents the combined report of its citywide contract compliance audits for fiscal years 2011-12 and 2012-13. CSA audited ten City and County of San Francisco (City) contracts, assessing whether city departments adhere to and have adequate policies and procedures to properly and effectively administer the contracts, monitor performance according to terms and conditions, and review contract expenditures related to costs and quality.

The majority of audits concluded that selected contractors generally complied with contract terms and conditions; however, city departments can strengthen their contract administration and oversight. The ten audit reports include a total of 43 findings and 87 recommendations. The links to the individual reports, including findings, recommendations, and department responses, are attached as an appendix. CSA is working with the departments to follow up on the status of the recommendations made in these reports.

CSA appreciates the assistance and cooperation of all of your staffs during the audits. For questions about this report, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

A handwritten signature in black ink, appearing to read 'Tonia Lediju', with a stylized, cursive script.

Tonia Lediju
Director of City Audits

cc: Board of Supervisors
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Budget Analyst
Mayor
Public Library

GLOSSARY OF TERMS

ACH	Automated Clearing House
AOSD	Office of the Controller's Accounting Operations and Systems Division
BPO	Blanket Purchase Order
City	City and County of San Francisco
Charter	Charter of the City and County of San Francisco
Controller	Office of the Controller
CSA	Office of the Controller's City Services Auditor Division
DT	Department of Technology
FAMIS	Financial Accounting and Management Information System
General Services	General Services Agency
Guardsmark	Guardsmark, G.P.
Human Services	Human Services Agency
Library	Public Library
Netsmart	Netsmart Technologies
OCA	Office of Contract Administration
PO	Purchase Order
Program	Citywide Contract Compliance Monitoring Program
Public Health	Department of Public Health
SFMTA	San Francisco Municipal Transportation Agency

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INTRODUCTION

Audit Authority

The audits included in this report were conducted under the authority of the Charter of the City and County of San Francisco (Charter), which requires the Office of the Controller (Controller), City Services Auditor Division (CSA), to conduct periodic, comprehensive financial and performance audits of city departments, services, and activities. The CSA audits summarized in this report are part of a series of contract compliance audits of various contracts established by city departments.

Purpose of the Combined Report

This combined report summarizes the findings and recommendations from the reports of the ten contract audits CSA conducted in fiscal years 2011-12 and 2012-13. The overarching finding in this report summarizes the need for the audited departments to either develop or improve their contract administration and monitoring policies and procedures.

The ten audit reports include a total of 43 findings and 87 recommendations. Links to the individual reports, which include all of the findings, recommendations, and the departments' responses, are attached as an appendix.

CSA follows up on the recommendations in all of its issued reports to determine whether corrective actions have been taken.

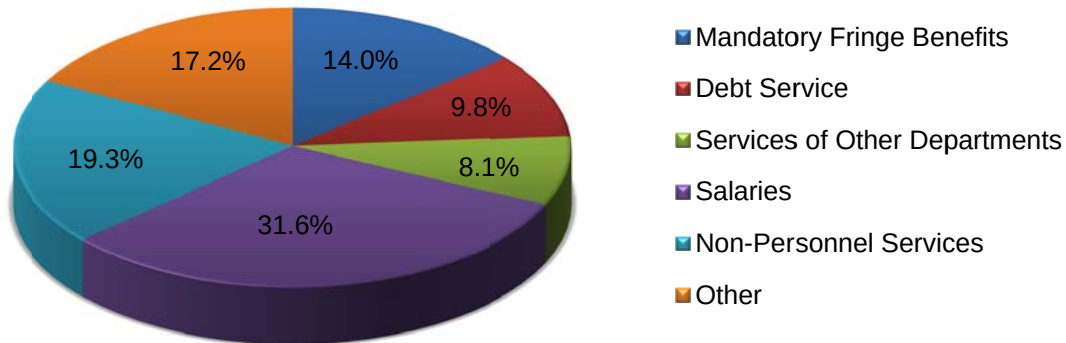
Background

The City's annual operating budget was \$6.8 billion and \$7.4 billion in fiscal years 2011-12 and 2012-13, respectively.

Besides the services that a typical municipality would provide, the City and County of San Francisco (City) also operates an international airport, a seaport, a public transportation system that comprises buses, trolleys, streetcars, trains, and cable cars, a regional water system, and a major acute care hospital, to name just a few elements. The City purchases a vast array of goods and services from contractors to support city operations. The City's annual operating budget was \$6.8 billion and \$7.4 billion in fiscal years 2011-12 and 2012-13, respectively, including amounts expected to be paid to city vendors.

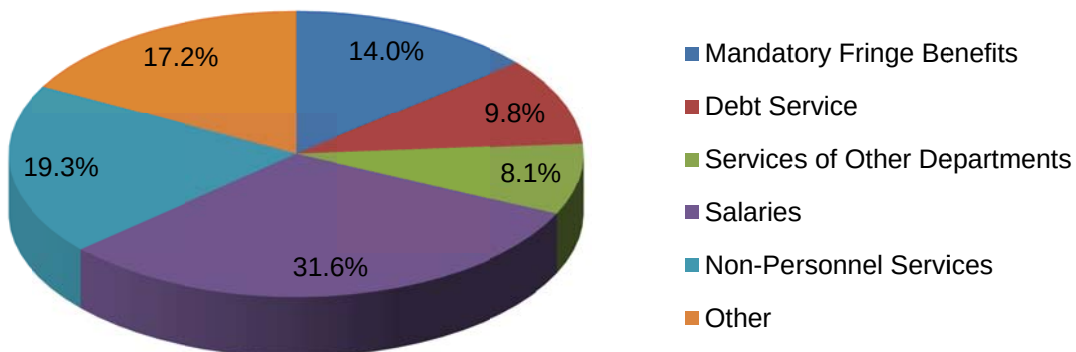
Exhibits 1 and 2 show the City's uses of funds based on the fiscal years 2011-12 and 2012-13 adopted budgets.

EXHIBIT 1 Uses of the \$6.8 Billion Budgeted Operating Expenditures in Fiscal Year 2011-12



Source: Consolidated Budget and Annual Appropriation Ordinance for the fiscal years ending June 30, 2011, and June 30, 2012.

EXHIBIT 2 Uses of the \$7.4 Billion Budgeted Operating Expenditures in Fiscal Year 2012-13



Source: Consolidated Budget and Annual Appropriation Ordinance for the fiscal years ending June 30, 2011, and June 30, 2012.

In fiscal years 2011-12 and 2012-13 the City budgeted \$3.6 billion to pay vendors.

In fiscal years 2011-12 and 2012-13 the City budgeted approximately \$3.6 billion for commodities and services, much of which was to be paid through contracts. With millions of taxpayer dollars at stake, the City needs strong controls to provide reasonable assurance that contract funds are not being lost to improper payments (fraud and errors), waste, and mismanagement, and that vendors perform in accordance with contract terms.

Effective contract oversight, which includes effective internal controls throughout each phase of the contracting cycle, is essential to protecting public funds and taxpayer interests. The contracting cycle consists of activities throughout the acquisition process, including pre-award and award, contract administration and management, and contract closeout.

Overview of Commodity and Service Purchasing

The Purchaser oversees the City's purchasing function and is OCA's director.

The Purchaser oversees the City's purchasing function in accordance with the Administrative Code and serves as the director of the Office of Contract Administration (OCA). Both the Purchaser and OCA are organized under the General Services Agency and report to the City Administrator. OCA manages more than 1,500 active contracts valued at approximately \$2 billion. Each year, OCA bids and awards contracts with a total value exceeding \$400 million. Although the Administrative Code gives the Purchaser the authority to conduct the City's procurement process, the Charter and the Administrative Code also authorize city departments to directly purchase commodities or services in the following instances:

The Charter authorizes:

- The San Francisco Municipal Transportation Agency (SFMTA) to purchase all commodities and services for SFMTA.

The Administrative Code authorizes:

- The Airport Commission, Department of Public Works, Public Utilities Commission, Recreation and Park Department, Port Commission, and SFMTA to directly enter into public works contracts.
- The Public Utilities Commission's general manager to purchase electricity, natural gas, and water.
- The Department of Public Health (Public Health) to enter and execute written agreements with the University HealthSystems Consortium, the University HealthSystems Consortium Services Corporation, and suppliers of goods and materials selected by the University HealthSystems Consortium Services Corporation through its

competitive bidding process.

- The delegation of authority to departments to purchase products and services up to a stated amount, which is currently \$10,000, as set by the Purchaser.

The City's Purchasing System

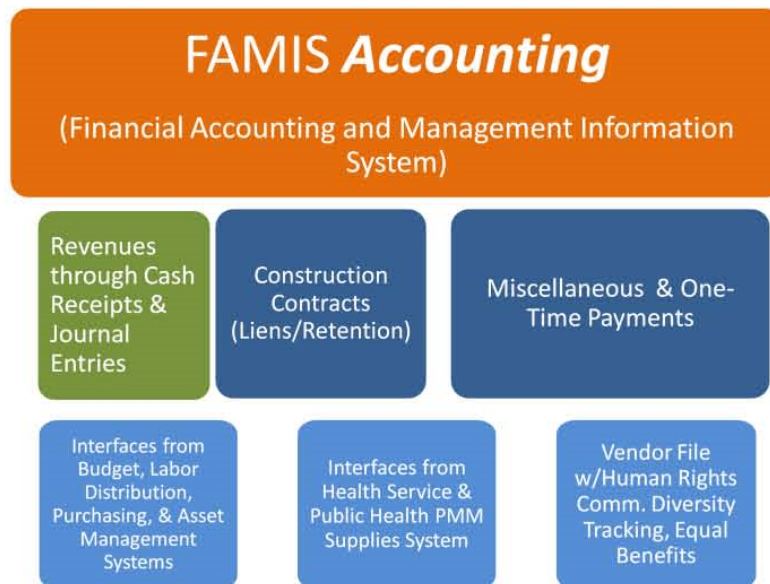
*FAMIS is the City's
accounting system.*

The Financial Accounting and Management Information System (FAMIS) is the City's accounting system. FAMIS and its purchasing component, FAMIS Purchasing, facilitate budgetary management and accounting for the City.¹ FAMIS Purchasing is used to record accounting entries related to purchases. FAMIS Purchasing is also the City's primary centralized system for tracking certain high-level information that is typically associated with contracts, such as contract not-to-exceed encumbrance amounts and start and end dates.

FAMIS Purchasing information automatically interfaces to the FAMIS Accounting System. The flow of information between the FAMIS Accounting system and its interfaces is shown in Exhibit 3.

¹ Previously known as Advanced Purchasing and Inventory Control System (ADPICS).

EXHIBIT 3 **Flow of Information Through FAMIS Accounting**



Source: Office of the Controller's Web site.

The City is seeking to replace FAMIS and implement a comprehensive citywide financial management system. Ideally, a contract management system would be able to clearly identify city contracts and track them through all stages of the contracting process, allow contract managers to query contract information and create ad hoc reports, permit users to view labor costs of detailed expenditure items, track performance recovery amounts, include standardized contract templates, and perform various other tasks.

The Controller is the gatekeeper for city disbursements.

Charter Section 3.105 states that:

All disbursements of funds in the custody of the Treasurer must be authorized by the Controller. No officer or employee shall bind the City to expend money unless there is a written contract or other instrument and unless the Controller shall certify that sufficient unencumbered balances are available in the proper fund to meet the payments under such contract or other obligation as these become due, or that he or she expects sufficient unencumbered

balances to be available in the proper fund during the course of the budgetary cycle to meet the payments as they become due.

An encumbrance transaction in FAMIS certifies that funds are available for purchases.

The City uses an encumbrance method of accounting to help ensure that obligations are not incurred or expenditures made in excess of available funds, allotments, or appropriation. Certification of available funds for all purchases, contracts, and other obligations is done by posting an encumbrance transaction in FAMIS. For most purchases, the City uses competitive bidding procedures to select vendors and requires that all city vendors comply with city ordinances and other requirements before entering into a contract with the City.

Formal competitive bidding is required for commodities and general services in excess of \$100,000 and professional services in excess of \$400,000, unless otherwise exempted under the Administrative Code. Although formal solicitation is not required for certain purchases totaling \$10,000 or less, departments are encouraged to solicit a minimum of three written bids or written price quotations and are required to select the lowest responsive and responsible bidder. For purchases exceeding \$10,000, departments are required to submit a purchase requisition to OCA.

Once a vendor has been selected, departments must encumber funds in FAMIS before issuing a purchase order, contract, or other commitment to a vendor. All contracts are administered by the customer department that uses the product or service; the only exception is term contracts, which are managed by OCA. Term contracts benefit the City because vendors are usually willing to provide price discounts in exchange for a high volume of business.

A blanket purchase order (BPO) is used to obtain approval for future purchases from a specific vendor for a specified time period and dollar limit. BPOs do not encumber funds; purchase order (PO) releases do. One BPO exists for one contract and its amendments. Below are the types of BPOs analyzed through the citywide contract compliance monitoring program:

Types of blanket purchase order agreements.

City blanket authorizations ("BP" Purchasing Type): City blanket authorizations are used for term contracts and are usually fixed-price, multiyear signed formal contracts used by one or more departments for large quantities of products or services that cover a wide variety of goods and services for which the City has a large and recurring need. Office supplies, fuel, information technology, and janitorial services are illustrative examples of goods and services for which a term contract may be used. A BPO is created in FAMIS for the term contract, and then departments make purchase order releases to order the products or services available under the contract.

Contract blanket authorizations ("CB" Purchasing Type): Contract blanket authorizations are used for any purchases where the City and the vendor have signed separate formal contracts. This happens most often when a department has used one of the City's model contracts, such as for professional services, equipment maintenance, and software related purchases.

Departmental blanket authorizations ("DB" Purchasing Type): Departmental blanket agreements are used to secure OCA approval for anticipated purchases of certain goods and services for a specific period and dollar limit. Departmental blanket agreements are usually established for purchases not covered under other city contracts. A departmental blanket enables a department to order directly from the vendor in accordance with agreed upon terms, and departments can make purchases by issuing a purchase order release against a departmental blanket agreement.

Code Delegation Authority Blankets ("YB" Purchasing Type): The Administrative Code authorizes certain departments to directly purchase commodities or services in some instances. In these instances, the departmental blanket is not required to be approved by OCA before the department issues a purchase order release against it.

In all cases, an encumbrance against a BPO must be recorded before an order can be placed or a contract can be issued. This is done in FAMIS Purchasing by issuing a standard purchase order release. Before a purchase order release can be created, a purchase requisition

must first be entered into FAMIS Purchasing. Purchase requisitions leading to the creation of a standard purchase order go through the review and approval path of the requisitioning departments, with final approval by OCA. A purchase requisition is not a contract, but merely a request to OCA to establish a contract. Funds are pre-encumbered when a purchase requisition is entered in FAMIS Purchasing, and approved purchase requisitions become standard purchase orders in FAMIS Purchasing. The issuance of a standard purchase order liquidates the requisition and creates an encumbrance in FAMIS. After the competitive bidding process has been completed, a standard purchase order is used, which in turn liquidates the purchase requisition, creating an encumbrance in FAMIS.

The Citywide Contract Compliance Program

Contracts play an important role in the way the City meets its statutory obligations and provides services to the public. Due to the sheer size of procurement in the City, contract spending poses significant risk if effective processes, controls, and oversight are not present. To identify such vulnerabilities in existing contracts, the Controller's City Services Auditor Division implemented a citywide contract compliance monitoring program (program) to track contract adherence and accuracy. The program consists of an ongoing, comprehensive audit process that allows CSA to select and audit up to six contracts each year using a risk-based approach. The primary objectives of the program are to:

1. Develop and execute a systematic process to survey and review the City's contracts and contracting procedures to detect risk or vulnerabilities that may suggest the need for contract compliance audits.
2. Determine whether relevant city departments adhere to and have adequate policies and procedures to properly and effectively administer the contract, monitor performance according to terms and conditions, and review contract expenditures related to costs and quality.
3. Determine whether selected contractors complied with contract terms and conditions, including those pertaining to costs and quality. For example, this

program will review contractor billings and payments to determine the City's exposure to overpayments.

Citywide Contract Compliance Risk Assessment

The Institute of Internal Auditors' standards encourage an audit organization's chief audit executive to establish a risk-based approach to determine the priorities for auditor activities. Using data available in FAMIS for fiscal year 2011-12, CSA conducted a citywide contract risk assessment to help identify, measure, and prioritize the City's potential audits based on the levels of risk to the City. Risk assessment is a process of systematically scoring (or rating) the relative impact of a variety of "risk factors."² The first step in creating the City's contract risk assessment model was to define the audit universe, or potential audits that could be performed.

For purposes of the program and to be able to determine whether vendors consistently comply with contract provisions, CSA chose to focus the risk assessment on multiyear contract agreements, as opposed to one-time purchase orders or agreements. To do so, CSA obtained from the Controller's Accounting Operations and Systems Division (AOSD) a list of all BPOs that were open during fiscal years 2011-12 and 2012-13 because purchases applied against a BPO are typically made under a signed contract.

According to AOSD, FAMIS Purchasing cannot distinguish whether or not a purchase is made against a formal contract unless the purchase is made under a term contract, which requires a signed formal agreement. According to AOSD, this is because city blanket authorizations generally have formal contracts, whereas departmental blanket authorizations may not. From that list, CSA filtered out construction-related BPOs (denoted by a "NB" purchasing type) because compliance with the associated contracts is already covered by CSA's Construction Audit Program.

As a result, the audit universe covered BPOs in effect as of June 30, 2012, and was limited to BPOs with the following purchasing types: city blanket authorizations,

² A risk factor is an observable or measurable indicator of conditions or events that could adversely affect the organization.

departmental blanket authorizations, contract blanket authorizations, and code delegation authority blankets.

Contract risk factors were identified in part based on discussions with OCA, AOSD, and various departmental contract managers.

Understanding both the nature of the program's objectives and the types of possible risks under consideration are keys in determining the scope of the risk assessment. Because CSA conducted its assessment across the City, the risk factors identified were broad and qualitative in nature. Likewise, these risk factors span across many categories (for example, material dollar value, term, good/service category). CSA identified the risk factors shown in Exhibit 4 based on discussions with AOSD, OCA, and various departmental contract managers and by reviewing contract data in FAMIS Purchasing.

EXHIBIT 4 Contract Risks Identified by CSA			
Risk Factors	Risk Ratings		
	Lowest (1)	Medium (3)	Highest (5)
			
Type of goods or services	general services/ commodities	N/A	professional services
Not-to-exceed contract amount (in millions = M)	<= \$1M	> \$1M <= \$5M	> \$5M
Contract term	<= 2 years	> 2 years <= 5 years	> 5 years
Number of city departments using the contract	<= 5	> 5 & <= 10	> 10
Contractor is paid using Automated Clearing House (ACH)	Yes	N/A	No
Number of whistleblower complaints in the last five years	none	> 0 <= 2	>2
Pricing structure (for example, fixed price, cost reimbursable)	fixed price (tied to a deliverable)	cost reimbursable	cost-plus or if not specified
Written policies and procedures regarding contract administration are available to staff	Yes	Yes, but needs improvement	No
Sole-source contract	No	N/A	Yes

Source: CSA analysis based on information from FAMIS and AOSD.

**Analyzing Contract
Data to Assess Risk**

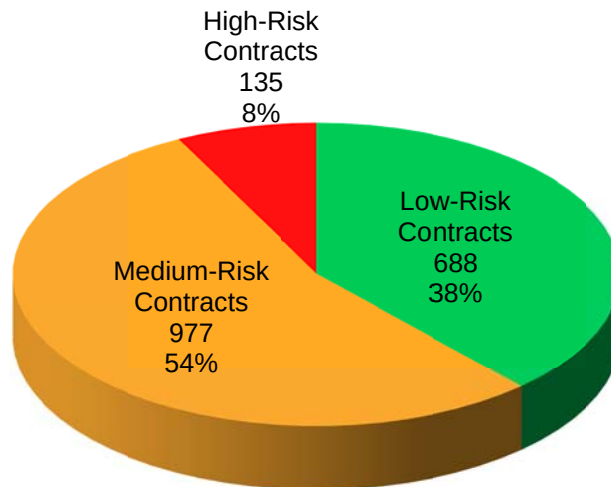
Capturing and analyzing key risk indicators enhances the audit team's ability to anticipate possible risks and opportunities for audit. As such, for each BPO included in its scope, CSA analyzed certain key risk factors of the associated contract. The results were compiled to provide a risk profile that was viewed in relation to the City's willingness to take on such risks.

FAMIS Purchasing has approval paths to help identify when purchasing data is incorrectly entered into the system. To ensure the accuracy of the FAMIS Purchasing data analyzed by CSA, the audit team asked each departmental contract manager to review the basic information for each of the departments' contracts in order to identify any errors or omissions in the data. Although purchasing departments are responsible for entering contract information into the system, many contract managers identified inputted purchasing data as being incomplete or inaccurate. This information was corrected by the respective contract managers and was then used by CSA to analyze the data based on the identified risk factors

CSA completed a citywide contract risk assessment using available data for fiscal year 2011-12 to help identify, measure, and prioritize potential audits.

For each contract, CSA systematically scored the relative impact of the nine risk factors identified in Exhibit 4 and calculated the total risk score for each contract. The contracts were then ranked with respect to their risk scores in descending order, with the highest possible score being 45 and the lowest possible score being 9. CSA identified contracts with scores of 28 or higher as high-risk, contracts with scores of 19 through 27 as medium-risk, and contracts with scores less than 19 as low-risk. Exhibit 5 below details CSA's analysis of contract risk based on the FAMIS data.

EXHIBIT 5 **CSA's Analysis of Contract Risk for Fiscal Year 2011-12**



Note: For purposes of this report, contracts refer to multiyear agreements.

Source: Auditor's analysis of FAMIS Purchasing data.

While areas of risk do not necessarily translate to contracting failure, they may indicate opportunities to address contracts and activities that may warrant and benefit from additional management action or audit services. Each contract's risk score was considered when selecting audits for CSA's annual audit work plan.

Audit Objectives

The objectives of the audits were to determine whether:

1. Relevant city departments adhere to and have adequate policies and procedures to properly and effectively administer the contract, monitor performance according to terms and conditions, and review contract expenditures related to costs and quality.
2. Selected contractors complied with contract terms and conditions, including those pertaining to costs and quality.

**Scope and
Methodology**

Audits performed under the program covered fiscal year payments made under selected contracts during the period of July 1, 2011, through June 30, 2013. CSA audited the following ten contracts:

1. The General Services Agency (General Services)- Administrative Services, Department of Technology (DT), and the San Francisco Public Utilities Commission's use of four contracts made under the Technology Store master agreement, totaling \$120 million.
2. The use by SFMTA and the General Services of the \$78 million citywide contract with Western States Oil Company.
3. The DT and Public Health's use of the \$75 million citywide contract with AT&T Corporation.
4. Public Health's \$27.1 million contract with MedImpact HealthCare Systems, Inc.
5. The Human Services Agency's \$19.3 million contract with Guardsmark, G.P.
6. Public Health's \$10 million contract with Netsmart Technologies.
7. Public Health's use of the \$6 million citywide term contract with Konica Minolta Business Solutions USA, Inc.
8. The Public Library's \$4.2 million contract with Baker & Taylor Corporation.
9. Public Health's \$2.2 million sole source contract with KCI USA, Inc.
10. Public Health's \$1 million contract with GRM Information Management Services.

In addressing these objectives, the audit team:

- Reviewed and gained an understanding of the contract terms and conditions.
- Interviewed department personnel to understand billing, payment, and contract monitoring procedures.
- Extracted payment information from FAMIS Purchasing to identify a sample for testing.
- Purposefully selected a sample of payments made to the vendor for detailed testing.

Traced the billing data on the sample invoices to approved contract rates, recalculated the invoices, and ensured that the correct amount was paid.

Statement of Auditing Standards

These performance audits were conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT RESULTS

Summary

The majority of the audits found that selected contractors generally comply with contract terms and conditions. However, many of the audited departments have weak—or completely lack—contract administration and monitoring policies and procedures. Many departments do not fully comply with contract terms, insufficiently review invoices and supporting documentation, or do not appropriately segregate duties.

Finding

Many audited departments have weaknesses in their contract administration and monitoring processes or up-to-date contracting policies and procedures.

The six audited departments need to either develop or improve their contract administration and monitoring policies and procedures.

The audits found that the Department of Technology, Department of Public Health, General Services Agency, Human Services Agency (Human Services), Public Library (Library) and San Francisco Municipal Transportation Agency either lack current contracting policies and procedures or have weaknesses in their contract administration and monitoring processes. Without guidelines, contract administration and monitoring controls may be inconsistent among city departments, insufficient, or not implemented at all.

Exhibit 6 summarizes the contract administration and monitoring controls that need improvement.

EXHIBIT 6		Summary of Contract Monitoring Controls That Need Improvement				
Contract	Department/ Division	Up-to-Date Written Policies and Procedures	Contract Non compliance	Weak Invoice Review	Lack of Supporting Documentation	Lack of Segregation of Duties
Konica Minolta Business Solutions USA, Inc. Citywide	Public Health and OCA	✓	✓	✓	✓	
AT&T Corporation Citywide	DT	✓		✓	✓	
KCI USA, Inc. (Sole Source)	Public Health	✓	✓	✓	✓	
Western States Oil Company Citywide	OCA, General Services, SFMTA, and Central Shops	✓			✓	
GRM Information Management Services Citywide	OCA and Public Health		✓	✓	✓	
MedImpact HealthCare Systems, Inc.	Public Health	✓	✓		✓	✓
Baker & Taylor Corporation	Public Library	✓		✓	✓	
Guardsmark, G.P.	Human Services	✓	✓	✓	✓	✓
Netsmart Technologies	Public Health			✓		✓
Technology Store Category 1 and 2 Term Contracts	OCA and chief information officer	✓	✓	✓		

Source: CSA analysis.

Examples of areas where guidelines on contract administration and monitoring controls are insufficient or lacking include:

- Compliance With Contract Terms. Departments do not ensure that invoiced amounts and/or items are allowable or correctly billed based on contract terms before authorizing the items for payment. This causes departments to pay unnecessary or unauthorized charges. For example, Public Health incorrectly paid a contractor \$46,795 for unauthorized rentals and DT was unaware that it was erroneously being charged certain administrative fees. Also, Human Services did not comply with certain contract requirements that are designed to increase vendor accountability and capacity. Consequently, Human Services paid an estimated \$613,000 to a vendor for hours not worked based on an arrangement not provided for under the contract.

Further, OCA fails to ensure that contractors comply with certain contract documentation requirements, including a requirement to submit annual service reports and quarterly machine uptime reports.

- Review of Amounts Invoiced. Although departments paid for charges billed, not all departments consistently verify the legitimacy of the amounts invoiced. Departments have not defined and/or documented all procedures of their invoice review and approval processes, such as obtaining the supporting documentation needed to verify the completeness and accuracy of the amounts charged. This causes inconsistencies among departments in the way they review invoices. For example, Public Health program staff does not always thoroughly review invoices before approving them for payment and, at times, did not appear to understand the required levels of review. Also, DT was unaware of how certain administrative fees were being applied to line items charged by a vendor.
- Lack of Supporting Documentation. Departments are inconsistent when obtaining, reporting, and documenting quantities, usage amounts, and rates

related to contracts. This causes departments not to possess documents that would be needed for verifications. For example, SFMTA does not consistently obtain delivery reports, which increases the risk that the City pays for items it does not receive. Also, DT lacks documentation to justify specific rates charged by a contractor and was unaware that it was erroneously being charged certain administrative fees. Furthermore, two of the four departments audited do not maintain complete contract administration files, which can limit the City's ability to defend its position if a dispute arises with respect to a contract.

- Segregation of Duties. At Public Health's Community Behavioral Health Services Division, the same employee submits payment requests and receives and mails checks, indicating a lack of segregation of duties in the process. Also, a Human Services vendor did not adhere to proper segregation of duties in timesheet preparation and review, increasing the risk that inaccurate hours could be charged to the City.

APPENDIX: LINKS TO PUBLISHED AUDIT REPORTS

Issuance Date	Department(s) and Division(s)	Contract	Report Name and Web Link
06/28/2012	Department of Public Health and Office of Contract Administration	Konica Minolta Business Solutions USA, Inc., Citywide Contract	Audit of the \$6 Million Citywide Konica Minolta Business Solutions USA, Inc., Contract http://openbook.sfgov.org/webreports/details3.aspx?id=1439
07/17/2012	Department of Technology	AT&T Corporation Citywide Contract	Audit of the \$75 Million Citywide AT&T Corporation Contract http://openbook.sfgov.org/webreports/details3.aspx?id=1449
07/25/2012	Department of Public Health	KCI USA, Inc., Sole Source Contract	Audit of the \$2.2 Million KCI USA, Inc., Sole Source Contract http://openbook.sfgov.org/webreports/details3.aspx?id=1455
09/06/2012	Office of Contract Administration, General Services Agency, San Francisco Municipal Transportation Agency, and Central Shops	Western States Oil Company Citywide Contract	The \$78 Million Citywide Western States Oil Company Contract Should Be Better Administered http://openbook.sfgov.org/webreports/details3.aspx?id=1477
09/12/2012	Office of Contract Administration and Department of Public Health	GRM Information Management Services Citywide Contract	The Office of Contract Administration and the Department of Public Health Should Better Administer and Monitor the City Contract With GRM Information Management Services http://openbook.sfgov.org/webreports/details3.aspx?id=1479

Issuance Date	Department(s) and Division(s)	Contract	Report Name and Web Link
06/19/2013	Department of Public Health	MedImpact HealthCare Systems, Inc., Contract	The Department of Public Health Adequately Monitors MedImpact's Prescription Claims but Needs Better Controls Over Its Use of MedImpact as a Fiscal Intermediary http://openbook.sfgov.org/webreports/details3.aspx?id=1591
01/22/2014	Public Library	Baker & Taylor Corporation Contract	The Public Library Needs Improved Internal Controls to Better Administer and Monitor Its Contract With Baker & Taylor Corporation http://openbook.sfgov.org/webreports/details3.aspx?id=1658
02/18/2014	Human Services Agency	Guardsmark, G.P., Contract	The Human Services Agency's Contract With Its Security Contractor Is Silent on Paying Security Officers for Hours Not Worked on City Holidays http://openbook.sfgov.org/webreports/details3.aspx?id=1670
05/07/2014	Department of Public Health	Netsmart Technologies Contract	The Department of Public Health Adequately Monitors Payments Remitted Under Its Contract With Netsmart but Should Improve Controls Over Invoice Review and Approval http://openbook.sfgov.org/webreports/details3.aspx?id=1737
10/20/2014	Office of Contract Administration and chief information officer	Technology Store Category 1 and 2 Term Contracts	Technology Store Vendors Do Not Always Abide by Contract Percentage Markup Limits, Resulting in Overcharges for Goods Purchased http://openbook.sfgov.org/webreports/details3.aspx?id=1843