

Contract Administration
California Polytechnic State University, San Luis Obispo
Audit Report 21-1
October 28, 2021

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of this audit are to ascertain the effectiveness of campus operational, administrative, and financial controls related to the *Strategic Business Services Contract Administration Process* to ensure compliance with relevant CSU and Cal Poly policies.

SCOPE

Audit and Consulting Services (ACS) notes that the scope of this review only includes the Cal Poly Strategic Business Services contract administration process and does not include the contract administration process of Cal Poly's two main auxiliaries, Cal Poly Corporation and Associated Students Inc. (ASI).

ACS obtained the Perceptive Content contract listing for the following three contract categories:

- 'Goods and Services': Purchases for goods and services greater than \$2,500 that require a purchase order and not purchased using a ProCard (*ACS notes that prior to April 2020, the threshold set for a purchase order was \$3,500*).
- 'Public Works': Public works project agreements, including public works maintenance contracts, professional service agreements in connection with a public works project (such as contracts for architectural or engineering services).
- 'Contracts': Leases of real property, gifts, exchanges, international programs, college contracts that do not have financial implications (liabilities) for the University

The contract listings obtained did not include the value of the contracts. Due to the nature of the data format and contract listing mentioned above, ACS utilized the payment population to select the samples for this audit. ACS obtained the VAM - AP Vouchers Paid (PeopleSoft) by Date and GAAP Reporting – Expense Vouchered (Dashboard) reports from 1/1/2020 to 3/31/2021. The payment listings include the purchases made related to specific purchase orders with the vendors. ACS compared the two reports and assessed the completeness and accuracy of the voucher payments to vendor listings to review for possible contracts that were processed/reviewed outside of SBS. Based on the assessment, ACS utilized the VAM- AP Vouchers Paid (PeopleSoft) by Date as the source for sample selection.

As a result, ACS selected 30 contract samples by contract type, vendor, and purchase order amount to review as part of this audit. Of the 30 samples, the following were selected:

- 'Goods and Services': 16
- 'Public Works': 8
- 'Contracts': 6

For each sample selected, ACS assessed the compliance with the respective ICSUAM, SUAM, and Cal Poly policies and procedures under the following sub-topics:

- Requisitions
- Bidding requirements
- Awarding
- Purchase order/contract review
- Required (and timing of) approvals and sign-offs
- Reasonableness of the payment data
- Data and document retention

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below:

In general, ACS noted that the campus followed the appropriate framework and guidelines set out by the SUAM and ICSUAM policies from the Chancellor's Office. Both sets of policies clearly define solicitation, bidding, awarding, and contract execution requirements. Based on the contracts reviewed as part of this audit, we noted buyers completed and executed the requirements per the policies, however, there is a lack of a formal contract administration process in place at the University level. Due to the absence of a formal process, ACS noted that the contract administration process varied by buyer and contract type. Examples of inconsistencies include, but are not limited to, document retention (i.e. retaining e-mail communications vs. maintaining CSU required documents) along with varying practices for the documentation and approvals of purchase orders.

ACS noted that there are instances of the colleges and/or departments that are initially entering into agreements without consulting with their assigned buyers. Colleges and departments do not have the authority to make purchases for goods and services above the noted thresholds without consulting the buyer to ensure that purchases are made in compliance with ICSUAM and SUAM policies. Support reviewed as part of the audit indicated that the respective buyer(s) remediated these instances and reminded the department(s) of the policies, and that they do not have the authority to bind the university to financial obligations.

ACS noted that various purchase orders or contracts provided for review did not include the signatures of buyers, vendors, or appropriate approvers in certain circumstances. Further, there are some instances where the signature of the buyer or the vendor may have been signed after the start date of the term listed on the contract. Additionally, ACS noted the use of \$0 (zero-dollar) purchase orders for larger multi-year contracts that were based on product usage, or the amount of the contract, were not fixed. Some instances of the \$0 purchase orders were signed only by the buyer who may not have had sufficient purchasing power to commit funds to the University for the actual value of the contract signed.

In summary, Cal Poly Strategic Business Services are meeting the requirements set forth in the ICSUAM and SUAM policies, however, a standard contract administration process should be implemented to ensure consistency and efficiency in the process of executing contracts and document retention. Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. NO FORMAL CONTRACT ADMINISTRATION PROCESS OR CONTRACT MANAGEMENT SYSTEM

OBSERVATION

The following items detail the findings related to observations noted regarding the lack of a formal contract administration process:

- ACS noted that there is a lack of consistency in the contract execution process amongst the procurement specialist and contract type. Examples noted include:
 - Buyers are organized on a client basis which could cause various adjustments to the non-core contract process
 - There are varying levels of details included on the purchase orders. For example, some purchases orders would outline all terms and governing documents for the contract while others would just list the products or service
 - There is a lack of consistency in buyers signing the purchase orders when there is a signed master agreement (some buyers would have a signed purchase order while others did not)
 - Types of documentation retained in Perceptive Content varied amongst the buyers (see observation 2 for details)

ACS notes that this observation is purely administrative and does not indicate noncompliance with SUAM or ICSUAM polices.

- There is no consistent procedure or system for buyers to track multi-year contracts. After the execution of the contract, there is a reliance on the college or the department to track the contracts

RECOMMENDATION

ACS recommends that SBS implement a standardized procedure and/or checklist for the requirements and execution of contracts entered by the university. It is recommended that the process/checklist includes the necessary standard procedures to execute a contract based on the contract type and related dollar thresholds. Further, ACS recommends that SBS implement the use of lead sheets that outline contract purpose, value, funding sources, department contacts information, logging vendor contact or dates of change orders, terms and conditions, etc. This will better assist in instances of buyer transitions of clients or contract administration responsibilities. In addition, the lead sheet will help assist external reviewers to understanding the purpose of the contract, the relevant terms, and to better ensure that all the required documentation is included within the contract package.

ACS notes that SBS is scheduled to implement a new procurement system that includes a contract administration function in 2023. In preparation for system implementation, ACS recommends to that SBS obtain an understanding of the functionalities of the program and determine the standard inputs of the system. Based on the system functions/requirements, SBS can tailor their checklist and data input requirements to mirror the future system configuration. This will allow for a more efficient system and process implementation for the department. If the new procurement system does not assist with, or improve, the overall contract management process, SBS should consider implementing a formal contract management system to address all of the recommendations noted above.

MANAGEMENT RESPONSE

We concur and will direct procurement specialists to the existing PO Master Checklist document for reference as they finalize their purchase orders or agreements. We will create a Business Process Guide (BPG) with these instructions and provide training. SBS will conduct quality assurance reviews of purchase orders in Q1 2022 and then continually over that year, to bring attention to inconsistencies and discuss ways to improve. We will conduct trainings on the guidelines for uploading contracts into CSUBUY for contract administration functions during a contract term for a multiyear agreement. The overall contract administration process will be improved, refined, and automated once CSUBUY P2P system is implemented.

Anticipated date of completion: March 31, 2022

2. DOCUMENT RETENTION REQUIREMENTS FOR PERCEPTIVE CONTENT

OBSERVATION

Documents in Perceptive Content are currently retained based on buyer's professional judgement and not by a department level policy. There is no department level policy of what should be retained in Perceptive Content. As such, buyers are left to their use their professional judgement and preference to determine what should be retained. Documents reviewed in Perceptive Content were not consistent at a department level. ACS notes that in general, the documents required to fulfill SUAM and ICSUAM policies are retained, however, documents that are more administrative or procedural in nature (e-mails sent to vendors or communication with respective purchasing department, signed purchase orders, completed proposals, evidence of public bids) may or may not have been included within the contract documentation.

RECOMMENDATION

ACS recommends that SBS develop a department level policy that specifically define contract documentation to be retained in Perceptive Content, or in other shared locations that other buyers have access to. The policy should include requirements that would allow another buyer, or an external reviewer, to access all relevant information for the contract. This would create efficiencies in buyer transition to a new client and mitigate the risk if a buyer would leave the University, as the department would have all the information related to the contract.

MANAGEMENT RESPONSE

We concur and will direct procurement specialists to the existing PO Master Checklist document for reference on retention requirements as they image their purchase orders or agreements. We will create a Business Process Guide (BPG) with these instructions and provide training. SBS will conduct quality assurance reviews of purchase orders in Q1 2022 and then continually over that year, to verify correct imaging of documents. The overall contract administration process will be improved, refined, and automated once CSUBUY P2P system is implemented.

Anticipated date of completion: March 31, 2022

3. DEPARTMENTS AND COLLEGES ENTERING INTO CONTRACTS ON THEIR OWN

OBSERVATION

ACS noted that there were two instances in which a department or college did not properly engage with SBS prior to entering into a contract with a vendor or requesting services from the vendor that were outside the scope of the current contract due to either its nature or value.

RECOMMENDATION

We recommend SBS remind their clients who are responsible for requesting goods and services that the primary contracting delegations at Cal Poly are to procurement staff, managers, and administrators within SBS and not with the department. In addition, those who sign contracts outside of SBS, should be reported to the appropriate administrator.

ACS recommends adding additional resources or standardized instructions for colleges and departments to assist them with purchasing requirements. For example, a standard FAQ, video trainings, or a decision tree to help assist colleges with ensuring that they have the proper required documentation. This includes, but is not limited to ensuring the requestor understands the requirements for the use of formal or informal bidding process, when to use sole source options, when to contact a buyer for assistance prior to initiating a purchase, etc.

MANAGEMENT RESPONSE

We concur, and in addition to the existing resources on the Procure-to-Pay website instructing clients when to engage procurement and that procurement has delegated purchasing authority, SBS will create additional materials addressing procurement functions and delegated authority. Procurement Specialists will also be encouraged to remind their clients at regular meetings about procurement's delegated authority and send reminder emails and report to the appropriate administrator when clients deviate from policy. The overall procurement process will be improved, refined, and automated once CSUBUY P2P system is implemented.

Anticipated date of completion: May 31, 2022

4. CONTRACT EXECUTION AND APPROVALS

OBSERVATION

The following items detail the findings related to the review of signatures and approvals as part of the contract execution. The numbers in parenthesis following each item denotes the numbers of occurrences identified.

- Authorized approver signed the agreement or amendment after the start of the term (4)

- Buyer did not date the signature on the agreement, as such ACS could not verify the date of the execution of the document (3)
- Vendor did not sign or date the agreement (3)
- Instances of purchase orders not signed by the buyer (7)
- Noted that \$0 purchase orders were utilized for multi-year contracts that had a contract value greater than the purchasing limit of the buyer. ACS noted that the agreement between Cal Poly and the vendor was signed by the appropriate level of the reviewer

RECOMMENDATION

ACS recommends that SBS ensure that signatures and approvals be properly obtained prior to the start term of the contract and retained after contract execution. Further, for documents retained within Perceptive Content that include signature lines (i.e. purchase orders or contract amendments), the buyer should ensure that the signed versions of the documents are retained. Further, we recommend that \$0 purchase orders for multi-year agreements, be signed by the buyer and the appropriate levels of approvers consistent with the written agreement.

MANAGEMENT RESPONSE

We concur, and will ensure that signatures and approvals be properly obtained prior to the start term of the contract and retained/imaged after contract execution within Perceptive Content. We will ensure \$0 internal purchase orders for multi-year agreements will be signed by the buyer and the appropriate levels of approvers consistent with the written agreement. We will create a Business Process Guide (BPG) with these instructions and provide training. The overall procurement process will be improved, refined, and automated once CSUBUY P2P system is implemented.

Anticipated date of completion: May 31, 2022