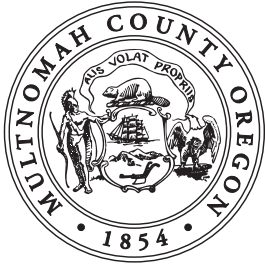


Contracting with Consultants
Opportunity to Improve Competition
April 2012

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Multnomah County Auditor

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Date: April 19, 2012

To: Jeff Cogen, Multnomah County Chair
Commissioners Kafoury, Smith, Shiprack, and McKeel

From: Steve March, Multnomah County Auditor
Re: Consultants Audit

It is County policy, under Public Contracting Rules, to instill public confidence through ethical and fair dealing, as well as to promote efficient use of government resources and to foster impartial and open competition. Competition among several bidders may be based on the evaluation of performance factors and other aspects of service quality, as well as pricing, to arrive at best value. We believe the County can improve in promoting competition and has recently taken steps to do that. We also appreciate that the Chair has reaffirmed the County's commitment to an impartial and open public contracting process.

Multnomah County spent nearly \$2 million in the last three fiscal years on contracted organizational development services, such as facilitation, management coaching, and strategic planning. While County departments are generally observing procurement rules in purchasing these services, they are not consistently doing enough to ensure that the County is realizing the benefits of free and open competition. Moreover, a lack of coordination among the departments has prevented the County from taking advantage of combined purchasing power for some services.

It is County policy to purchase services using a process that ensures fair and equitable opportunity for interested and qualified contractors. Purchasing rules focus on the importance of soliciting offers from at least three vendors, with the implicit assumption that this will yield multiple viable offers from which to select the best possible vendor. Receiving multiple viable offers also means that more vendors are provided the opportunity to win contract work.

We make recommendations to ensure the County is receiving the best combination of service and value by increasing coordination across departments in obtaining organizational development services and also around improving the County's procurement of these services, holding departments accountable and committing management to ensure a proper and competitive procurement process.

We want to thank Brian Smith and the Purchasing staff, as well as staff in the various departments who assisted in this audit.

Table of Contents

Executive Summary1
 Background2
Audit Results4
 Procurement process does not consistently assure best value5
 Lack of viable offers for contract work5
Recommendations9
Objextives, Scope, and Methodology10
Response to Audit15

Executive Summary

Multnomah County uses contractors to provide a variety of services; many of these contractors provide what is broadly categorized as organizational development consulting services. The purpose of this audit was to focus on these services and to determine 1) how much money the County is spending on organizational development consulting and 2) if the County is getting these services in the most economical manner possible.

Multnomah County spent a total of nearly \$2 million in the last three fiscal years on contracted organizational development services, such as facilitation, management coaching, and strategic planning. While County departments are generally observing procurement rules in purchasing these services, they are not consistently doing enough to ensure that the County is realizing the benefits of free and open competition. Moreover, a lack of coordination among the departments has prevented the County from taking advantage of the amount of some services purchased.

It is County policy to purchase services using a process that ensures fair and equitable opportunity for interested and qualified contractors. The process should also promote free and open competition. The purchasing rules focus on the importance of soliciting offers from at least three vendors, with the implicit assumption that this will yield multiple viable offers from which to select the best possible vendor. Receiving multiple viable offers also means that more vendors are provided the opportunity to win contract work.

County departments have not been consistently using the procurement process in such a way as to ensure that there is free and open competition among qualified and interested contractors. For example, we found that departments obtained three viable offers for work in only 43 percent of the contracts valued at \$50,000 or more. As a result, the County can neither assure itself

that it is receiving the best value for its contracting dollar nor that it is providing an equitable opportunity for interested and qualified contractors.

The lack of viable offers for contract work is the primary shortcoming we found in the process, but we also found inconsistent development, application, and documentation of award selection criteria. Documentation of the rationale for selecting the winning vendors was the policy requirement that was least frequently met – only one-third of the procurements from our sample had the required documentation.

With consistently high demand for cultural competency consulting, the County had more options for the economical purchase of these services than it did for other types of organizational development consulting services. For example, it might have been more economical to provide these services in-house or to use a formal procurement process for a pool of contracts, where the larger dollar volume of available work might broaden the pool of available vendors and increase competition. The County missed an opportunity to purchase these services in a more economical way in part because there was little coordination among departments to purchase services that apply across departments.

Background Multnomah County relies on contractors to perform a variety of duties, from providing direct services to vulnerable populations to implementing an IT system to building a bridge. While some contractors provide services that result in a tangible product (i.e., a contract to build a bridge), many others provide services designed to help improve County operations. The purpose of this audit was to look further into that type of consulting service, broadly categorized as “organizational development”. For the purpose of this study, organizational development includes services like facilitation, mediation, and strategic planning.

County departments purchase most of their consulting services using a procurement and contracting process. This process is facilitated and administered by the central purchasing unit (Purchasing). It is Purchasing’s mission and County policy to

support an open, fair, and competitive purchasing process that achieves the best value for the County. The amount of oversight Purchasing has over procurements depends on the size of the purchase. There are three general categories of procurement at the County that can be used to purchase consulting services:

- **Direct Pay:** Purchases \$5,000 and under can be made by direct payment, which means they do not need a contract with the vendor to pay for the services. Purchasing conducts some monitoring to ensure compliance with County policy, but the departments are responsible for managing the purchasing process.
- **Intermediate Procurement:** Purchases over \$5,000 but under \$150,000 require a Class I contract. To enter into a Class I contract with a vendor, the department must solicit informal offers (oral or written if the contract is under \$75,000, written if between \$75,000-150,000) from at least three different vendors, create and apply criteria for selection of a vendor, and submit a summary of the procurement to Purchasing for review. Responsibility for conducting and documenting the procurement process lies with the departments.
- **Formal Procurement:** A purchase over \$150,000 requires a Class II contract, which is awarded through a formal request for proposals process. Purchasing has the most oversight over formal procurements and has considerable influence over how the procurement is structured and how the process is documented.

Contractors for organizational development services are doing business with the County primarily through intermediate procurements (over \$5,000 but under \$150,000). Thus, departments have significant discretion with regard to solicitation and contracting with vendors, with little central oversight over the process.

Due to the disparities in data entry across the County, such as use of text fields in SAP (that provide more detailed information about

contracts and/or vendors), comprehensive data on contracts for organizational development services across the County is very limited.

In looking Countywide at contracts for organizational development services, we sought to achieve two objectives:

1. To determine how much money the County is spending on organizational development consulting, and
2. To determine if the County is getting these services in the most economical manner possible.

Audit Results

In the last three fiscal years, Multnomah County has paid more than \$650,000 per year on average for contracted organizational development consulting services, including cultural competency consultation, facilitation, and strategic planning. While County departments are generally observing procurement rules, they are not doing enough to ensure that the County is realizing the benefits of free and open competition. Moreover, a lack of coordination has prevented the County from taking advantage of the amount of some services purchased. As a result, we could not determine if the County is getting the best value for its consulting dollars.

Spending on organizational development consulting contracts

Multnomah County spent a total of nearly \$2 million since FY09 on consulting contracts that fit our definition of organizational development consulting. In most cases, the scopes of work for the consulting contracts had unique elements, but many also shared elements that allowed us to group them into categories.

The County routinely contracts with consultants to assist in meeting facilitation and information gathering. It is also common to hire a consultant to both gather information and assist in developing a strategic or program plan. This is one of the largest areas of consulting – in terms of the number of contracts – and we divided it into two categories. The first includes facilitation and planning where the subject matter is relatively broad, such as facilitating meetings between management and staff. The second

involves more specific technical expertise, such as planning for a Medicaid audit. Cultural competency consulting is a hybrid of training, facilitation, and coaching and is in its own category because of the relatively high volume of work in that specific area. Table 1 shows Multnomah County spending on the various categories of organizational development consulting services for contracts originating during FY09, FY10, and FY11.

Table 1: County spending on organizational development consulting (by category)

Organizational Development Category	Total Spent FY09-11
Facilitate/Strategize/Plan- General	\$ 511,103
Facilitate/Strategize/Plan- Program-specific	\$ 494,023
Cultural Competency Consulting	\$ 440,582
Organizational Development-related Training	\$ 337,929
Business Process Re-engineering	\$ 183,870
Total	\$ 1,967,508

Source: Multnomah County Auditor's Office

Procurement process does not consistently assure best value

County departments have not been consistently using the procurement process in a way that ensures free and open competition among qualified and interested contractors. The lack of viable offers for contract work is the primary shortcoming we found in the process, but the inconsistent development and application of award selection criteria are also problematic. As a result, the County can neither assure itself that it is receiving the best value for its contracting dollar, nor that it is providing an equitable opportunity for interested and qualified contractors. And, in the case of cultural competency services, it may be more economical for the County to move completely away from the intermediate procurement process it has been using.

Lack of viable offers for contract work

County procurement rules include a stated policy to provide a process that ensures fair and equitable opportunity for interested and qualified contractors and free and open competition. The rules focus on the importance of soliciting offers from at least three vendors, with the implicit assumption that these solicitations will yield viable offers from which to select the best possible vendor.

Receiving multiple viable offers also means that more vendors are provided the opportunity to win contract work.

Although we found that departments generally solicit offers from three vendors, departments are frequently not obtaining a sufficient number of legitimate offers, which suggests that solicited vendors are either not interested in the work, not qualified to do the work, or both. Departments obtained three viable offers for work in only 43 percent of the contracts we reviewed valued at \$50,000 or more. We found the following examples that highlight this issue.

- In one case, the department solicited an offer for specialized facilitation and training from a vendor that offered only general facilitation services – the vendor did not submit an offer for the \$150,000 contract. This department received only one offer for the work.
- A department solicited offers from one vendor three times for contracts with the same scope of work, even though the vendor did not submit a single complete offer. There was only one complete offer for each of the first two contracts and only two submitted for the third.
- Another department solicited offers for a \$150,000 contract for general management development and coaching services – services that are commonly available locally – and only obtained one offer.

Without obtaining a sufficient number of viable offers for consulting services, County departments are not gaining the benefit of competition. As a result, the County cannot always assure itself that it is obtaining the best available price for the services it purchases.

Inconsistent selection and documentation of award criteria	Departments also do not consistently meet procurement documentation requirements, especially regarding the rationale for awarding the contract. Criteria for awarding the contracts
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are frequently not documented, not clearly applied (when documented), and occasionally did not include the price charged by the vendor.

Intermediate procurement rules require departments to maintain procurement documentation. The documentation requirements are essentially the same for a written or oral solicitation process. While the rules specify solicitations and offers to be in writing for contracts between \$75,000 and \$150,000, the rules allow information to be conveyed to prospective vendors and offers to be accepted orally for contracts less than \$75,000. Departments are required to document the vendors solicited, the criteria for evaluating the offers, a summary of the information provided to the vendors, a summary of information received from the vendor (the offer), and the scoring summary or evaluation of the offers received.

Departments were able to produce some of the required documentation, but the quality of this documentation varied considerably. Documentation of the rationale for selecting the winning offers was the requirement that was least frequently met – only one-third of the procurements from our sample had the required documentation. The following examples highlight the conditions we found.

- Departments documented the vendors that they solicited for offers.
- They were also able to document the information they provided to the prospective vendors, although this information was frequently limited to the scope of work, rather than including such information as performance measures and deliverables that are identified in the procurement rules. Moreover, information requested from vendors did not always include the price they would charge for performing the service.
- While departments rarely documented the specific selection criteria for oral intermediate procurements,

we considered documentation of the questions asked of the prospective vendors to satisfy the requirement in the absence of specific written criteria. However, in some cases, the questions asked of vendors were so limited they could not provide sufficient criteria to make a selection. For example, one department's questions were 1) Are you interested in performing the stated scope of work and 2) how much do you charge?

Shortcomings in procurement process and documentation can be attributed, at least in part, to a lack of understanding of the procurement rules by department staff. In at least one case, program staff hired a consultant without going through any procurement process at all.

The lack of a robust procurement process, where departments are soliciting too few viable offers and not always applying solid selection criteria, has contributed to contract awards being concentrated among relatively few vendors. For example, in the last three fiscal years, 98 percent of the dollar volume of contracts for cultural competency consulting has been paid to a single vendor, totaling more than \$430,000 from the five contracts initiated during FY09 through FY11. During that same time period, three vendors captured 62 percent of the dollar volume and 11 of the 29 contracts for facilitation and strategic planning work, amounting to nearly \$320,000 during that time period.

Volume of cultural competency work suggests more economical options

Because there has been such a consistently high demand for cultural competency consulting, the County may have more options for the economical purchase of these than it does for other types of services. For example, the County may find it more economical to provide these services in-house or to use a formal procurement process for a pool of contracts, where the larger dollar volume of available work might broaden the pool of available vendors and increase competition.

In our three-year sample of contracts, we found more than \$440,000 in spending on cultural competency consulting services. Including contracts initiated prior to the beginning of our sample

period brought the total spent on these services to over \$1 million over the last six fiscal years. The dollar volume and number of years that the County has consistently committed resources to these services, combined with the multi-cultural nature of many of its client-based services, suggests that the need for these services will not be diminishing in the near term. Hiring staff to provide some of these services, rather than contracting out, could prove to be more economical. The County paid a cultural competency consultant an average of \$200,000 per year from FY08 through FY11 for approximately 1,300 hours of service per year. Hiring a full-time employee with a \$70,000 annual salary would cost the County approximately \$111,000 per year.

Alternatively, the County could use a formal procurement process by combining the contracts to create a single contract of larger dollar value and longer terms. Such a contract would likely attract more attention from vendors and increase competition.

The County has missed an opportunity to purchase these services in a more economical way in part because there was little coordination among departments to purchase services that apply across departments.

Recommendations

The County's commitment to impartial and open competition should be re-emphasized to department management and staff so that meaningful competition is obtained through evaluation of performance, service, quality and pricing to achieve the best value for the County. Consideration should also be given to providing those services in-house when appropriate and cost-efficient.

- 1) Departments need to be held accountable and management needs to be committed to ensuring a proper procurement process. Departments and Purchasing should work together and take steps such as:
 - Developing better training, monitoring, and feedback processes for documenting intermediate procurements.

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- Developing a system that involves department management in the approval of individual intermediate procurements, in addition to the resulting contracts, to help ensure that the proper process is followed.
- 2) To ensure the County is receiving the best combination of service and value, it should increase coordination across departments in obtaining organizational development services.
- Direct Report Managers (DRM) should share information with the Chief Operating Officer directly or in regular DRM meetings about organization development services considered for the year for potential multi-departmental procurements.
 - Human Resources (HR) could serve as a central resource for departments to obtain three qualified vendors, such as building on work done by HR with their RFPQ in developing a pool of qualified vendors.
 - The County should consider hiring staff to provide some or all of the cultural competency services previously provided through contracts where it is shown to be more economically feasible. This would have the added benefit of offering this type of organizational development to internal County customers who could benefit, but would otherwise be unable to afford to contract it out.

Objectives, Scope, and Methodology

The primary report objectives were to determine:

1. How much money the County is spending on organizational development consulting, and
2. If we are getting these services in the most economical manner possible.

Multnomah County relies on contractors to provide a variety of services to employees and citizens. While many of these contractors provide what are broadly categorized as “Professional Services”, the scope of this audit was narrowed to vendors who provide organization development services. For the purposes of this study, we defined organizational development services as including cultural competency consultation, facilitation and mediation, strategic planning, and general organizational development. Our review did not include other professional services (e.g., engineering, architecture, and construction), implementation or development services (e.g., consulting for implementing a new IT system or electronic medical records), general employee training programs, or goods/materials.

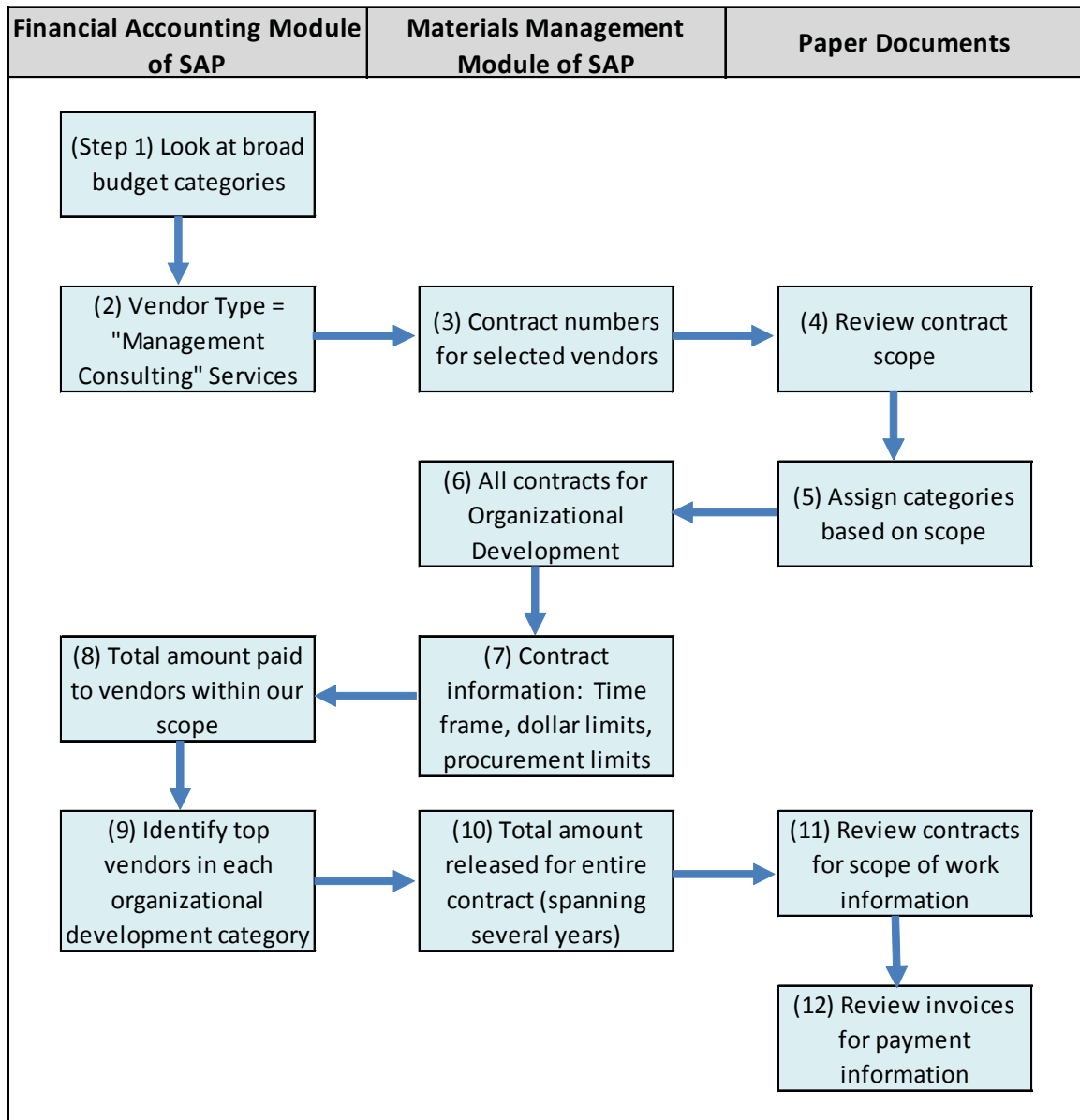
To determine how much money the County spent on organizational development consulting, we obtained data from SAP and from a manual review of paper documents (See Exhibit 1). Available electronic data does not provide an adequate description of the services provided, making it difficult to determine which vendors provide organizational development consulting and which do not. Issues encountered include:

- Current vendor categories are too broad. Though there is a field in the Vendor Master file for “Vendor Type”, this field is too broad (e.g., “Management Consulting” includes construction projects, library performers, attorney fees, etc.) to determine the services vendors provided.
- Many data fields are blank or missing. Less than two-thirds of vendors are assigned a “Vendor Type” and other fields, specifically text fields, can be left blank or contain partial information. The usefulness of what is entered into text fields varies significantly across departments.
- Vendor descriptions are often miscoded. Of those vendors that were categorized, many assignments were incorrect or misleading (e.g., a vendor that provides legal services assigned the “Management Consulting” category instead of the “Attorney Fees/Legal” vendor type category).

In addition to the difficulty we had identifying vendors that provided organizational development services, we found the SAP system is not structured in such a way as to easily determine how much money was spent on a specific contract. SAP is segmented into different modules, including the Financial Accounting (FI) and Materials Management (MM) modules. The FI module includes information on how much the County has paid to individual vendors. Alternately, the MM module includes purchasing information such as which contracts are associated with which vendors. The information in these two modules is not connected in a way that would allow us to determine which contracts from the MM module are associated with which specific payments in the FI module. For example, data from the FI module would allow us to determine that the County paid Vendor A \$100,000 in FY09. Data from the MM module indicates that Vendor A had two contracts with the County in FY09, Contract 1 and Contract 2. However, we could not verify how much of the \$100,000 paid to Vendor A during FY09 was for work conducted on Contract 1 versus Contract 2. We could only obtain this information by reviewing invoices billed on a specific contract. Paper invoices are kept at the department level and are not always available, particularly for older contracts.

Due to these system limitations, our audit results are based on a back and forth process between the two SAP modules and paper documents. A general overview of our process is found in Exhibit 1. We started by looking at large budget categories in the FI module and eliminating vendors that clearly fell outside our scope. We then searched in the MM module for contracts associated with all remaining vendors before reviewing paper contracts to determine the type of work provided. Based on the written contract scope, we assigned contracts to categories of organizational development or eliminated them for being outside the scope of our audit. After obtaining as much data from SAP as we could on the remaining organizational development contracts, we went back to paper documents to determine work done and amount paid on specific contracts. While our robust process enabled us to obtain reasonable assurance that we captured the majority of organizational development contracts and vendors within our time frame, there are likely some payments (mostly through direct pay) that we did not capture in our review.

Exhibit 1: Process to obtain data for identifying and analyzing contracts for organizational development services

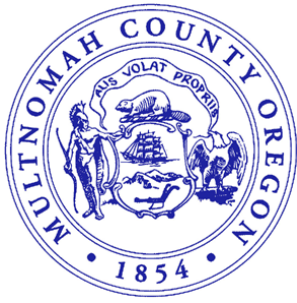


Source: Multnomah County Auditor's Office

In addition to analyzing financial and procurement data, we also assessed the current purchasing requirements and control environment for intermediate procurements. This included a review of central purchasing and contracting policies. To determine the extent to which policies are being followed, we also collected and reviewed procurement documentation from a sample of contracts initiated from FY09 through FY11. We also interviewed employees from Purchasing, Human Resources, the Office of Diversity and Equity, Countywide management, and some department-level procurement specialists.

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.

Response to Audit



Jeff Cogen, Multnomah County Chair

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April 12, 2012

Steve March
Multnomah County Auditor
501 SE Hawthorne, Room 601
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Dear Auditor March:

Thanks to you and your staff for your audit of the county's contracting with consultants and their procurement. I appreciate the opportunity to respond and to reaffirm Multnomah County's commitment to an impartial and open public contracting process.

I am encouraged that your audit found that departments are generally observing procurement rules. But I do agree that county officials can take additional steps to ensure that intermediate procurement processes are better documented. The audit also recommends that there could be more coordination across departments in obtaining organizational development services. Given our funding challenges, this kind of coordination is critical in order to save money and operate more efficiently.

Allow me to address these key points:

* On the documentation issue – As you know, the county recently went live with an enhancement to SAP, our enterprise financial system. This includes records management capability that will effectively create an electronic central repository for procurements, contracts and their supporting documents. This will make it easier to review both the process and the documentation of efforts made to solicit vendors for these contracts.

* Coordination across departments – I will ask county Purchasing to develop a "Solicitation Synopsis" process for intermediate procurements that will detail who was contacted (and by whom), what information was obtained or considered, and the rationale used in making a final selection.

* The county has completed a Request for Proposals Qualification process in August 2011 for training, facilitation and consultation services. This process is periodically open for new providers. I will require departments to procure organizational development services from providers who are prequalified on this list.

Please let me know if I can assist you in any way.

Sincerely,
Jeff Cogen
Multnomah County Chair