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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

Contracting for Professional Services

Performance Audit

Clark County Auditor's Office

Report #07-01

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V (360) 397-2025; **TTY** (360) 397-2445; **E-mail** ADA@clark.wa.gov

Audit Services

1300 Franklin, Suite 575, P.O. BOX 5000, Vancouver WA 98666-5000
(360) 397-2078, FAX (360) 397-6007, www.co.clark.wa.us/auditor

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EXECUTIVE SUMMARY

The audit's major conclusions are as follows:

Most professional service contract dollars (\$77 of \$81 million reviewed) were let competitively.

Small professional service contracts—those for amounts under \$7,500—were seldom let competitively. The departments audited generally did not consider the county's "informal" quotation policy to be a viable means of obtaining competition for small professional service contracts.

Because the county no longer requires formal competition for contracts under \$25,000, the number of contracts defined as "small"—and subject to the county's "informal" quotation process to provide competition—has increased significantly.

For the set of contracts included in this review, the higher \$25,000 limit increases the number of "small" contracts from 40 to 84, and increases the total annual dollar value of these contracts from \$135,000 to \$859,000.

This newly expanded set of "small contracts" will rely on the county's "informal" quotation policy and newly created Vendors List to assure adequate competition. Expanding the Vendors List to include categories specific to the professional services provided by the Department of Community Services, and other departments as needed, would help increase competition.

The audit's major recommendations are that:

The Auditor's Office modify the county's Financial Management System to make professional service contracts and other contract types specifically identifiable.

The Purchasing Division work with county departments to develop additional professional service categories for the Vendors List, and track professional service contracts to assess whether competition for contracts under \$25,000 is adequate.

The Department of Community Services assure that procedures put in place to attain compliance with the county's sole source contracting policy are effective.

BACKGROUND

Professional services contracts are let by county departments to obtain many types of services in areas that involve particular expertise. Engineers, attorneys, financial consultants, and individuals providing training in specialized fields are typical examples of service providers.

The General Services Department's Purchasing Division is responsible for providing guidance in the form of contracting policy and procedures. Both the Purchasing Division and contracting departments are responsible for assuring compliance.

County policies specify procedures for professional services contracting. At the time of this audit, all professional service contracts for amounts larger than \$7,500 required formal competitive bidding.¹

In order to assure adequate competition on smaller contracts—contracts under \$7,500—county policy required that three “informal quotations” be obtained from prospective vendors. Professional services costing \$2,500 or less can be contracted for directly by departments; no quotations are required.

AUDIT RESULTS

Most Professional Service Contract Dollars Were Let Competitively

For the three county departments included in this audit², most of the contracts reviewed, and most contract dollars, were let in accordance with the formal competition requirements of county policy. (See Appendix B for detail by department.)

- 275 contracts were reviewed, of which 213 were let by competitive methods.³
- 96 percent of contract dollars (\$77 million of \$81 million total) was let competitively.
- 56 contracts, totaling \$3 million, were let noncompetitively.⁴

¹ In October 2006, a policy change raised the county “bid limit” to \$25,000; formal competitive bids were then required for contracts exceeding this amount.

² Department of Community Services (212 contracts); Public Works (47) and the Department of Community Development (16).

³ Competitive methods used included a Request for Proposals (RFP), Request for Qualifications (RFQ) or use of the county's informal quotation process. Contracts were classified as noncompetitively let if the county's sole source process was used, or informal quotes were not obtained.

⁴ The competitive process used could not be determined for 6 contracts, totaling \$448,000.

Noncompetitive Contracting: Sole Source Process

County policy required that contracts exceeding \$7,500 use the formal competition process, or be approved by the Board of County Commissioners as a sole source purchase.

- 25 of the 275 contracts reviewed were let on a sole source basis.
- The 25 sole source contracts represented 4 percent of total contract dollars (\$3 million of the \$81 million).

Two of the 25 contracts that were reviewed at the Department of Community Services were not in compliance with sole source policy, which required that a staff report be prepared and that the purchase be approved by the Board of County Commissioners. For example, one contract for database assistance totaled \$57,500.⁵ The original assumption was that the contract would be under \$7,500 and consequently sole source approval would not be required. However, the scope of the work was increased by program staff and the associated increase in cost—which put the contract into the sole source category—was not caught by the department’s procedures.

Department of Community Services officials advised that contract procedures had been changed to assure that sole source purchase justifications are documented and that appropriate approval is obtained.

Noncompetitive Contracting: Small Contracts

In order to assure adequate competition for small contracts—contracts between \$2,500 and \$7,500—county policy required obtaining three “informal quotes” from prospective vendors. The policy stated that this requirement was to be “liberally construed” since obtaining informal quotes for professional service contracts would not be advantageous in all cases. This audit found that informal quotes were seldom used for the contracts reviewed.

- 40 of the contracts reviewed were under \$7,500. No quotes were obtained from competing vendors for 31 of the 40 contracts.
- The Department of Community Services accounted for 35 of the 40 contracts reviewed, with the remainder split between the departments of Community Development (3) and Public Works (2).
 - Many of the Department of Community Services contracts were for services such as professional training or for specialized services

⁵ The second contract, for \$10,400, involved a similar unanticipated cost increase.

unique to an individual or organization. According to departmental officials and the county's Purchasing Manager, a competitive process (i.e., obtaining informal quotes) would not necessarily be advantageous or required for such services.

Department of Community Services officials advised that the "informal" quotation process was generally difficult to use in a beneficial way for professional services since (1) alternative vendors were hard to identify and (2) more than a price quote is required to evaluate the professional qualifications of the vendor.

- Two Department of Public Works contracts were under \$7,500, and as such were subject to possible application of the "informal" quotation policy. Departmental officials advised that the two contracts were let without obtaining quotations because the individual contracted with had background specific to the financial services being sought.
- The Department of Community Development had three contracts under \$7,500. One, for \$7,420, was subject to possible application of the "informal" quotation policy. However, no quotations were obtained because the vendor was an individual who had prior experience with the financial services being purchased. One of the remaining two contracts was under \$2,500, and the other was for specialized training, so no informal quotations were obtained.

New Vendors List Process Is Intended to Increase Competition for Small Contracts

The county was required by state statute to establish a Vendors List in conjunction with raising the formal competition bid limit to \$25,000. The intent of the Vendors List, according to the statute, is to open up competition for government contracts—to make it easier for businesses and individuals to make themselves known as available, and to make it easier for government units to find prospective vendors and to increase competition.

The Vendors List process became effective in October 2006. The list is divided into categories, some of which are for professional services. For example, there are categories for financial, educational and training, and consulting services.

Potential vendors register themselves in the categories representing the services they wish to provide. Vendors are required to provide the business name, address, and type of professional service in the registration process—no licensing, work history, or other detail related to the vendor's qualifications is

required. It is expected that contracting departments would assess qualifications after receiving quotations from competing vendors on specific contracts.

In order to increase competition, county departments are required to solicit quotations from all vendors registered for the applicable professional service. The departments can also ask the vendors to provide information on qualifications and work history. After the information is received, county departments evaluate and select a vendor.

County-wide Data Pertaining to Professional Service Contracts Are Not Readily Accessible

Professional service contracts are not specifically identified as such in the county's Financial Management System (FMS). As a result, it was necessary for audit staff to obtain listings of professional service contracts directly from the departments involved.

The ability to identify professional service contracts in a centralized manner would facilitate the conduct of Purchasing Office oversight and future audit responsibilities.

Discussions with Auditor's Office and Information Services staff indicated that modifying FMS to allow specific identification of professional service and other contract types would not be difficult. The Purchasing Manager advised that the modification would provide a more efficient way to analyze and review contracts by type.

Currently, the modification would be particularly useful in analyzing the recent county policy change—the effect of eliminating the formal competition requirement for contracts under \$25,000. Professional service contracts could be identified and analyzed to determine whether the Vendors List process is accomplishing its intent—making county business available to a wider range of vendors, and assuring adequate competition for county contracts.

CONCLUSIONS

The major conclusions of this review are as follows:

- Most of the professional service contracts and contract dollars reviewed were let competitively.
- Small professional service contracts—those for amounts under \$7,500—were seldom let competitively. The county's "informal" quotation policy applicable to these contracts was not often used by the contracting departments.

- Because the county no longer requires formal competition for contracts under \$25,000, the number of contracts defined as “small”—and subject to the county’s “informal” quotation process to provide competition—has increased significantly.
 - For the set of contracts included in this review, the higher \$25,000 limit increases the number of contracts subject to the county’s “informal” quotation process from 40 to 84, and increases the total annual dollar value of the contracts from \$135,000 to \$859,000. The cumulative total dollar value—the actual extent of the county’s commitment—is a multiple of this amount since many professional services contracts are renewed annually for three or more years.
- This newly expanded set of “small contracts” will rely on the county’s “informal” quotation policy and newly created Vendors List to assure adequate competition.
- A minor change to the county’s FMS system would allow centralized identification of contracts by type. The change would enable officials with oversight and audit responsibilities to more efficiently identify, track and analyze contracts by type. For example, professional service contracts could be identified and analyzed to determine whether the Vendors List and “informal” quotation processes are assuring adequate competition for contracts under \$25,000.

RECOMMENDATIONS

The Auditor’s Office improve the ability of responsible parties to perform oversight and auditing functions by

- Modifying the county’s Financial Management System to make professional service contracts and other contract types more readily identifiable.

The Purchasing Division help assure competition by

- Tracking and analyzing professional service contracts on a county-wide basis to determine whether the Vendors List and “informal” quotation processes are assuring adequate competition for contracts under \$25,000.
- Work with the Department of Community Services, and other county departments as necessary, to develop Vendors List categories specific to the major types of professional services used.

The Department of Community Services can strengthen contracting by

- Confirming that procedures put in place to assure compliance with the county's sole source contracting policy are effective.
- Documenting, in each contract file, the type of competitive method used, and—if the contract is an annual extension—the date and contract number of the originating contract.

APPENDIX A

OBJECTIVE AND METHODOLOGY

The objective of the audit was to determine whether the contracting practices used for professional service contracts were in accordance with county policy, and to make recommendations designed to increase program compliance and effectiveness.

This review is based upon an analysis of professional service contracts that were in effect from January 2005 through September 2006 at the Department of Community Services; Department of Community Development; and Department of Public Works.⁶

FMS was queried to identify the professional services contracts⁷ that were in effect in 2005. FMS data allowed only the identification of contracts coded as involving the purchase of “services”—a grouping that includes contracts for non-professional (e.g., janitorial) as well as professional services.⁸ In order to refine the list to include only contracts for professional services, it was necessary to contact and obtain the data directly from the audited departments.

The departments to be included for review were selected based upon the original FMS “service contract” listing. The listing showed that the Department of Community Services (DCS) and the Department of Public Works had significantly more service contracts than other departments—about 75 percent of the total. Consequently, DCS and Public Works were selected for this review. The Department of Community Development was selected as representative of a department with a relatively small number of service contracts.

Audit methodology included reviews of county contracting procedures related to professional services contracting; interviews with the county’s Purchasing Manager and with departmental officials with contracting responsibilities; reviews of contract files, and the collection of pertinent contract detail for the contracts reviewed.

This audit was conducted from July through December 2006 in accordance with generally accepted government auditing standards.

⁶For Public Works, audit scope was limited to 2005 contracts, and excluded road project contracts.

⁷The list was produced by querying FMS for all contracts identified as for “services.” The list was supplemented, since some contracts for “services” had not been correctly coded in the purchasing system.

⁸Consequently it was not possible to use the FMS to identify the total number and dollar value of professional service contracts on a county-wide basis.

APPENDIX B

CONTRACT DATA TABLES: BY DEPARTMENT

Department of Community Development	Number of Contracts	Total Dollar Amount	Percent of Total Dollars
<u>Competitive Processes</u>	12	\$1,012,980	97.0%
<u>Noncompetitive Processes</u>	4	\$30,975	3.0%
Totals	16	\$1,043,955	100.0%

Department of Public Works	Number of Contracts	Total Dollar Amount	Percent of Total Dollars
<u>Competitive Processes</u>	45	\$13,224,576	99.9%
<u>Noncompetitive Processes</u>	2	\$7,005	0.1%
Totals	47	\$13,231,581	100.0%

Department of Community Services (Professional Services for Clients)	Number of Contracts	Total Dollar Amount	Percent of Total Dollars
<u>Competitive Processes</u>	152	\$63,077,297	96.1%
<u>Noncompetitive Processes</u>	22	\$2,548,411	3.9%
Totals	174	65,625,708	100.0%

Department of Community Services (Professional Services for the Department)	Number of Contracts	Total Dollar Amount	Percent of Total Dollars
<u>Competitive Processes</u>	4	\$18,250	1.8%
<u>Noncompetitive Processes</u>	28	\$590,306	55.8%
<u>Unknown Process</u>	6	448,050	42.4%
Totals	38	\$1,056,606	100.0%

Totals: All Departments	Number of Contracts	Total Dollar Amount	Percent of Total Dollars
<u>Competitive Processes</u>	213	\$77,333,103	95.5%
<u>Noncompetitive Processes</u>	56	\$3,176,697	3.9%
<u>Unknown Process</u>	6	\$448,050	.6%
Totals	275	\$80,957,850	100.0%

APPENDIX C

PURCHASING DIVISION COMMENTS

Date: January 24, 2007

To: Larry Feltz

From: Michael Westerman, CPPO

RE: Internal Audit Review of Professional Services Contracts by County Departments

Clark County Purchasing originally requested the audit review of Professional Service Contracts for compliance with County policies. In reviewing the audit findings, there is a weakness in the oversight process for those contracts below the requirements for a formal competitive process. To ensure all parties, review the contract and supporting documentation before a contract is signed, Purchasing will work with the Prosecuting Attorney, County Administrator and Auditor to develop process that allows a review of the contract for compliance with County policies prior to signing the contract.

Purchasing agrees with the recommendation for an automated process that identifies the type of contract in the Clark County Financial Management System. This will allow a more efficient process for exporting contract information use to conduct ongoing compliance audits in the future.

APPENDIX D

DEPARTMENT OF COMMUNITY SERVICES COMMENTS

TO: Greg Kimsey, Clark County Auditor

FROM: Michael Piper, Director

DATE: January 9, 2007

SUBJECT: Response to Professional Services Contract Review

The Department of Community Services appreciates the work performed by the County Auditors Office in their review of the contracting process for Professional Services. The follow comments address the actions taken by the Contract and Finance Units of the department, in response to the two recommendations detailed in the report.

Community Services, Contracts and Finance Units, has put in place controls, as a part of the contract and cross functional team (CFT) process, specific steps to address the issue of contract limits, especially for contract modifications, raised during the review. Those steps are:

- Identify the original contract amount as a part of the CFT process;
- Identify the value of proposed modifications; and
- Determine that total value of contract, after modifications, complies with County policies

The additional steps will ensure contracts that were originally under the required dollar limits for quotes, but due to modifications in the statements of work now exceed those limits, will adhere to county procurement policies.

The Community Services Contracts Unit will add additional information to the Special Terms and Conditions section of each contract that will identify:

- The type of method used in contracting for the service; and
- The original contract information for contracts that are an annual extension of an existing contract

Community Services requests that the Auditor's office and Community Services be involved in the development of new County Procurement Policies and Procedures to ensure that definitions are consistently understood, and that they clearly describe procedures and exceptions. This would include the implementation of the new Vendor's List Process.

Cc: John Ingram, Auditor/Financial Services
Ron Curtin, Dept. of Community Services