



County of Orange
C a l i f o r n i a

James D. Ruth
Interim
County Executive Officer

June 13, 2003

Honorable Frederick P. Horn
Presiding Judge of the Superior Court of California
700 Civic Center Drive West
Santa Ana, CA 92702

Subject: Response to Orange County Grand Jury Report, "Questionable
Contract Management"

Dear Judge Horn:

Per your request, and in accordance with Penal Code 993, enclosed please find the County of Orange response to the subject report as approved by the Board of Supervisors. If you have any questions, please contact Frank Kim at the County Executive Office who will either assist you or direct you to the appropriate individual.

Respectfully,

James D. Ruth, Interim County Executive Officer

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**RESPONSE TO THE ORANGE COUNTY GRAND JURY
REPORT ON QUESTIONABLE CONTRACT MANAGEMENT**

FINDINGS

1. The expenditures by the CEO Office of Human Resources on a consultant contract in 1998 and 1999 exceeded the amount authorized by the Orange County Board of Supervisors on December 8, 1998.

Response: Disagree partially with the finding

Explanation: While expenditures that exceeded the amount authorized by the Board of Supervisors on December 8, 1998, were incurred, no actual payments of those expenditures were made until Board approval was received on December 7, 1999.

2. The CEO Office of Human Resources increased the billing rates up to 35% on the consultant contract without prior approval by the Orange County Board of Supervisors.

Response: Agree with the finding

Explanation: The CEO Office of Human Resources authorized a billing rate increase orally to the consultant, and payments were made to the consultant for services billed at the increased billing rates without prior approval by the Board of Supervisors on December 7, 1999.

3. The CEO Office of Human Resources made a significant change of scope in the consultant contract, but did not rebid the contract for the new services.

Response: Disagree partially with the finding

Explanation: The CEO Office of Human Resources requested Board of Supervisors authorization to modify the original contract. The Board of Supervisors approved a modification to the contract, which included the new services, prior to the issuance of a contract modification or payment to the consultant for the new services. The CEO Office of Human Resources requested and received Board approval of this modification less than one week prior to the CEO Office of Human Resources requesting the contract modification from CEO/Purchasing, precluding the possibility of a "rebid" process.

4. CEO Office of Human Resources added an additional project to the consultant contract (Human Resources Visioning Project) without competitive bidding or sole source justification.

Response: Disagree partially with the finding

Explanation: As with 3, above, the CEO Office of Human Resources requested Board of Supervisors authorization to modify the original contract to add an

Response: The recommendation will be implemented.

Explanation: Per the recommended action, the Board of Supervisors directs the County Purchasing Agent to develop a Board policy related to contract overruns and return to the Board of Supervisors in 90 days for approval and to incorporate the policy into the County of Orange Contract Policy Manual.

additional project to be performed by the consultant. The Board of Supervisors approved a modification to the contract, which included the new project, prior to the issuance of a contract modification or payment to the consultant for the new project. The CEO Office of Human Resources requested a contract modification, without sole source justification, from CEO/Purchasing less than one week prior to requesting and receiving Board approval of the contract modification, precluding the possibility of a competitive process.

5. Orange County Board of Supervisors retroactively approved the unauthorized expenditures, increased billing rates and changed the scope in the consultant contract on December 7, 1999.

Response: Agree with the finding

Explanation: Upon approval by the Board of Supervisors on December 7, 1999, the expenditures, increased billing rates, and changes in the scope of work were authorized, and the contract was so modified.

RECOMMENDATIONS

1. The County Executive Officer investigate the management of the consultant contract, and if in fact mismanagement did occur, County Executive Officer to consider appropriate action.

Response: The recommendation will be implemented.

Explanation: The County Executive Officer directed the County Purchasing Agent to evaluate the facts related to the contract modifications. In addition, Internal Audit conducted an independent review of the contract files and the contracting process. The County Executive Officer will review the facts and appropriate action will be taken if the contract was mismanaged.

2. The Orange County Board of Supervisors appoint a committee of senior financial and purchasing personnel to review contracts approved by the Board of Supervisors for the past three years to determine if other contracts have exceeded the cost originally approved by the Board and were then returned to the Board for retroactive approval of the increased contract costs.

Response: The recommendation will not be implemented as it is not warranted.

Explanation: Review of the large amount of data would be very costly in terms of administrative time. Appropriate procedures will be developed, as noted in response to Recommendation 3 below, to prohibit the future overrun of Board-approved contracts with submission of those overruns to the Board for retroactive approval.

3. The Orange County Board of Supervisors implement procedures to prevent future occurrences if the committee finds significant overruns on other contracts.