

Hotline Tip Report

Waste: The county overpaid for executive recruiting services by over \$78,000, due to deviating from contract terms and failing to identify overbilling

Executive Summary

As the result of a report to the Good Government Hotline, we reviewed executive recruitments that occurred between July 1, 2020 and October 17, 2024.

We substantiated waste. The county overpaid for services by over \$78,000. These overpayments occurred for two primary reasons:

- The county permitted a contractor to charge a higher rate than provided by the payment terms in the contract.
- The county did not properly reconcile submitted invoices to contract terms.

The county has a responsibility to be efficient with taxpayer dollars. The county's current general fund reductions make this even more important. To prevent future, similar instances of waste, we recommend that the county reinforce contracting and invoice approval requirements to ensure that incoming invoices agree with the applicable financial terms in contracts.

We found that numerous county rate-based contracts lacked financial terms, which can cause confusion as to the intended payment agreement. In the case of one contractor, terms that would have reduced costs for the county were left out of a contract.

Additionally, we found that the county reached an agreement with a contractor outside of the county's typical procurement process.

Investigation

Allegation

Our investigation stemmed from a tip to the Good Government Hotline. The allegation was that the county had improperly awarded a contract, because the contractor in question was not a qualified provider as required by Oregon law and Multnomah County policy. We did not substantiate the allegation. However, in the course of that investigation, we reviewed invoices which indicated that executive recruitment contractors potentially overbilled the county.

Scope

We analyzed 40 county executive or staffing recruitments that occurred between July 1, 2020 and October 17, 2024. In the course of that analysis, we reviewed 24 county contracts related to executive recruitment or staffing recruitment services. The total expense of the 40 recruitments was about \$1.6 million.

Background

The county sometimes uses outside recruiting firms to hire high-level positions. County management told us that executive recruitment firms have the strategic advantage of being able to draw on vast networks of executive professionals, and tend to have greater geographic reach than county recruiters.

Analysis

The county overpaid for services by over \$78,000:

- The county overpaid for services by more than \$44,000, because it told a contractor they could charge a higher rate than agreed to by contract. Once contracts are developed from a procurement process, the contract terms must be honored unless amended. This helps ensure open and impartial competition in public contracting, and efficiency.
- The county failed to detect almost \$34,000 in billing errors, by failing to reconcile invoices to contract terms.

Almost half of the contracts we reviewed omitted complete financial terms, and contracts with one contractor omitted cost proposals that could have saved the county money.

- Despite the fact that contracts typically undergo numerous rounds of review, we found that 11 out of the 24 executive recruitment or staff recruitment contracts we reviewed did not include financial terms. Without financial terms, it is uncertain how much the county should expect to pay the contractor for goods or services.
- With one contractor, the county failed to include a term that would have made recruitments less expensive, in some cases. During the procurement process, the contractor proposed a \$49,500 maximum on its fee for executive recruitments. That maximum was not incorporated into either of two final contracts with the contractor. After we discussed with management that the maximum had been left out of the contracts, the current contract with the contractor was amended to include the cap, as of January 1, 2025.

The county reached an agreement with a contractor, outside of the county's typical procurement process.

- For an executive recruitment, a county department reached an agreement with a contractor to pay a fee equal to 30% of the starting salary of the person hired.
- The county had an existing contract with the contractor, but it was for a different scope of work – IT staff recruiting rather than executive recruiting. And the terms of that existing contract called for an 18% rate, not a 30% rate.
- Because of the differences in scope of work and the rate, the county's existing contract was not reconcilable to the agreement the county department reached separately. The department should have sought appropriate procurement authority or used a different contract. Other contractors may have been excluded from this opportunity due to procurement rules being circumvented.

Conclusion

We substantiated an allegation of waste. The county overpaid by over \$78,000 due to deviating from contract terms and failing to identify overbilling. We also identified missing and incomplete contract terms, and failure to follow prescribed county procurement processes.

Recommendations

1. The county should reinforce contracting and invoice approval policies and rules, including segregation of duties. Before payment, employees with approval responsibility should ensure that incoming invoices agree with the financial terms in applicable contracts and purchase orders.
2. The county should ensure that the approval process for contracts includes verification that all applicable financial terms are included, and that the terms include any contractor proposals that minimize expenses for the county.
3. The county should reinforce procurement policies and rules. Contracts must be based on valid procurement authority and match negotiated terms.

About Hotline Investigations

The Good Government Hotline is a service of the Multnomah County Auditor's Office. You can report suspected fraud, waste, misuse of county resources, or abuse of position in county government at 1-888-289-6839 or <https://multco.us/info/good-government-hotline>.

A hotline investigation is not an audit. We follow detailed procedures in the investigation of hotline tips, which include a preliminary review of the tip and an investigation when our preliminary review indicates it is necessary.

We follow all of the requirements of Oregon Revised Statute 297.765, Policies and Procedures for Local Government Waste Hotlines. Our compliance with ORS 297.765 requires us to determine in writing whether activities are occurring that constitute waste, inefficiency, or abuse. The statute allows us to include other pertinent information in our determination. When we determine that waste, inefficiency, or abuse has occurred, we are required to deliver our findings to the Board of County Commissioners.



Jessica Vega Pederson
Multnomah County Chair

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May 6, 2025

Jennifer McGuirk, MPA, CIA
Multnomah County Auditor
501 SE Hawthorne Blvd., Room 601
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Dear Auditor McGuirk,

On behalf of myself, the Chief Operating Officer, the Chief Financial Officer, and Central Purchasing, I would like to thank the Multnomah County Auditor's Office for performing the investigation into a report received to the Good Government Hotline regarding executive recruitments that occurred between July 1, 2020 and October 17, 2024. We value your office's insights and are committed to ongoing improvement in procurement, contracting, invoicing and payment practices. **We have reviewed all recommendations made and have no disagreements.**

Recruitment efforts are conducted at the department level, and external recruitment firms are retained to assist in accessing expanded national executive professional networks and candidates who possess the expertise specific to the requirements of executive level management for each department. **To ensure compliant procurement and contracting practices are adhered to, a plan to address the recommendations from this investigation has been developed.**

These investigation findings emphasize the importance of training and accountability in the areas of contract management coupled with adherence to county procurement and contracting policies. The plan outlined below builds on the existing systems and processes to continue improving workforce development (training) and enhancing systems for compliance and accountability.

Recommendation 1

The county should reinforce contracting and invoice approval policies and rules, including segregation of duties. Before payment, employees with approval responsibility should ensure that incoming invoices agree with the financial terms in applicable contracts and purchase orders.

Response 1

Agreed. The county adheres to Generally Accepted Accounting Principles (GAAP) which incorporates segregation of duties through internal controls in the county's Enterprise Resource Planning (ERP) finance systems and in business processes. The existing Workday supplier invoice system workflow includes approval from managers with budget authority and first-hand knowledge of services being rendered or goods being received. The workflow also includes the approval of the Accounts Payable Manager for review of accounting accuracy/completeness. The business process includes an attached supplier invoice and link to executed contract (as applicable).

To further educate individuals with Workday approval responsibilities, the ERP Finance Support team will enhance an existing Workday training for Cost Object Managers to remind staff about confirming contract payment terms prior to invoice approval. In addition, the existing supplier invoice workflow in Workday will be enhanced to include a note to review contract payment terms prior to invoice approval. Both enhancements will be completed by June 30, 2025. Finance managers throughout the county meet on a regular basis, and additional training and reinforcement of the county's rules and requirements for invoice approval and accountability will be delivered to the Finance Managers Forum meeting by June 2025.

County departments are accountable for validating all invoices and contract payments and must remain in compliance with the county's policies and procedures. Exceptions to these rules must be escalated to the Chief Financial Officer, in accordance with the procedures laid out in FIN-1 Section II General Guidelines C. Exceptions; 'Exception to this procedure shall be allowed only when written documentation of an overriding contract, law or rule is provided to the County's Chief Financial Officer.' Ongoing training will emphasize county requirements for invoice validation and approval, including associated contract payment terms, segregation of duties and accountability.

Recommendation 2

The county should ensure that the approval process for contracts includes verification that all applicable financial terms are included, and that the terms include any contractor proposals that minimize expenses for the county.

Response 2

Agreed. Contracts are drafted in each department and are required to adhere to all county rules, policies and procedures. Administrative procedure CON-1 requires that 'Contracts must include payment type, payment basis and payment method'. Contract language must also incorporate, as appropriate, any payment terms defined in the procurement process. Expenditure contracts are approved by department managers and Central Purchasing.

Central Purchasing will enhance its existing contract compliance review process to ensure financial terms are incorporated into a contract prior to execution. This will include a review confirming payment terms. Central Purchasing will pilot the enhancement over one year period and then assess if further controls are required.

Central Purchasing will conduct additional departmental training around contract development, specifically the required elements to document payment terms appropriately in a contract and the incorporation of any terms, schedules, rates or rate fees derived from a procurement process. This will include procurement staff, supervisors, and managers at the June 2025 Purchasing Advisory Council and Purchasing Leaders Group meeting. The goal will be to remind/educate departmental contracting workforce of existing contract development requirements and steps for process accountability.

Additional training and guidance has been developed through the Contract Administration Standards Manual and Training Curriculum which has entered its pilot implementation phase as of April 2025. Contract Administration standards establish and support the responsibilities of contract managers and contract administrators which include requirements for contract language that incorporates clear payment terms and responsibilities for the review and approval of invoices according to contract terms, to ensure efficient and consistent administration of contracts.

Finally, for the 11 contracts referenced with no financial terms, Central Purchasing will work with applicable departments to amend (active) contracts to incorporate necessary financial terms.

Recommendation 3

The county should reinforce procurement policies and rules. Contracts must be based on valid procurement authority and match negotiated terms.

Response 3

Agreed. Procurement policies and rules guide and support transparent and equitable contracting practices. Reinforcement of procurement policies and rules is conducted through monthly meetings with the Procurement Advisory Council, Purchasing Leaders Group and the Finance Managers Forum. The Contract Administration program sets Countywide standards for contract administration, including adherence to procurement policies and rules.

Training will be provided in June 2025 to the Purchasing Advisory Council, Purchasing Leaders Group and Finance Managers Forum to reinforce the policies and rules for obtaining procurement authority to contract for goods and services. Emphasis will include requirements on incorporating, as appropriate, any payment terms defined in the procurement process or payment terms, rates, schedules negotiated, as allowable by the procurement method.

Thank you again for the work of your office. We appreciate the opportunity to provide enhancements to county procurement, contracting, invoicing and payment processes that reinforce compliance and adherence to rules, regulations and procedures.

Best Regards,

A handwritten signature in black ink that reads "Jessica Vega Pederson". The signature is written in a cursive, flowing style.

Jessica Vega Pederson
Multnomah County Chair