

COUNTY OF SACRAMENTO

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CYNDI LEE

July 1, 2011

Becky Castaneda, Coordinator
Sacramento County Grand Jury
720 9th Street, Room 611
Sacramento, CA 95814

The Honorable Becky Castaneda:

Enclosed is a copy of the Sacramento County response to 2010-2011 Special Sacramento County Grand Jury Report regarding Sacramento County and Ingentra. The Board of Supervisors at their meeting of June 21, 2011 approved this report as submitted.

If you have any questions, please contact my office at 874-5451.

Sincerely,

Cyndi Lee, Clerk
Board of Supervisors

FILED
BOARD OF SUPERVISORS

**COUNTY OF SACRAMENTO
CALIFORNIA**

JUN 21 2011

BY *Cyndi Lee*
CLERK OF THE BOARD

For the Agenda of:
June 21, 2011

To: Board of Supervisors

From: County Executive

Subject: Response To The 2011 Special Sacramento County Grand Jury Report Regarding Sacramento County and Ingentra

Supervisory District: All

Contact: Sharon Dwight, Sr. Administrative Analyst, 874-5229

Overview
The Sacramento County Grand Jury issued a report in April 2011 regarding circumstances leading to Sacramento County contracting with Ingentra HR Solutions to process special district payrolls and the resulting \$20 million debt to the federal government for unpaid payroll taxes. The Grand Jury found there was no evidence of criminal activity on the part of Sacramento County employees. The Chief Executive Officer and Controller of Ingentra HR Solutions pled guilty to federal charges. This report is the response to the findings and recommendations of the Grand Jury.

Recommendation

1. Adopt this report as Sacramento County's response to recommendations contained in the April 15, 2011 Special Grand Jury Report.
2. Direct the Clerk of the Board to forward a copy of this report to the Presiding Judge of the Superior Court and the Grand Jury Foreman.

Measures/Evaluation
Not applicable.

Fiscal Impact
The cost of responding to this report is approximately \$6,000. Staff from General Services, Department of Finance, Risk Management and the County Executive Office contributed to this report. These costs were absorbed within each department.

BACKGROUND

The Sacramento County Grand Jury performed an investigation into the circumstances leading to Sacramento County owing \$20 million payroll tax debt to the federal government. The County is required to process payrolls for its special districts. The County determined it would be less

expensive for a private contractor to process the special district payroll. A Request for Proposal was done and the selected contractor was Ingentra HR Solutions. The Grand Jury's investigation found that county employees followed the usual policies and procedures for contracting out services; however it also found that this type of service was unusual and therefore should have followed stricter procedures.

DISCUSSION

The Department of General Services, Purchasing Department is responsible for developing processes and has provided responses to the Grand Jury's findings and recommendations. The Department has also worked with the Internal Services Agency Administrator, County Counsel, Department of Finance and Risk Management to implement new tools and processes that will significantly enhance the risk assessment procedures the County needs to identify risks factors, the levels of contract risk, mitigation measures and long term contract monitoring. They will pilot the proposed new process that can be found in Attachment A.

Finding #1.1: There was no evidence of criminal activity by Sacramento County employees or undue influence held by Ingentra over Sacramento County employees.

Finding #2.1: There was no comprehensive assessment or worst case analysis of the financial risk the county would incur with the proposed contract during the Request for Proposal (RFP) process.

Recommendation 2.1: Involve risk management and the County Counsel while developing the RFP specifications for "special" contracts. A "special" contract is one that is the first of its kind for Sacramento County, a materially significant contract because of the amount of money involved in the transaction, or a complex contract.

Response to Recommendation 2.1: Concur. The standard County of Sacramento contracting process requires County Counsel review of "special" contracts. Employees involved in the contracting process have been reminded of this requirement and revised processes are being implemented to ensure compliance.

Recommendation 2.2: In the case of "special" contracts, before an RFP is finalized and sent to potential bidders, assign responsibility to an appropriate individual or committee to perform a comprehensive risk assessment and to determine the advisability of the county entering into such a contract.

Response to Recommendation 2.2: Concur. The County of Sacramento, Department of General Services, in coordination with County Counsel, Risk Management and the Department of Finance is currently developing a comprehensive risk assessment process and enhanced procedures to identify risks factors, the level of risk, risk mitigation measures and contract monitoring procedures. The newly developed processes and procedures are expected to be piloted by the County Contracts and Purchasing Division as well as a few other departments beginning July 1, 2011 with full countywide implementation in early 2012.

Finding #3.1: There was no mechanism for recognizing the significance of exceptions to or from the specifications offered by bidders.

Recommendation 3.1: Bid evaluators should be instructed to bring any exception or variance from the established specifications to the attention of the purchasing department. The “purchasing department” refers to the purchasing department in whichever county agency originates the RFP process, not just the Purchasing Department contained within the Department of General Services.

Response to Recommendation 3.1: Concur. Current solicitation templates provide a section for proposers to clearly identify any exceptions and/or variations to established specifications.

Recommendation 3.2: The purchasing department should examine the exception or variance and determine if the RFP should be amended or if a new RFP should be created.

Response to Recommendation 3.2: Concur. Per current practices, the County Contracting Officer is responsible for reviewing the exceptions or variance to determine if the RFP can be amended or if a new RFP should be issued.

Finding #4.1: The RFP process did not adequately check the backgrounds and reliability of bidders in special contracts, as defined in Recommendation 2.1, or when the bidder is a small corporation or business like Ingentra.

Recommendation 4.1: Reference checking should include credit and asset checks of the bidders plus litigation searches to look for lawsuits against the bidder and/or bidders’ principals in jurisdictions in which the bidder has done or is doing business.

Response to Recommendation 4.1: Concur. The newly developed risk assessment tool the County is developing, as referenced in the Response to Recommendation 2.2, will include credit checks, asset checks, and litigation searches.

Finding #5.1: There was no requirement that the bidders carry employee dishonesty and computer fraud insurance.

Recommendation 5.1: Require employee dishonesty and computer fraud insurance in all cases in which the contractor handles public funds and makes payments to third parties. Require Sacramento County to be named an additional insured in the policies.

Response to Recommendation 5.1: Concur. The newly developed risk assessment tool will ensure insurance and bonding is reviewed and adequate for each contract.

Finding #6.1: Sacramento County used no mechanism to determine if the IRS or the California taxing agencies actually received the proper amount of withheld payroll taxes.

Recommendation 6.1: For any payroll services contract, or any contract involving a third party payee, the user departments or agencies should verify receipt of payment directly from any applicable third party payee.

Response to Recommendation 6.1: Concur. The Department of Finance currently reviews payments made electronically and is receiving paper copies of transcripts detailing what amounts have been sent. The newly developed risk assessment tool will also ensure contracts are monitored at the appropriate level and any monies owed to the county or third party are paid in accordance with the contract requirements.

Finding #7.1: The contract with Ingentra did not require any financial or performance audit.

Recommendation 7.1: Special contracts should be subject to performance audits and the contractor should be required to have a financial statement audit in addition to standard computer audits.

Response to Recommendation 7.1: Concur. The newly developed risk assessment process will include a feature to ensure contracts are monitored and audited at the appropriate level and in accordance with the contract requirements.

Finding #8.1: The contract renewal process was inadequate.

Recommendation 8.1: Before any "special" contract, as defined in Recommendation 2.1, is renewed, Sacramento County should assess the contractor's performance and pursue credit, asset and litigation searches to make sure that the contractor remains a reliable provider of services.

Response to Recommendation 8.1: Concur. The new risk assessment process includes a feature to ensure staff assess the contractor's performance and pursue credit, asset and litigation searches to make sure that the contractor remains a reliable provider of services, before the contract is renewed or extended.

Finding #9.1: The final Ingentra contract renewal was for a term longer than that authorized by the Sacramento County Board of Supervisors.

Recommendation 9.1 Any proposed extension of a contract that exceeds the term authorized by the Sacramento County Board of Supervisors must be specifically approved by the Board.

Response to Recommendation 9.1: Concur. The standard County of Sacramento contracting policy mandates that contracts approved by the Board also require approval before extending beyond the term previously approved by the Board. Employees involved in the contracting

process have been reminded of this requirement and revised processes are being implemented to ensure compliance.

MEASURES/EVALUATION

Not applicable.

FINANCIAL ANALYSIS

The cost of responding to this report is approximately \$6,000. Staff from General Services, Department of Finance, Risk Management and the County Executive Office contributed to this report. These costs were absorbed within each department.

Respectfully submitted,

STEVEN C. SZALAY
Interim County Executive

Attachments: Attachment A – Managing Contract Risk