

# Enhanced Oversight of Service Contracts Can Help Ensure Cost-Effective Performance

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A presentation to the Joint Legislative Program Evaluation Oversight Committee

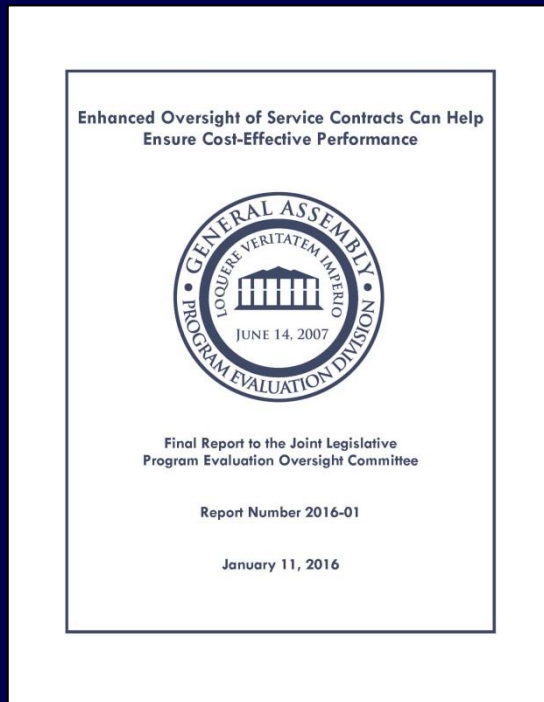
January 11, 2016

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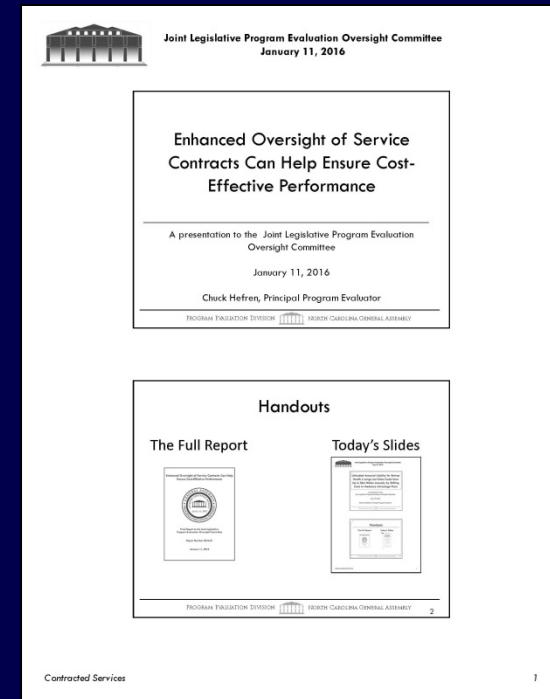


# Handouts

## The Full Report



## Today's Slides



# Our Charge

- Evaluate process to obtain contracted services from private sector providers
  - State agency-administered under the jurisdiction of Department of Administration, Division of Purchase and Contract (P&C)
  - Evaluation focused on procurement process used to award 133 contracts for high-value services

Report p. 2



# Overview: Five Findings

1. Full competition was not utilized in the awarding of \$511 million (41%) of the \$1.24 billion awarded to private providers for high-value services
2. State agencies are not documenting the results of their determinations to use contracted services
3. Solicitations for high-value services do not consistently include all of the necessary requirements to ensure effective performance
4. State agencies do not consistently ensure compliance with the terms and conditions of high-value service contracts
5. State-level monitoring of contracted services is not ensuring compliance with applicable state regulations



# Overview: Two Recommendations

1. The General Assembly should require state agencies to conduct an evaluation of available sourcing options for high-value services as a condition of issuing a solicitation to prospective private-sector providers
2. The General Assembly should direct the Department of Administration to procure and implement a contract management system for state agency-administered contracted services



# Background



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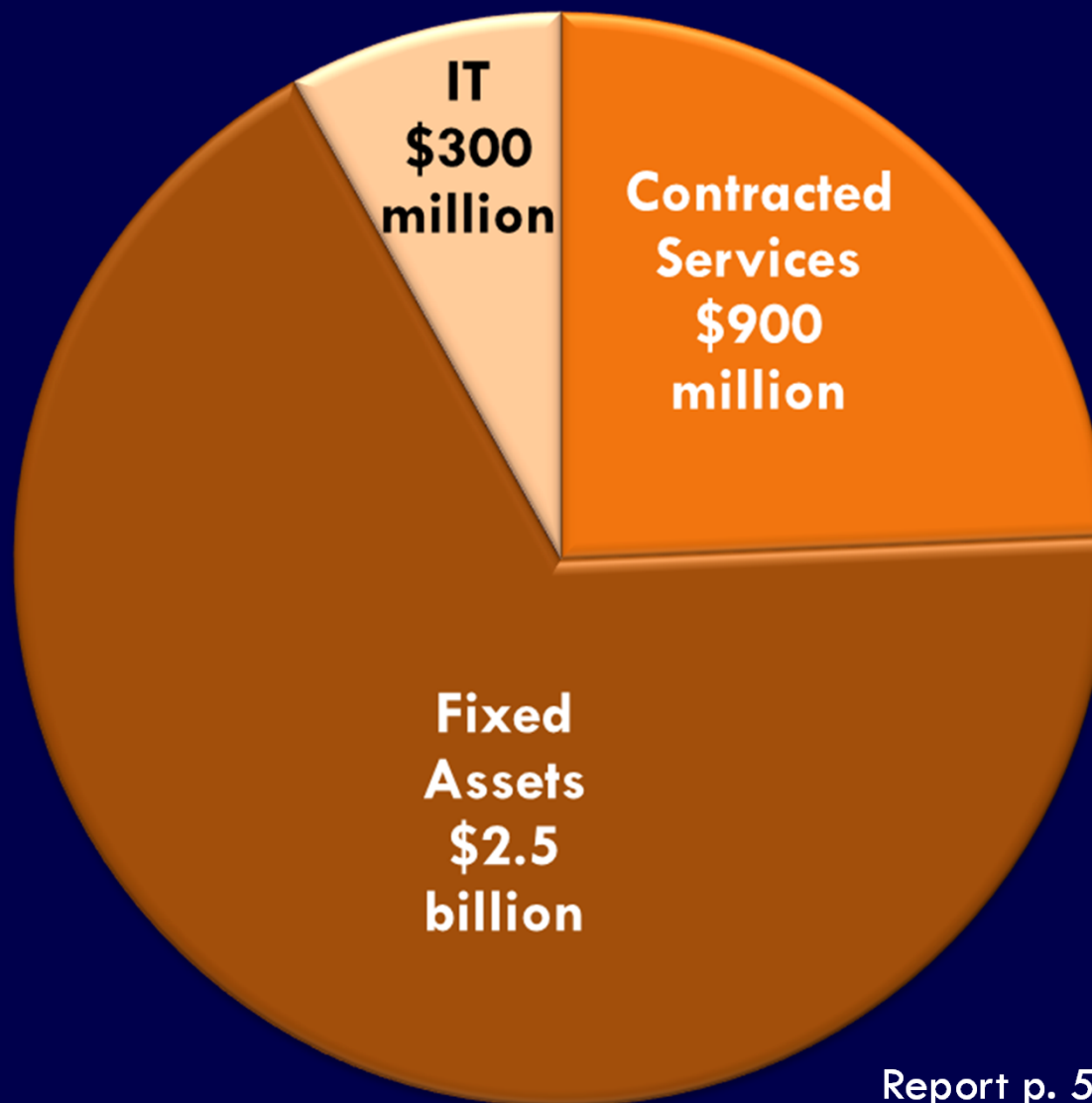
- Utilization of the private sector to provide services is primarily undertaken to improve cost-effectiveness
  - incentivize private service providers to improve performance and reduce costs
  - allow state agencies to focus on achieving their core missions

Report p. 3



# Background

In FY 2014-15,  
state agencies  
spent an  
estimated \$3.7  
billion to procure  
goods and  
services from the  
private sector



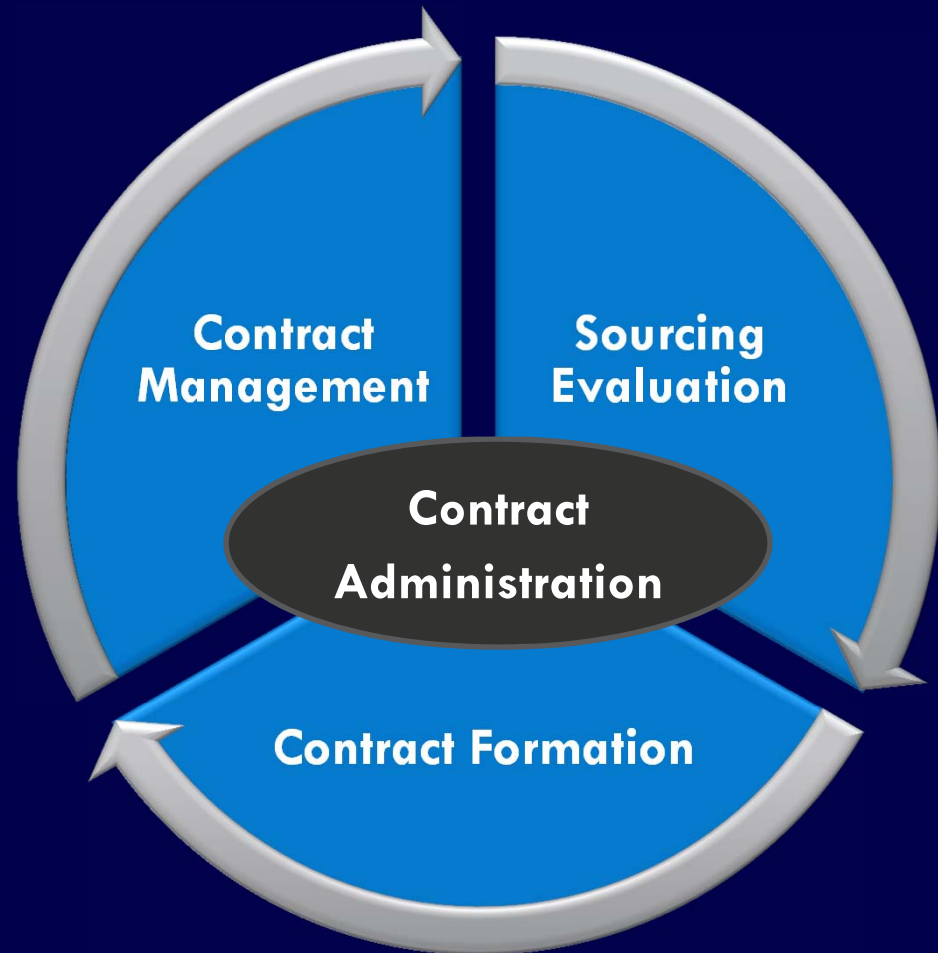
Report p. 5





# Background

State agencies are responsible for performing the activities associated with each phase of the procurement process for high-value services



Report p. 6



# Background: Sourcing Evaluation Phase

- Encompasses activities performed from identification of need to consider a service delivery alternative through authorization to solicit bids from prospective providers
- Objective: To identify the method of delivery that will provide the best value to the State

Report p. 6



# Background: Contract Formation Phase

- Series of pre-award procurement activities between an agency and a private service provider that results in a contract
- Objective: To identify and select the service provider that can most cost-effectively perform the service

Report p. 7



# Background: Contract Management Phase

- Encompasses all interactions between the government and the contractor from the time the contract is awarded until contract termination
- Objective: To ensure the private entity provides the service as specified in the contract

Report p. 8



# Findings



# High Value Contracted Services

- Findings based on review of 133 high-value services contracts with cumulative value of \$1.24 billion, which included
  - Service contracts issued during the five most recently completed fiscal years with an award value of greater than \$1M
  - Service contracts with payments in FY 2014-15 and total expenditures of greater than \$1M
  - At least one service contract for each state agency

Report p. 2



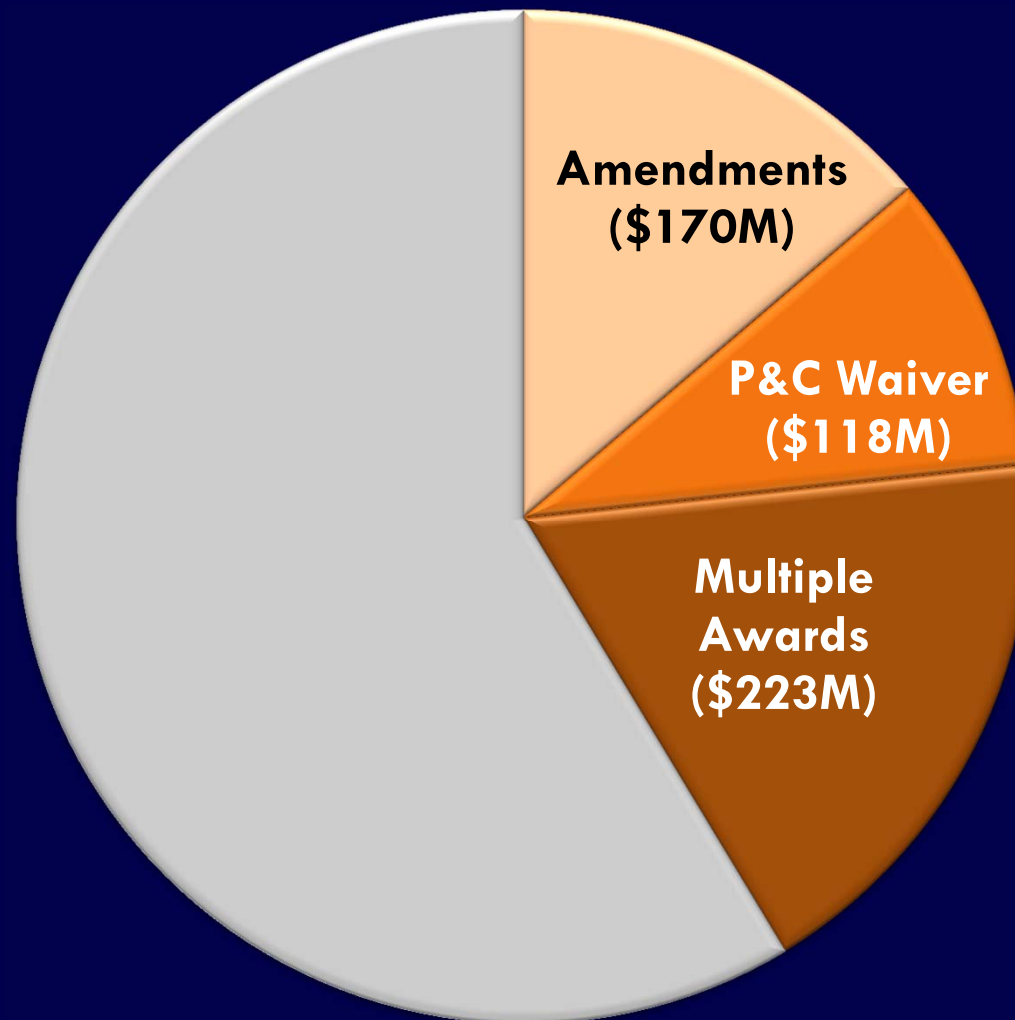
# Finding 1

Full competition was not utilized for \$511 million (41%) of the \$1.24 billion awarded to private providers for high-value services

Report p. 9



# Finding 1: Three areas limited use of full competition for \$511 million in awards



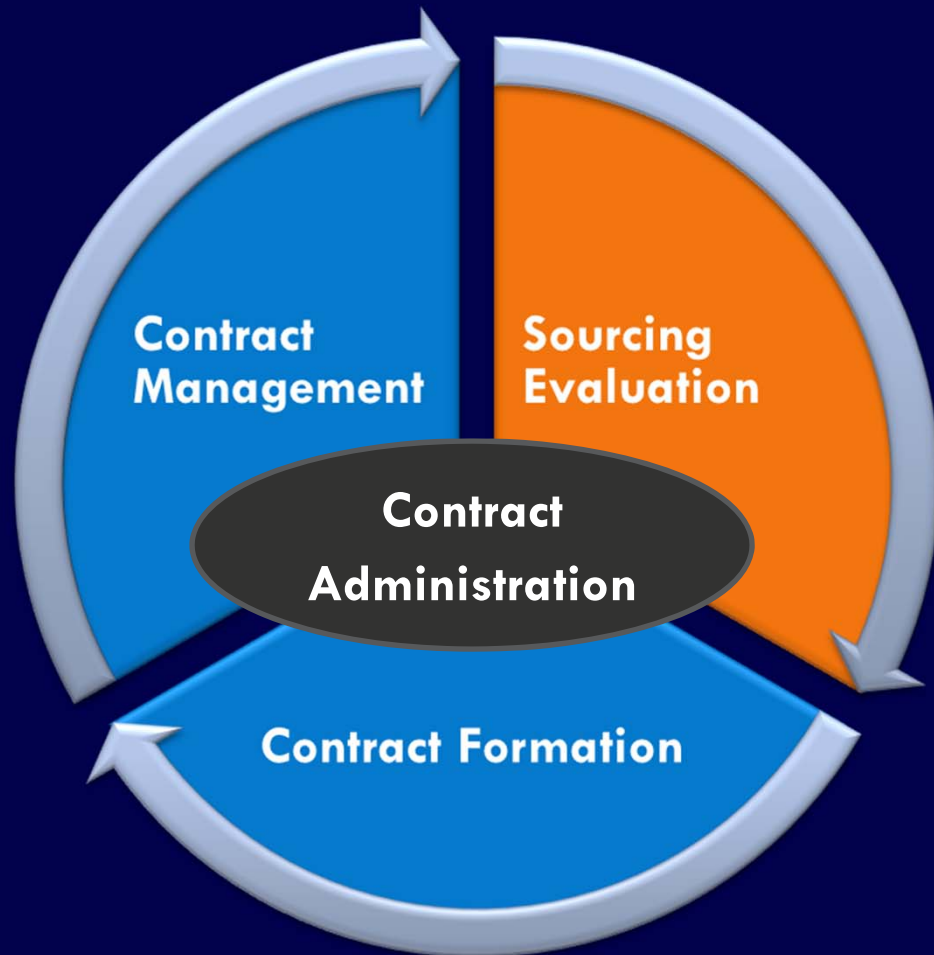
Report pp. 8-13





## Finding 2

State agencies are not documenting the results of the sourcing evaluation phase of the procurement process for contracted services



Report p. 14

## Finding 2: Sourcing Evaluation

- Inherently governmental services should not be performed by private providers
- Sourcing evaluation should be conducted for all commercial services

Report p. 14



## Finding 2: Sourcing Evaluation

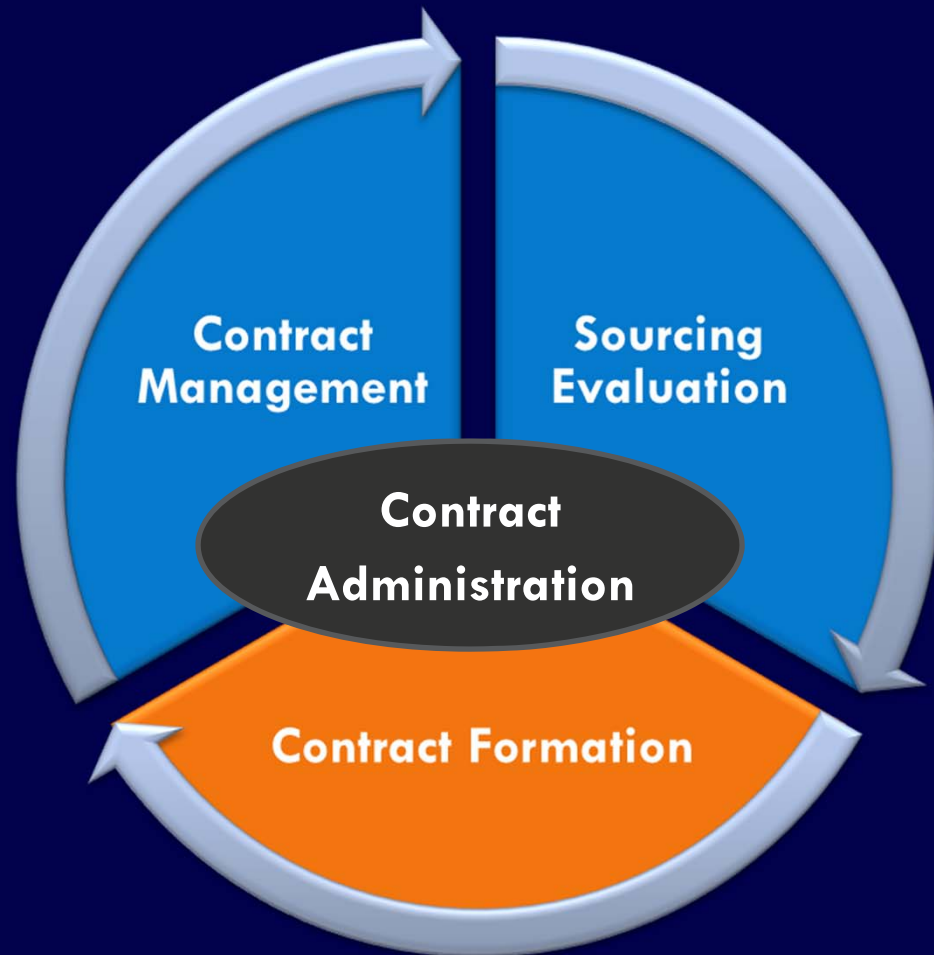
- Sourcing evaluation should identify
  1. Cost savings
  2. Impact on goals and objectives
  3. Risks of inadequate performance
  4. Cost to effectively procure the service
- Results should be documented in a business case

Report pp. 15-16



# Finding 3

Solicitations for high-value services do not consistently include the necessary requirements to ensure achievement of best value



Report p. 17



# Finding 3: Contract Formation

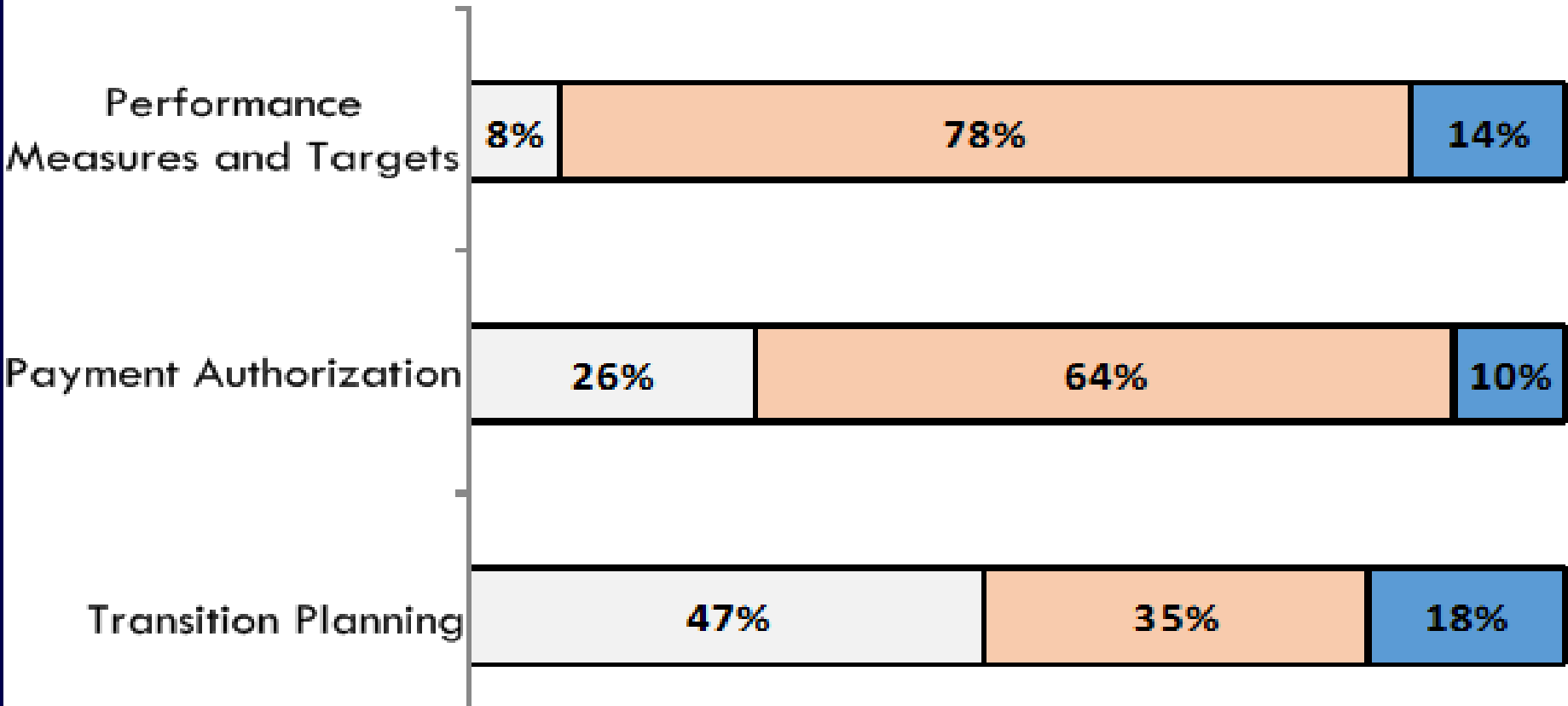
Essential attributes of an effective solicitation

1. Performance measures and targets
2. Payment authorization
3. Transition planning

Report p. 17



# Finding 3: Contract Formation



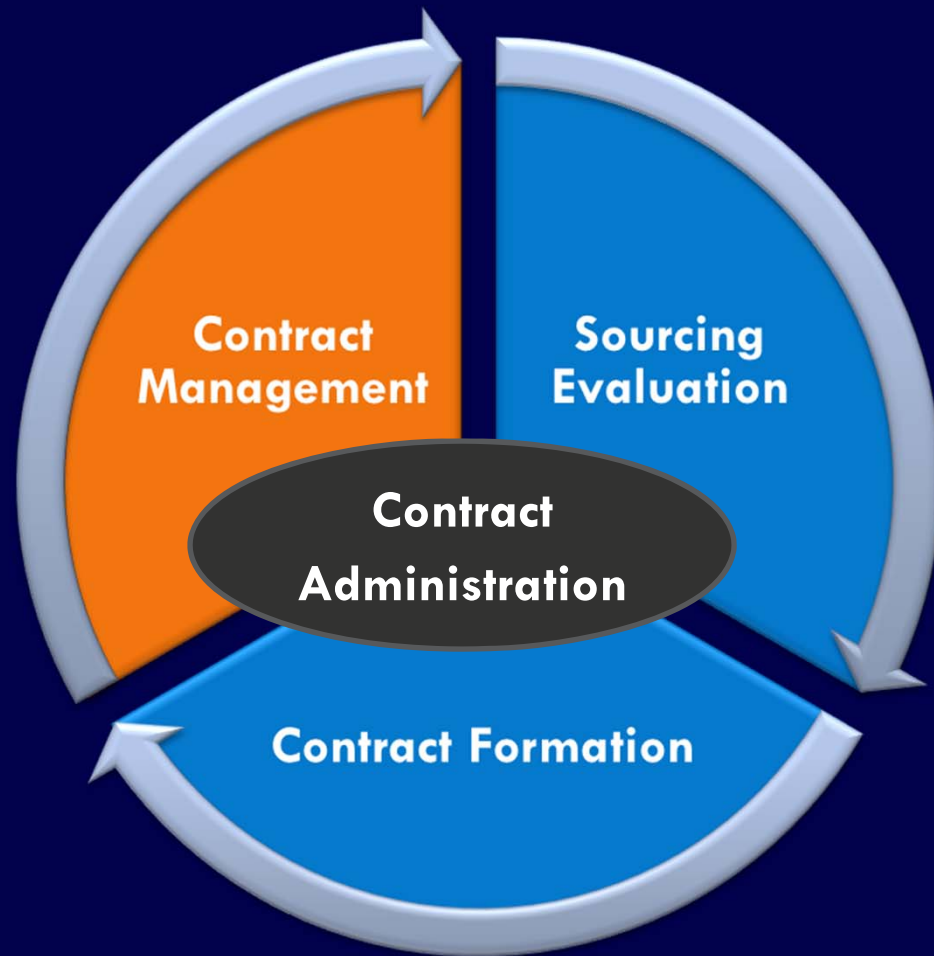
- Percentage rated "weak"
- Percentage rated "adequate"
- Percentage rated "strong"

Report pp. 18-23



# Finding 4

State agencies do not consistently ensure that the contracts for high-value services are in compliance with applicable terms and conditions



Report p. 20



## Finding 4: Contract Management

- State agencies could not provide expenditures for nine high-value service contracts with a total estimated value of \$64 million
  - DHHS reported that accurate expenditure totals for all of the associated contractual agreements could not be readily provided
- State agency procurement staff may not have requisite competencies to effectively manage service contracts

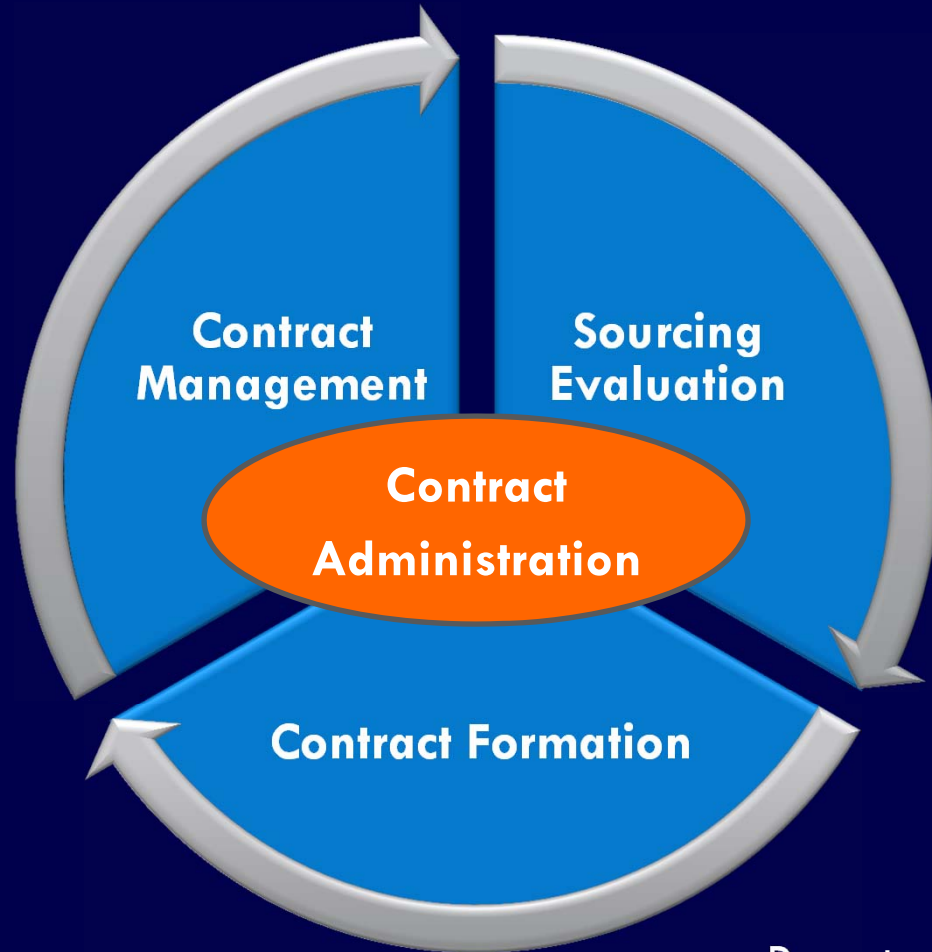
Report pp. 23-25





# Finding 5

State-level administration of contracted services is not ensuring compliance with applicable state laws and regulations



Report p. 26



## Finding 5: Contract Administration

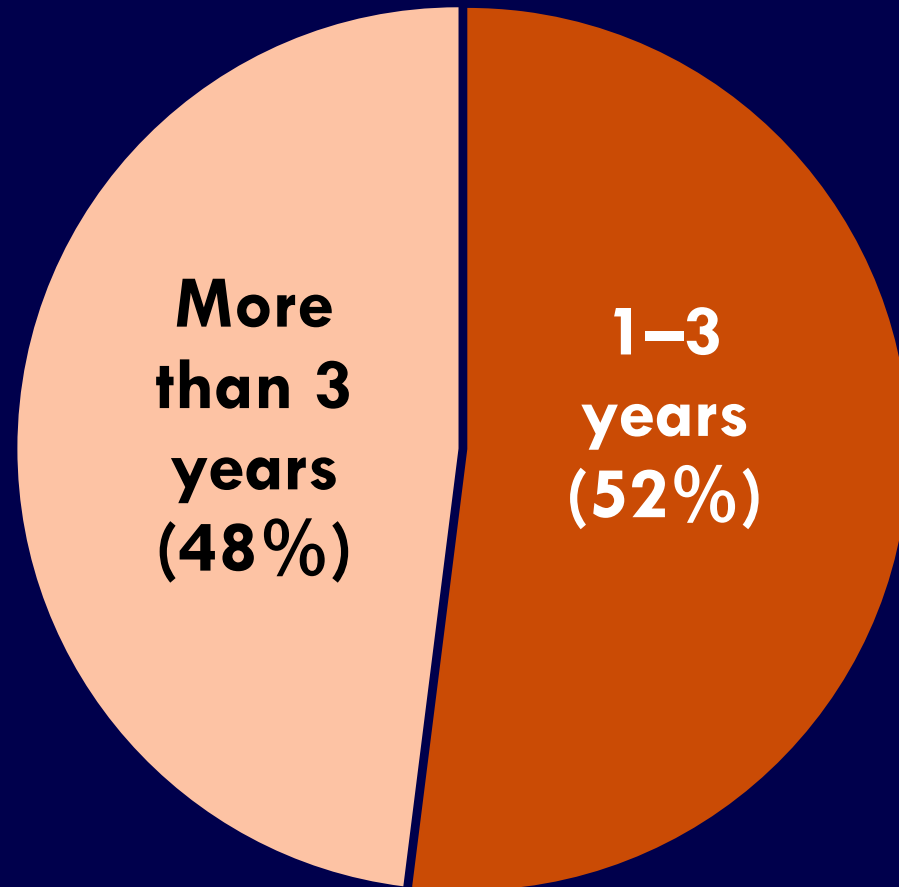
- State agencies are not consistently complying with requirement for P&C approval of initial contracts and associated amendments
  - DJJDP contract valued at \$47 million not submitted to P&C for approval

Report p 26



# Finding 5: Contract Administration

Nearly half of the contracts for high-value services exceeded the P&C-specified maximum length



Report p. 27



## Finding 5: Contract Administration

- P&C reviews of state agency service contracts have not contributed to achievement of best value
- There is no state-level system to monitor state agency-managed service contracts

Report pp. 28-29



# Recommendations



# Recommendation 1

The General Assembly should require state agencies to conduct a sourcing evaluation for high-value services as a condition of issuing a solicitation to prospective private-sector providers

Report p. 29



## Recommendation 1 (cont'd.)

- Require P&C, in consultation with OSBM, to develop and promulgate a business case template for contracted services
- Require state agencies wishing to solicit for high-value services to submit business case to P&C for review and approval
  - Require consultation with Joint Legislative Commission on Governmental Operations

Report pp. 29-31



## Recommendation 1 (cont'd.)

- Require OSBM to develop a plan to determine which commercial activities should be provided by the public sector
  - Submit to Joint Legislative Commission on Governmental Operations by December 1, 2016

Report p. 31





## Recommendation 2

The General Assembly should direct the Department of Administration to procure and implement a contract management system for state agency-administered contracted services

Report p. 31



## Recommendation 2 (cont'd.)

- Require P&C to procure and implement a contract management system to include
  - Current expenditure information
  - Searchable database of key contract documents
  - Customized management reports
- Require P&C to provide General Assembly with an annual report of state agency service contracting activity

Report pp. 31-32



# Summary: Findings

The State may not be achieving best value from contracted services

- \$511 million (41%) of estimated value for high-value services did not involve full utilization of competitive bidding
- State agencies are not documenting results of sourcing evaluation
- Solicitations for services are not consistently including necessary attributes
- Contract management and administration needs improvement



## Summary: Recommendations

- State agencies wishing to contract for high-value services should submit a business case to P&C and OSBM for review and approval
- P&C should procure and implement a contract management system



# Summary: Responses

- Both DOA and OSBM reported general agreement with findings and recommendations
- Responses from both DOA and OSBM emphasized need for additional resources to assist in the development of requisite skill sets



# Legislative Options

- Refer report to any appropriate committees
- Instruct staff to draft legislation based on the report



Report available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)

