

## **Executive Summary**

The State of Ohio's spending on services from outside vendors has skyrocketed over the past decade, climbing in fiscal 2001 even as the state budget came under heavy pressure. As a state, we do little to insure that purchasing services from outside vendors is the best option. We have failed to adequately scrutinize this spending and ensure accountability.

### **Tripling of Contracting**

Expenditures for what the state calls "purchased personal services" nearly tripled in inflation-adjusted terms since 1991, reaching \$609 million in fiscal 2001. They rose by nearly \$100 million in real dollars last fiscal year, which ended June 30. The growth of expenditures on these services has far outpaced that of state spending on employee payroll. As a proportion of payroll, state purchases of such outside services more than doubled over the past 10 years, from 6 percent to 15 percent.

The Ohio Department of Job & Family Services (ODJFS) has led the way, spending more on outside services last fiscal year – \$245 million – than it did on its own payroll. Together with the Department of Rehabilitation and Correction, the Lottery Commission, the Bureau of Workers' Compensation and the Department of Education, it accounts for three-quarters of such expenses. However, two dozen agencies last fiscal year spent at least 20 percent as much on outside purchased personal services as they did on their own employee payroll; eight of them, including the education department, spent at least half as much.

Two kinds of contracted services account for more than two-thirds of the total: Data processing services, and what the state calls administrative management and supportive services.

### **Limited Guidance and Oversight**

Ohio provides little formal guidance to agencies on whether to use commercial contractors to perform work that may be done by state employees. And the state devotes little attention or analysis to the overall levels of services it purchases. There has been no recent examination of trends in Ohio spending for purchased personal services, and even the state's own estimates have been wanting.

We have reason to ask questions about some of these contracts. For instance, the education department spent \$5,000 apiece for a Columbus marketing firm to research and write six newspaper columns for its superintendent. ODJFS recently awarded American Management Systems Inc. a contract despite having a proposal whose main cost component was 7<sup>th</sup> lowest of the 14 bidders, and in spite of heavy criticism for problems with the child-support tracking system it helped design for ODJFS in a previous contract.

Many expenditures for outside services may be appropriate, but still deserve inspection. For example, the Department of Rehabilitation and Correction spent \$7 million-plus on temporary services last fiscal year, more than 40 percent of the state total. The Commission on African-American Males spent more on temporary staff last fiscal year than on paying

regular employees. At the Department of Education, spending for proficiency tests has reached more than \$10 million a year.

The biggest problems with outside services contracts have been the well-publicized scandals at the Job & Family Services department. ODJFS now has launched an initiative to overhaul its contracting procedures and replace many information-technology contractors with state employees. It has estimated it can save a \$100,000 a year for each such replacement, while improving in-house knowledge of how its systems work. Though its ambitious goals are laudable, it is still too early to evaluate its contracting changes.

On April 4, Governor Bob Taft announced another round of budget cuts, which included a specific directive to agencies to review outside contracts in order to save money. The governor's directive is a helpful first step. Indeed, such spending should be scrutinized closely on a regular basis, and accountability for it should be tightened.

Among the actions we recommend are:

- **First Ask Why.** The State Controlling Board and the Department of Administrative Services should implement new requirements for cost comparisons between the public and private provision of services.
- **Demand Performance.** In every possible instance, contracts should require concrete results that must be achieved by a specific time in order for a vendor to receive payment. The state also should make every effort to train its employees to use systems designed by outside vendors, so they would be less dependent on them after systems are up and running.
- **Provide Information.** The budget department and the Controlling Board each should prepare annual reports outlining spending on commercial service contracts and those on which competitive bidding was waived, respectively.
- **Bring Work Inside.** Agencies should bring work in-house if savings are available, as the ODJFS is doing now with information-technology contracts. Other agencies should examine their information-technology contracts, and take advantage of the slump in the computer-services industry to reduce the state's spending. The DAS Computer Services Division should provide a progress report by the end of the calendar year.

Such steps will begin to provide Ohio's citizens with a better understanding of the services vendors provide, and will help ensure that outside contractors provide accountability and clear, tangible benefits.