

A REPORT FROM

POLICY MATTERS OHIO

UNMANAGED COSTS:
GOVERNMENT CONTRACTING
BY THE STATE OF OHIO

ZACH SCHILLER
APRIL, 2002

Table of Contents

Executive Summary	1
I. Report Outline and Introduction	3
II. Spending	4
The Big Five	5
Added Value?	10
III. The Contracting Process	12
How it Works	12
IV. Big Spenders	14
Ohio Department of Job and Family Services	14
Improving Accountability at ODJFS	14
Business as Usual?	16
The Department of Rehabilitation and Correction	17
Contracting by Agencies	18
The Outsourced Agencies	19
Rent-an-Expert	20
V. Accounting for Contracting	23
A Murky Picture	23
Additional Issues	24
VI. Conclusions and Recommendations	25

Table of Figures and Tables

Figure 1: Purchased personal services spending, 1991-2001	4
Figure 2: Purchased personal services spending as a proportion of employee pay, 1991-2001	5
Figure 3: Purchased personal services spending by agency, 2001	6
Table 1: Selected major outside service contractors, 2001	7
Figure 4: Purchased personal services spending by category, 2001	8
Figure 5: Spending on contracted data-processing services, 1991-2001	9
Figure 6: Spending on contracted administrative management and supportive services, 1991-2001	9
Table 2: General temporary services vendors, 2001	18
Table 3: Agency spending on outside services versus employee payroll, 2001	19

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 7th 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.

I. Report Outline & Introduction

This report outlines how much the state of Ohio has been spending with outside vendors on a key category of mostly knowledge-related services. It delineates which agencies are spending the most, the types of services they are purchasing, who some of the leading vendors are, and how the contracting process works. Attention focuses on the leading spender, the Department of Job & Family Services, which has been making changes in its contracting procedures. The report also reviews the other top-spending agencies, and discusses the system used to keep track of purchased services. It concludes with some recommendations about how to better monitor service spending and improve accountability.

Introduction

How much is the state spending to purchase outside services, which agencies are spending it, and who are the vendors doing most of the business? These questions would be worth asking at any time, but are especially important now, when Ohio has been cutting spending to balance its budget. Four rounds of cuts since December 2000 sliced \$900 million in spending, including \$137 million in health and social services funding (Ellis, 2002). That does not include the latest round of cuts announced April 4 by Governor Bob Taft, which included a specific directive to agencies to review outside contracts in order to save money (Governor's Budget Statement, April 4, 2002).

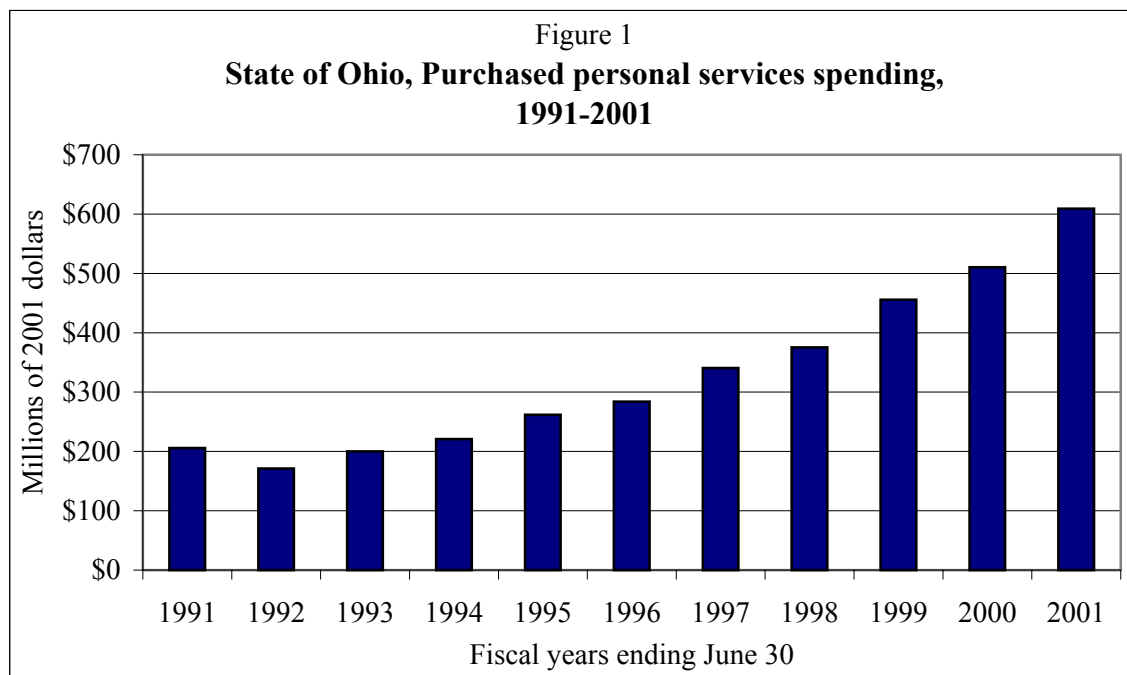
State contracting is important beyond simple dollar-and-cents efficiency. Government also must be fair and open in how it does business. It needs to ensure that the public receives high-quality as well as low-cost services, and that contractors are accountable for their work. At the same time, how services are delivered affects the workers who perform them and the economy. For all these reasons, an understanding of service contracting is important for Ohio citizens and policymakers

Ohio buys a wide assortment of services from outside vendors. They range from horse-training purchased by the Attorney General's office to instruct mounted police, to Ohio tourism call-answering through the toll-free 1-800-BUCKEYE line. Private companies process child-support payments and operate the electronic food-stamp system, while others develop and score the public schools' proficiency tests. They run computer networks and build Internet web sites, find commercial sponsors for the Ohio State Fair, produce TV advertising for the lottery and conduct emission tests on cars.

This report will focus on a category the state calls "purchased personal services," which covers individuals and companies that primarily provide knowledge-related services. It includes computer consultants, temporary workers, doctors and other medical personnel, attorneys, accountants, some architects and designers and telecommunications workers, researchers and many administrative or support workers.

II. Spending

Over the past decade, the state of Ohio has substantially increased its purchases of such services from outside contractors. Altogether since 1991, spending on outside services nearly tripled in inflation-adjusted terms to \$609 million in the 2001 fiscal year.¹ It rose sharply – by nearly \$100 million in real dollars – last fiscal year, ending June 30. Figure 1 shows this trend:



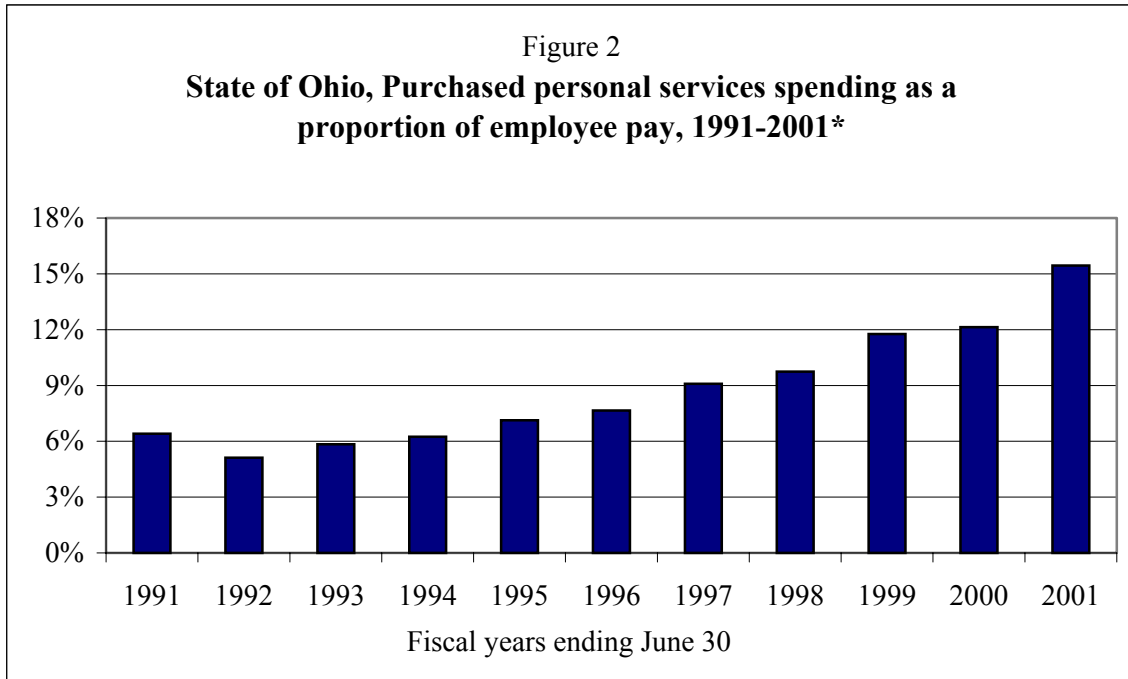
Source: State of Ohio Office of Budget and Management (OBM)

These numbers on purchased personal services do not cover the total amount Ohio spends on outside vendors. Last year the state spent more than \$129 million on outside maintenance services, including \$45 million for upkeep of data-processing and software, \$17 million on service for copiers, recording devices and office equipment, and \$48 million for building maintenance, housekeeping equipment service, and janitorial service for rest areas. However, it is hard to compare some of these numbers over time because the state has changed how it categorizes such spending. Purchased services covered in this report also do not include capital spending, or other items such as food service which involve delivering a product. In short, a full-scale examination of all outside contracting would go well beyond the purchased personal services that are the main subject of this report.

The increase in spending for purchased services has substantially outpaced that of state spending on its own payroll. That amount also grew over the last decade, though it fell slightly last fiscal year, to \$3.9 billion. Figure 2 shows that, over the period, state spending

¹ These data, like most of the numbers in this report, come from the Ohio Office of Budget and Management. Calendar-year price indexes are used to adjust for inflation.

on outside services as a proportion of payroll more than doubled, from 6 percent to 15 percent.²



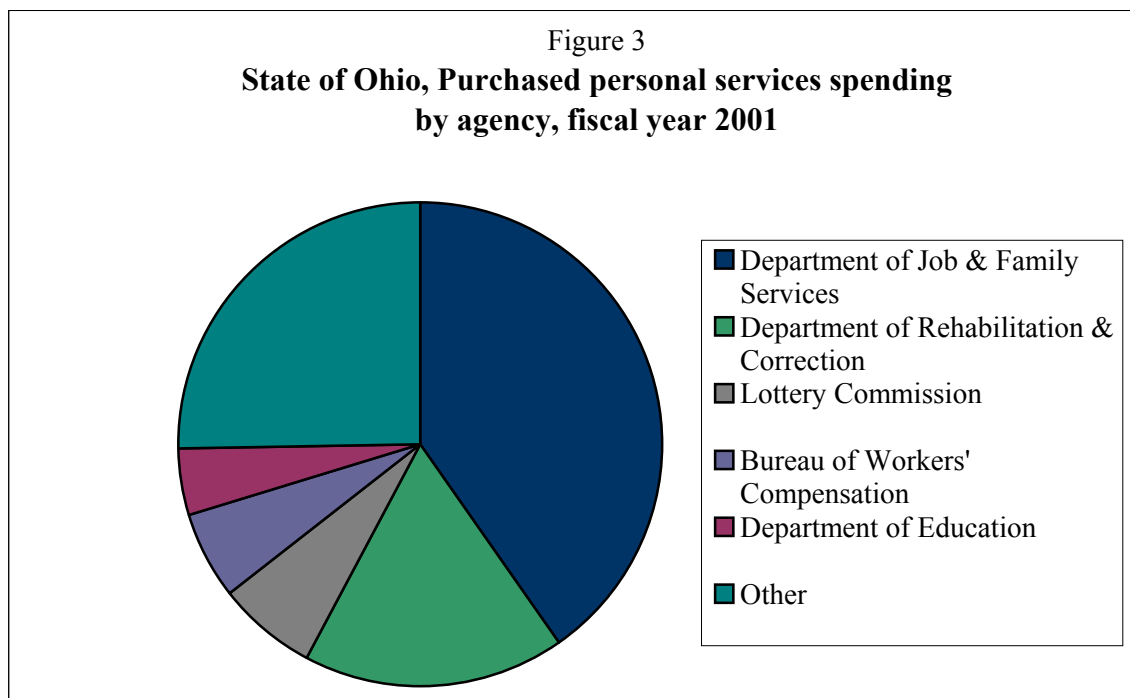
*Employee pay includes spending for bonuses, training and other costs
Source: Policy Matters Ohio analysis of OBM data

The Big Five

Only a handful of agencies accounts for most of the state’s spending on outside services. Far and away the leading spender last year was the Ohio Department of Job & Family Services (ODJFS)³, which alone accounted for two-fifths or \$245 million of all such expenditures. The Department of Rehabilitation and Correction (DRC) came in second at \$107 million. Rounding out the top five were the Lottery Commission (LOT), the Bureau of Workers’ Compensation (BWC) and the Ohio Department of Education (ODE). Spending by agency is shown in Figure 3.

² By payroll, this report refers to what the state calls “personal services,” distinct from “purchased personal services,” which covers purchases from outside contractors. Personal services include wages and overtime paid to employees, along with fringe benefits and a variety of other expenses, including some training as well as lottery prizes. Exclusion of lottery prizes in fiscal 2001 would have somewhat increased the proportion spent on purchased services compared to in-house employment.

³ The Department of Human Services and the Bureau of Employment Services merged on July 1, 2000, to form the ODJFS. Figures for all three agencies have been combined in this report.



Source: Policy Matters Ohio analysis of OBM data

While these five agencies account for three-quarters of the money spent on purchased services, growth has soared across most agencies. Among all the others, outside spending grew by 59 percent in real, inflation-adjusted dollars over the past decade. 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.

Leading private vendors to the state of Ohio include a host of computer-services firms, private-prison operators, processors of food stamps and child-support payments, and consulting companies.⁴ Many of the major private personal-service vendors are listed in Table 1.

⁴ Besides its contracts with private companies, the state also pays many local governments and nonprofits to do work.

Table 1
**Selected major outside service contractors,
 State of Ohio, fiscal year 2001**

Company	FY 2001 Payments	Top Agency	Amount Spent by Top Agency	Number of Agencies
American Management Systems	\$57,220,688	JFS	\$55,095,426	4
Bank One	\$36,705,804	JFS	\$34,598,506	16
IBM	\$31,722,566	DAS	\$7,588,077	22
Deloitte & Touche	\$23,199,229	JFS	\$23,143,496	2
Citicorp	\$19,116,253	JFS	\$13,697,063	4
Management & Training	\$17,523,227	DRC	\$17,523,227	1
Stern Advertising Inc.	\$17,229,901	LOT	\$17,229,901	1
Compuware	\$17,133,508	BWC	\$9,496,579	16
Andersen Consulting	\$14,454,608	JFS	\$13,986,416	2
Dynamics Research Corp.	\$11,920,623	JFS	\$11,876,252	2
Sophisticated Systems Inc.	\$11,423,229	DOH	\$2,018,640	46
Civigenics Inc.	\$10,900,539	DRC	\$10,900,539	1
Covansys Corp.	\$10,889,928	N/A	N/A	N/A
Decisive Systems Technology Ltd.	\$9,919,524	N/A	N/A	N/A
NCS Pearson Inc.	\$9,452,794	EDU	\$9,333,928	10
Resource One Computer Systems	\$7,228,572	JFS	\$5,145,743	28
Keane Inc.	\$5,408,726	JFS	\$5,352,193	3
Software House International	\$5,248,128	BWC	\$4,117,307	10
Cambridge Integrated Service	\$5,125,731	BWC	\$5,125,731	1
Nsystems LLC	\$4,573,659	JFS	\$4,493,821	3
Optimum Technology Inc.	\$4,264,725	BWC	\$1,662,229	12
A Plus Personnel Services Inc.	\$3,758,495	DEV	\$889,546	44
Harris Mackessy & Brennan Inc.	\$3,640,999	BWC	\$3,234,541	5
Maximus Inc.	\$3,523,876	JFS	\$3,372,777	3
ST&P Communications Inc.	\$3,424,035	DEV	\$3,423,035	2
Battelle Memorial Institute	\$3,417,332	DEV	\$1,679,716	12
Institute for Human Services	\$3,376,080	JFS	\$3,374,750	2
Commercial Network Inc.	\$3,355,126	JFS	\$3,355,126	1
Genescreen Inc.	\$3,015,057	JFS	\$3,015,057	1
Health Management Systems	\$2,851,016	JFS	\$2,851,016	1

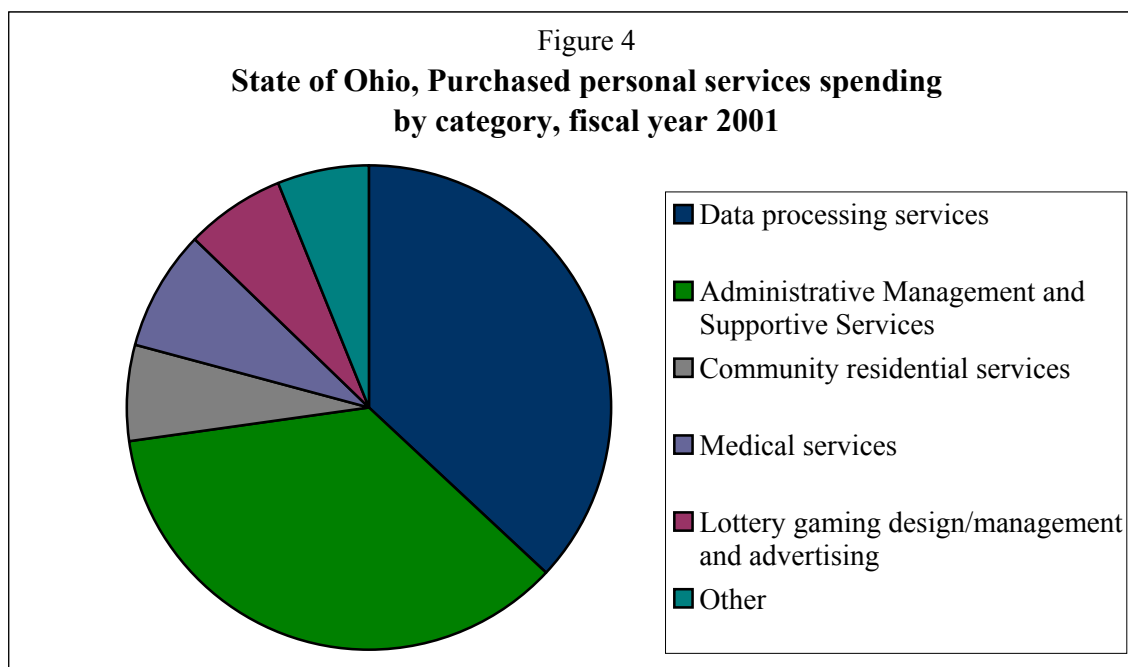
Agency Abbreviation Key

BWC–Bureau of Workers’ Compensation	DRC–Department of Rehabilitation and Correction
DAS – Department of Administrative Services	EDU–Department of Education
DEV–Department of Development	JFS – Department of Job & Family Services
DOH–Department of Health	LOT–Lottery Commission
DMH–Department of Mental Health	

Source: Policy Matters Ohio analysis of OBM data

As the above list illustrates, data-processing services, which range from system analysis to keypunching, are the single biggest category of service the state purchased last year. It alone accounted for \$225.7 million in spending. Close behind at \$216.7 million is a category

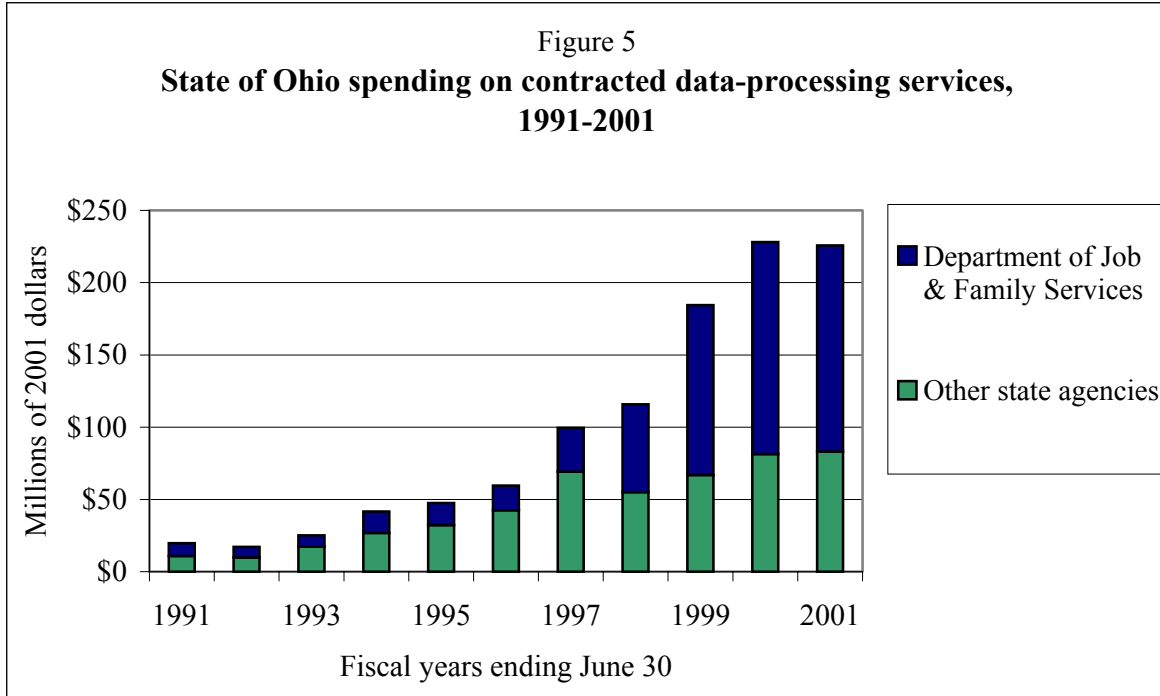
labeled “administrative management and supportive services,” a catchall which covers any service that doesn’t fall into another category. It includes everything from genetic testing for sex-offender identification to creating a sixth-grade remedial science summer-school course to producing advertising for Ohio tourism. Other large categories include community residential services such as halfway houses (\$39.6 million); medical services including physicians, psychiatrists, nurses and others (\$49.2 million); and advertising and facilities management services purchased by the lottery (\$39.9 million). Together, these accounted for the vast majority of spending, as indicated by Figure 4.



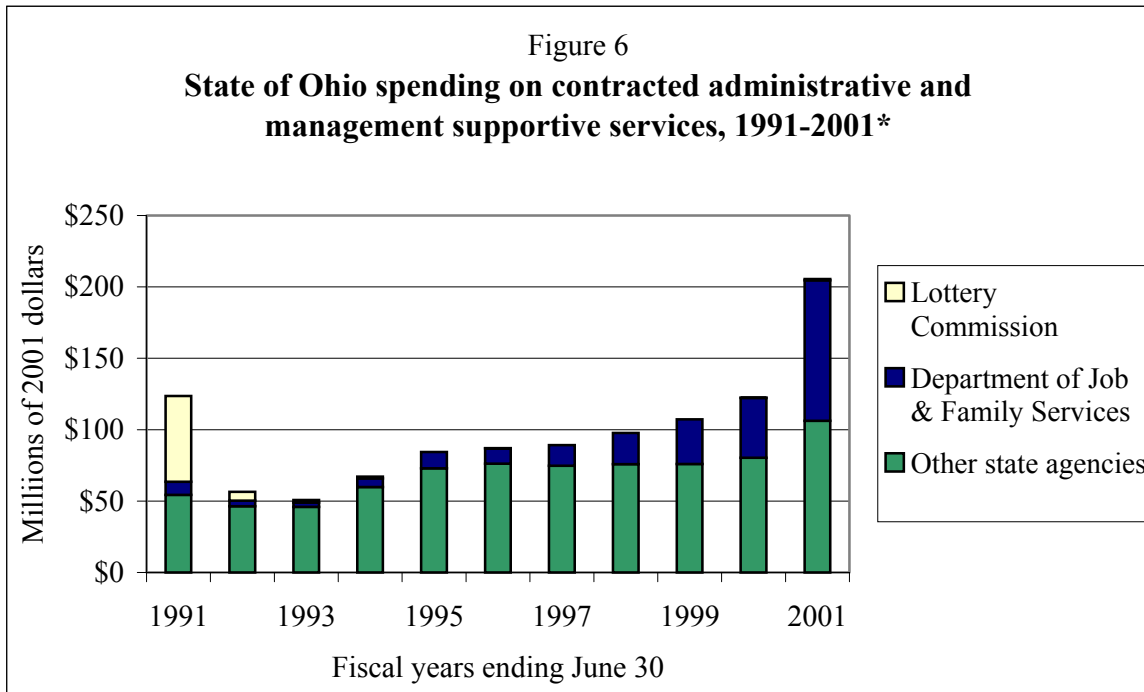
Source: Policy Matters Ohio analysis of OBM data

Data-processing services have grown at a terrific rate over the past 10 years, though they dipped very slightly last fiscal year in inflation-adjusted terms. Obviously, this in part follows the increasing use of computer technology throughout the economy as a whole. Spending to ensure computers were able to handle the year 2000 glitch contributed to growth in the late 1990s. Administrative services also have grown substantially. Figures 5 and 6 indicate the real growth in each category. They also indicate that, while the ODJFS accounts for much of the growth, other state agencies also have boosted their spending substantially. For example, the Bureau of Workers’ Compensation spent \$32.8 million on outside data-processing services last fiscal year, up from \$1.9 million 10 years earlier, adjusting for inflation. Recent BWC spending has been focused on its Health Partnership Program, a managed-care program begun in 1997, and its Dolphin Project, an effort to make much of the workers’ compensation system available over the Internet.⁵

⁵ BWC’s outside spending for such services peaked in fiscal year 1997 at \$37.9 million, adjusted for inflation, and after a decline moved back up.



Source: Policy Matters Ohio analysis of OBM data



*Most lottery commission spending of this kind was reclassified in 1992.

Source: Policy Matters Ohio analysis of OBM data

Added Value?

For this report, Policy Matters Ohio reviewed only a fraction of the contracts the state has with its many vendors. Clearly, many of them are reasonable. However, also among them are some that raise questions about the work that the citizens of Ohio pay for.

For instance, the Ohio Department of Education last fiscal year paid \$30,000 to Paul Werth Associates, a Columbus marketing and public relations firm. The November, 2000 assignment, was to write one newspaper opinion column and three bylined columns to “improve understanding and support among parents for standardized testing and other significant elements involved in efforts to reform and improve the state’s public schools” (Education Department, 2000). Later, the contract was amended to add two more columns, for a total of six. Meant to run in a major metropolitan newspaper under the name of state Superintendent of Public Instruction Susan Tave Zelman, the columns cost \$5,000 apiece. Daily papers in Columbus, Akron and Cincinnati printed at least one of the first five columns. The sixth, suggesting things children could do to keep learning during summer vacation, was pitched to *Parent* magazine and ran in some weekly papers, said Patricia Grey, the department’s communications director (Grey, 2002). The agency also distributed the columns to the state’s 612 local school districts, and the Ohio PTA used them in its newsletters.

No one would question the need for Zelman to communicate with the public. Grey said that the rate paid, at 40 hours a column, worked out to \$125 an hour, “a very standard rate in outside communications work in this city.” Besides writing the columns, the work also included doing research. It was part of what department officials say has been an aggressive effort under Zelman to communicate state-wide on education issues. The agency has hired more communications staff, and “We’ve worked with folks like Paul Werth on how to penetrate media markets, and how to communicate better,” said Mike Spino, chief of staff (Spino, 2002). Still, \$125 an hour seems steep, compared to what the department might have spent if it had done the job in-house. Forty hours for each column seems generous. But even using that benchmark, if the department had paid a state employee \$40 an hour, plus another 50 percent for benefits and overhead, that would work out to \$60 an hour. That is less than half the rate paid to Paul Werth.

In other cases, state departments are paying \$150 an hour or more for computer-related consulting services. Many of these are legitimate contracts arranged under competitive bids. However, sometimes they do not stipulate specific work that vendors are to deliver under a set timetable, and simply pay for workers’ time up to some maximum amount.

Other contracts that may be innocuous have odd features. The Ohio Tuition Trust Authority (TTA), a small agency responsible for promoting and administering early college savings programs, spent \$23,000 last fiscal year on a contract with Gannett Telemarketing Inc. of Springfield, VA (Ohio Tuition Trust Authority, 2000). Gannett follows up by phone with prospects who inquire about the Tuition Trust Authority’s prepaid tuition and college savings programs, trying to contact each prospect at least three times and determine if they have received requested materials. According to the contract, Gannett was expected to make about 1,000 such calls a week, and categorize each prospect. For those interested in the program, it

was to “build agreement with their interest,” and then “uncover hidden resistance.” Then, Gannett was to categorize the reason, record it, and encourage the prospect to enroll in the program by the deadline for a discounted enrollment fee.

The instruction to “uncover hidden resistance,” also used elsewhere in an outline of a sample call, seems out of place in a state program. Maureen O’Brien, TTA’s director of marketing, said that the telemarketer tries to find out why a prospective customer is not interested “as a research type of thing, to figure out what it is about the program they may not have liked.” O’Brien said that Gannett does not try and sign people up anyway. “It was not intended to be an overly aggressive sales call,” she said (O’Brien, 2002).

III. The Contracting Process

Ohio provides little formal guidance to agencies on whether to use commercial contractors to perform work that could be done by state employees. The Department of Administrative Services advises in its procurement handbook that when agencies consider outsourcing, they should review a section of the state labor contract with the Ohio Civil Service Employees Association, the union that represents 38,000 state workers. Under the contract, the state has the right to contract out work. If the state considers contracting out work that would result in the layoff of bargaining unit employees, the union has a right to present alternatives. The OCSEA also has an opportunity to show that its members can competitively perform work previously contracted out, and has access to information from the state on costs and performance audits (OCSEA contract, 2000).⁶ The procurement manual says that agencies should take care to perform an “apples to apples” comparison if the union wants to offer a proposal.

The manual does not offer much more on the topic. “The purchasing staff and agency management should consider these, as well as any other relevant criteria, when making a decision to use internal resources or to outsource,” it says. The decision to do so “should be made prior to any actual procurement efforts being initiated with private business” (State of Ohio Procurement Handbook, Chapter 1).

How it Works

When state agencies purchase products or services, they have four ways to go about it. Agencies must buy first if they can from the state’s vocational and job program for the severely disabled, or from the work and training program for prison inmates.⁷

Second, agencies can buy under contracts negotiated by the Department of Administrative Services (DAS). DAS, which some call the business arm of state government, negotiates various kinds of contracts. Some involve a single agency and one supplier, while others cover multiple agencies or more than one supplier. If they are purchasing certain goods and services, agencies must buy them only under specific DAS contracts.⁸ For example, agencies purchasing general temporary help services must do so through the same DAS contract. The DAS also offers agencies the ability to buy under what it calls “state term schedules.” With these schedules, often based on federal contracts, vendors offer listed products and services at a discount.

Alternately, state agencies on their own may directly purchase up to \$29,000 per year for products and \$58,000 for services in a particular purchase order, assuming they are not obliged to buy the things in question under one of the mandatory DAS contracts.

⁶ The union has used this provision. Sometimes it has been successful, as with food service at Noble Correctional Institution, and sometimes not, as with the golf course at Shawnee State Park (Wyngaard, 2002).

⁷ Agencies that operate institutions, such as the Department of Mental Health, also must buy first from the state’s central pharmacy or its warehouse, which stocks such items as foods and cleaning supplies (Procurement Handbook, Chapter 2).

⁸ Agencies also have to submit requests providing justification for information-technology purchases to DAS Computer Services when the total cost exceeds \$25,000.

When agencies exceed those limits and there is no existing DAS contract or schedule they can use to make a purchase, they must submit a request for DAS to put the purchase out for bids. If DAS's purchasing office decides it does not make sense to do that, the agency will be allowed to make the purchase on its own authority. If an agency is not using the DAS competitive selection process and its cumulative purchases from a vendor in a fiscal year exceed \$50,000, it must get approval from the State Controlling Board.⁹ The Controlling Board, made up of six members of the legislature and a president from the Office of Budget and Management, has a powerful if rather anonymous role in exercising this capacity.

Ohio is relatively decentralized in purchasing authority, compared to other states, according to Jeffrey Westhoven, DAS chief administrator of procurement services (Westhoven, 2001). Ohio state agencies do most purchasing directly. Last fiscal year, state agencies directly bought nearly \$1.8 billion of goods and services, or 53 percent of the total. Another 29 percent was purchased through DAS bids, contracts or schedules, while the Controlling Board approved 18 percent of purchases.¹⁰

⁹ Agencies that run institutions, such as the correction and mental health departments, can spend up to \$75,000 without this permission (Procurement Handbook, Chapter 8, p.7). Some others are not covered by these requirements; for instance, the Department of Commerce has authority to buy liquor without any outside permissions.

¹⁰ Anita Hilderbrand of DAS provided these figures from State Accounting's RVNDRA18A report. Figures in this report are not exactly comparable to others in this study, and only include spending over a minimum threshold.

IV. Big Spenders

As mentioned above, the Ohio Department of Job and Family Services and the Department of Rehabilitation and Correction are the two agencies spending the most on outside contracting.

Ohio Department of Job & Family Services

Last fiscal year, the ODJFS – by far the largest user of purchased personal services in state government – spent more on outside contractors (\$245 million) than on its employee payroll (\$221 million). The dependence has been especially great in the ODJFS Office of Management Information Services. In fiscal year 1999, according to a tally by the Department of Administrative Services, the Department of Human Services, the big ODJFS predecessor agency, spent nine times as much on outside vendors providing information technology services – more than \$100 million – as it did paying its own IT personnel (DAS Office of Information Systems Policy & Planning, 2000).

ODJFS's contracting problems have been well described elsewhere. Press accounts have detailed an MIS office dominated by contractors, spending run amok, and operational problems that frustrated both jobseekers and parents who were unable to receive child support. An investigation by the state's Inspector General found a host of problems in the department's contracting (Inspector General's report, 2001). Arnold Tompkins, the former head of the Ohio Department of Human Services, pleaded guilty last year to misdemeanor charges of having an illegal interest in a public contract and violating the state's "revolving door" law. He had given tens of millions of dollars of unbid contracts to two firms, Andersen Consulting and American Management Systems, and after he retired received consulting contracts from them. Ohio Works, an Internet job-matching system that Andersen (now called Accenture) developed for nearly \$60 million, was scrapped by the department late last year because it was too hard to use (Wendling, December 12, 2001). Accenture agreed to return \$3 million and forgive \$2.4 million the state owed as part of a legal settlement. Meanwhile, the department's child-support payment system known as Support Enforcement Tracking System (SETS) wrongly intercepted millions of dollars of support payments due families on welfare, and was harshly criticized for missed payments, misdirected and untimely checks (Wendling and Exner, February 18, 2001).

Improving Accountability at ODJFS

Tom Hayes, who took over as ODJFS director last September, has replaced many top staff and has been overhauling information-technology contracting. According to the department, it can save more than \$100,000 annually for each contract worker in information technology replaced with someone on the state payroll (Allen, 2001). Apart from multi-million-dollar contracts covering many workers, it also had contracted with many smaller vendors to provide workers for ongoing department operations. A long list of vendors, from Odyssey Consulting Services Inc. to Commercial Services Group, has seen service contracts cut back.

As of July, 2001, the MIS department employed 613 contract staff and only 298 state staff. Late last year, it terminated 190 contract staff, who had averaged \$105 an hour. Its plan is to hire 176 new state staff, averaging \$42.29 an hour including benefits, which would save \$25

million in the fiscal year beginning July 1, 2002 (ODJFS memo, 2002). Hayes's goal over time is to reverse the proportion of contractor to state information-technology staff from its previous 2-to-1 ratio. At a meeting of the State Controlling Board on February 25, he reported that 59 offers had been extended, 65 were in process and the department continues to post the rest of the open positions. Among the postings listed recently were positions for database analysts and network administrators.

Some of the cutbacks are the result of budget cuts, as the department slices some projects to meet mandated spending reductions. ODJFS also won conditional certification from the federal government for SETS last October, allowing it to cut back on staff that had been working on that project. The department is able to hire state staff to fill positions in part because of the sharp downturn in the information-technology business, which has left many out of work. Officials say that would have been difficult, if not impossible, earlier.

When ODJFS made major information-technology investments involving new skills, "it appears we didn't at the same time build a training program to train the state staff how to use the new technologies," said David L. Wolfe, assistant deputy director of the Office of Management Information Services and one-time interim chief (Wolfe, 2001). Apart from the cost, overuse of contractors can leave the state without institutional knowledge about how its systems work. That is another reason for the shift at ODJFS. There will always be a need for contract workers to handle some duties, said Jon Allen, department communications chief, but nowhere near the extent it had earlier.

The department had often contracted for time and materials up to some maximum amount — usually meaning it paid that maximum. ODJFS has pledged to competitively bid all its MIS projects, and is moving toward much of the time having specific deliverable results that must be achieved quarterly. Or, as Christopher T. Carlson, ODJFS deputy director in charge of the Office of Contract & Project Administration, puts it, the vendor will "come over to your house and turn down the bed and put a mint on the pillow." Payment will be made only after the mint is on the pillow. He predicts: "You're going to see a pretty dramatic reduction in cost of IT contracting coming out of this department" (Carlson, 2001).

Such a dramatic reduction is not as likely in the outside non-data-processing services that the department uses. The ODJFS also has been spending heavily on outside administrative services, ringing up \$100 million in such charges last fiscal year. During the last two fiscal years, for instance, ODJFS employed private contractors to do genetic testing to establish paternity for child support and to collect on difficult child-support cases; conduct training called "TANF Town" for training workers dealing with welfare (Temporary Assistance for Needy Families) clients; and conduct a \$2.6 million media campaign informing welfare clients that despite term limits on cash assistance, they would still be eligible for Medicaid and other benefits.

Bank One received \$34.6 million last fiscal year for child-support payment processing. The ODJFS will continue to contract for such processing, which Carlson said the department does not have the capacity for in-house. Bids from contractors for that service are due by April 30. Even apart from what it paid Bank One and Accenture, which is no longer contracting with

the department, ODJFS spent more than \$50 million on outside administrative services last fiscal year, up considerably from the year before. The department has not yet focused on reducing these non-computer-services contracts. “MIS is where the reliance on contractors has been most prevalent,” said spokesman Allen.

The department also is in the process of rebidding some of its largest MIS contracts as it beefs up its in-house staff. ODJFS is paying millions of dollars extending contracts to keep things running while it overhauls its information-technology contracting. On February 11, for example, it sought and received State Controlling Board approval without competitive selection for more than \$2.3 million covering eight vendors (Carlson, 2002). The agency continues to use them while it overhauls its MIS office and replaces many contractors with employees or issues requests for proposals that would bring new bids for the work. “While we figure out this whole hiring/staffing thing we need to keep those systems operational,” said Carlson. The 23,000 users of the ODJFS network require continuous service, he said. In some instances when contracts have been extended to existing contractors without new bidding, the department has won discounts from previous rates.

Business as Usual?

The department’s effort to slash costly computer-services contracts has been widely applauded. Even when a new contract is awarded after a bidding process, however, it does not necessarily put all questions to rest. Take the new contract for running the computer system the state calls by the ungainly name Client Registry System – Enhanced. CRIS-E is the crucial system workers use to collect data, determine eligibility and issue benefits including food stamps, Medicaid and cash assistance. Deloitte & Touche was paid \$16.1 million in the last fiscal year for it (Allen, 2002).

This long-term contract recently was awarded to American Management Systems. The ODJFS paid AMS more than any other vendor last fiscal year – \$55 million – and the company came under heavy fire for problems in the department’s child-support tracking system, where AMS was one of the main designers.¹¹ According to Margaret Owens, who handled the contract for ODJFS at the DAS Computer Services Division, AMS was one of 14 bidders for the CRIS-E contract. It was only the seventh-lowest bidder in its proposed peak contract cost – \$7,847 an hour for the 94 positions it anticipated (American Management Systems, 2001). But because the company scored so high on the non-cost criteria, including its personnel and its experience working in similar environments to the CRIS-E system, it won the bidding. State officials did not even interview individuals from the second-ranked bidder because AMS’s overall score was so far ahead, Owens said (Owens, 2002).

¹¹ Together with Bank One, which processes the payments, AMS was criticized for missed payments and other problems, as explained above. AMS defended its performance, and in its bid for CRIS-E cited its implementation of SETS among others to illustrate its experience in handling comparable automated systems (American Management Systems, 2001).

ODJFS is still very much in the middle of the restructuring, so it is too soon to evaluate its success. Its experience with one contractor, Dynamics Research Corporation, illustrates some of its struggles.¹²

Dynamics Research replaces obsolete computer workstations and other equipment for state and county workers who use the department's network, which supports all of its major programs from Medicaid to food stamps to cash assistance. It also provides technicians and engineers to support the rollout of new equipment and the network. Last June, ODJFS won Controlling Board approval to extend Dynamics's contract without competitive bidding through the last six months of calendar year 2001 for \$3.4 million. The department stated at the time that the extension was a short-term contract to allow enough time for it to issue new requests for proposals. The agency said then that it expected to rebid the job and have a new contract by last November. However, the department's overall initiative to consolidate and rebid its major information-technology contracts using a new RFP model hit a snag, delaying the release of a new proposal vendors could bid for. Other contracts took priority, and then the department began to focus on filling positions.

At the beginning of this year, ODJFS temporarily began buying most of the services it had been purchasing from Dynamics using a state term schedule. However, it learned from DAS during the last week of December, 2001, that it could not do that for warehousing services (Dynamics operates a Columbus warehouse which receives and ships ODJFS computer equipment to state and county offices). As a result, the department found itself in the unusual position of buying these services during the first part of January without proper authorization. It got Controlling Board approval to do so January 14. The following month, it also got Controlling Board approval to purchase other services from Dynamics supporting its network. Both approvals run through the end of June. Now, ODJFS aims to end the use of an outside contractor for warehousing starting July 1, instead having computer vendors ship their products directly to department offices.

The overall result of this complex tale is that ODJFS is spending nearly \$5 million over a year's time buying services from a contractor without competitive bidding. Some of the work is being eliminated, and the amount being paid now has decreased. But with all of the things on its plate and changes in the way it manages its network, ODJFS has not yet been able to develop a new set of contract requirements, so the end is not in sight.

The Department of Rehabilitation and Correction

After ODJFS, the next largest spender was the Department of Rehabilitation and Correction. DRC spent \$106.7 million last year on purchased personal service contracts, one-eighth of what it spent on its own employee payroll. Spending was split mainly between three things: Almost \$40 million on halfway houses or residential facilities run by private, nonprofit organizations or governmental agencies; nearly \$28 million to two companies running private prisons; and more than \$34 million on medical services.¹³

¹² The following description relies on Controlling Board approvals of ODJFS contracts with Dynamics and information provided by department spokesman Jon Allen.

¹³ Another Policy Matters Ohio report, *Selective Celling: Inmate Population in Ohio's Private Prisons*, described how private-prison efficiency claims are inflated.

Medical services included \$6.5 million for physicians, \$12.1 million for psychiatrists and psychologists, \$4.8 million for other medical professionals such as dentists and pharmacists, and \$6.8 million for nurses, paraprofessionals, and certain other medical personnel. DRC also spent \$4.3 million on medical services provided by temporary firms.

Table 2
**General temporary services vendors,
State of Ohio, fiscal year 2001***

Vendor	Total Received
Samas Corporation	\$3,888
JT SG Solutions	\$479
A Plus Personnel Services Inc.	\$3,632,034
Mission Systems Inc.	\$87,839
Flex-Tech Professional	\$1,773,695
Lakeland Temps	\$116,685
Volt Services Group	\$120,091
Kelly Services Inc.	\$1,218,228
Team 2000 Inc.	\$1,258,425
Solutions Staffing	\$1,242,524
Eastern Personnel Services, Inc.	\$55,925
Total	\$9,509,813

The agency spent \$2.7 million on general temporary services, much more than any other major agency. The \$7 million-plus paid for temporary services overall last year also made the DRC by far the leading spender on such services. The department accounted for more than 40 percent of state spending on temporary services, according to data from the budget department. Table 2 shows how much vendors participating in the mandatory DAS contract for general temporary help received last fiscal year.

* Spending under the Department of Administrative Services' mandatory contract for general temporary services.
Source: Ohio Department of Administrative Services

Contracting by Agencies

In addition to ODJFS, 23 other agencies spent more than 20 percent as much last fiscal year on purchased personal services as they did on their own employee payroll. Table 3 identifies these agencies (If the data were broken out further, the Lottery Commission probably also would qualify).¹⁴

¹⁴ Under the state's classification system, lottery prizes are included together with employee awards, bonuses and training under one class of expenditures. A breakout of such data was beyond the scope of this report. However, the Lottery Commission spends considerably more on outside services than it does paying its own employees. Apart from the \$120 million the Lottery Commission spent last fiscal year on commissions and bonuses for agents who sell its tickets, most of the commission's \$40 million in outside-service spending was paid in two contracts. One, for advertising services, went to Stern Advertising Inc. of Pepper Pike, which received \$17.2 million last fiscal year; the other, for \$17.3 million, went to GTECH Inc., for operating much of the on-line game systems. The commission does not have the technology or proprietary software to run its own on-line system, said Kathleen G. Weiss, chief legal counsel (Weiss, 2002). She said it is more cost-effective to have a vendor do it, as most states do. "The largest states have outsourced far more than we have," Weiss said. While a number of other major states have gone to outside contractors, Ohio continues to use its own regional sales staff to drop off instant tickets, ticket stocks for on-line games and marketing materials, among other things, Weiss said. Overall, Lottery Commission spending on purchased personal services has grown a bit, but has remained relatively steady over the last few years.

**Table 3
State of Ohio agencies spending at least 20% as much on outside services
as on employee payroll, fiscal year 2001**

Agency	Total Spending	Employee Payroll*	Purchased Services	Purchased Services as a % of Payroll
Pay Agency	\$174,315,808	\$63,089	\$474,019	751.35%
Commission on African-American Males	\$471,243	\$51,052	\$85,284	167.05%
Racing Commission	\$29,002,630	\$1,682,866	\$2,020,075	120.04%
Job & Family Services	\$11,191,632,979	\$221,361,320	\$244,998,015	110.68%
Tuition Trust Authority	\$3,724,401	\$1,462,509	\$1,007,320	68.88%
Education Department	\$7,839,202,363	\$39,400,914	\$26,857,486	68.16%
Ohio Schoolnet Commission	\$120,532,889	\$4,523,222	\$2,717,237	60.07%
Expositions Commission	\$18,080,404	\$5,761,144	\$3,237,955	56.20%
Board of Proprietary School Registration	\$406,697	\$214,141	\$104,424	48.76%
Occupational & Physical Therapy Board	\$821,818	\$451,456	\$193,073	42.77%
Arts & Sports Facilities Commission	\$42,776,178	\$540,125	\$191,831	35.52%
Department of Development	\$507,870,567	\$33,070,629	\$11,532,134	34.87%
Commission on Dispute Resolution	\$651,491	\$349,335	\$111,714	31.98%
Ohio Athletic Commission	\$134,218	\$82,748	\$25,764	31.14%
Legislative Service Commission	\$21,166,195	\$12,722,379	\$3,342,293	26.27%
Criminal Justice Services	\$40,745,089	\$3,271,300	\$765,913	23.41%
Alcohol & Drug Addiction Services	\$160,443,267	\$6,305,285	\$1,447,112	22.95%
Administrative Services	\$2,111,958,317	\$66,044,383	\$14,864,870	22.51%
Board of Regents	\$902,348,366	\$5,604,683	\$1,238,589	22.10%
Inspector General	\$700,453	\$531,699	\$113,673	21.38%
Personnel Board of Review	\$1,221,921	\$748,312	\$156,907	20.97%
Bureau of Workers' Compensation	\$295,129,271	\$175,665,741	\$35,995,524	20.49%
Commission on Minority Health	\$2,255,450	\$435,985	\$89,143	20.45%
Public Defender Commission	\$61,758,329	\$9,332,991	\$1,868,729	20.02%

*Employee payroll includes spending for bonuses, payroll and other costs.

Source: Policy Matters Ohio analysis of OBM data

The Outsourced Agencies

Eight state agencies might be called “the outsourced agencies,” because they spend at least half as much on outside vendors as they do on their own work – and often much more. They include ODJFS and the education department, which are the two largest state agencies in overall funds disbursed.

As the table shows, at a number of agencies, the figure is much higher than 20 percent. Together with the ODJFS and Education, six others merit the term “outsourced agencies” because they spent at least half as much on outside vendors as they did on their own payroll.

Leading the list is the Pay Agency, which is not really an agency at all, so it has not been included as one of the seven (Krieger, 2002). It is actually a collection of six insurance funds run by the Department of Administrative Services, used to pay disability, life insurance,

parental leave, health care and other benefits to many of the state's employees. The fund may hire psychiatrists, lawyers or other professionals if it wants to contest a claim or has questions about it. It has little payroll of its own, since the funds are handled by DAS personnel. That produces a ratio of outside service costs to payroll that is outlandish, though not terribly meaningful.

The Commission on African-American Males ranks second. It was part of the Ohio Civil Rights Commission until 1999, when it became an independent agency. The commission is small, with a staff that numbers just three, and overall expenditures of less than half a million dollars last fiscal year. "Our hope is to become a central information center for urban issues regarding the target population of African-American males," said Commission Chairman John E. Barnes Jr. Last fiscal year, the commission spent more on outside services than on its own payroll. In fact, the commission spent more paying three temporary services firms – \$61,231 – than the \$51,052 it paid its regular employees. Barnes said the main reason was "that was during a transition to becoming a freestanding entity," and for much of the time, the commission was searching for an executive director (Barnes, 2002). After its executive director and administrative assistant left in September, 2000, the commission for a time had no permanent, paid staff. One commissioner volunteered for some months to be interim chief without pay. Two temporary workers were employed. Marv West, the executive director since last December, said that temporary services spending now amounts to less than what the staff is being paid. Such services are used "just when we have special projects," he said (West, 2002).

The Ohio State Racing Commission also spent more on outside services than employee payroll in fiscal 2001. More than three-quarters of its \$2 million in purchased personal service spending went for professional medical services – presumably veterinarians who do drug testing at the state's racetracks.

Rent-an-Expert

The Ohio Tuition Trust Authority spends a greater proportion of its total budget – 27.5 percent – on outside services than any other agency. It spent more than \$1 million on such services last fiscal year, most of that for administrative and management supportive services. More than half of the total went to a Toledo company, Communica Inc., for advertising, marketing and public relations to market the agency's College Advantage 529 Savings Plan. That includes brochures, a new 60-second TV commercial, an e-mail marketing campaign, press releases and media advisories, and a phone survey to measure awareness, attitudes and preferences towards the plan (Tuition Trust Authority contract with Communica Inc., 2000). "There are times when you need to go to outside people to get expertise you don't want to have on staff all the time," said Maureen O'Brien, the TTA marketing director. It wouldn't make sense for TTA to employ a full-time TV producer or graphic artist, she said (O'Brien, 2002). The TTA generates its funds through the program, and it does not receive any general revenue funds.

A number of agencies are spending money on outside marketing and public relations, from the \$54,031 the Ohio SchoolNet Commission paid to two public relations firms last fiscal year to the \$2.8 million that the Department of Development paid ST&P Communications

Inc. of Fairlawn for boosting Ohio tourism.¹⁵ As indicated above with the Department of Education and Paul Werth, such expenditures need to be evaluated carefully.

Spending by the Education Department on both data-processing and administrative services has risen dramatically over the past decade. Mike Spino, the chief of staff, said that spending has increased because of an aggressive effort by the department to become an education policy leadership organization in the state and pursue standards-based reform. “We’ve ratcheted up all of our activity over the last three years,” Spino said. Spino sees the employment of private-sector vendors as an effective use of resources. For special expertise in a wide variety of areas, for a limited period of time, he asked, “Why buy when you can rent?” (Spino, 2002).

It appears the department will be doing a lot more renting, though the federal government will provide some of the money. More than half of the \$20 million the Ohio Department of Education spent on outside administrative services last fiscal year came because of the growing use of proficiency tests, and the use of contractors to design, produce and score the exams. The department paid NCS Pearson Inc. \$9.3 million, Measurement Inc. \$1.1 million, Harcourt Educational \$958,000, and Riverside Publishing Co. \$464,000 for such work. All these contracts were competitively bid.

Testing has mushroomed over the past decade; the state administered close to 3 million tests during the 2000-2001 school year. Testing will continue growing at a rapid pace as more exams are being added. That growth, and limited industry capacity, are also driving up the cost per test. Only a small number of companies have the capacity to handle these tests, said Mitchell Chester, the department’s testing chief (Chester, 2002).

“You need national experts to manufacture this stuff,” Spino said. They have the expertise, he said, and Ohio would have to hire hundreds, if not thousands, of people to do the work.

Questions have been raised in Ohio and other states about whether all such work is done well. *The Plain Dealer* reported last year that temporary workers employed in Greensboro, N.C., by Measurement Inc. to score ninth- and twelfth-grade exams were spending an average of 2 minutes on each essay at what the paper called “assembly-line pace” (Vosburgh and Stephens, February 25, 2000). Chester said that test scoring is highly accurate, as less than 1 percent of the tests that are rescored wind up with a different score (Education Department, November 30, 2001).

The education department’s spending for outside data-processing services rose from virtually nothing a decade ago to \$6.4 million last fiscal year. Spino said the department has mounted a vigorous effort to rebuild outdated, internal information systems and support local districts.

¹⁵ This study does not examine political issues that may be associated with contracting. However, *The Columbus Dispatch* reported recently in connection with the tourism ads that the Taft administration “ordered the tourism department to reshoot its new commercial so the governor would have a more prominent role.” The changes cost more than \$147,000. Taft’s office cited a variety of reasons for the changes, including a need to increase ethnic diversity, correct an error and add shots from other parts of the state, so that the commercial needed to be reshot anyway (Pramik, March 11, 2002).

For instance, the department has gone to outside firms to help develop and implement a new system to record student grades, attendance and other information for the state's 612 local districts.

In another case, the department contracted with Optimum Technology over three months last year to analyze its creaky teacher licensure and certification system and recommend requirements for a new one. For the outside expertise it lacked, it paid \$287.50 an hour for 287 hours of work under a state term schedule (Education Department, March, 2001). The work actually was done by an Illinois firm called StarSoft Solutions. "The StarSoft principals (who did the work) are two of the most experienced database design people in the United States," said department Chief Information Officer Robert Luikart. "They tend to command a premium price for a premium product." That is more than the education department would pay for common database analysts, Luikart said, but less than the rate of well over \$300 an hour StarSoft charges to top business clients. "We felt the value proposition was appropriate," Luikart said (Luikart, 2002).

The Ohio SchoolNet Commission, which is in charge of administering programs to help Ohio's public schools acquire and use educational technology, paid Celt Corp. \$1.1 million last fiscal year for a review of the state's educational technology planning process. The review was required by the General Assembly, and accounted for nearly half of the commission's outside service spending.

Rounding out the list of agencies spending more than half as much on outside services as their own payroll is the Expositions Commission, which produces the annual state fair and operates the state-owned Expo Center. The \$3.2 million the commission spent on outside services last fiscal year included pay for numerous entertainers for performances at the event. The Expositions Commission contracts for garbage pick-up and sound and lighting at the fair, and pays OIH Inc., formerly known as Ohio Industries for the Handicapped, for work during the fair such as cleaning rest rooms. The commission's largest service contractor, at \$501,620.49 in fiscal 2001, was Milgrom & Associates Inc., which finds fair sponsors. Milgrom is paid out of revenues from the sponsorships, and produces about 10 percent of fair income. In what finance chief David Gruber says is an arrangement that is standard in the industry, Milgrom would be partly compensated for two years after the contract ended if the same sponsors renewed, since it did the legwork to sign them originally (Controlling Board, 1999, and Gruber, 2001 and 2002).

V. Accounting for Contracting

A Murky Picture

No one really knows how much outside service contracting the state of Ohio does. Some of this is a matter of definition: As one former top budget official points out, spending for products and services the state buys can't always be easily separated. Too, it is hard to track services purchased with grants that the state awards.

Still, the state could do more to produce a clearer picture than the one available now. The state uses a system of "object codes" to categorize each expense. That includes operating expenses like employee pay, the purchased personal services that make up most of this report, maintenance and equipment. It also covers capital expenditures; subsidies that school districts, higher education and other entities receive from the state; goods for resale; and transfers, such as investments in bonds or securities. The object-code system classifies everything from office supplies to international travel by state employees. Contractors inquire regularly about how much Ohio spends on specific goods and services as they figure whether to do business with the state.

Each state handles its accounting of this differently, and there are no national standards. However, Ohio's system does not allow citizens to tell easily what is being spent on some kinds of contracts, such as food service. The system also does not always keep tabs on what is really happening. For example, Envirotec Systems Corp., the contractor that checks auto emissions in major Ohio counties under the E-Check program, received \$1.3 million in fiscal 2000, which was classified as administrative and management supportive services. In fiscal 2001, though it continued the service, the company disappeared from that listing in budget department figures.

On the other hand, the health department contracts with Nationwide Health Plans to process claims on behalf of AIDS and cancer patients who are receiving services. Only a fraction of the money passing through Nationwide is paid to the company for its claims processing, making Nationwide look like a bigger vendor than it is (Keller, 2001).

Some classification issues are unavoidable. More important, the whole area of purchased personal services does not get a lot of attention. Estimates of such spending prepared by the budget department and submitted as part of the governor's budget recommendations every two years have not been very reliable over the last decade. For example, the proposed biennial budget submitted in January of last year estimated that total purchased personal service spending for fiscal 2001, ending the following June, would be \$814 million. It actually was \$609 million (Executive Budget, 2002-2003 and other years). Nor has there been a close examination of the overall trends in state spending for purchased personal services (Interviews with Gehr, 2001, and Keen, 2002).¹⁶

¹⁶ Assistant Budget Director Timothy S. Keen said that, "the agencies are in the best position to know what their needs and requirements are, so they're probably in the best position to make the judgments."

This is a contrast with years ago, when the General Assembly appropriated each agency's money specifically for salaries, for purchased personal services, for office supplies, travel, gasoline and other expenditures. Now, the General Assembly does not appropriate money down to such a fine level; it usually assigns expenditures to broader categories, such as equipment or supplies and maintenance. This gives agencies flexibility, and avoids continual requests to the Controlling Board for proposed minor changes in expenditures.

Budget officials acknowledge Ohio's financial management system is unwieldy and does not provide all the useful information it could. Right now, for instance, a citizen cannot check and easily find out who the state's top vendors are. Nor can one check how many agencies have gone to the Controlling Board for approval to do business with a specific vendor. The state has embarked on a \$100 million-plus project called the Ohio Administrative Knowledge System (OAKS) Project, which would provide a new automated system to oversee state government systems and should make information easier to obtain (See www.state.oh.us/oaks). That way, for instance, if a citizen or legislator wants to know how much is being spent in his or her county, the state will be able to tell them. However, much of that is still several years off.

Additional Issues

This report does not address many important contracting issues that are worthy of attention. Researchers could further study a number of topics, including other kinds of contract expenditures, such as those for maintenance and capital projects. They could examine specific contracts, and investigate connections between political contributions and contracting. Additionally, they could consider how efficiency could be increased in Ohio's public sector through empowerment of employees to decide how services can best be delivered. Cornell University's Michael J. Ballard and Mildred E. Warner argued in a recent paper examining alternative strategies to improve government service delivery that, "Taking the "high road" of restructuring through improved labor-management cooperation can provide better quality service with fewer risks and greater social rewards" (Ballard and Warner, 2000). Or, they might explore methods used by other states and local governments to ensure vendor accountability and find the best ways to use state spending to generate productive in-state employment. Such future studies could improve our understanding of how Ohio taxpayer money is spent and help us propose improvements.

VI. Conclusions and Recommendations

Spending on purchased personal services has risen sharply over the past decade, far outpacing the growth rate of state spending on employee payroll. To summarize:

- Expenditures are concentrated in a few agencies, especially the Department of Job & Family Services, but have soared across most agencies. Two types of services – data processing and administrative management – account for most of the spending.
- There are few rules on when the state should contract work to commercial vendors, instead of doing it in-house.
- ODJFS is making some real changes in its contracting procedures, but it is too soon to evaluate the agency’s success.
- The level of outside purchases at some agencies and details of some contracts raise questions about whether contracting is always being handled appropriately
- Outside contracting has grown with relatively little overall attention. The system to keep track of it and make information easily available to the public are inadequate.

Recommendations

On April 4, Governor Taft announced that he had asked his cabinet directors to “personally review existing and proposed contracts to determine if any can be cancelled or delayed to save money” (Governor’s Budget Statement, April 4, 2002). The request was one of five different measures, including a hiring freeze and additional budget department scrutiny of agency purchases, aimed at saving \$100 million by the end of June. In earlier rounds of budget-cutting, the governor announced reductions in agency budgets, and left it up to the agencies to figure out how to implement them. The Office of Budget and Management reviewed its own contracts last November and rolled back some, cutting back on contract spending, said Assistant Director Timothy S. Keen (Keen, 2002). This time, Taft did not make specific cuts, but asked agencies to take certain actions. Keen expects that agencies will report on what they have done in response to Taft’s request for the contract review.¹⁷

The governor’s directive is a helpful first step. Indeed, such spending should be scrutinized closely on a regular, long-term basis, and accountability for it should be tightened. Among the steps we recommend are:

- **First ask why.** The State Controlling Board should require that agencies seeking approval of outside spending answer two questions, in addition to those it already asks: Has this service previously been performed by agency employees? Why is it more efficient and effective to contract with an outside

¹⁷ Keen argues that wholesale cuts in consulting contracts do not make sense. Either valuable services provided by contractors would not be delivered, he said, or the state would have to hire employees to provide them, reducing or eliminating any savings.

vendor rather than having state employees perform this service? Likewise, DAS should require agencies to do a cost comparison between public and private provision of services before they request DAS to take bids for them. A number of states require such cost comparisons.

- **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, as ODJFS is demanding with its major new contracts. Similarly, the state should make every effort to train its employees how to use systems when it has paid outside vendors to design them. This way, the state would take advantage of vendors' expertise without being as dependent on them after systems are up and running.
- **Provide information.** The budget department should prepare an annual report, much like its biennial report on tax expenditures, which ranks the state's top outside vendors, outlines specifically how much was spent for outside services, describes what proportion of them has been provided with competitive selection and explains the reasons for major trends in such spending. The Controlling Board should prepare an annual report listing all contracts on which competitive bidding was waived and there was no selection through a request-for-proposal process.
- **Bring work inside.** Agencies should bring work in-house if savings are available, as the ODJFS is doing now with information-technology contracts. "You set an excellent example for other departments," said Republican Senator Bill Harris, one of the members of the State Controlling Board, speaking to Director Hayes after his February 11 presentation to board. Other agencies should examine their information-technology contracts, and take advantage of the slump in the computer-services industry to reduce their spending. In instances where special outside expertise is need, the state should seek to negotiate better terms if possible. 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 ensure that the state's use of outside contractors provides clear, tangible benefits and accountability.

REFERENCES

- Allen, Jon. Deputy Director, Ohio Department of Job & Family Services, Office of Communications. Interviews. Dec. 13, 2001, March and April, 2002.
- American Management Systems, Section XVII, Response to The State of Ohio Department of Administrative Services for the Department of Job & Family Services, Client Registry Information System Enhanced (CRIS-E) RFP 0A02006. September 20, 2001.
- Ballard, Michael J. and Mildred E. Warner. "Taking the High Road: Local Government Restructuring and the Quest for Quality." *Cornell Working Papers in Planning*, #194, 2000.
- Barnes Jr., John E. Chairman, Commission on African-American Males. Interview. March 13, 2002.
- Carlson, Christopher T. Deputy Director, Ohio Department of Job & Family Services, Office of Contract & Project Administration. Interview. February 15, 2002.
- Chester, Mitchell. Assistant Superintendent, Ohio Department of Education, Office of Assessment. Interview. March 15, 2002.
- Contract Between the State of Ohio and Ohio Civil Service Employees Association, AFSCME Local 11, AFL-CIO, 2000-2003, Article 39.
- Contract for Personal Services between the State of Ohio, Department of Education, and Paul Werth Associates, December 1, 2000, through April 30, 2001. Amendment to Contract, April, 2001.
- Ellis, David A. Fellow for Public Finance, Federation for Community Planning. E-mail communication, April 12, 2002.
- Gehr, David. Senior budget analyst, Office of Budget and Management. Interview. November 8, 2001.
- Grey, Patricia. Director of Communications, Ohio Department of Education. Interviews. March 8, March 15 and April 9, 2002.
- Gruber, David. Finance Director, Ohio Expo Center & State Fair. Interviews. November 26, 2001, and March 13, 2002.
- Keen, Timothy S. Assistant Director, Office of Budget and Management. Interview. April 10, 2002.
- Keller, Sean. Executive Assistant, Ohio Department of Health, Office of Financial Affairs. Interview. December 14, 2001.

Krieger, Harry. Financial Administrator, Department of Administrative Services, Human Resources Division. Interview. March 8, 2002

Luikart, Robert. Chief Information Officer, Ohio Department of Education. Interview. April 12, 2002.

O'Brien, Maureen. Director of Marketing, Ohio Tuition Trust Authority. Interview. March 7, 2002.

Office of the Governor. "Governor's Budget Statement." April 4, 2002.

Ohio Administrative Knowledge System (OAKS) Project. <http://www.state.oh.us/oaks/>.

Ohio Department of Administrative Services. "FY2001 Term Contract Expenditures (VT0T03)."

Ohio Department of Administrative Services. "State of Ohio Procurement Handbook for Supplies and Services." Revised, September 11, 2001.

Ohio Department of Administrative Services, Office of Information Systems Policy & Planning. "State of Ohio, Computer Utilization Report, Statewide Summaries, FY1998-1999." Prepared July 2000. http://www.state.oh.us/das/dcs/opp/pdfs_other/utilizsum00.pdf

Ohio Department of Education. "Agreement with Optimum Technology Inc." March, 2001.

Ohio Department of Education, Office of Assessment. "Appeals for Rescoring." November 30, 2001.

Ohio Department of Education. "Proposal For: Integrated Teacher Certification Planning Project." Prepared by StarSoft Solutions and Optimum Technology, March 1, 2001.

Ohio Department of Job & Family Services. "Staffing in ODJFS Office of Management Information Services." Memo, 2002.

Ohio Tuition Trust Authority. "Professional Service Contract with Communica, Inc." July, 2000.

Ohio Tuition Trust Authority. "Professional Service Contract with Gannett Telemarketing, Inc. II." p. 12, July, 2000.

Owens, Margaret. Acquisition Analyst, Ohio Department of Administrative Services, Computer Services Division. Interview. February 25, 2002.

Pramik, Mike. "Tourism Commercial Re-shot to Include Taft." *Columbus Dispatch*, March 11, 2002, p. 1A.

Spino, Mike. Chief of Staff, Ohio Department of Education. Interview. March 15, 2002.

State Controlling Board, Department of Job & Family Services operating requests for waiver of competitive selection, Dynamics Research Corp. Controlling Board No. JFS020, June 11, 2001; No. JFS057, Jan. 14, 2002; and No. JFS061, February 11, 2002.

State Controlling Board, Ohio Expositions Commission operating request for waiver of competitive selection, Milgrom & Associates DBA Event Marketing Strategies. Controlling Board No. EXP014, July 26, 1999. Includes Agreement between Ohio Expositions Commission and Milgrom & Associates Inc. November 1, 1998.

State of Ohio Office of Budget and Management, Object Class 10 and Object Class 15 expenditures by agency for fiscal year 2001; individual vendor payments by agency, Object Codes 170-01 and 180-01, fiscal years 2000 and 2001.

State of Ohio Central Accounting System, Expenditures by Object. Report No. RSPND03S. (Spending by agency for purchased personal services for fiscal years 1991-2001, and total state spending for all object codes, 1991, 2000 and 2001).

State of Ohio Central Accounting System, Vendor Payments by Fiscal Year by Agency Inquiry, Fiscal Year 2001, for individual vendors.

State of Ohio Executive Budget, Fiscal Years 2002 and 2003. Office of Budget and Management, January 2001 and previous years.

State of Ohio Office of Inspector General, Report of Investigation, File ID numbers 2000047, 2000244, June 19, 2001.

Vosburgh, Mark and Scott Stephens. "Temps Grade Crucial Student Tests; Part-Time Workers Check 30-35 Exams an Hour." *The Plain Dealer*, February 25, 2000, p. A1.

Weiss, Kathleen G. Chief Legal Counsel, Lottery Commission. Interviews. March 13 and April 15, 2002.

Wendling, Ted. "Jobs director scraps Ohio Works system," *The Plain Dealer*, December 12, 2001, p. B1.

Wendling, Ted and Rich Exner. "Child-Support Mess Snarls Thousands; Checks Aren't Sent on Time, Are Often Mailed to the Wrong Person in the Wrong Amount." *The Plain Dealer*, February 18, 2001, p. A1.

West, Marv. Executive Director, Commission on African-American Males. Interview. March 12, 2002.

Westhoven, Jeffrey. Chief Administrator of Procurement Services, Department of Administrative Services. Interview. October 30, 2001.

Wolfe, David L. Assistant Deputy Director and Interim Chief, Ohio Department of Job & Family Services, Office of Management Information Services. Interview. December 18, 2001.

Wyngaard, Bruce A. Operations Director, Ohio Civil Service Employees Association. Interview. April 10, 2002.

POLICY MATTERS OHIO IS A STATE-WIDE NON-PROFIT RESEARCH INSTITUTE DEDICATED TO BRIDGING THE GAP BETWEEN RESEARCH AND POLICY IN OHIO. POLICY MATTERS SEEKS TO BROADEN DEBATE ABOUT ECONOMIC POLICY BY PROVIDING QUANTITATIVE AND QUALITATIVE ANALYSIS OF ISSUES IMPORTANT TO OHIO'S WORKING PEOPLE. OTHER AREAS OF POLICY MATTERS INQUIRY INCLUDE WORK, WAGES, AND BENEFITS; EDUCATION; PRIVATIZATION; ECONOMIC DEVELOPMENT; AND TAX POLICY. GENEROUS FUNDING HAS BEEN PROVIDED BY THE GEORGE GUND FOUNDATION.

2912 EUCLID AVENUE • CLEVELAND, OHIO, 44115 • 216-931-9922
[HTTP://WWW.POLICYMATTERSOHIO.ORG/](http://www.policymattersohio.org/)