Preliminary Report:

DES/OFM Approach to Assessing Contracting Options

Legislative Auditor's Conclusion:

DES should improve its process of comparing state costs and performance to certain private sector contracts.

Executive Summary

In 2011, the Legislature directed OFM and DES to explore private sector contracting of DES services

The 2011 Legislature passed ESSB 5931. The law:

- Created a new state agency called the Department of Enterprise Services (DES) to provide business and operational services to state and local governments. These services include human resources, accounting, training, printing, facility management, and parking.

- Directed the Office of Financial Management (OFM) and DES to explore additional private sector contracting of DES services (RCW 43.19.008(5)) through June 2018.

- Directed JLARC staff to review the process OFM and DES used to explore contracting opportunities and report on estimated costs or savings to the state as a result of private sector contracting for services.

Since then:

- OFM reviewed over 20 services and selected nine for potential contracts. After further analysis, OFM directed DES to contract for three services and to begin pilot contract projects for two others. The pilots will be completed in 2019.

- JLARC staff reviewed the process and the contracts used for two services and both pilot projects. Legislative changes prevented DES from entering contracts for the additional service identified by OFM.

It is unclear if the additional contracts saved the state money or improved service delivery performance

- Statute requires DES to monitor and measure the costs and performance of private sector contracts.

- Since 2011, DES has completed contracts with private sector vendors for web design and maintenance and for bulk printing. Based on available data, JLARC staff cannot determine the effect that contracting these services had on costs or performance.

DES can improve contract monitoring for current pilot projects to obtain better information on cost and performance impacts

- Pilot projects are underway for contracting two additional services through 2019. These services are real estate lease negotiations and motor vehicle claims processing. The purpose of the pilots is to obtain data for OFM to evaluate whether the private sector is more cost effective and efficient than DES in providing these services. DES is using vendors to provide a portion of these services and DES staff will provide the remainder.

- DES has an opportunity to improve contract monitoring and measurement of costs and performance data with these pilot projects.

Legislative Auditor Recommendation

DES should collect and retain evidence of contractor and DES cost and performance data associated with the pilot projects and any additional contracts entered through this statutory process.

- DES should report to OFM on performance measures.

- If contracts are renewed, performance measures should be included.

- Monitoring costs and performance of both vendors and DES is consistent with statutory directive and industry practice.

- The information is needed to determine whether to renew or cancel contracts. It is also needed for documentation if disputes with vendors arise, and to share with other agencies that may be deciding whether to use the same vendors.

- To ensure comparisons between vendors and DES are reliable, information about vendor and DES costs and performance should be well-documented and collected in a systematic way. When OFM reviews this information it will be important to identify which vendors performed well, which did not, and how vendor costs and performance compare to services provided by DES.

You can find additional details on the Recommendations tab.

REPORT DETAILS

1. Private contracting of DES services

At the direction of the Legislature, OFM and DES implemented a process to explore private sector contracting of DES services.

In 2011, the Legislature created the Department of Enterprise Services (DES) by merging existing agencies *(Departments of General Administration and Printing, portions of the Departments of Personnel, Information Services, and Office of Financial Management)* and functions.

- DES provides business services such as human resources, accounting, contract and procurement management, training, printing, facility management, and parking to state agencies and local governments.

- DES provides some of its services through private sector contracts. For example, in the 2015-17 biennium, DES spent $33 million (10 percent of the agency's total budget) on private sector contracts.

The same legislation that created DES also directed the Office of Financial Management (OFM) and DES to explore additional opportunities to contract with the private sector. The statute specified a contracting assessment process to see if the private sector could provide DES services more cost effectively and efficiently than the agency. The law requires OFM and DES to conduct the process each biennium through June 2018.

Exhibit 1.1: Statute outlines a contracting assessment process to explore additional contract opportunities for DES services

Step 1 OFM	Step 2 DES	Step 3 OFM	Step 4 DES	Step 5 DES
Select services	**Manage procurements**	**Analyze cost & efficiencies**	**Enter contracts**	**Monitor contracts**
OFM reviews and selects DES services to test in private sector	DES uses procurements (methods for selecting and securing vendors) to test private sector interest in providing services	OFM analyzes costs and efficiencies of vendor bids compared to DES providing the services	When directed by OFM, DES enters contracts for services	DES monitors and measures performance and costs of contracts

Source: JLARC staff depiction of requirements in RCW 43.19.008(5).

OFM and DES implemented the process to explore additional contracting opportunities

OFM and DES implemented the process outlined in statute. As shown in Exhibit 1.2, OFM identified nine services for potential contracts. After procurements and additional OFM analysis, DES used contracts for two services and started two pilot projects to collect additional information for OFM to analyze. More detail is in the graphic below.

Exhibit 1.2: Process resulted in contracts for two services and pilot projects for two others

Step 1 & 2	Step 3 & 4	Step 5
9 services selected and procured	Contracts for 2 services and 2 pilot projects	Monitor contracts and pilot projects
Bulk printing	DES continued its existing contracting practice to contract out a portion of the service	Impact on costs and performance unclear
Web design and maintenance	3 master contracts entered between 2013-16	
Access WA	OFM directed DES to enter a contract*	
Mail services outside Thurston County	OFM determined that DES was more cost effective and efficient than bids received.	
Printing and imaging		
Motor vehicle claims processing	Pilot projects complete in 2019	DES can improve information on cost and performance impacts
Real estate leasing services		
Surplus	No vendor bids	
Parking	Still under OFM analysis	

Source: JLARC staff analysis.

* No contracts were entered for AccessWA, the state's web portal, due to legislative policy changes in 2014. Washington Technology Solutions (WaTech), a separate state agency, now manages the service.

Step 1: OFM selected nine services for potential contracting

Over three biennia (fiscal years 2012-2017), OFM reviewed more than 20 DES services for potential private sector contracting. It selected nine services for DES to test in the private sector through procurements. As directed by the Legislature, the nine services included bulk printing.

In its review, OFM considered whether private vendors could provide similar services and whether it might be more efficient and cost effective for DES to contract with the private sector. OFM determined that some of the 20 services were not well-suited for private sector contracting or were already using the private sector.

Step 2: DES tested the nine services in the private sector using procurements

DES ran procurements for the nine services identified by OFM. A procurement is a systematic process for selecting, securing, and purchasing goods and services. DES used procurement methods such as requests for proposals (RFPs) and requests for quotes and qualifications (RFQQs) to identify potential vendors that might be competitive and responsive to providing government services. This gave private vendors an opportunity to bid on work traditionally provided by government agencies.

Step 3: OFM analyzed costs and efficiencies of private sector vendors

After DES conducted procurements for services, OFM compared the cost of private sector vendor bids to DES's cost estimates for providing the same services. OFM also compared the efficiency of vendors and DES.

Of the nine services initially identified for contracting, OFM completed seven analyses of costs and efficiency. No analyses were completed for two services because one received no vendor bids (surplus services) and one is still under review (parking management).

Based on the analyses, OFM directed DES to use contracts for three services and pilot projects for two others. OFM determined that DES was more cost effective and efficient than bids received for the remaining two services (mail and printing & imaging services).

Step 4: DES used contracts for two services and is managing contracts for two pilot projects

DES entered contracts for providing web design and maintenance services and continued using an existing contracting approach for bulk printing services (See Section 2.) It did not create contracts for AccessWA, the state's web portal, due to legislative policy changes in 2014. Washington Technology Solutions (WaTech), a separate state agency, now manages the service.

DES is conducting pilot projects for real estate lease negotiations and motor vehicle claims processing (See Section 4.)

Step 5: DES required to monitor contracts for four services

Statute requires DES, in consultation with OFM, to develop a contract monitoring plan. DES is required to monitor and measure contract costs and performance. DES is directed to review these measures before contracts are renewed and to cancel contracts that do not meet cost and performance standards. The remainder of this report addresses DES's contract monitoring efforts.

OFM issued two reports to Legislature on the results of this process

OFM issued reports to the Legislature in December 2014 and December 2016 describing the results of its reviews of DES services. The reports identified which services were selected for contracting, which were selected for pilot projects, and which procurements did not result in contracting. OFM's final report on this statutory process for exploring private sector contracting is due in 2018.

2. Effect on costs unclear

It is unclear if the state increased, decreased, or maintained costs using additional private sector contracts.

Statute requires the Department of Enterprise Services (DES) to assess costs as part of the process for exploring private contracting. Statute also directs JLARC staff to report on the costs or savings to the state as a result of private sector contracts. As described below, DES did not collect sufficient data to know the effect of contracting on the state's costs.

Web design and maintenance contracts: State agency estimates appear lower than private sector costs, but may not reflect the full scope of work

DES entered master contracts with three private vendors to provide web design and maintenance services. Master contracts meet procurement laws and guarantee prices for services. State agencies and local governments can use them to streamline their purchases for specific projects.

According to DES, seven agencies used the services of one vendor and spent a total of $880,000. DES did not compare these private sector costs to in-house estimates while contracts were in place. It is not the agency's practice to do so.

JLARC staff were able to compare the amount spent through the vendor to recent in-house estimates by WaTech for four of the seven projects, but the data is inconclusive:

Exhibit 2.1: For 4 projects where cost comparisons are available, state estimates appear lower but may not reflect full scope of work

Actual amount spent on vendor	$650,000
Estimated state cost *(may not reflect full scope of work)*	$487,000
Potential additional state costs	Unknown
Difference between vendor and state costs	Unknown

Source: Actual costs from DES. State agency estimate from Washington Technology Services. Estimate completed in 2017 for this report. WaTech became responsible for web services in 2015.

- **DES's data on actual amount spent through private vendor was incomplete.** JLARC staff found DES's initial data on vendor costs included about half of the actual amount agencies spent. DES coordinated with the vendor to retroactively verify and update the data for this report.

- **The available information for in-house estimates may not reflect the full scope of work completed.** Washington Technology Solutions (WaTech) created in-house estimates for this report. WaTech is the state agency responsible for web services since 2015. JLARC staff cannot determine how well the estimates compare to the actual vendor costs because they were created retroactively and may not reflect the full scope of work performed by the vendor.

Bulk print contracting: Cost data insufficient for comparing private sector and DES services

The Legislature required DES to test bulk printing in the private sector through a procurement *(Systematic process for selecting, securing, and purchasing goods and services)*. Bulk printing includes many types of work such as letterhead, envelopes, maps, and directories.

Before the legislative mandate, DES had used a procurement approach for some printing services in which prequalified vendors *(List of vendors pre-approved for bidding on work)* provided price quotes based on specific job requirements. In 2013, consistent with legislative direction, DES ran a new procurement process for bulk printing. OFM then directed DES to further pursue private sector contracts based on that procurement.

However, DES continued contracting through its existing approach (that is, using the prequalified vendor list).

Although DES engaged private vendors, it did not collect sufficient data to compare the costs of providing bulk printing services in-house versus using private vendors. Specifically:

- **DES cost estimates are incomplete:** The 2013 DES procurement combined all types of bulk printing, but included only a small sample of each. For example, the procurement included 2 of the 45 types of envelopes that the state uses. DES's in-house cost estimate for bulk printing reflects only the small sample of jobs listed in the procurement. Also, DES could not provide JLARC staff with complete documentation to support its cost estimates. Complete documentation is needed to confirm the reliability of the estimates.

- **Amount spent through contracts is unavailable:** When using the prequalified vendor list, DES does not separately track the amount spent on contracts for bulk printing from other types of printing. For example, DES paid $10.5 million to vendors for printing and imaging services in the 2015-17 biennium. The agency did not track what portion of this amount was spent on bulk printing. Further, while using a prequalified vendor list offers flexibility in vendor selection, it does not guarantee prices. As a result, it is not possible to compare state and contract rates.

If DES had used the same contracting approach as it did for web design and maintenance services, vendors would have been required to report the amount agencies spent on bulk printing. Also, guaranteed prices would have been available for analysis.

Accurate cost comparisons needed to determine whether to renew or cancel contracts

Statute and industry practice require a review of cost measures when considering whether to renew or cancel contracts. DES and OFM did not have cost comparisons when deciding whether to renew contracts for web design and maintenance or to allow a vendor to remain on the prequalified vendor list for bulk printing.

- DES chose not to continue contracting for web design and maintenance services in 2016. It cited low use and unsatisfactory performance in its decision. DES stopped providing these services in-house in 2013. Since then, WaTech has begun offering these services to state agencies.

- DES continues to use a prequalified vendor list for bulk printing. Since 2012, DES has reduced its in-house bulk print operation through staffing and equipment reductions.

3. Unclear if performance changed

It is unclear whether service performance has improved, worsened, or stayed the same using additional private sector contracts.

Statute requires the Office of Financial Management (OFM) and the Department of Enterprise Services (DES) to assess service performance as part of the process for exploring private contracting.

- OFM is directed to review DES's service performance when it identifies services for potential contracting.

- DES must monitor and measure the performance of any contract it enters.

Neither OFM nor DES documented performance in a manner that would allow the state to determine whether service performance changed by using private vendors.

OFM did not document DES's service performance

OFM examined more than 20 DES services for potential contracting opportunities. OFM reviewed the staffing and resource needs of these services, but did not document service performance. In many cases, OFM identified sample performance measures for a service, but it did not document how well DES performed on those or other measures. As a result, there is no baseline information to compare the performance of DES services with the performance of contracted services. Without this performance comparison, it is difficult to determine whether bid proposals would improve service delivery or whether to renew service contracts based on vendor performance.

Web design and maintenance contracts: DES developed performance measures but did not monitor them

When DES entered master contracts for web design and maintenance in 2013, it developed and included performance measures. DES's policy is to have the agencies that use a master contract collect performance data for their respective contracting job. Seven agencies used one vendor for web design and maintenance work. DES did not collect data on performance measures from the agencies in order to analyze vendor performance.

Instead, DES tracked contract use and received informal feedback on vendor performance:

- **Contract use:** DES used quarterly reports to determine how often agencies used the contract.

- **Informal feedback:** Both DES and WaTech (the agency that began providing web services in 2015) reported receiving anecdotal feedback from agencies on vendor performance. The agencies indicated some difficulty with using the master contracts, but there is little documentation of specific problems that occurred.

Bulk print contracts: DES does not track bulk print performance separately from other contract work

DES chose to continue its existing contracting approach of using a prequalified vendor list for bulk print work rather than enter master contracts from the procurement.

DES has a process for rating the quality of printing jobs performed by vendors on the prequalified vendor list. The quality ratings are on a scale of 1 to 4 and provide information on the timeliness and quality of the print product. DES does not separately identify bulk print jobs from other printing work, so it cannot assess the performance specifically for bulk print jobs.

Statute requires a review of performance measures before renewing contracts

Statute and industry practice in contract management require an analysis of performance measures before deciding whether to renew contracts established under RCW 43.19.008(5)(b)(vii).

- OFM did not establish baseline information on DES's performance to compare to vendor performance. As a result, it is unclear whether performance has improved, worsened, or stayed the same using private vendors.

- Performance measures for web design and maintenance contracts were not collected and bulk print measures were not separately tracked by DES, so vendor performance could not be clearly evaluated.

- DES, in consultation with OFM, chose not to renew the web design and maintenance contracts in 2016. DES cited low contract use and the problems informally reported by agencies. Contract renewal decisions were not based on a review of contract performance measures, as required by statute.

4. DES can improve monitoring

DES can improve monitoring of costs and performance for two pilot projects.

DES is testing for potential savings and efficiencies with two pilot projects because initial procurements did not provide sufficient information to make a contracting decision

The Department of Enterprise Services (DES) ran procurements for real estate lease negotiations and motor vehicle claims processing. The Office of Financial Management (OFM) stated that it could not definitively conclude from the procurement if the two services should be contracted to the private sector.

- For the real estate lease and design services procurement, OFM believed the response rate to the procurement was low. DES did not incorporate OFM feedback to allow more flexibility for brokers in terms of compensation and services offered.

- For motor vehicle claims processing, OFM indicated that a pilot was needed to test the accuracy of some of the statements made in the successful vendor's response.

OFM directed DES to conduct pilot projects for the two services. During the pilots, both vendors and DES will provide the services, and DES will collect data on costs and performance. When the pilot projects end in 2019, OFM will analyze costs and efficiencies to determine if the services should remain at DES, be contracted out, or a combination of the two.

The two pilots offer DES an opportunity to improve its monitoring of costs and performance for private vendors and the state.

Real estate lease negotiations: Monitoring report includes some costs but needs to improve information about vendor performance

The pilot project for real estate lease negotiations uses existing state contracts with 13 real estate brokers in five counties (King, Clark, Thurston, Pierce, and Spokane). Between 2017 and 2019, the brokers will negotiate 20 percent of lease renewals and DES staff will negotiate the rest.

OFM developed a contract monitoring plan with cost and performance measures for the pilot project. DES reported on OFM's measures in September 2017:

- The cost measures include broker and DES negotiated lease rates and the cost per square foot. An additional cost measure is needed to inform contracting decisions: how much of DES's budget would be eliminated if OFM directs DES to contract out this service.

- Performance reporting includes timeliness and problems with brokers. However, the information DES collected is anecdotal, it does not identify specific broker's performance, and does not include feedback from other agencies that use these contracts. Additional performance measures are also needed to measure customer service and quality. DES states that it plans to collect customer service and quality information through surveys of agencies.

Motor vehicle claims processing: Monitoring report does not include cost and performance measures from the contract

DES is conducting a pilot project for motor vehicle claims processing. For two years, a vendor will process 50 percent of the motor vehicle claims filed against the state. The vendor is responsible for investigating, negotiating, and denying or settling claims. DES will process the other half of the claims. After two years, OFM will evaluate whether DES or the vendor is more cost effective and efficient at providing services, and which approach results in lower claims payouts.

DES issued a monitoring report for the pilot to OFM in August 2017. The report included high-level information on claims settlements and vendor costs. It did not report on cost and performance measures in the contract. DES stated that it is collecting contract cost and performance measures and plans to modify future reports to include this information.

Legislative Auditor recommends DES improve contract monitoring for pilot projects

DES should collect and retain evidence of vendor and DES cost and performance data associated with the pilot projects and any additional contracts entered through this statutory process.

- DES should report to OFM on performance measures in contracts and contract monitoring plans.

- If contracts are renewed, performance measures should be included.

- Monitoring costs and performance of both vendors and DES is consistent with statutory directive and industry practice.

- The information is needed to determine whether to renew or cancel contracts. It is also needed for documentation if disputes with vendors arise, and to share with other agencies that may be deciding whether to use the same vendors.

- To ensure comparisons between vendors and DES are reliable, information about vendor and DES costs and performance should be well-documented and collected in a systematic way. When OFM reviews this information it will be important to identify which vendors performed well, which did not, and how vendor costs and performance compare to services provided by DES.

RECOMMENDATIONS & AGENCY RESPONSE

Legislative Auditor Recommendation

The Legislative Auditor makes 1 recommendation regarding contracting monitoring

Recommendation: DES should collect and retain evidence of contractor and DES cost and performance data associated with the pilot projects and any additional contracts entered through this statutory process.

- DES should report to OFM on performance measures.

- If contracts are renewed, performance measures should be included.

- Monitoring costs and performance of both vendors and DES is consistent with statutory directive and industry practice.

- The information is needed to determine whether to renew or cancel contracts. It is also needed for documentation if disputes with vendors arise, and to share with other agencies that may be deciding whether to use the same vendors.

- To ensure comparisons between vendors and DES are reliable, information about vendor and DES costs and performance should be well-documented and collected in a systematic way. When OFM reviews this information it will be important to identify which vendors performed well, which did not, and how vendor costs and performance compare to services provided by DES.

Legislation Required:	No
Fiscal Impact:	Contract monitoring should be within existing resources
Implementation Date:	Throughout pilot projects and any other contracts entered into under this statute
Agency Response:	To be included with Proposed Final Report

Agency Response

Agency response(s) will be included in the proposed final report, planned for April 2018.

MORE ABOUT THIS REVIEW

Audit Authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Study Questions

Why a JLARC study of the process to assess potential service contracts at the Department of Enterprise Services (DES)?

In 2011, the Legislature created the Department of Enterprise Services (DES) to provide cost-efficient, effective, and centralized services (ESSB 5931). DES provides purchasing, facility management, printing, mailing, training, parking, and other services to state agencies. The legislation also:

- Established a process managed by the Office of Financial Management (OFM) and DES to assess potential options where the private sector might provide services currently delivered by DES in-house.
- Directed the Joint Legislative Audit and Review Committee (JLARC) to audit the implementation of the contracting assessment process.

Office of Financial Management (OFM) and DES share responsibility for the contracting assessment process

The law requires OFM and DES to conduct a contracting assessment process at the start of each biennium until June 30, 2018. The process specifies that the agencies identify services for outsourcing, collect and evaluate costs, procure services, implement and monitor contracts as appropriate, and report to the Legislature.

Study Questions

JLARC will answer the following study questions to evaluate how OFM and DES have implemented the contracting assessment process:

1. How do DES and OFM identify and assess services for outsourcing, and is the process consistent with statute?

2. When outsourcing opportunities are pursued, does DES follow statute and best practices for developing, monitoring, and overseeing contracts?

3. Has the contracting assessment process led to either additional costs or savings for the state?

Timeframe for the Study

Staff will present the preliminary report in January 2018 and the final report in April 2018.

More about the process for assessing service contract potential

Below is a summary of the assessment process established in statute. The process is not required after June 30, 2018.

1. OFM inventories and assesses DES services

At the start of each biennium, OFM must:

- Create an inventory of DES services.

- Determine which services are available in the private sector and the potential for efficiency gains or savings.

- Select up to six services for soliciting contractors.

2. DES and OFM decide whether to outsource services

- For each of the selected services, DES must use a procurement process to determine if a contract for the service would result in reduced costs and greater efficiency.

- Following the procurement, DES may:

  o Cancel the procurement if OFM determines the activity cannot be provided by the private sector at a reduced cost or greater efficiency.

  o Contract with one or more vendors to provide the service.

3. DES and OFM monitor contracts

If DES contracts for services, it must work with OFM to establish a contract monitoring process. Elements must include performance, cost, and quality.

4. OFM reports to the Legislature

OFM must provide biennial reports summarizing the results of this process.

Methodology

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.

- **Site visits** to entities that are under review.

- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.

- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.

- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

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