

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Performance-Based Contracting Review of Current State Practices (June 30, 2011)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on July 20, 2011

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Title: Performance-Based Contracting – Review of Current State Practices

Audit Scope and Objectives:

SAO reports that, in November 2010, the Governor asked the State Auditor's Office to evaluate statewide performance-based contracting and to assist OFM in providing training on performance-based contracting to state employees. SAO states that the Governor's request included the following questions:

- Do current performance-based contracts include appropriate and effective performance measures for assessing contractor performance? If not, why not?
- Do current performance-based contracts provide incentives for excellent performance or consequences for inadequate performance? If not, why not?
- How are agencies managing performance-based contracts? For example, if a vendor is not performing, what corrective actions are agencies taking? Are contractors and vendors being held accountable? Given limited resources, what options are available to improve management if needed?
- What are leading practices around performance-based contracting? How could we apply these practices to Washington State?

SAO indicates it worked with the FCS Group to survey 34 state agencies and to conduct detailed reviews of more than 450 contracts for services. SAO also reports that it interviewed more than 100 agency contract and program managers and that the firm reviewed academic studies, congressional reports, and research by national organizations to learn about leading practices.

SAO Findings:

The SAO review identifies **six issues**:

Issue 1: Most contracts in the sample met OFM’s criteria for a performance-based contract by at least identifying expected deliverables and making payment contingent on the receipt of those deliverables.

Issue 2: Relatively few performance-based contracts reviewed included incentives for good performance or penalties for poor performance.

Issue 3: Performance-based contracts do not always establish performance or outcome measures. Even when such measures are included, contractor payment is not always based on the measures.

Issue 4: State agencies are managing and monitoring performance-based contracts using a variety of methods, but the primary methods involve reviewing invoices and periodic contract reporting. Improvements, however, can be made to contract management practices.

Issue 5: Although state agencies have previous experience using performance-based contracts, the internal and external challenges identified by agencies and program managers are similar to other organizations that have previously used performance-based contracting. Federal grants also present some challenges to using performance-based contracts.

Issue 6: The use of standardized contracting language, master contracts, and templates can facilitate the use of performance-based contracts across state agencies while also providing uniform contracting formats and practices.

SAO Recommendations:

Based on the issues identified, the Governor and the state cabinet agencies should focus their efforts on four major areas:

- Increase the use of performance/outcome measures for payment,
- Improve contract management and contracting processes,
- Increase staff expertise and capacity, and
- Educate and collaborate with contractors.

Agency Responses in Audit Report?	No
Legislative Action Requested?	No

Agencies Testifying:

(No audited agencies signed in to testify)

Summary of Testimony from Audited Agencies:

(No audited agencies signed in to testify)

Other Parties Testifying:

(No other parties signed in to testify)

Summary of Testimony from Other Parties:

(No other parties signed in to testify)