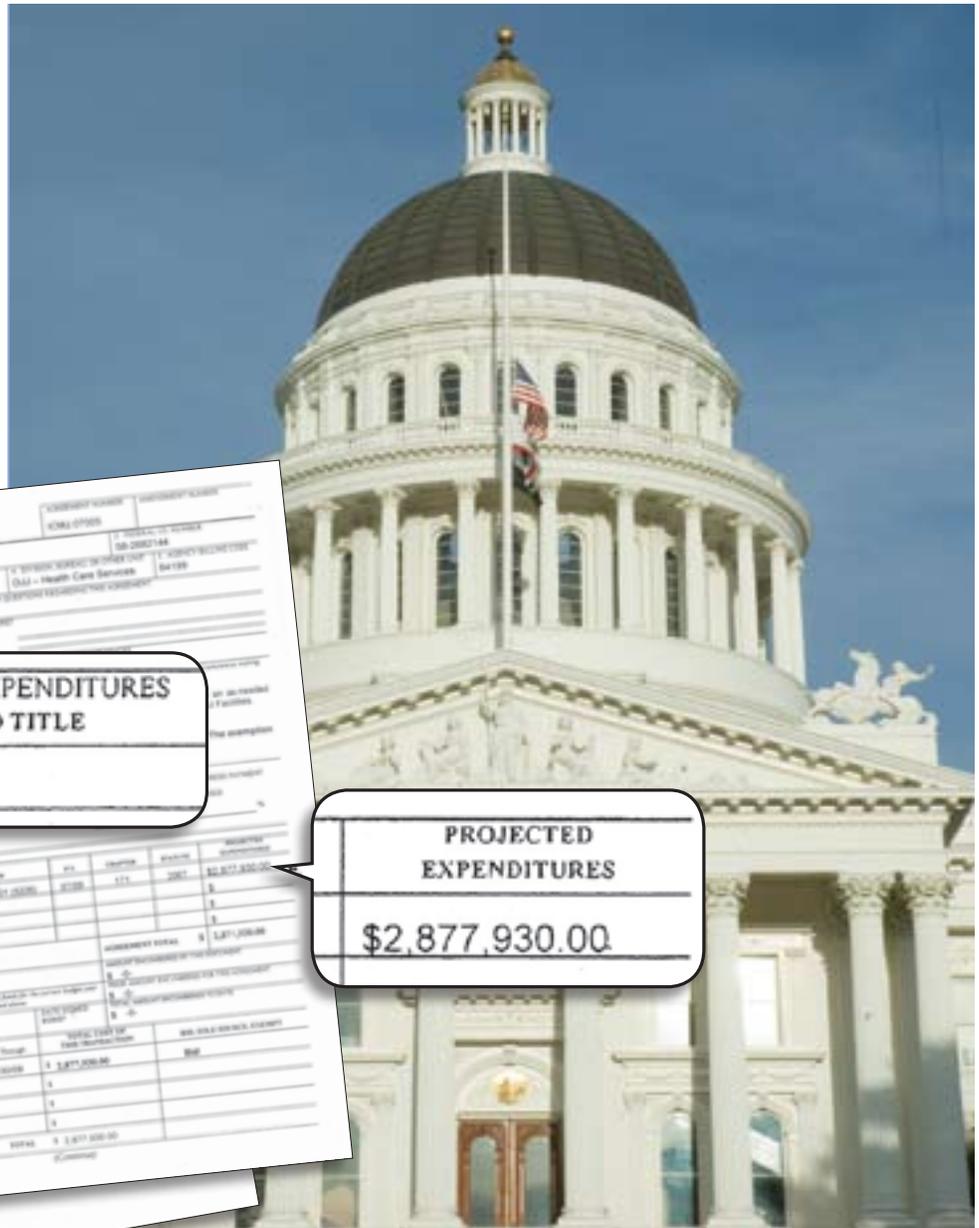


The Hidden Branch of Government

Pulling back the curtain on State of California contract spending and performance.

May 2009



AGREEMENT SUMMARY

AGREEMENT NUMBER: 4362-07005

AGREEMENT DATE: 08/2007

AGREEMENT TYPE: HEALTH CARE SERVICES

AGREEMENT TITLE: HEALTH CARE SERVICES

AGREEMENT DESCRIPTION: HEALTH CARE SERVICES

AGREEMENT STATUS: ACTIVE

AGREEMENT VALUE: \$2,877,930.00

AGREEMENT PERIOD: 08/2007 - 07/2009

AGREEMENT CONTACT: [REDACTED]

AGREEMENT COMMENTS: [REDACTED]

AGREEMENT	AMOUNT	STATUS	AGREEMENT PERIOD	AGREEMENT VALUE
AGREEMENT 1				
AGREEMENT 2				
TOTAL				\$2,877,930.00

II. PROJECTED EXPENDITURES FUND TITLE

General Fund

PROJECTED EXPENDITURES

\$2,877,930.00

A California Bottom Line Report

Research from SEIU Local 1000

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The “fourth branch” of government: hidden from legislative oversight and public review

Each year the State of California spends billions of dollars on thousands of service contracts, yet the state’s tools for tracking contract spending and performance are inadequate and outdated. The value of the 13,600 personal services and consultant contracts currently in effect is \$34.7 billion. Disclosure about the state’s contract spending, however, is so flawed that neither the legislature nor the public has any way of really understanding how much money state agencies are spending on contracts in any given fiscal year. Considering the immense amount of California’s scarce public funds tied up in costs in outsourced contracts, combined with the confused and fragmented system for reporting on those contracts and their performance, we must conclude that state government in effect has another branch, one that is hidden from legislative oversight or public review.

Comprehensive information on private contracts is not available

In this paper, we propose two important reforms in how the State of California tracks and monitors its contracting out. The first reform we address focuses on the State Contract Procurement Registration System (SCPRS) operated by the Department of General Services (DGS) to track contract spending. The transparency requirements of Assembly Bill 756 – a detailed annual public report of contract spending by department – rest on a reformed or replaced SCPRS as a prerequisite.

No system exists to track performance on large projects

A second critical reform is to establish a tracking and monitoring system that enables public scrutiny of the performance of large projects. By holding all involved in large projects accountable to the public, private contractors are likely to improve their record of contract compliance. Both reforms will contribute to a full revelation of the waste inherent in much of state contracting out and – in many cases – the savings to be obtained through bringing the work back to state employees.

These reforms, including the passage of AB 756, will pull back the curtain on this hidden branch of government so public policy-makers can make rational decisions on behalf of the public.

State spending on contracts exceeds \$34 billion

A first step toward eliminating waste in contracting is an accurate tracking of spending by state agency for each contract and fiscal year. Yet the state’s contract tracking system proves completely unreliable at this level of detail. State agencies register their contract expenditures through the State Contract Procurement Registration System (SCPRS) operated by the Department of General Services (DGS). With all its shortcomings, discussed later in the paper, SCPRS’ data only provides a general idea of the magnitude of spending on contracts.

More than 13,000 contracts

The value of 13,600 personal services and consultant contracts currently in effect is \$34.7 billion, a figure that includes spending for the current, prior and future fiscal years covered by ongoing contracts¹:

- 748 Architectural and Engineering contracts:.....\$2.4 Billion
- 2,345 IT contracts:\$4.1 Billion
- 10,507 Non-IT contracts:.....\$28.2 Billion

See Appendix A for a agency and departmental breakdowns of these three types of contracts.

Navigating a broken system

Because these figures are not presented by fiscal year, obtaining an annual figure would require additional calculations. (See Appendix B for a detailed example.) For example to estimate annual figures would require smoothing each of the thirteen thousand contract’s cost evenly over the days covered by the contract, calculating a per diem cost. It would also require finding the existence of contract amendments or extensions; unfortunately, these are not cross-referenced.

In order to estimate spending figures for this paper, many days and weeks of work were required by SEIU 1000 research analysts. When information is “public” but this difficult to navigate, effective oversight is impossible and the legislature cannot do its job of managing the public purse. (See Appendix B for a detailed example.)

“No comprehensive studies have been done on the use of contracting. Although many believe that contracting can save the state money because ‘we can get rid of contractors quickly if funds run low’ or ‘state employees don’t have the skills’, there are no studies to back up these claims.”

—Marie Harder
Senior Information Systems Analyst
Department of Public Health

Potential for annual cost savings of \$350 million

Once the state has an accurate accounting of the complete costs of contract spending in each fiscal year, the full extent of outsourcing waste can be identified and measured. By reducing its use of personal services and consulting contracts, the state can save hundreds of millions of dollars each year.

State workers can cut costs

Local 1000 estimates that the state could save approximately \$350 million annually by utilizing state workers to cut unnecessary and wasteful outsourcing in just these three areas alone:

- \$100 million or more annually in IT contracts
- \$144-\$205 million or more annually in medical registry contracts
- \$50 million or more annually in architectural and engineering contracts

Our best estimate indicates the state persists in renewing contracts that cost from 22 percent to 200 percent more than the cost to perform the same service using state workers.

In-sourcing reduces contract costs

Last year, SEIU Local 1000 estimated that the state could save \$100 million each year by in-sourcing a fraction of the work currently being performed by IT contractors.² Our findings were consistent with research by the California Research Bureau, CalSTRS and the State Compensation Insurance Fund. These agencies estimated that the state could realize cost savings of between 32 percent and 84 percent by selectively eliminating IT contracts and bringing the work in-house.³ Even the new State CIO Teresa Takai has stated that selective in-sourcing reduces public costs for IT services. In-sourcing was an integral part of the reforms she pushed through in Michigan, saving that state nearly \$100 million.⁴

In 2009 we have found additional evidence of extravagance in this area.

New evidence on the huge potential for savings in IT

SEIU Local 1000 has found a DGS Master Service Agreement that authorizes the state to pay contractors two to three times the amount it would cost to hire professionally trained IT civil servants. Under this MSA (covering contracts 5-06070-24 through 5-06070-141) the state currently spends \$74.1 million on 97 IT vendors providing services to 46 departments.⁵

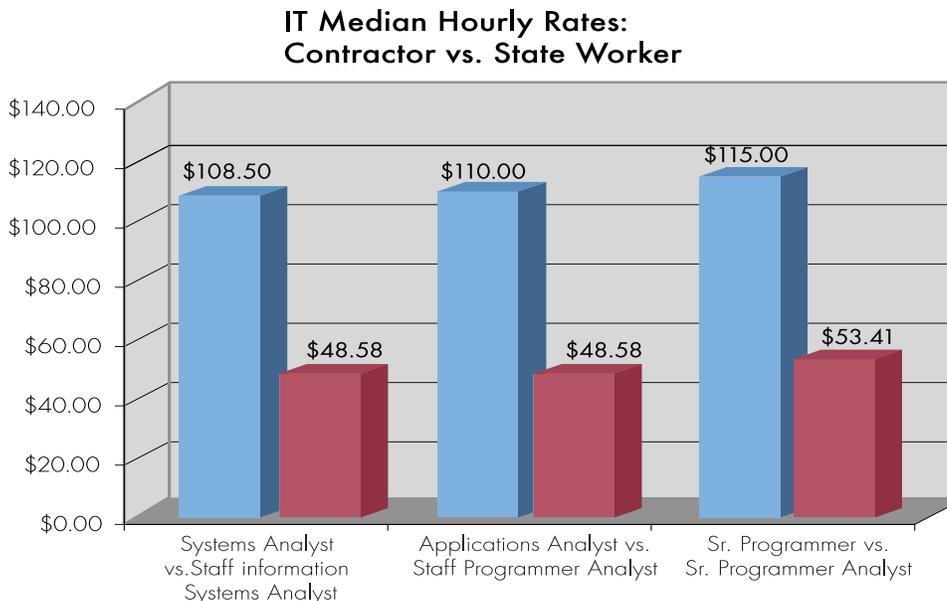
Contractors' excessive rates

Comparing median posted bill rates specified in the MSA for IT contract employees to the cost of providing the services with in-house staff underscores the potential to save taxpayers money by selectively eliminating IT contracts and transitioning the work to state service. The chart below compares the median, or typical, posted contractor hourly costs

for three roughly equivalent IT positions in state service. This data shows vendor rates to be around two to three times the rate for the equivalent state's IT workforce. (See Appendix C for more detail.)

\$4 billion on IT contracts

If the state in-sourced all the work associated with the 97 contracts currently authorized under just this one MSA, taxpayers could realize savings of \$37 to \$49 million.⁶ Given that there are thousands of additional IT contracts with a total value of at least \$4 billion, we are confident that the potential to realize considerable savings is huge, far exceeding the estimates that we reported last year. (See Appendix B for more detail.)



Source: IT MSA, IT Consulting Services (5-06-70-24 through 5-06-70-141), User Instructions for Contractor Contacts & Hourly Rates, Sec IV on Hourly Rates, <http://www.pd.dgs.ca.gov/masters/default.htm>

\$205 million can be saved on medical registries

For years the Department of Corrections and Rehabilitation increased its reliance on costly medical registry contracts instead of making efforts at recruiting and retaining civil service primary care workers by paying competitive salaries. The state currently holds more than \$723 million in such contracts. Pro-rating contract costs to annual expenditures on these costly contracts puts typical annual costs at approximately \$363 million each year.⁷ Former Federal Receiver Robert Sillen, who oversaw medical services in the California Department of Corrections and Rehabilitation, stated that the cost of medical registry contracts is extensive and has increased drastically over the past few years.⁸ At a bidder's conference on September 14, 2007, Mr. Sillen stated that registry bid rates range from 66 percent to 130 percent above what state workers in equivalent positions are paid.⁹ Using Sillen's estimates, California could save between \$144 million and \$205 million each year by in-sourcing this work.¹⁰ (See Appendix D for more detail.)

Architectural and Engineering (A&E) contracts can be substantially cut

Budget documents from Senate Budget Subcommittee 4 reveal that the state pays approximately \$83,000 more, each year, for each Architecture & Engineering contractor it hires in lieu of Department of Transportation state staff. In 2007 the Dept. of Transportation wanted to contract out more than 500 staff positions, increasing taxpayer costs by \$50 million.¹¹ The governor

called for the increased use of Public Private Partnerships to do state work. These projects would likely involve the use of A&E contractors on large scale infrastructure projects even though legislative staff report that these contractors cost far more than hiring state workers.

Transparency needed to evaluate extent of contract waste

As we have shown, examples from IT, medical, architectural and engineering contracts and other documents show a pattern of significantly greater costs to employ contractors to perform services that state worker can perform. Fully accounting for the costs through improved contract tracking is one tool for eliminating waste. Another is improved transparency and oversight on large state projects that utilize contractors.

Tracking the performance of large contract projects

The second area of reform we see as crucial to full oversight of state contract spending is transparency in monitoring contract performance. The public and the state Legislature need to see clearly the status of large contract implementation where cost overruns can easily run into tens of millions of dollars. Currently there is no way in which to track overruns and delays without carrying out public document requests. However, in most cases the public has no way of even knowing what documents it should be seeking. The status quo simply does not provide a means to get outsourcing costs under control.

Contract information provided by the state CIO is outdated and inaccurate

We are disheartened that even the State's Chief Information Officer – who we know to be committed to reining in wasteful spending in IT outsourcing – has fallen victim to the same difficulties in monitoring contracts that beset the system as a whole. This should act as a strong signal of just how snarled contract implementation information is.

The State CIO gives a complete list of 111 “approved state information technology projects under construction” worth \$7.6 billion on its website – implying these projects are significantly underway.¹² As an example, significant research efforts have disclosed no evidence to support this label of being “under construction” for six Caltrans IT projects on the list worth a total of \$132.3 million.¹³ The CIO's list indicates that three of these projects worth \$70.7 million entail procuring the services of

a “systems integrator” or a “vendor.”¹⁴ But a Caltrans official stated that “there are no contracts for those projects as the projects are not developed that far yet.”¹⁵

If major state IT projects have seen their implementation delayed or they proved to be too costly to implement, it serves no purpose to advertize them as “under construction” in notices to the public. However, if state or federal money already has been earmarked for such projects, then the Legislature should be informed of the causes for delays. These embarrassing lapses in the accuracy of the CIO's public disclosure about IT contracts should prompt the Legislature to fully support the regular reporting of project status reports needed to rectify the current situation.

To call the state's current IT situation a monumental disaster would be to insult the words “monumental disaster.”

Despite a \$40B state deficit, California is nevertheless planning nine “strategic” projects scheduled to consume 58 years and \$3.6B.

—Information Week, January 2009

Serious delays uncovered in implementation of state contracts

The public posting of contract performance updates will allow the public to know when contracts are running over budget or behind schedule. (See Appendix E for more detail.) Through our own public document requests, we have discovered several recent examples of such delays that the public is not yet aware of. One large IT project underway at the Employment Development Division, undertaken to enhance the state's ability to serve the unemployed, is twelve to nineteen months behind the current schedule.¹⁶ This project will provide a new system that will allow the jobless to submit address changes via the Internet and will completely replace the EDD's current UI call center platform, greatly increasing the EDD's ability to handle its call volumes.¹⁷

Delays on projects of this nature are especially worrisome as the state unemployment surpasses 11 percent. We do not know how those delays affect costs, but certainly the overburdened Unemployment Insurance call centers are experiencing large phone bills as claims calls flood the phone lines while this project lags.¹⁸

While systems are in place to allow departments to regularly monitor large contracts such as this one, it is the sunshine of public disclosure that we advocate as the necessary incentive for vendors to meet performance standards. This meaningful transparency is the best method for the public to assess the full cost of outsourcing.

“I work at the EDD Unemployment Insurance Call Center in Los Angeles. EDD really needs to expand its capacity to handle the spike in calls coming in from the jobless. Two million Californians are jobless. Over 900,000 lost their jobs in the last year alone. Last month there were 338,000 new claims. Callers have been complaining for a few years about not getting through. Now when they can get through some are saying they had been trying for weeks and are very upset. When they call the system tells them to wait and after a certain amount of time on hold it drops the call and they have to call back. We have outdated technology and we're understaffed. We needed the call center upgrades to happen yesterday.”

—Joe Chacon

Employment Program Representative
Employment Development Division employee of 20 years

Costs of transparency are small compared to contract waste

Without these basic controls on contracting out and adequate means for tracking costs and performance, the state cannot legitimately hope to satisfy its legal and public policy mandates.

The costs of transparency in state contracting are negligible compared to the waste from overly expensive or unnecessary contracts. The state is spending billions on state of the art IT systems, yet its own system for tracking state contracts is inadequate and outmoded. With the state in an ongoing fiscal crisis, now is the time for policy-makers to ensure they get a full and accurate accounting of outsourcing costs. Our initial estimated cost savings opportunities of \$350 million may well be low given the limitations of the data provided by SCPRS and the lack of information on contract delays and overruns.

Groups as disparate as the Heritage Foundation and state employee labor unions are supportive of transparency in government. This would also be consistent with the current federal direction of providing transparency in government spending. State workers salaries are readily available online, yet there is a hidden workforce of contract employees—a workforce with little information available on actual contracts for their services. Without this information, the true administrative costs of government are hidden from view. (See Appendix F for models of disclosure of government contracts from the state of Illinois and the federal government.)

Five recommendations that will save hundreds of millions

1) The state needs an improved contract tracking system.

Given the vast sums the state spends on information technology, the public and lawmakers deserve better than SCPRS. It should be replaced with a system that is accurate, user-friendly, and discloses contract funding by contractor and department for each fiscal year. Goods contracts should not be lumped with services contracts. A system for tracking progress on multi-million dollar projects is also needed.

2) State agencies should prepare an annual report on their use of personal services and consulting services contracts in accordance with proposed Assembly Bill 756.

As outlined in this legislation, to ensure transparency the report should list crucial identifying information for each contract: name and identification number of each contractor; legal justification; total dollar amount over the duration of the contract, including all amendments; total amount paid by the state agency during the most recently completed fiscal year.

3) State contractors should supply information about the numbers and types of employees they supply to the State.

Contractors should be required to disclose the costs and staffing levels for each type of contract employee supplied to the state for each fiscal year. Staffing levels should be reported in terms of personnel years or

full-time equivalents. This information, too, should be incorporated in annual agency reports as required in AB 756.

4) State agencies should post updates about major outsourcing projects to their websites.

The public should have easy access to information and updates about outsourcing projects that expend millions of taxpayer dollars. Every state agency should post a notice on its website about progress on major outsourcing projects and whether they are on time and within their budgets. Prime contractors should be clearly identified.

5) Wherever possible State workers should be utilized to reduce contracting costs.

When a full and accurate accounting is provided to California's taxpayers of the massive wastefulness of much of its outsourcing, we expect to see even greater cost savings opportunities. The Union believes the public is best served by bringing much of the outsourced work back in-house.

Documentation

- 1 Personal services contracts refer to the following contract categories only: IT consulting & services, Non-IT consulting & services and Architecture & Engineering contracts. We did not include in our total contrasts for goods, public works, interagency agreements, grants and subventions, memberships and sponsorships or contracts with other public entities. Data downloaded from DGS on 12/16/08 for above mentioned contracts with expiration dates of 11/30/08 or later obtained from the State Contract Procurement Registration System (SCPRS). <http://www.pd.dgs.ca.gov/scpreg/data.asp>.
- 2 For more information on how we derived this figures, please download the report available through our website. SEIU Local 1000, *IT Contracts with the State of California: Too Many, Too Costly, Too Little Oversight*, April 2008. http://draft.seiu1000.org/Admin/Assets/AssetContent/56c29e54-7567-49b2-8681-f686122a4f66/546bfa9e-94e2-495f-9d30-54cc81f55e47/2ede14ab-5e3f-4f00-9a55-610a1353f473/1/IT_white_paper_April%20revision_v8.pdf
- 3 See "The State's Information Technology Hiring Process: Suggested Reforms," Alicia Bugarin, California Research Bureau, November 2006; CalSTRS Audits and Risk Management Committee meeting notes, Item 5, "Internal Audits' Report," September 7, 2005; CalSTRS Annual Plans, meeting notes, Item 4d, "Enterprise Initiatives and Technology Business Plan, July 14, 2005; CalSTRS Audits and Risk Management Committee meeting notes, Item 1e, "EIT Update: Selection and Management of Third-Party Consultant Audit," February 1, 2006; "State Fund's Response to the Department of Insurance's Operational Review, December 11, 2007, pages 50-57; "Insurance Commissioner's Comments on the Operational Review of the State Compensation Insurance Fund," pages 3-4; "State Compensation Insurance Fund Operational Review Report" October 2007. RSM McGladrey for Department of Insurance. Pages 31; 51-54.
- 4 http://www.govtech.com/gt/96746?id=&topic-117671&story%20_pg=%201
- 5 Information Technology Consulting Services Sec V. <http://www.pd.dgs.ca.gov/masters/itconsulting.htm>
- 6 If the vendors are billing the state on average 2 to 3 times the rate for work that could be performed under the IT Master Services Agreement, much of the cost of the IT MSA could be reduced by filling vacant state IT worker positions to perform services currently performed by IT contractors. To calculate the savings, we divide \$74.1 million by 2, to represent IT contractor work that can be performed by state IT workers at half the cost, and by 3 if contractors are three times as expensive. Estimates using this methodology show potential savings of \$37 million to \$49 million.
- 7 Based on state contract and procurement registration systems (scprs) data. We totaled all relevant medical services registry contracts and standardized the costs of those contracts to a per-year cost using pro-rated daily rates.
- 8 Robert Sillen, receiver's first bi-monthly report, office of the receiver, July 5, 2006.
- 9 CDCR, Plata contract and invoice branch. Bidder's conference for "physician registry service." Sept. 14, 2007.
- 10 This is the range of savings that would result, assuming (at the lower end) that the annual \$363 million paid in registry contracts is 66% above state salaries for equivalent positions and (at the higher end) that these contract costs are 130% above state salaries.
- 11 "Senate Budget subcommittee No.4 Agenda: agenda—part A" May 22, 2007, pages 27-29. A typical A + E contractor costs \$209,000 a year. The state worker equivalent is \$126,000.
- 12 State Chief Information Officer, "Approved State Information Technology Projects Under Construction," March 11, 2009, p.19. http://www.cio.ca.gov/Business/Appr_State_IT_Proj_Under_Constr.pdf. The previous version of the list, dated October 28, 2008, presented a somewhat different set of 108 projects totaling \$6.8 billion, http://www.cio.ca.gov/Business/Appr_State_IT_Proj_Under_Constr_20081028.pdf.
- 13 The projects are the Project Resourcing and Schedule Management System (PRSM), Inland Empire (D8) Traffic Management Center, Construction Management System, Integrated Financial Management System, Bulk Fuel System Dept of Transportation and the Roadway Design Software, State CIO, "Approved IT Projects Under Construction, March 9, 2009, pp.7-8. They are the subject of a public records request for various project monitoring documents submitted by Jack McGlenn to Caltrans on February 11, 2009. On February 25, 2009, an initial Caltrans response to the records request stated that "Caltrans is unable to search the database to locate contract documents by project name, or the number, purchase order number, or vendor name for the projects and vendors you requested." A later communication from Caltrans stated "We were unable to provide you with any contracts related to projects you found listed on the Chief Information Officer's website as 'Approved State Information Technology Projects Under Construction'. There are no contracts for those projects as the projects are not developed that far yet." Debora Remington, Public Records Coordinator, Caltrans Division of Procurement and Contracts, e-mail message, March 19, 2009.
- 14 These projects are the Integrated Financial Management System, Bulk Fuel System and Roadway Design Software. See *State CIO, list of "Approved IT Projects Under Construction, March 11, 2009, pp.7-8.*
- 15 Debora Remington, e-mail message to Jack McGlenn, March 19, 2009.
- 16 Greg Thompson, MGT America, "UIMOD Independent Project Oversight Report," February 10, 2009, p.2.
- 17 *State CIO, list of "Approved IT Projects Under Construction, October 28, 2008, pp.8-9.* http://www.cio.ca.gov/Business/Appr_State_IT_Proj_Under_Constr_20081028.pdf.
- 18 Andrew McIntosh, "EDD reaches deal with Verizon to cut cost of recorded messages," *Sacramento Bee*, March 25, 2009.

For additional information, contact Research Analyst Jack McGlenn at jmcglenn@seiu1000.org.

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Appendix A

State Agencies That Spend the Most for Contracts

Fifteen state agencies account for more than 90% of all current personal services and consulting contracts. The Departments of Corrections and Health Care Services alone account for well over half of total spending.¹

\$34.7 Billion in spending on IT, Non-IT and A&E Combined

Rank	State Agency	# of Current Contracts	Contract Amounts	% of Contract Spending
1	Corrections and Rehabilitation	2,018	\$ 9,772,108,088	28%
2	Department of Health Care Services	166	\$ 8,967,152,999	26%
3	Managed Risk Medical Insurance Board	75	\$ 3,994,137,872	12%
4	Department of Transportation	2,098	\$ 1,653,113,998	5%
5	Department of Alcohol and Drug Programs	125	\$ 1,278,429,754	4%
6	Department of Water Resources	425	\$ 1,221,731,580	4%
7	Health and Human Services Agency Data Center	4	\$ 1,051,131,724	3%
8	Franchise Tax Board	122	\$ 982,209,709	3%
9	Health and Human Services Agency	101	\$ 621,544,245	2%
10	High Speed Rail Authority	8	\$ 553,671,224	2%
11	Department of Motor Vehicles	444	\$ 304,567,014	1%
12	Department of General Services	649	\$ 286,385,042	1%
13	Department of Child Support Services	40	\$ 285,709,503	1%
14	Department of Mental Health	368	\$ 275,045,562	1%
15	Department of Education	97	\$ 266,053,556	1%
	All other agencies	6,860	\$ 3,206,724,251	9%
Totals		13,600	\$ 34,719,716,121	100%

Architectural & Engineering contracts worth \$2.4 billion are a smaller portion of the state's \$34.7 billion in current contract spending. Caltrans has the largest share.

\$2.4 Billion in A&E Contract Spending

Rank	State Agency	# of Current Contracts	Contract Amounts	% of A&E Contract Spending
1	Department of Transportation	171	\$ 1,036,027,022	44%
2	High Speed Rail Authority	6	\$ 544,671,224	23%
3	Department of Water Resources	35	\$ 400,397,055	17%
4	State Coastal Conservancy	172	\$ 123,559,380	5%
5	Corrections and Rehabilitation	39	\$ 70,681,839	3%
	All other agencies	325	\$ 196,350,883	8%
Totals		748	\$ 2,371,687,403	100%

¹ Data is taken from the Department of General Services SCPRS. Dollar values represent total contract costs over the entire length of all contracts that expired after November 2008; figures are not annual or fiscal year expenditures.

A California Bottom Line Report

More than a quarter of the value of current IT contracts are with the Health and Human Service Agency's (HHS) Data Center. Additional HHS IT contracts bring the total to 39%.

\$4 Billion in IT Contract Spending

<i>Rank</i>	<i>State Agency</i>	<i># of Current Contracts</i>	<i>Contract Amounts</i>	<i>% of IT Contract Spending</i>
1	Health and Human Services Agency Data Center	4	\$ 1,051,131,724	26%
2	Franchise Tax Board	81	\$ 961,545,435	23%
3	Health and Human Services Agency	95	\$ 550,018,943	13%
4	Department of Child Support Services	28	\$ 283,567,959	7%
5	Department of Motor Vehicles	142	\$ 260,328,458	6%
6	Department of Technology Services	267	\$ 139,882,248	3%
7	Department of General Services	65	\$ 114,561,567	3%
8	Corrections and Rehabilitation	107	\$ 82,348,450	2%
9	Department of Transportation	181	\$ 76,890,391	2%
10	Employment Development Department	41	\$ 73,289,551	2%
	All other agencies	1,334	\$ 506,322,436	12%
Totals		2,345	\$ 4,099,887,162	100%

The Departments of Corrections and Health Care Services account for two thirds of non-IT contract spending.

\$28.2 Billion in Non-IT Contract Spending

<i>Rank</i>	<i>State Agency</i>	<i># of Current Contracts</i>	<i>Contract Amounts</i>	<i>% of Non-IT Contract Spending</i>
1	Corrections and Rehabilitation	1,872	\$ 9,619,077,799	34%
2	Department of Health Care Services	105	\$ 8,912,981,050	32%
3	Managed Risk Medical Insurance Board	73	\$ 3,993,734,993	14%
4	Department of Alcohol and Drug Programs	107	\$ 1,275,645,707	5%
5	Department of Water Resources	350	\$ 797,167,139	3%
6	Department of Transportation	1,746	\$ 540,196,585	2%
7	Department of Mental Health	304	\$ 269,160,936	1%
8	Department of Education	75	\$ 257,164,742	1%
9	Dept. of Consumer Affairs	904	\$ 216,131,589	1%
10	Public Utilities Commission	72	\$ 182,448,086	1%
	All other agencies	4,899	\$ 2,184,432,930	8%
Totals		10,507	\$ 28,248,141,556	100%

Appendix B

Lost in Cyberspace: Hard to find \$1 billion IBM contract using SCPRS

To illustrate the shortcomings of SCPRS as a tracking system, consider the steps a hypothetical California taxpayer would need to take to learn about IBM's billion child support enforcement contract worth nearly \$1 billion. To find the contract listing, a SCPRS user would have to search across as many as 21 contract data tables that are not even linked to one another. The 2009 IT contracts table includes 12 new IBM contracts scattered over 1,744 lines of data, but the child support contract is not one of them.¹

To find that contract, the SCPRS user would have to go back to the 2003 table. The contract's cumulative total is \$918.1 million but this figure is contradicted by other SCPRS data. The child support contract appears at a cost of \$14.4 billion when the column labeled "Fiscal Year 2 Amount" is totaled. The table mistakenly sums the original \$801.2 million 17 times, once for each amendment. The inconsistent reporting of revenue by fiscal year also makes SCPRS an unreliable information source about spending patterns. The DGS should not make it this difficult for the public to track a billion dollar IT contract.

Significant shortcomings of SCPRS:

1. State agencies report contract data that is incomplete, inconsistent and inaccurate.
2. Contracts for goods and services are lumped together.
3. Fiscal year costs are unreliable.
4. Fiscal year cost breakdowns are unreliable.
5. Searches cannot be made across fiscal years or across the three major contract types.
6. Amendments are reported as separate entries from the original contract.
7. Users can not search by state agency name, contractor name, nor by contract number

¹ Department of General Services, SCPRS Data, Excel spreadsheet table at <http://www.pd.dgs.ca.gov/scpreg/data.asp>, as of March 24, 2009.

Appendix C

Contractor Rates 2-3 times higher than those for state workers

The DGS Master Service Agreement authorizes the state to pay contractors two to three times the amount it would cost to hire professionally trained IT civil servants. The MSA specifically authorizes departments to pay maximum hourly bill rates of:

- \$175 per hour for a Programmer providing Independent Verification and Validation Services
- \$218 per hour for a Systems Analyst providing System Support services
- \$268.00 per hour for a Senior Technical Lead providing Programming services
- \$412.55 per hour for a Senior Project Manager providing Independent Verification and Validation services

The following table compares the median, or typical posted contractor hourly costs to roughly equivalent IT positions in state service. This data shows vendor rates for equivalent work to be approximately two to three times the rate for the state's IT workforce.

State of California • Dept. of General Services • Arnold Schwarzenegger, Governor
P R O C U R E M E N T D I V I S I O N
707 3rd Street, 2nd Floor • West Sacramento, California 95605 • (916) 375-4400

**MASTER SERVICE AGREEMENT
USER INSTRUCTIONS**

CONTRACT NUMBERS: 5-06-70-24 through 5-06-70-141

CONTRACT TERM: July 1, 2006 through June 30, 2009

SERVICE: INFORMATION TECHNOLOGY CONSULTING SERVICES

DISTRIBUTION CODE: Electronic version of all documents associated with this MSA can be found on the DGS/PD Internet web page:
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A California Bottom Line Report

Cost Comparison of IT Contractor and State IT Workers for Performing Same Services

Contractor Classification	Median Hourly Rate (across subcategories)	Annual Cost¹	State Equivalent Classifications	Hourly Salary + Retirement Costs	Annual Salary + Retirement Costs
Senior Project Manager	\$170.00	\$303,960	SSS III	\$58.57	\$121,834
			SSS II	\$53.32	\$110,910
			Sr Information Systems Analyst	\$53.41	\$111,089
Project Manager (PM)	\$145.00	\$259,260	SSS II	\$53.32	\$110,910
			Staff Information Systems Analyst	\$48.58	\$101,042
			Sr Programmer Analyst	\$53.41	\$111,089
Sr Technical Leader	\$145.00	\$259,260	SSS III	\$58.57	\$121,834
			Sr Programmer Analyst	\$53.41	\$111,089
Technical Leader	\$125.00	\$223,500	SSS III	\$58.57	\$121,834
			Sr Information Systems Analyst	\$53.41	\$111,089
			Sr Programmer Analyst	\$53.41	\$111,089
Application Analyst	\$110.00	\$196,680	Staff Programmer Analyst	\$48.58	\$101,042
Systems Analyst	\$108.50	\$193,998	Staff Information Systems Analyst	\$48.58	\$101,042
Sr Programmer	\$115.00	\$205,620	Sr Programmer Analyst	\$53.41	\$111,089
Programmer	\$92.50	\$165,390	Staff Programmer Analyst	\$48.58	\$101,042
			Associate Programmer Analyst	\$44.31	\$92,157
Instructor	\$95.00	\$169,860	Sr Information Systems Analyst	\$53.41	\$111,089
			Sr Programmer Analyst	\$53.41	\$111,089
			SSS III	\$58.57	\$121,834
			SSS II	\$53.32	\$110,910

Source: IT MSA, IT Consulting Services (5-06-70-24 through 5-06-70-141), User Instructions for Contractor Contacts & Hourly Rates, Sec IV on Hourly Rates, <http://www.pd.dgs.ca.gov/masters/default.htm>

¹ The number of working hours per year is 1,788, after deducting holidays, vacation and sick leave.

Appendix D

Medical Registry Contracts and Labor Cost Savings

Medical registry contracting rose 320 percent from 2000 to 2006.¹ Even the former federally appointed receiver Robert Sillen claimed California could save between \$144 million and \$205 million each year by in-sourcing registry work.² In 2006 registry nurses were being paid average hourly wages 76 percent higher than civil service nurses in the prisons. “Contractors are far more costly than permanent employees.”³

An analysis of pre-*Plata vs. Schwarzenegger* and post-*Plata* wages for the medical classifications affected by the class-action suit suggests that the civil service wage increase has saved the state money and lowered vacancy rates. Even at a civil service wage of \$51.86 an hour for RN’s, in-sourcing saves the state \$14.52 an hour per RN over the average pre-*Plata* registry rate of \$66.38.⁴

The raises also have lowered vacancy rates. According to an August 2006 letter from Molly Arnold, Chief Deputy for the Department of Finance, to the Receiver’s Office “approximately nine months have passed since CDCR’s nurses received a significant salary increase. During that time, the vacancy rate for CDCR’s registered nurse classifications has dropped from 33 percent to 13 percent.”⁵ Based on these figures, it appears that the recent salary enhancements have had a significant effect on CDCR’s ability to recruit and retain nursing staff.”⁶ As of December 2008 the RN vacancy rate was at about 11 percent. It is clear that the use of medical registries is too costly to sustain over the long haul. The state must prioritize plans to fill medical care vacancies in a more cost effective manner.

¹ Health Delivery System, Comparison of Expenditures for Contracted Services: Appendix B, California Department of Corrections and Rehabilitation. August 2006, p.33

² CDCR, Plata contract and invoice branch. Bidder’s conference for “physician registry service.” Sept. 14, 2007.

³ Receiver Moves to Raise Salaries for Prison Medical Staff, California Prison Health Care Receivership Corp. Press Release, September 12, 2006. We assume the Receiver’s \$38 an hour figure was arrived at by averaging RN’s and LVN base hourly wages.

⁴ Registry by Specialty for Impacted Classifications: *Plata v. Schwarzenegger*, Exhibit 3 Supporting Receiver’s Motion For Waiver of State Law, United States District Court of California. July 2006

⁵ Exhibit A: Letter to John Hager, Chief of Staff, California Prison Health Care Receivership Corp, Plata v. Schwarzenegger United States District Court of California. September 26, 2006.

<http://www.cprinc.org/docs/court/DefendantsResponseWaiverMotion0906.pdf>

⁶ Exhibit A, letter to John Hager.

Appendix E

UIMOD Project Schedule Slips 12 to 19 Months

It is critical that the state move forward as quickly as possible with resources that enable the jobless to access EDD staff and unemployment benefits. EDD's Unemployment Modernization Project (UIMOD) is a new system that will allow the jobless to submit address changes via the Internet.¹ Additionally, UIMOD will completely replace the EDD's current UI call center platform and will greatly increase the EDD's ability to handle its call volumes.² Unfortunately, the project is significantly behind schedule. By January 2009 the Continued Claims Redesign (CCR) portion was delayed by 12 months while the Unemployment Insurance Branch Call Center Network Platform and Application Upgrade (CCNPAU) was 19 months behind.³ According to the Independent Project Oversight Report, Verizon is a significant cause for delay on the CCNPAU. The reasons cited for the CCNPAU delays were design, development and implementation phase startup delays (2 months), Verizon project team startup delays (4 months) and the design, development and implementation phase extension based on Verizon's baseline schedule (12 months).⁴

¹ State CIO, list of "Approved IT Projects Under Construction, March 11, 2009, p.17.

http://www.cio.ca.gov/Business/Appr_State_IT_Proj_Under_Constr.pdf

² State CIO, list of "Approved IT Projects Under Construction, March 11, 2009, p.17.

³ UIMOD Independent Project Oversight Report, February 10, 2009, p.2.

⁴ UIMOD Independent Project Oversight Report, February 10, 2009, p.2.

Appendix F

Model Government Transparency Websites

Several states provide the public with searchable databases of spending on vendors through government transparency websites. Such sites can supplement the detailed information already provided by the procurement agency's website. For example, the State of Illinois Comptroller operates a site that produces a detailed analysis of spending on a vendor by contract number, agency and fiscal year.¹ The federal government's USA.Spending.gov is also a model.

State of Illinois Comptroller's Government Transparency Website: Excerpted Data on IBM contracts for 3 agencies



[Detailed Analysis
Vendor Expenditures and Contracts](#)

[Return to
Vendor Search](#)

Agency Breakdown of Expenditures for IBM CORPORATION for Fiscal Year 09

⏪ ⏩ 1 - 25 of 41 ⏪ ⏩

	Agency	Expended	Encumbered
416	CENTRAL MANAGEMENT	\$7,757,169.43	\$14,689,053.91
418	CHILDREN AND FAMILY SERVICES	\$4,074,397.12	\$2,552,092.25
494	TRANSPORTATION	\$2,928,456.26	\$3,184,061.21

Federal Government's "USASpending.gov":

¹ <http://www.wh1.ioc.state.il.us/QuickTake/Contracts/index.cfm>

Contracts to International Business Machines Corporation (FY 2009)

Summary

Fiscal Year: 2009

Total dollars: **\$422,204,618**

The amount for this search is 0.5% of all awarded dollars for the fiscal year.

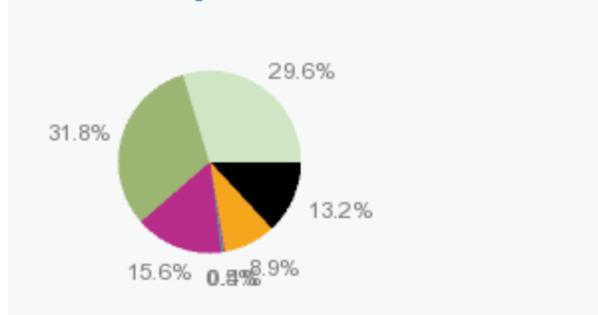
Total number of contractors: **1**

Total number of transactions: **714**

[Get list of contractors](#)

[Get list of transactions](#)

Extent of Competition



Available for everyone for competition	\$124,936,174
Everyone could compete, but only one bid or offer was received	\$134,433,687
Competition within a limited pool	\$65,793,191
Actions necessary to continue existing competitive contracts for continuity (until the next one could be competed)	\$2,145,657
Available only for groups such as disabled persons, prisoners, and regulated utilities	\$1,478,711
Not competed for an allowable reason	\$37,759,209
Not identified, soon to be addressed	\$55,657,989

Top 5 Known Congressional Districts where Work is Performed

District of Columbia nonvoting (Eleanor Holmes Norton)	\$152,779,451
Maryland 8 (Chris Van Hollen)	\$96,145,523
Maryland 4 (Donna F. Edwards)	\$27,360,794
Virginia 10 (Frank Wolf)	\$21,168,614
Virginia 8 (Jim Moran)	\$20,966,960

END OF REPORT This search was done on April 16, 2009.

Top 5 Products or Services Sold

ADP Systems Development Services	\$96,175,469
ADP Software	\$76,782,359
Other ADP and Telecommunications Services (includes data storage on tapes, compact disks, etc.)	\$75,742,951
ADPE System Configuration	\$31,361,759
Program Management/Support Services	\$23,688,977

Top 5 Contracting Agencies Purchasing from Contractor(s)

U.S. Customs Service	\$117,929,102
SOCIAL SECURITY ADMINISTRATION	\$41,656,627
Offices, Boards and Divisions (includes Attorney General, etc.)	\$27,670,005
Office of Policy, Management and Budget/Chief Financial Officer	\$23,328,891
Defense Information Systems Agency	\$22,325,148

Top 10 Contractors

International Business Machines Corporation	\$422,204,618
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Trend

2000	\$554,686,219
2001	\$731,393,029
2002	\$1,082,178,097
2003	\$985,652,774
2004	\$1,541,769,328
2005	\$1,241,311,399
2006	\$1,277,296,756
2007	\$1,553,703,527
2008	\$1,622,457,555
2009	\$422,204,618

