



LEGISLATIVE BUDGET BOARD

STATE CONTRACTS

Presented to the House Appropriations Subcommittee on

Budget Transparency And Reform

LEGISLATIVE BUDGET BOARD STAFF

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CONTRACT COST SAVING OPTIONS

1. Establish cost containment strategies and broadly apply them to state contracts
2. Identify and eliminate funding for specific contracts that are inefficient or ineffective

PROCUREMENT BEST PRACTICES

Procurement best practices identified by the Comptroller can assist cost containment efforts.

PLANNING: A clear understanding of the contracting objectives is essential to success.

COMPETITION: Identify at least two commercially available brands, makes, or models (whenever possible) that will satisfy the intended purpose.

SIMPLICITY: Avoid unneeded “extras” that could reduce or eliminate competition and increase costs.

FLEXIBILITY: Avoid totally inflexible specifications which prevent the acceptance of a bid that could offer greater performance for fewer dollars.

SOURCES OF INFORMATION

1. LBB Contracts Database – As of January 2017, more than 32,000 contracts have been reported at a total value of \$95.3 billion.
2. Expenditure Data from Statewide Accounting Systems – Comptroller Purchasing Study found that 108 agencies spent \$11.1 billion on procurements and contracts in fiscal year 2015.
3. Reviews of Contracts by Oversight Entities – State Auditor’s Office (SAO), Sunset Commission, and LBB Staff

LBB CONTRACTS DATABASE

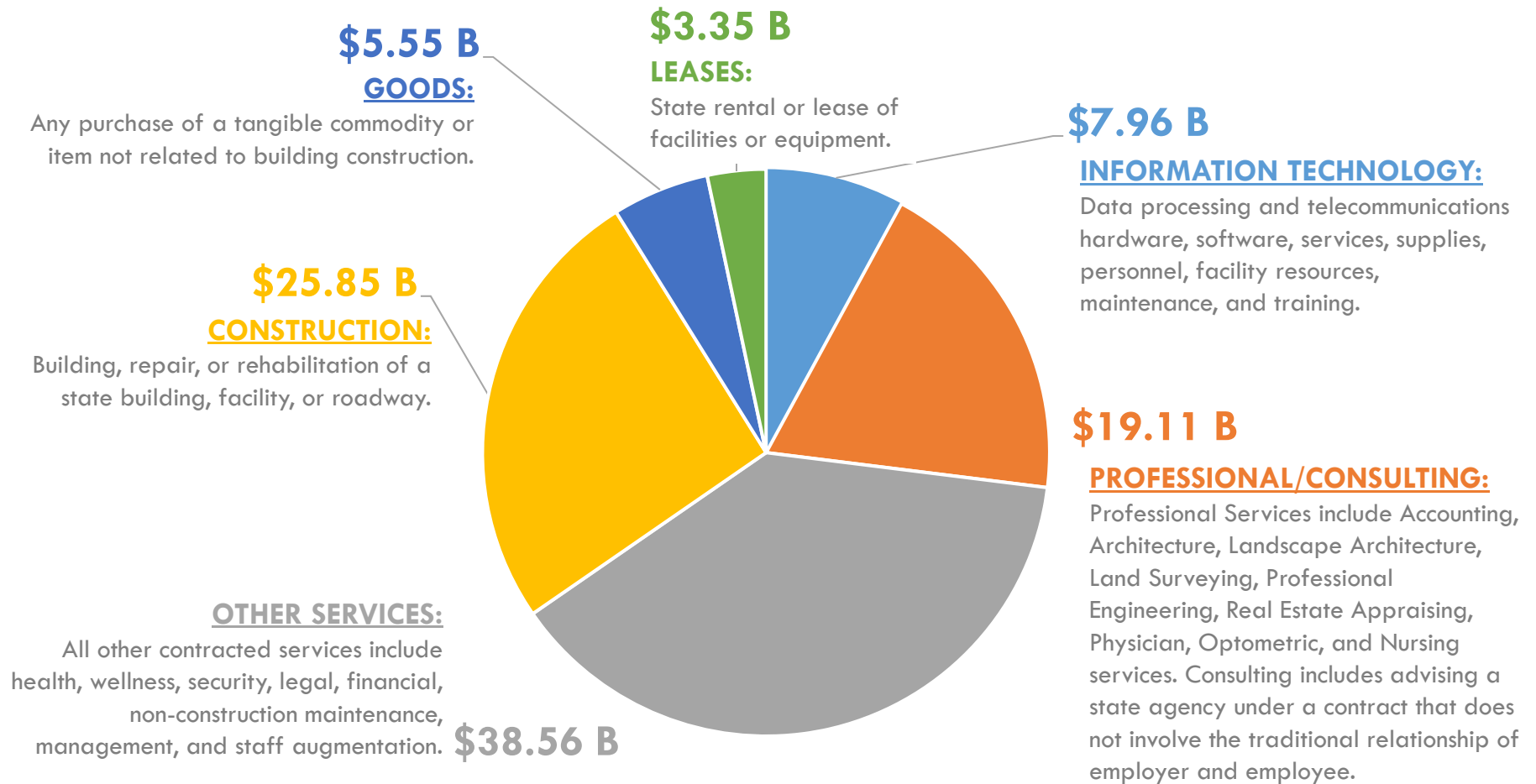
The Contracts Database is the state's single repository for contracts. Data is self-reported by agencies and institutions of higher education and, in general, includes contracts valued greater than \$50,000 regardless of method of finance or source of funds.

- Some entities have not reported any contracts
- Others have reported some contracts, but reporting is incomplete
- Database includes contracts that may be paid for by funds held outside the state treasury
- Reported contracts usually span multiple years
- Reported contracts include interagency agreements and grants to local governments or other recipients

TYPES OF CONTRACTS

VALUE OF CONTRACTS BY TYPE, IN BILLIONS*

(Based on National Institute of Government Purchasing codes reported through 1/30/17)



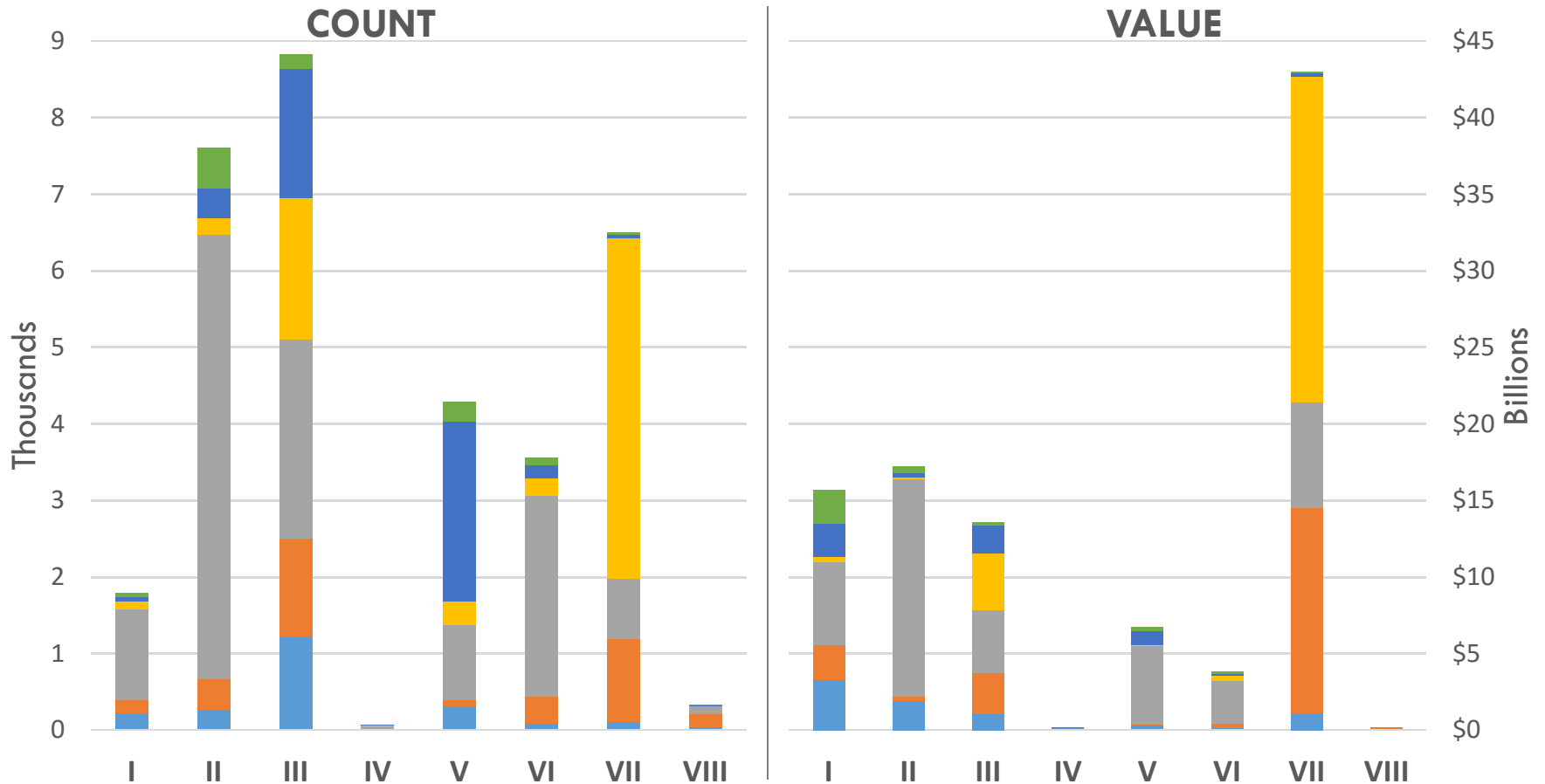
*NOTE: Some contracts contain multiple NIGP code types which results in duplicates

TYPES OF CONTRACTS

CONTRACTS BY TYPE AND GAA ARTICLE*

(Based on National Institute of Government Purchasing codes reported through 1/30/17)

IT Professional/Consulting Other Services Construction Goods Leases



*NOTE: Some contracts contain multiple NIGP code types which results in duplicates

CONTRACTS EXPIRING

\$14.8 billion in contracts valued over \$10 million are set to expire in the last months of this biennium or during the 2018-19 biennium.

| | Number | Value (millions) | % of Total Value |
|-----------------|---------------|-------------------------|-------------------------|
| Art I | 24 | \$3,136.7 | 21.2% |
| Art II | 56 | \$4,084.2 | 27.6% |
| Art III | 72 | \$4,343.0 | 29.3% |
| Art IV | 0 | - | 0.0% |
| Art V | 47 | \$1,382.4 | 9.3% |
| Art VI | 10 | \$177.1 | 1.2% |
| Art VII* | 57 | \$1,653.8 | 11.2% |
| Art VIII | 1 | \$33.2 | 0.2% |
| TOTALS | 267 | \$14,810.4 | |

Revisiting these contracts, and utilizing competitive bidding instead of automatic renewal, may present opportunity for savings.

Note: Many TxDOT contracts are reported to the LBB without a defined completion date, which may depress the Article VII count.

CONTRACTS EXPIRING

Characteristics of the 267 expiring contracts may present opportunities for cost containment.

- 26 of the 267 expiring contracts are eligible for renewals valued at an estimated \$1.1 billion.
- 15 of the 267 expiring contracts were procured non-competitively, and are currently valued at \$1.6 billion.
- 126 of the 267 expiring contracts were amended during their execution.
 - 600 amendments were issued, valued at \$1.8 billion.
 - Amendments on an Article II contract multiplied its value 164 times.
 - Another Article II contract was amended a total of 32 times.
- Re-examining contracts whose scope has changed significantly may yield cost containment

Note: Many TxDOT contracts are reported to the LBB without a defined completion date, which may depress the Article VII count.

ANNUAL CONTRACT EXPENDITURES

The Comptroller's Centralized State Purchasing Study (December 2016) provides data on spending in fiscal year 2015.

- Annual expenditures of 108 agencies included in the study totaled \$11.1 billion
- Ten agencies account for 90 percent of state expenditures (\$10.2 billion). The five agencies with the highest spend were:
 1. Texas Department of Transportation (\$6,662.0 million)
 2. Health & Human Services Commission (\$960.0 million)
 3. Texas Department of Criminal Justice (\$762.3 million)
 4. Department of State Health Services (\$467.5 million)
 5. General Land Office (\$323.5 million)

OVERSIGHT REVIEWS OF CONTRACTS

Amendments and change orders can introduce significant risk, leading to scope creep and cost increases.

- *Overview* - 8575 amendments were issued on the 32000 contracts reported to the Contracts Database, for a total increase of \$6.2 billion.
- *Office of the Attorney General TXSCES 2.0 (T2)* – Initially phased to go fully live in 2017 at a total project cost of \$274 million, 28 project amendments have pushed the “go-live” date to December 2018 and the total cost to \$420 million and consolidated multiple delivery phases into one large phase.
- *TxDOT Enterprise Resource Planning (ERP) Implementation* – Contract was awarded to Accenture in 2013 for \$25 million. 11 amendments have increased the total contract cost to \$71 million, a 180 percent increase.

OVERSIGHT REVIEWS OF CONTRACTS

Risk to the state is often introduced during the solicitation and contract formulation phases of procurement.

- *HHSC Medicaid Medical Transportation Program (MTP)* – The highest and most qualified vendor, as determined by Agency evaluation criteria, was selected for contract award in only 3 of 11 regions. In one region, the lowest scored vendor was chosen, requiring subsequent contract termination for poor performance. Additionally, the agency did not use price as a selection criteria as required by federal and state law.
- *HHSC Office of the Inspector General 21CT*- No-bid selection of 21CT for a \$20 million contract has resulted in contract cancellation, three investigations, and a lawsuit.
- *Department of State Health Services WIC-WIN* - The initial estimated project cost was \$24.8 million, and initial project start and finish dates were July 13, 2006, and June 30, 2010, respectively. The estimated project cost increased to \$62 million (149 percent increase) due to the approved change requests . The finish date of the project was extended to April 20, 2018 (197 percent delay), due to: delayed design; re-baselining of the project to include a Planning/Quality Assurance contractor; a change in project direction; and the inability of the MIS vendor to complete certain work on time.

OVERSIGHT REVIEWS OF CONTRACTS

Risk to the state is often introduced due to poor contract monitoring or enforcement of contract terms

- *HHSC oversight of Managed Care Organizations* – A 2016 SAO report indicated several major findings related to HHSC oversight of its Managed Care contracts, which totaled \$35 billion from 2013-2015. These include lack of adequate controls over IT systems and failure to sufficiently manage contract performance.
- *HHSC Human Resources Outsourcing* - A 2016 SAO report indicated several major findings related to HHSC oversight of its human resources function, which it outsourced to NorthgateArinso for \$56.9 million. The report identified a lack of monitoring of the contract, issues with misclassified employees, and insufficient oversight.
- *DSHS contract with Morris and Dixon* – A 2016 SAO report indicated several major findings related to DSHS oversight of its \$140 million annual contract with Morris and Dixon. Expenditures were higher than expected and DSHS failed to verify the accuracy of prices on 67 percent of payments. In addition, the contractor charged service fees of \$43,000 to the Department that were not authorized by contract that DSHS failed to verify.



LEGISLATIVE BUDGET BOARD

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