



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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Enhanced Oversight of Service Contracts Can Help Ensure Cost-Effective Performance

Summary

The Joint Legislative Program Evaluation Oversight Committee's 2015–17 Work Plan directed the Program Evaluation Division to examine agency service contracts under the jurisdiction of the Department of Administration's Division of Purchase and Contract (P&C). State agencies are responsible for performing each of the three phases of contract procurement: sourcing evaluation, contract formation, and contract management.

State agencies are not ensuring procurement of contracted services achieves best value. PED examined 133 contracts for high-value services with total award value of \$1.24 billion. PED found \$511 million of this value stemmed from non-competitive practices such as waiving competition (sole sourcing); splitting awards among multiple vendors; extending contracts beyond the original period; and requesting and paying service providers to perform tasks not in the original Statement of Work.

State agencies are not documenting the basis for their decisions to contract with private providers. A determination to use the private sector to provide a service should be documented in a business case, which can be used to make an informed sourcing decision and allow for an effective evaluation of the performance of the private provider.

Agency procurements for high-value contracted services do not consistently include necessary attributes. PED identified three essential attributes of an effective service contract: performance measures, payment authorization, and service provider transition planning. Omitting or poorly conceptualizing any of these requirements increases the risk of controversy, undelivered services, disruptive transitions, litigation, and cost overruns.

State agencies and state-level monitoring are not consistently ensuring compliance with terms and conditions of high-value service contracts. Agencies could not provide PED with the amount paid to private providers for nine high-value contracts with \$63.6 million in award value. In addition, the contract duration period for nearly half of high-value contracts exceeded the maximum length authorized by P&C. P&C contract reviews have not contributed to the achievement of best value.

To address these findings, the General Assembly should amend state law to:

- require state agencies to submit business cases for high-value services to P&C for review and approval in accordance with established criteria; and
- direct P&C to implement a system to monitor state agency-administered contracted services.