

# **GOVERNMENT FOR SALE**

An Examination of the  
Contracting Out of State and  
Local Government Services

**EIGHTH EDITION**

## GOVERNMENT FOR SALE

**a**fter decades of state and local government experiments with contracting out, the benefits of private delivery of public services have proven to be elusive. And now more than ever, when government is the front line in homeland security, the nation understands the importance of an experienced, dedicated public-sector workforce and the dangers of privatization.

Contracting out often results in higher costs, poorer service, increased opportunities for corruption and diminished government flexibility, control and accountability. Contracting out can compromise the security of information and public assets. In addition, the local economy and tax base may suffer as decent jobs with benefits are replaced with low-wage, no-benefit jobs provided by companies located in another part of the country or even overseas.

Innovative and responsible government leaders know that joint labor/management partnerships are the best way to truly improve service delivery. Public resources are most efficiently and effectively deployed when front-line workers and managers work together for the public good.

### Resources are drained from the local economy as profits flow out of the community.

- Contracting out costs more than advocates claim because indirect and hidden costs of service delivery are often ignored. Such costs include expenditures for contract monitoring and administration, conversion costs, charges for “extra” work, and the contractor’s use of public equipment and facilities. The Government Finance Officers Association estimates that such costs can add up to 25 percent to the price of a contract.
- The quality of service can deteriorate when profit is the prime motivation in service delivery. As many examples show, the profit motive can be an incentive to “cut corners,” especially when contract specifications are vague or poorly defined. Public employees routinely perform tasks outside their official job descriptions. Those duties usually are not included in contract specifications, and public managers no longer have the flexibility to get them done.



- There is an adverse economic impact on communities when state or local governments contract out, particularly with companies located in other parts of the country or overseas. The local employment base is eroded when good jobs are replaced with low-wage jobs. Resources are drained from the local economy as profits flow out of the community.
- Dependence on contractors increases as in-house expertise and capacity is reduced or eliminated. This loss of leverage can lead to price gouging by contractors in future contract negotiations. When contractors “low ball” their bids (offer an attractive price on the first bid to win the contract and then raise prices in subsequent renewals), governments are especially vulnerable.
- Public accountability is diminished because complaints from citizens cannot be directly and quickly addressed by the state or local government. In addition, private companies are not subject to the same public scrutiny as government entities, which are required to operate in an open arena. These conditions create opportunities for corruption, such as bid-rigging, bribery and kickbacks.



... Department of Children and Families was over-charged by at least \$1.6 million ...

State and local governments across the country have experienced first hand the many problems connected with contracting out. The following recent examples are illustrative:

### Solid Waste

**a**llied Waste has a contract with the South Bayside Waste Management Authority, which represents various cities in northern California. A recent annual performance review revealed that the company received about 10,000 missed pick-up complaints last year, 700 of which were not cleared up within the required 24 hours. The contract limits Allied Waste's missed pick-ups to 180 per year, after which fines are imposed.<sup>1</sup>



### Prison Health Care

**p**rison Health Services, the company hired to provide health care to New York City inmates, failed to meet one-fourth of its contractual performance standards for a third consecutive quarter last year. These standards include HIV treatment, mental health care and suicide watch.<sup>2</sup>

### Food Services

Passaic County, New Jersey, terminated its contract with Aramark to provide food services at the jail because food quality and service were poor. According to inmates, food portions were small, meals were not varied and food was served cold on dirty trays.<sup>3</sup>

<sup>1</sup> *The San Mateo Daily Journal*, "Allied Waste Trashed Over Poor Service," May 10, 2006.

<sup>2</sup> *The New York Times*, "Jail Health Care Fails Again: City Fines Company \$71,000," January 27, 2006.

<sup>3</sup> *Herald News*, "Citing Subpar Meals, Service, Sheriff Fires Jail's Food Provider," February 22, 2006.

## Family Services

According to a report by the Florida inspector general, the Department of Children and Families was overcharged by at least \$1.6 million for services related to mental health care and drug treatment in Miami-Dade County over a 2.5 year period. The department routinely forgave the overpayments despite knowing they had paid too much. Some reasons cited for ignoring the overpayments were fear of bankrupting the contractor and disruption of services to clients.<sup>4</sup>



## Human Resources

According to a legislative audit, the state of Florida's \$350 million contract with Convergys to run its human resources department is rife with problems after four years. For example, the attorney general is investigating whether the company falsely claimed it could handle the work, and two whistle-blowers claimed in court that a company subcontractor unlawfully sent confidential information about state workers to India for processing.<sup>5</sup>



## Public Relations

Fleishman, an international public relations firm that had a \$3 million a year contract to improve the image of the Los Angeles Department of Water and Power, routinely inflated its monthly billings. According to former employees of the company, they were encouraged, and at times told, to submit falsified time sheets to the DWP to make as much as possible from the utility, which was considered a "cash cow."<sup>6</sup>

## Transportation

Streu Construction and Vinton Construction, along with four company executives, were indicted on charges of conspiring to rig bids on at least 30 state of Wisconsin projects, totaling more than \$100 million worth of work between 1997 and 2004. The projects involved highways, streets, bridges and airports. Two executives from Streu Construction agreed to plead guilty to one count of conspiracy to rig bids and fix prices and pay \$500,000 in fines as part of a plea deal.<sup>7</sup>

<sup>4</sup> Associated Press, "Report: DCF Was Overbilled \$1.6 Million," August 20, 2004.

<sup>5</sup> Miami Herald, "Audit Finds Vendor's Work for State Below Par," April 25, 2006.

<sup>6</sup> Los Angeles Times, "PR Firm Routinely Overbilled DWP, Former Employees Say," July 15, 2004.

<sup>7</sup> The Milwaukee Journal Sentinel, "Fees, Fines Total \$1 Million in Bid Rigging," September 2, 2004.



The information systems director ... contracted out city computer work to his private computer consulting business.

### **Custodial Services**

**t**he New Orleans School District terminated its contract with AME Services to provide custodial services because of poor quality of services and escalating costs. The company had generated an extensive record of complaints. For example, a district facilities director, in a memo to AME Services, described the conditions at a high school by stating that “human feces remained in mop sinks and face bowls in the gym area.” A report concerning a middle school cited “countless number of bloodied sanitary napkins left for a long period of time.” School officials estimated that bringing services back in-house would save the school district about \$2 million annually.<sup>8</sup>



### **Social Services**

**t**he state of Texas contracted with Accenture LLP last year to run its public assistance eligibility system. Following acknowledgment from officials of the Department of Health and Human Services that several components of the company’s system were flawed, the state recently announced that state workers would once again process applications for public assistance. Advocates for children and the poor attribute a steep decline in participation in the Children’s Health Insurance Program and Medicaid to problems with Accenture.<sup>9</sup>

### **Computer Services**

The information systems director for the City of Sarasota resigned his job following a report by the Florida Commission on Ethics, which concluded that he violated ethics policies when he contracted out city computer work to his private computer consulting business. The findings also stated that he charged the city for work never performed.<sup>10</sup>

<sup>8</sup> *The Times-Picayune*, “N.O. Schools Chief Will Fire Janitorial Firm; Filthy Campuses, Rising Costs Cited as Reasons to Cancel Contract,” October 9, 2004.

<sup>9</sup> *Express-News*, “State Takes Back Aid Task,” May 10, 2006.

<sup>10</sup> *Sarasota Herald-Tribune*, “City’s Info Systems Chief Resigns; Steve Randall Contracted Out Work to his Company,” March 22, 2005.

## lax controls and casually administered contracts are common

### Public Services

According to a *Cincinnati Enquirer* investigation, “lax controls and casually administered contracts are common” when state and local governments contract with private companies. Between 2000 and 2003, at least 116 state audits and inspections found that contractors misspent \$97.7 million in tax money.<sup>11</sup>

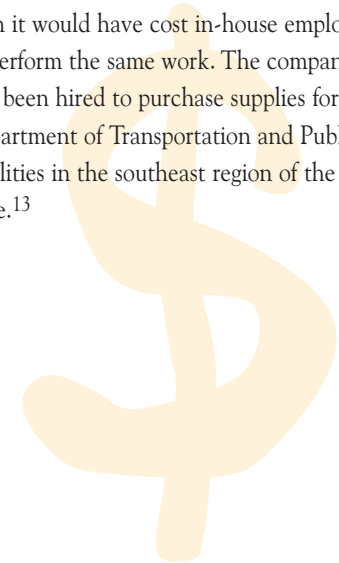
### Transportation

The Wisconsin State Department of Transportation contracted with HNTB Corporation for \$164,692 to maintain its inventory of road signs for one year. A full-time state employee assigned to manage signs would cost the state about \$52,000, according to a department budget formula. The state contracted out the work without conducting a cost comparison.<sup>12</sup>



### State Procurement Services

According to a legislative audit, the state of Alaska paid Alaska Supply Chain Integrators \$1 million more than it would have cost in-house employees to perform the same work. The company had been hired to purchase supplies for the Department of Transportation and Public Facilities in the southeast region of the state.<sup>13</sup>



<sup>11</sup> *Cincinnati Enquirer*, “Weak Contracts Waste Tax Money,” May 19, 2003.

<sup>12</sup> *Milwaukee Journal Sentinel*, “State Contracts May Soon Face Tougher Scrutiny, Outsourcing Jobs Without Cost Analysis Draws Fire in Capitol,” August 20, 2004.

<sup>13</sup> *Anchorage Daily News*, “Audit Shows Outsourcing Cost More,” January 31, 2006.

## Alternatives to Contracting Out



**C**ontracting out is a risky way to address the many demands and challenges facing state and local government. As various jurisdictions have found, when committed managers and elected officials recognize that workers are a valuable resource — an asset to be developed rather than a cost to be cut — these demands and challenges can be met without introducing the risks of contracting out.

For more information on joint labor/management initiatives see “Public Service, Public Savings: Case Studies in Labor/Management Initiatives in Four Public Services” at <http://www.afscme.org/private/pslmc.pdf>.

For more examples of problems with contracting out, see <http://www.afscmeinfocenter.org/privatizationupdate/>.





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