

Executive Summary

1. New York could save between nearly a half billion and almost three quarters of a billion dollars annually by replacing consultants with state employees.
2. The State pays private consultants, on average, significantly more than public employees:

State Agencies that Paid the Highest Average Hourly Rate to Consultants SFY 2006-07

Agency	Average Hourly Rate Paid To All Consultants	Average Hourly Rate PEF State Employee*	% More Consultant vs. State Employee
Insurance Dept	\$184.29	\$48.48	380%
Alcoholic Beverage Control, Division of	\$173.88	\$44.03	395%
Higher Education Services Corp	\$132.52	\$44.00	301%
Workers Compensation Board	\$111.32	\$50.75	219%
Criminal Justice Services, Div of	\$110.27	\$44.04	250%
Temporary & Disability Assistance, Office of	\$95.23	\$46.48	204%
Housing & Community Renewal, Div of	\$92.45	\$45.80	202%

*Includes 46% cost of state employee benefits

3. State agencies have failed to report more than \$2 billion of expenditures for consultants in the reports required by the Contract Disclosure Law of 2006.
 - 2007 was the first year state agencies had to comply with the Contract Disclosure Law, which requires that all state agencies disclose and file reports on various private consultants hired by the state. The law's goal is to determine the number and cost of the consultants, which has been unknown and unaccounted for. While agencies have provided much information previously unavailable, agencies have not fulfilled the prime reason the law was passed: to make public the **total cost and number** of private consultants paid with public dollars. Agencies have not provided information about more than \$2 billion of expenditures for consultants as required by law.
 - **The State employed at least 24,839 consultants** to provide professional services to all state agencies in SFY 2006-07. Because of the large amount of unreported consultant expenditures, the number of consultants employed by the State could have reached almost 100,000 in SFY 2006-07.

Major Recommendations

1. **The Division of Budget should institute a Consultant Reduction Plan with a goal of saving \$409 million annually by 2010-11. Over the three years, this plan would save the State \$765 million.**
2. To implement a Consultant Reduction Plan the Division of Budget should set savings targets for each state agency for consultant spending, focusing on information technology and engineering services as these categories will achieve the greatest savings.
3. **The Office of the State Comptroller (OSC) should work with the agencies to ensure that agencies properly identify expenditures for consultant services.** Too many agencies use the catch-all “Other Services,” making it more difficult to provide a complete and accurate accounting of the number, kind and cost of consultants working in state agencies.
4. OSC should also request that the Insurance Department and any other agency that provides consultant services through direct pay contracts, report that information in the *Procurement Stewardship Act Report*. **The Insurance Department has used direct pay contracts to pay consultant auditors over \$42 million to perform insurance company examinations that can be done by state employee auditors, resulting in the waste of more than \$31 million.**

Specific Recommendations

1. Major savings could come from replacing private consultants with state employees providing the following services:
 - Information technology: annual savings of between \$177 million and \$217.8 million.
 - Engineering and architectural: savings between \$104.1 million and \$175.3 million.
 - Accounting and auditing: annual savings of between \$3.9 million and \$8.2 million.
 - Legal services: annual savings of between \$2 million and \$41 million.
 - Medical and clinical services: annual savings of between \$31 million and \$63 million.
 - Use of state employees to perform a small portion of the consultant expenditures for “Other Professional Services,” including client services and conference and training services: annual savings of at least \$90.3 million.

Overview

In March of 2006 Governor Pataki signed Chapter 10 of the Laws of 2006 which was called the “Contract Disclosure Law.” This law required all state agencies to disclose and file reports with the Division of Budget (DOB), the Office of State Comptroller (OSC), and the Department of Civil Service (DCS) with information concerning consulting services contracts entered into by state agencies for “analysis, evaluation, research, training, data processing, computer programming, engineering, environmental, health and mental health, accounting, auditing, paralegal, legal, or similar services.” In October 2007, the Department of Civil Service issued the last of these reports and disclosures for SFY 2006-07. Due to the short time between the law’s passage and its implementation the reports that OSC required consultant service contractors to file with state agencies did not begin until July 1, 2006, and therefore only cover the consultant service activity for the last three quarters of SFY 2006-07.

Table 1 compiles all the information contained in the DOB, OSC, and DCS disclosures regarding consultant service contracts for all state agencies and based on that information, the estimated number of full-time equivalent employees (based on the assumption that every 1,950 hours equals one full-time equivalent employee), the average cost per consultant employee and the average cost per hour per full-time equivalent consultant employee for each state agency (see Appendix 1 for a more detailed Table 1).

Table 1 shows many inconsistencies among the reports regarding the extent and cost of consultant services, some of which are due to the different time periods covered by the reports and the different aspects of consultant services they examine. The DOB reporting for SFY 2006-07 is an estimate, released in January 2007 in the *Executive Budget SFY 2007-08*, of the total cost and number of consultants covered by the Contract Disclosure Law. In calculating the number of consultant employees DOB estimated the **number of full-time equivalent** consultant employees. The DCS report simply lists by state agency the **total number** and type of consultant employees reported by state agencies for **all of SFY 2006-07**. OSC issued two different reports. The *Procurement Stewardship Act Report (OSC PS)* reports for each state agency the **total number** of consultant employees; their titles; the number of hours they work; and their total cost for contracts for which money was expended in **the last three quarters of SFY 2006-07**. The *Consultant Services Report (OSC CS)* reports for each state agency the **estimated** number of consultant employees, their titles, the estimated number of hours they will work, and their estimated total cost over the life of the contract for contracts entered into in **the last three quarters of SFY 2006-07**. For the most part this report will examine the actual amount of consultant employment and its cost in SFY 2006-7 and will not focus on the projected information contained in the *OSC Consultant Services Report*. It will also cite examples of high cost consultant contracts in state agencies and calculate the savings the state can achieve by replacing high priced consultants with state employees.

Table 1: Consulting Service Contract Reports 2006-07

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Adirondack Park Agency				
Number of Employees		4	2	15
Total Cost			\$18,307.85	\$131,675.00
<i>Average Cost per Est. FTE</i>			\$38,804.68	\$77,339.23
Aging, Office for the				
Number of Employees	7	10.25	10.25	
Total Cost	\$194,000		\$301,580.00	
<i>Average Cost per Est. FTE</i>			\$114,257.04	
Agriculture and Markets, Dept of				
Number of Employees	40	25	22	24
Total Cost	\$20,645,000		\$125,529.92	\$222,140.00
<i>Average Cost per Est. FTE</i>			\$100,167.10	\$533,492.54
Alcoholic Beverage Control, Division of				
Number of Employees		8	8	10
Total Cost			\$375,327.62	\$197,987.17
<i>Average Cost per Est. FTE</i>			\$339,072.90	\$298,588.54
Alcoholism & Substance Abuse, Office of				
Number of Employees	26	101	50	587
Total Cost	\$3,352,000		\$443,444.66	\$18,272,201.00
<i>Average Cost per Est. FTE</i>			\$105,006.39	\$105,924.23
Audit & Control, Dept of (OSC)				
Number of Employees	179	239	228	58
Total Cost	\$13,114,000		\$6,684,449.26	\$9,301,066.90
<i>Average Cost per Est. FTE</i>			\$173,402.59	\$358,894.26
Banking Dept				
Number of Employees	11	4		
Total Cost	\$542,000			
<i>Average Cost per Est. FTE</i>				

Table 1 continued . . .

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Budget, Division of				
Number of Employees	118	318	168	22
Total Cost	\$13,154,068		\$8,454,459.34	\$519,120.00
<i>Average Cost per Est. FTE</i>			\$237,535.45	\$230,588.61
Children & Family Svces, Office of				
Number of Employees	420	2432	461	
Total Cost	\$32,284,530		\$28,224,910.25	\$12,567,343.00
<i>Average Cost per Est. FTE</i>			\$120,256.69	\$135,004.68
Civil Service Dept				
Number of Employees	60	164	78	18
Total Cost	\$4,773,547		\$3,501,580.01	\$950,400.00
<i>Average Cost per Est. FTE</i>			\$231,999.08	\$229,650.56
Correctional Services, Dept of				
Number of Employees	39	44	54	26
Total Cost	\$3,877,435		\$676,750.83	\$891,434.20
<i>Average Cost per Est. FTE</i>			\$130,420.92	\$157,854.77
Crime Victims Board				
Number of Employees	8	3		
Total Cost	\$175,500			
<i>Average Cost per Est. FTE</i>				
Criminal Justice Services, Div of				
Number of Employees	210	96	94	27
Total Cost	\$12,490,800		\$3,965,881.77	\$3,752,530.84
<i>Average Cost per Est. FTE</i>			\$215,031.78	\$194,723.62
Division of Veterans Affairs				
Number of Employees		1	3	
Total Cost			\$34,479.87	
<i>Average Cost per Est. FTE</i>			\$25,882.30	

Table 1 continued . . .

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Economic Development Dept of				
Number of Employees	52	22		24
Total Cost	\$1,853,030			\$1,623,490.00
<i>Average Cost per Est. FTE</i>				\$72,818.99
Education Dept				
Number of Employees	467	350	753	106
Total Cost	\$30,258,670		\$8,854,250.34	\$4,731,804.84
<i>Average Cost per Est. FTE</i>			\$75,354.74	\$78,977.32
Elections State Board of				
Number of Employees	22			58
Total Cost	\$9,500,000			\$6,388,765.00
<i>Average Cost per Est. FTE</i>				\$253,491.47
Employee Relations, Governor's Office of				
Number of Employees	100	324	382	12
Total Cost	\$9,525,000		\$4,447,096.39	\$567,500.00
<i>Average Cost per Est. FTE</i>			\$633,003.98	\$323,007.88
Environmental Conservation, Dept of				
Number of Employees	189	1,305.90	1,326	182
Total Cost	\$37,845,000		\$14,854,266.63	\$16,232,251.47
<i>Average Cost per Est. FTE</i>			\$74,916.65	\$164,621.30
General Services, Office of				
Number of Employees	11	5,059	4,799	1,623
Total Cost	\$1,149,000		\$68,227,213.05	\$25,633,954.00
<i>Average Cost per Est. FTE</i>			\$138,851.41	\$173,183.49
Health, Dept of				
Number of Employees	500	1,247.49	1,521.49	625.23
Total Cost	\$219,884,026		\$77,682,717.55	\$69,719,539.87
<i>Average Cost per Est. FTE</i>			\$110,908.25	\$99,203.38

Table 1 continued . . .

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Helen Hayes				
Number of Employees		129	45	1
Total Cost			\$1,348,114.38	\$252,019.20
<i>Average Cost per Est. FTE</i>			\$127,668.86	\$255,957.00
Veteran's Home				
Number of Employees		3		2
Total Cost				\$210,000.00
<i>Average Cost per Est. FTE</i>				\$92,375.37
Higher Education Services Corp				
Number of Employees	21	67	34	12
Total Cost	\$8,034,200		\$3,832,544.47	\$289,910.00
<i>Average Cost per Est. FTE</i>			\$258,405.05	\$128,307.88
Homeland Security, Office of				
Number of Employees	15	83	84	10
Total Cost	\$929,000		\$1,301,655.28	\$788,721.00
<i>Average Cost per Est. FTE</i>			\$174,145.60	\$162,993.42
Housing & Community Renewal, Div of				
Number of Employees	10	11	11	12
Total Cost	\$850,000		\$367,745.79	\$355,091.40
<i>Average Cost per Est. FTE</i>			\$180,278.87	\$191,120.13
Human Rights, Division of				
Number of Employees	13	5	4	6
Total Cost	\$441,000		\$7,646.00	\$128,875.00
<i>Average Cost per Est. FTE</i>			\$20,285.31	\$418,843.75
Insurance Dept				
Number of Employees	7	40	4	32
Total Cost	\$2,162,000		\$363,514.26	\$2,724,110.00
<i>Average Cost per Est. FTE</i>			\$359,367.71	\$111,808.35

Table 1 continued . . .

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Labor, Department of				
Number of Employees	97	126	108	28
Total Cost	\$24,350,823		\$5,104,280.73	\$3,775,953.00
<i>Average Cost per Est. FTE</i>			\$175,380.33	\$266,821.73
Law, Dept of				
Number of Employees	151	94	61	53
Total Cost	\$13,338,000		\$4,768,083.24	\$3,244,993.00
<i>Average Cost per Est. FTE</i>			\$164,096.16	\$460,819.02
Lottery, Div of				
Number of Employees	20	62	50	
Total Cost	\$836,213		\$526,095.92	
<i>Average Cost per Est. FTE</i>			\$109,732.28	
Medicaid Inspector General, Office of the				
Number of Employees	144	114	114	74
Total Cost	\$6,805,000		\$5,170,640.50	\$29,227,500.00
<i>Average Cost per Est. FTE</i>			\$92,269.07	\$106,304.02
Mental Health, Office of				
Number of Employees	1,143	858	435	556
Total Cost	\$36,530,847		\$14,774,859.85	\$24,377,896.44
<i>Average Cost per Est. FTE</i>			\$131,621.36	\$144,677.26
Mental Retardation and Dev Dis, Office of				
Number of Employees	432	1002	850	1210
Total Cost	\$30,222,000		\$11,799,527.31	\$6,011,761.10
<i>Average Cost per Est. FTE</i>			\$77,697.28	\$34,428.49
Motor Vehicles, Dept of				
Number of Employees	45	75	28	23
Total Cost	\$3,591,189		\$2,155,106.25	\$1,773,426.00
<i>Average Cost per Est. FTE</i>			\$167,431.91	\$147,231.49

Table 1 continued . . .

Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
NYSTAR				
Number of Employees		1	110	
Total Cost			\$960,671.89	
<i>Average Cost per Est. FTE</i>			\$33,952.46	
Parks, Rec & Historic Preservation, Office of				
Number of Employees	370	319	340	118
Total Cost	\$3,504,550		\$951,766.55	\$2,459,461.73
<i>Average Cost per Est. FTE</i>			\$120,430.65	\$136,886.36
Parole, Div of				
Number of Employees	2	3	7	
Total Cost	\$284,000		\$250,053.60	
<i>Average Cost per Est. FTE</i>			\$171,359.87	
Prevention of Domestic Violence, Office for the				
Number of Employees		1	1	10
Total Cost			\$20,413.90	\$118,059.00
<i>Average Cost per Est. FTE</i>			\$52,441.94	\$78,264.51
Public Service Dept				
Number of Employees	5	7	32	11
Total Cost	\$1,542,200		\$841,791.12	\$914,010.50
<i>Average Cost per Est. FTE</i>			\$274,892.43	\$146,971.26
Quality of Care & Advocacy, Commn of				
Number of Employees	75	3	3	
Total Cost	\$3,939,000		\$5,867.88	
<i>Average Cost per Est. FTE</i>			\$44,093.90	
Racing & Wagering Board, State				
Number of Employees	22	13		12
Total Cost	\$3,240,000			\$317,416.00
<i>Average Cost per Est. FTE</i>				\$315,313.91

Table 1 continued . . .	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Source:				
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Real Property Services, Office of				
Number of Employees	65	1	1	33
Total Cost	\$500,000		\$9,198.10	\$404,239.26
<i>Average Cost per Est. FTE</i>			\$330,622.95	\$146,900.22
Regulatory Reform, Governor's Office of				
Number of Employees	5	9	9	
Total Cost	\$625,000		\$592,235.14	
<i>Average Cost per Est. FTE</i>			\$314,016.51	
State Emergency Management Office				
Number of Employees	107	1	18	
Total Cost	\$12,205,000		\$26,069.49	
<i>Average Cost per Est. FTE</i>			\$183,356.20	
State Police, Department of				
Number of Employees	26	30	78	1
Total Cost	\$1,696,859		\$5,489,995.22	\$514,800.00
<i>Average Cost per Est. FTE</i>			\$183,838.90	\$321,750.00
SUNY				
Number of Employees	324	2944	4,209.61	9,456.65
Total Cost	\$33,564,800		\$44,192,727.67	\$102,028,976.18
<i>Average Cost per Est. FTE</i>			\$99,105.71	\$75,523.93
State, Dept of				
Number of Employees	50	34	35	62
Total Cost	\$3,176,903		\$739,436.26	\$1,059,939.00
<i>Average Cost per Est. FTE</i>			\$327,262.16	\$169,056.20
Tax & Finance, Dept of				
Number of Employees	179	279	279	121
Total Cost	\$28,000,000		\$26,596,106.82	\$43,454,830.00
<i>Average Cost per Est. FTE</i>			\$168,150.12	\$118,466.78

Table 1 continued . . .				
Source:	SFY 2007-8 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Technology, Office for				
Number of Employees	222	393	389	14
Total Cost	\$45,407,890		\$29,735,625.19	\$4,210,288.04
<i>Average Cost per Est. FTE</i>			\$163,691.17	\$147,982.37
Temporary & Disability Assistance, Office of				
Number of Employees	105	201	217	78
Total Cost	\$11,450,000		\$22,681,064.62	\$8,804,365.00
<i>Average Cost per Est. FTE</i>			\$185,705.57	\$149,311.01
Transportation, Dept of				
Number of Employees	1,098	5,674.50	5,080	1,394
Total Cost	\$190,612,000		\$104,233,315.61	\$64,418,566.11
<i>Average Cost per Est. FTE</i>			\$135,006.75	\$145,864.87
Thruway Authority				
Number of Employees		123	110	
Total Cost			\$1,216,167.13	
<i>Average Cost per Est. FTE</i>			\$42,482.57	
Workers Compensation Board				
Number of Employees	96	106	110	32
Total Cost	\$12,750,000		\$9,276,582.78	\$5,371,140.00
<i>Average Cost per Est. FTE</i>			\$217,082.78	\$262,921.05
Insurance Fund				
Number of Employees		270	272	
Total Cost			\$1,611,484.68	
<i>Average Cost per Est. FTE</i>			\$52,173.34	
Totals for Agencies				
Total Employees	7,308	24,839	23,088	16,845
Total Cost	\$895,206,080	0	\$527,822,633	\$478,939,550
Average Cost per Est. FTE	\$122,496.73	NA	\$126,786.75	\$109,423.85

NA = Information is not available on the report.

Note - The number of employees listed for all of the documents, except for the Budget Document, are assumed to be based on a count of individual employees (a body count), not the number of FTEs. However, the number of employees listed for the Budget Document appears to have been based on FTEs. The average cost per est. FTE for all of the documents, except for the Budget Document, is based on the total consultant hours worked, divided by 1950, which gives the number of estimated FTEs, which was then divided into the total cost (for more detailed data for each agency see Appendix 1).

Chapter 1

The Number of Employees Employed Under Professional Services Consulting Contracts in NY State Agencies

Summary:

New York State agencies employ, according to the Office of State Comptroller (OSC), more than 23,000 private consultants, and spending on consultants in 2006-2007 was an estimated \$704 million. A close examination of agency reports and other relevant data indicate that the number of consultants and their actual cost is seriously underreported. The number may be closer to 100,000, and the actual spending on consultants may be closer to \$3 billion.

Table 2 compiles for all state agencies' professional services consulting contracts the total number of consultant employees, their total cost, the total number of hours they worked, the average total annual cost per estimated full-time equivalent consultant employee, the average cost per hour for consultant employees, and the estimated number of full time equivalent employees.

Table 2

Summary of Findings for All Contracting Out Reports Released for SFY 2006-07 (all state agencies)

Source:	SFY 2007-08 Budget Document	Civil Service (DCS) Report	Procurement Stewardship Act Report (OSC PS) (actual)	Consultant Services Report (OSC CS) (projected)
Time Frame of Data:	SFY 2006-07	SFY 2006-07	7/2006 - 3/2007	7/2006 - 3/2007
Total Employees:	7,308	24,839	23,088	16,845
Total Hours:	NA	NA	8,117,994	8,534,996
Total Cost:	\$895,206,080	NA	\$527,822,633	\$478,939,550
Average Cost Per Hour:	NA	NA	\$65.02	\$56.11
Estimated Total FTEs (based on 1950 hrs):	7,308	NA	4,163	4,377
Average Cost Per Est. FTE:	\$122,496.73	NA	\$126,786.75	\$109,423.85

NA = Information is not available on the report.

Note - The total employees listed for the Budget Document was based on FTEs.

New York State agencies employed between 23,088 (OSC PS report) and 24,839 (DCS report) consultant employees to provide these professional services in SFY 2006-07. A close examination of the consultant employee data in Tables 1 and 2 from the DCS and OSC PS reports shows many inconsistencies between each report's data, especially the agency specific data. Since the DCS report contains data about consultant employment for all of SFY 2006-07 you would expect it to report more consultant employment than reported in the OSC PS report which only covers the last three quarters of SFY 2006-07. However while the DCS report reports more consultant employment than the OSC PS report, it reports less consultant employment than an estimated full year of data on consultant employment from the OSC PS report. The OSC PS report reports that state agencies employed 23,088 consultant employees in the last three quarters of SFY 2006-07 or an average of 7,696 consultant employees per quarter. Based on the OSC PS report data state agencies would have employed 30,784 consultant employees in all of SFY 2006-07 assuming the number of consultant employees in the first quarter of SFY 2006-07 was equivalent to the number of consultant employees employed in the last three quarters of SFY2006-07.

Additional evidence of an under-reporting of consultant employees by state agencies can be found by analyzing the differences between how many consultant employees state agencies reported to DCS and how many they reported to OSC for the Procurement Stewardship Act Report. Since the OSC PS report only covers the last three quarters of SFY 2006-07 one would expect that all state agencies would report less consultant employees than they reported in the full year DCS report. However, as shown in Table 3, **fifteen state agencies reported 2,268 more consultant employees to OSC than DCS. If these consultant employees are added to the DCS total then New York State agencies employed at least 27,101 consultant employees in SFY 2006-07.**

Table 3

State Agencies with Discrepancies in Reported Number of Consultant Employees

State Agency	# of Consultant Employees DCS	# of Consultant Employees OSC PS	Difference
SUNY	2944	4209.61	1265.61
State Ed Dept	350	753	403
Dept of Health	1247.49	1521.49	274
NYSTAR	1	110	109
GOER	324	382	58
State Police	30	78	48
Dept. of Public Service	7	32	25
Off. Parks Rec & HP	319	340	21
Dept En Con	1305.9	1326	20.1
State Emer Mgt Office	1	18	17
Off. Temp Disab Asst	201	217	16
Division of Parole	3	7	4
Workers Comp Bd.	106	110	4
State Ins Fund	270	272	2
Homeland Security	83	84	1
Total	7,192	9,460	2,268

There is another striking anomaly between the DCS and OSC PS reports for SFY 2006-07. The Office of Children and Family Services (OCFS) reported 2,432 consultant employees to DCS but only 461 to OSC for the OSC PS report. Since the DCS report contains information about the type of work done by consultant employees, we know that OCFS reported to DCS that they employed 2,020 consultant employees to provide training services. This is approximately the difference between the number of consultants OCFS reported to DCS and the number of consultants reported to OSC for the OSC PS report. The absence of OCFS training contracts from the OSC PS report for a large number of OCFS consultant employees should be investigated by the Office of State Comptroller.

Table 1 also contains an estimated number of full-time equivalent consultant employees. The Division of Budget estimate contained in the *Executive Budget SFY 2007-08* is an estimate of the full-time equivalent consultant employees employed by each state agency. The number of full-time equivalent employees in the OSC reports was derived for each state agency by taking the number of hours worked by consultant employees and dividing it by 1,950. Most consultant employees work in administrative agencies in which state employees work a 37.5 hour work week or a 1,950 hour work year. DOB estimated that all state agencies employed 7,319 full-time equivalent consultant employees for all of SFY 2006-07. Based on the information contained in the OSC PS report we estimate that the number of full-time equivalent employees hired by state agencies in the last three quarters of SFY 2006-07 to be only 4,163 (see Table 2).

We believe this to be a significant understatement of the number of full-time equivalent consultant employees employed by the State. The OSC PS report only reports total spending on professional consultant services in the last three quarters of SFY 2006-07 to be \$527,822,633; an average of \$175,813,358 per quarter (see Table 2). If we estimated the first quarter of FY2006-07 spending to be the average of consultant spending in all three quarters the total spending on professional consultant services would amount to about \$703.6 million. However, DOB estimated total spending on professional consultant services in SFY 2006-07 to be \$895,206,080 which is significantly above what can be estimated from the data reported by state agencies to OSC for the OSC PS report.

We believe the DOB data for SFY2006-07 also underreports state agency spending for consultant services. OSC publishes a report called the CTL 470 which contains expenditure data for all state agencies; all expenditure data is coded and the codes for state agency expenditures for professional consultant services can be isolated. This OSC data finds that **total SFY2006-07 expenditures for professional consultant services amounted to \$2.679 billion in the state agencies covered by the OSC PS report (see Tables 7 and 10).** Our full year estimate of SFY 2006-07 spending for professional consultant services based on the OSC PS report was only \$703.6 million and the DOB estimate was only \$895.2 million. **This would indicate that almost \$2 billion of state agency spending for professional consultant services, or between 74% and 78% of all spending for professional consultant services, is not reflected in the OSC PS report.** These issues will be discussed more fully in Chapters 2, 3, and 4 (see Tables 6, 7, and 10) but if about 75% of all spending for professional consultant services is not reflected in the OSC PS report we can assume it is also not reflected in the DOB and DCS reports on the number of consultant employees in state agencies.

If we assume that the OSC PS and DCS reports only cover 25% of the spending for and number of professional consultant employees hired by state agencies in SFY 2006-07 then the total number of consultant employees in New York in SFY 2006-07 would amount to almost 100,000 consultants. This estimate may overstate the number of consultants hired to provide professional services for state agencies in SFY 2006-07 but it is clear that the real number is much higher than the between 23,205 and 24,632 reported in the OSC PS and DCS reports. There is no reliable method to estimate the number of full-time equivalent consultant employees hired to provide professional services in SFY 2006-07 but based on the under reporting by state agencies of consultant spending documented earlier in this chapter; it is far greater than the between 4,167 and 7,319 reported in the OSC PS report and DOB report.

Table 4 outlines the ten top state agencies that hired consultant employees in SFY2006-07 as disclosed in the DCS report and the OSC PS report. Although the reports cover different time periods the same ten state agencies are the biggest users of consultants in both reports. The relative order of these 10 agencies is different in each report.

Table 4

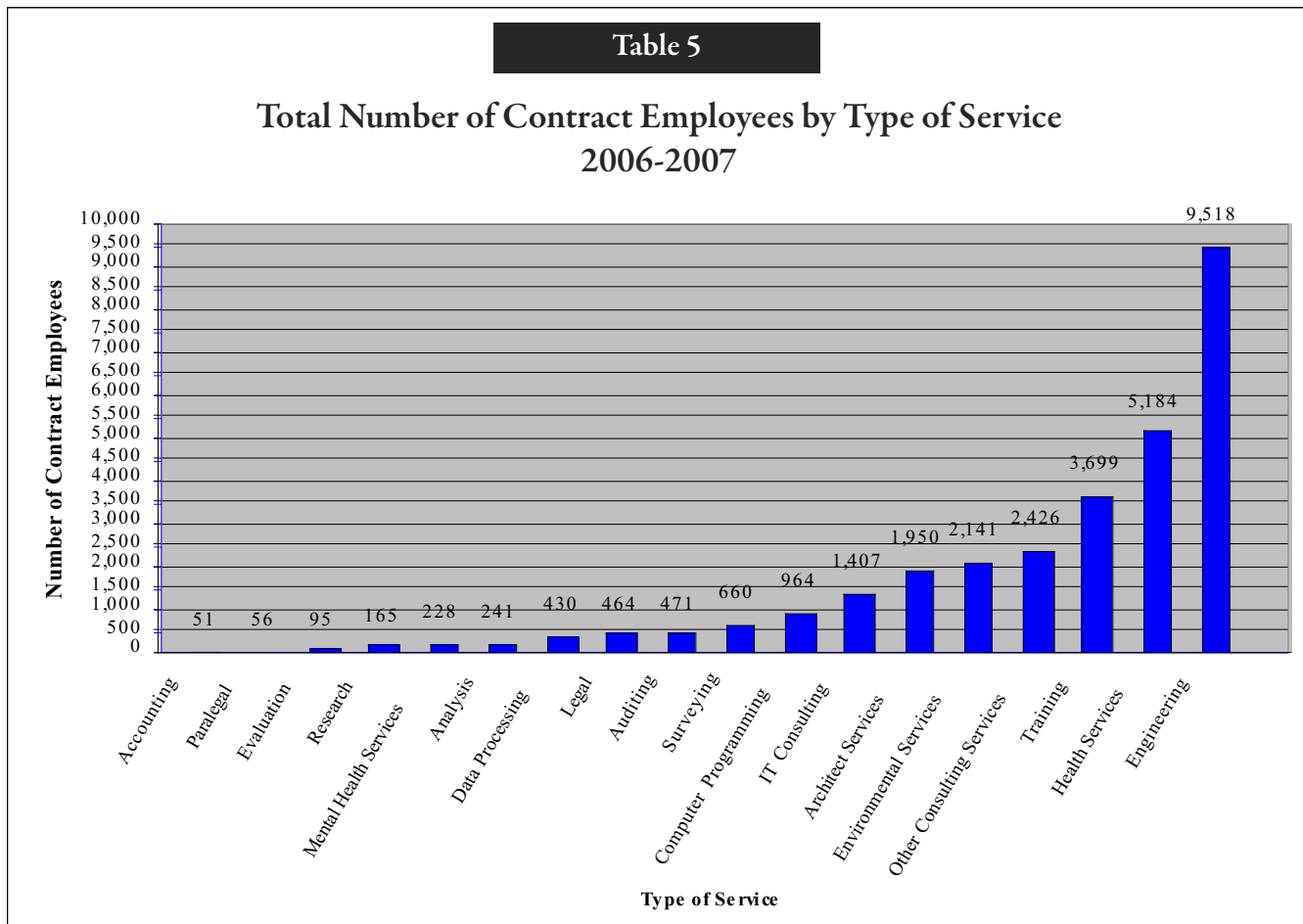
The Top Ten State Agencies That Hired Consultant Employees SFY06-07

State Agency	# Consultant Employees DCS Report	# Consultant Employees OSC PS Report
Dept of Transportation	5,674.5	5,080
Office of General Services	5059	4,799
SUNY	2944	4,209.61
Dept of Health	1247.49	1,521.49
Dept of Environmental Cons.	1305.9	1,326
Off. Mental Ret & Dev Dis	1002	850
State Education Dept	350	753
Off. Of Children & Family Svcs	2432	461
Office of Mental Health	858	435
Office for Technology	393	389

The DCS report also looks at the type of services provided by the consultants hired by State agencies. Table 5 summarizes the total number of contract employees by type of service. **According to the report the largest number of consultants are hired to provide engineering services as 9,518 consultants were hired to provide such services in SFY 2006-07.** Two agencies, DOT and the Office of General Services (OGS) accounted for the hiring of 7545, or 80%, of these engineering consultants. The next most commonly used consultant services are for health services (5,184 consultants) and training (3,699 consultants). The Office of Children and Family Services (OCFS 2,020 training

consultants) and the State University of New York (SUNY, 1,278 training consultants) accounted for 3,298, or 90%, of the training consultants.

The DCS report separates information technology consultants into three categories, IT Consulting, Computer Programming, and Data Processing; when added together they total 2,801 consultant employees. However, based on data contained in the OSC PS report and OSC data reflected in Tables 6 and 7, we believe this grossly understates the number of Information Technology consultants hired by the state. Some of this shortfall is probably explained by the large number of consultants (2,426) classified by the agencies that reported to DCS as providing “other consulting services”. The Fiscal Policy Institute in its 2005 study of state agency consultant spending found that a significant amount of consultant expenditures that were classified by state agencies as for “other services” were improperly classified and in fact were expenditures for professional services such as information technology, accounting and auditing, and engineering. Based on an analysis of similar expenditure and contract data from OSC for SFY 2006-07 we believe that many of these consultants classified as providing “other services” actually provide IT consulting services. Four state agencies; OGS (474 consultants), DOH (338.56), DOT (188), and SED (175) accounted for nearly 50% of the consultants classified as providing “other consulting services.”



Source: Department of Civil Service Consulting Services Report (October 2007)

In summary, according to the OSC PS report and the DCS report the state employed at least 24,839 consultants to provide professional services to all state agencies in SFY 2006-07. However, the OSC PS report appears to cover only 25% of the expenditures for professional consultant services in SFY 2006-07. This and other discrepancies documented in Chapter 1 indicates that the total number of consultants hired by state agencies to provide professional services in SF2006-07 is more than 27,000 and could amount to over 100,000 consultants. It is impossible to precisely determine how many full-time equivalent consultant employees this represents but it is much higher than the 4,167 full-time equivalent consultant employees that can be ascertained from the data in the OSC PS

report and is most likely higher than the 7,319 full-time equivalent employees estimated by DOB in the SFY 2007-08 Executive Budget.

DOT, OGS, SUNY and DOH are the state agencies that use the most consultant employees. The professional services that are most frequently contracted out by state agencies include engineering, healthcare, training, and information technology services. Over 2,400 consultants are classified by state agencies as providing “other consultant services” many of which are most likely providing some kind of information technology, accounting and auditing, legal, medical and clinical, and engineering services.

Chapter 2

The Cost of Professional Services Consulting Contracts in NY State Agencies

Summary

The cost of professional consultant services contracts has risen dramatically in recent years, growing 23 percent from 2003-04 to \$3.15 billion in 2006-07. The largest increase was for information software maintenance contracts, which more than doubled in four years.

In 2005 the Fiscal Policy Institute (FPI) published a ground breaking study, *Privatization without Competition equals Huge Losses: How the New York State Government Wastes Hundreds of Millions of Dollars Without Increasing Service*, that detailed how much New York State agencies spent on professional services consulting contracts from SFY 2001-02 through SFY 2004-05. That report used OSC data contained in two reports, FIN 210 and FIN 220, and isolated the object codes used in those reports for the contracting out of professional services (see Appendix 2 for a list of those codes). The FPI report documented that the State spent \$2.632 billion on professional services consulting contracts in SFY 2004-05 up from \$2.337 billion in SFY 2001-02.

A major limitation of the FPI data is that it did not break out each state agency's spending for professional services consulting contracts. In order to compare the FPI data to the data reported to OSC by State agencies for the *Procurement Stewardship Act Report* we used OSC's CTL 470 report which contains data for all state agency expenditures. The CTL 470 data is not exactly comparable to the FIN 210 and 220 data used in the FPI report as those reports contain disbursement data (actual cash spent by state agencies for services) while the CTL 470 report contains expenditure data (cash reserved for spending but OSC has not sent the check). While not exact matches the data from the OSC reports are very comparable. For example, the FPI report documented total spending for professional services consulting contracts using the FIN 210 and 220 data at \$2,529,497,837 in SFY 2003-04 and we document it using the CTL 470 data at \$2,558,971,065. The FPI report documents \$2,631,858,518 in such spending in SFY 2004-05 while the CL 470 data documents \$2,624,440,297 of such spending (see Table 6).

Table 6 documents all state agency/entity expenditures for professional consultant service contracts by category from SFY 2003-04 to SFY 2006-07. **Such spending has increased by over 23% during this time period and totaled over \$3.15 billion in SFY 006-07.** The largest increase in professional services consulting contract expenditures over this time period was for Information Technology Software Maintenance which more than doubled over the last four years (up 154%). Other categories with large increases in expenditures include:

- Engineers State Projects (up 95%),
- Accounting and Auditing Services (up 71%),
- Medical and Clinical Services (up 69%), and
- Architectural services (up 55%).

There was also a large increase in the amount of capital project consulting services classified as "other services" (up 74%). The only category that had any significant decrease in consultant sending during this time period was information technology software installation/integration (down 42%) (see Table 6).

The categories with the largest amount of expenditures for professional services consulting contracts in SFY 2006-07 include (see Table 6):

- Engineers State Projects (\$250.897 million); if this category is combined with the Bridge Inspection, Engineering Supervision, and Material Testing categories, total spending for Engineering Services would equal \$372.348 million.
- Medical and Clinical Services (\$221.993 million).
- IT Consultant-Design & Development (\$189.091 million); if this category is combined with the four additional IT categories total spending for Information Technology Services would equal \$443.721 million.
- Legal Services (\$124.986 million); and
- Client Services (\$110.060 million).

Unfortunately the largest category of professional services consulting contract spending is for “Other Services” which totals over \$1.7 billion. The “Other Services” Object Code (5699X) is supposed to cover those contractual services expenditures not covered by the 21 more specific object codes for various kinds of contractual services established by the State Comptroller. From the examples and comments provided in the state’s Accounting Codes Manual (Volume VIII of the New York State Accounting System User Procedures Manual), it seems that this object code was intended to apply to a relatively modest amount of state expenditures. According to the Accounting Codes Manual, this object code is supposed to be used for “Services not otherwise classified such as teachers, exam administrators, and religious services.”

FPI uncovered the same problem regarding consultant expenditures coded as “Other Services” in their 2005 study of state agency spending for professional services consulting contracts. FPI’s review of the contract descriptions for the contracts pursuant to which Object Code 5699X expenditures were made during ten of the twelve months of SFY 2004-05 found that New York State did not spend \$1.5 billion in SFY2004-05 on “teachers, exam administrators, and religious services.” Instead, the expenditures attributed to Object Code 5699X appeared to be, in part, attributable to incorrect object coding by the agencies involved. In fact, the expenditures processed with the “Other Services” object code included expenditures for the various types of professional services consulting contracts examined in the FPI study including accounting and auditing services, engineering services, information technology consulting, legal services, and medical and clinical services.

We conducted the same examination of contract descriptions for contract expenditures that were coded as “Other Services” in the last six months of SFY 2006-07. Our finding is the same as FPI’s 2005 finding: many of the contracts coded as “Other Services” included contracts for accounting and auditing services, information technology consulting, legal services, and medical and clinical services. Most of these “Other Services” contracts during the six months examined were for various information technology consulting services (see Chapter 5’s section on “Other Professional Consultant Services” for a more complete explanation).

Table 7 contains the same information as Table 6 but only covers the most prominent state agencies and takes out expenditures for state agencies or entities whose employees for the most part are not in the Civil Service of the State of New York. Removing these agencies/entities, the most prominent of which include the Office of Court Administration, The Division of Budget, SUNY Construction Fund, the Thruway Authority and the Dormitory Authority, reduces the overall expenditures for professional services consulting contracts by about \$500 million for a total of \$2.678 billion in SFY 2006-07.

Table 6

Expenditures for Professional Consultant Services - SFY 2004 to 2007

	2004 - 2004	2004 - 2005	2005 - 2006	2006 - 2007	Change 2004 - 07
3420_ IT Consultant - Design/Develop	\$134,674,052.26	\$160,706,033.48	\$181,999,299.67	\$139,075,844.50	40.0%
3431_ IT Software Evaluation/Integration	\$20,605,607.69	\$11,290,233.02	\$11,932,100.05	\$71,943,095.21	41.8%
3422_ IT Software Maintenance	\$45,493,295.48	\$46,664,270.84	\$39,842,179.77	\$90,145,847.43	154.1%
3438_ IT Hardware Maintenance	\$28,188,715.60	\$32,773,293.36	\$34,833,293.46	\$33,360,349.65	18.3%
3430_ IT Services - Other	\$70,291,294.11	\$97,467,747.91	\$713,748,309.11	\$170,175,773.99	17.6%
3431_ Accounting & Auditing Services	\$4,923,273.65	\$8,311,303.57	\$13,339,414.13	\$33,834,803.64	71.0%
3432_ Legal Services	\$26,566,393.80	\$119,297,234.17	\$719,351,691.14	\$724,946,678.29	29.4%
3435_ Medical/Clinical Services	\$1,144,751.20	\$15,544,534.64	\$227,808,038.53	\$271,993,184.58	68.9%
3435_ Clean Services	\$84,633,717.49	\$90,657,518.81	\$104,131,908.07	\$100,650,193.45	20.0%
3440_ Conference/Training Services	\$88,133,312.86	\$70,941,929.04	\$74,803,735.41	\$89,179,871.11	31.7%
3499_ Other Services	\$1,584,356,986.67	\$1,325,700,814.21	\$1,481,753,395.43	\$1,700,015,187.20	7.3%
3100_ Cap Mt - Cont Serv - Archives - State Programs	\$27,416,493.79	\$36,771,393.04	\$39,404,740.97	\$42,199,406.47	\$4.6%
3100_ Cap Mt - Cont Serv - Engineers - State Programs	\$128,570,488.33	\$1,438,679,717.25	\$220,745,480.93	\$250,857,725.46	93.1%
3105_ Cap Mt - Cont Serv - Bridge Inspection	\$19,129,484.15	\$27,203,975.64	\$19,438,631.14	\$28,912,710.71	44.9%
3110_ Cap Mt - Cont Serv - Engineering/Inspection	\$61,405,758.32	\$71,465,868.72	\$75,718,410.90	\$85,728,346.86	38.6%
3115_ Cap Mt - Cont Serv - Material Testing	\$7,436,127.31	\$7,382,103.83	\$6,576,137.17	\$7,799,126.51	1.7%
3120_ Cap Mt - Cont Serv - Other	\$21,911,946.02	\$33,590,610.77	\$30,251,852.33	\$38,192,226.20	74.5%
32340_ Cap Mt - Cont Serv - Other Local & Public Authority Programs	\$599,340.59	\$651,197.41	\$666,343.31	\$315,449.38	48.3%
	\$7,538,077,865.71	\$2,629,440,206.48	\$7,990,855,230.76	\$1,153,291,672.17	23.7%

Table 7

Expenditures for Professional Consultant Services - SFY 2004 to 2007

Object Category Totals for State Staff Agencies where PTO has worked

Obj	Category	2004 - 2004	2004 - 2005	2005 - 2005	2005 - 2007	% Change 2001-07
6420	IT - Computer - Design/Develop	\$11,732,646.66	\$190,901,447.16	\$180,672,641.22	\$198,939,894.45	41.5%
6421	IT - Software Evaluation/Integration	\$20,631,283.97	\$11,487,501.02	\$1,291,094.05	\$11,828,931.27	-42.2%
6422	IT - Software Maintenance	\$27,943,794.52	\$58,966,631.86	\$42,210,897.26	\$76,575,744.41	174.4%
6428	IT - Hardware Maintenance	\$26,095,534.68	\$3,737,211.26	\$33,107,506.85	\$31,956,095.97	13.7%
6429	IT - Servers - Other	\$10,445,494.24	\$20,918,425.99	\$11,100,897.20	\$718,314,793.94	17.8%
6431	Accounting & Auditing Services	\$6,731,585.30	\$5,057,011.99	\$12,885,733.85	\$11,202,023.41	65.2%
6432	Legal Services	\$72,183,914.51	\$17,280,947.49	\$7,740,546.03	\$72,348,427.54	1.0%
6435	Medical/Diagnal Services	\$130,054,527.99	\$45,972,405.34	\$22,714,638.32	\$21,106,057.58	69.0%
6434	Chart Services	\$85,410,410.49	\$30,673,377.85	\$104,172,980.19	\$110,264,470.19	30.0%
6441	Conferences/Training Services	\$66,252,934.65	\$88,641,340.38	\$74,592,387.54	\$86,458,599.77	30.4%
6499	Other Services	\$1,431,006,411.24	\$1,353,898,878.44	\$1,476,371,790.07	\$1,516,325,147.49	6.0%
7103	Cap Proj - Const Serv - Architects - State Projects	\$588,120.39	\$2,177,260.49	\$4,124,358.24	\$1,347,077.17	34.5%
7105	Cap Proj - Const Serv - Engineers - State Projects	\$110,582,820.05	\$730,453,343.46	\$721,662,706.47	\$152,677,646.51	20.3%
7104	Cap Proj - Const Serv - Design Inspection	\$19,529,866.15	\$27,203,970.88	\$19,428,453.18	\$28,012,710.71	44.5%
7110	Cap Proj - Const Serv - Engineering Supervision	\$61,403,758.22	\$71,465,608.72	\$75,788,619.50	\$93,728,307.66	20.6%
7111	Cap Proj - Const Serv - Non-Ofc Training	\$7,706,127.54	\$7,942,402.82	\$8,556,457.17	\$7,704,124.51	3.0%
7120	Cap Proj - Const Serv - Other	\$21,770,814.71	\$33,517,722.37	\$30,251,887.97	\$38,183,449.56	75.2%
72310	Cap Proj - Const Serv - Other Local & State Authority Projects	\$296,890.99	\$630,697.41	\$605,253.31	\$317,249.58	-56.9%
		\$2,262,683,410.72	\$2,560,163,387.46	\$2,548,082,878.19	\$2,675,870,210.71	18.4%

The four-year consultant spending trends for Table 7 are only slightly different than the trends discussed for Table 6 and include:

- **Overall spending on professional consultant service contracts increased by 18% compared to 23% for all state agencies/entities;**
- Information Technology Software Maintenance remains the category with the largest increase for consultant spending as it increased by over 174% (compared to a 154% increase for all state agencies/entities);
- Consultant spending for Accounting and Auditing Services increased by 65%, ((compared to a 71% increase for all state agencies/entities);
- Consultant spending for Medical and Clinical Services increased by 69%, the same increase for all state agencies/entities;
- Consultant spending classified as for “Capital Projects Other Consultant Services” went up 75%, essentially the same increase for all state agencies/entities;
- Consultant spending for IT Software Installation/Integration **decreased** by 42%, the same decrease for all state agencies/entities and the only category with decreased consultant spending.

The only significantly different four-year spending trends between Table 6 and Table 7 involves consultant spending for Legal Services, Capital Projects-Architects and Capital Projects-Engineers –State Projects. Consultant spending for these three categories increased significantly for all state agencies/entities during this time period with spending for Capital Projects-Engineers –State Projects going up 95%, spending for Capital Projects-Architects going up 55%, and spending for Legal Services going up 29% (see Table 6). Consultant spending for these three categories in Table 7 did not increase as significantly, with spending for Capital Projects-Engineers –State Projects going up 20%, spending for Capital Projects-Architects going up 35%, and spending for Legal Services remaining the same (see Table 7). This indicates that most of the increased consultant spending in these three categories occurred in state agencies/entities that are not part of the Civil Service of the State of New York.

The categories with the largest amount of spending for professional consultant service contracts in Table 7 are for the most part the same categories with the largest amount of consultant spending in Table 6. They include:

- Medical and Clinical Services (\$221.3 million).
- IT Consultant- Design & Development (\$188.4 million); if this category is combined with the four additional IT categories total spending for Information Technology Services would equal \$427 million.
- Engineers State Projects (\$132.97 million); if this category is combined with the Bridge Inspection, Engineering Supervision, and Material Testing categories total spending for Engineering Services would equal \$254.4 million.; and
- Client Services (\$110.054 million).

The only significant difference between the categories with the largest amount of consultant spending in Tables 6 and 7 is that consultant spending for Legal Services for all state agencies/entities (Table 6) was \$124.98 million while consultant spending for Legal Services for agencies in the Civil Service of the State of New York (Table 7) was very small (\$11.89 million).

Table 8 lists the top twelve state agencies for professional services consulting contract expenditures in SFY 2006-07. **These twelve agencies account for almost 75% of all the state’s spending on professional services contracts in SFY 2006-07** (see Appendix 3 for a list of each major state agency’s/entity’s total spending for professional consultant service contracts). Eight of these twelve agencies, SUNY, DOT, DOH, OCFS, OMRDD, DEC, OFT, and SED are also among the ten top agencies that employed consultants as shown in Table 4. Four agencies with large expenditures

for professional consultant services, the Department of Correctional Services (DOCS), the Office of Temporary and Disability Assistance (OTDA), the Department of Labor (DOL) and the Department of Taxation and Finance (T&F) were not among the top ten reporters of consultant employees. DOCS only reported hiring between 44 and 54 consultants while DOL reported between 108 and 126 consultants, OTDA reported between 201 and 217 consultants and T&F reported hiring 279 consultants (see Table 1). It is clear that these four agencies, that have reported expenditures for professional services consulting contracts that range between \$69 million (DOL) and \$174 million (DOCS), hired more consultants in SFY 2006-07 than they reported to OSC and DCS (see Tables 1 and 8).

Table 8				
State Agencies with highest Consultant Expenditures				
Agy	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
SUNY	\$683,446,322.24	\$773,966,993.61	\$772,403,921.66	\$842,936,226.08
DOT	\$306,629,124.17	\$327,988,123.70	\$315,454,723.29	\$325,820,688.85
DOH	\$218,135,164.91	\$178,499,100.58	\$177,382,651.76	\$272,207,753.48
DOCS	\$127,476,168.53	\$160,839,946.52	\$156,423,110.52	\$174,877,599.26
OCFS	\$114,862,006.82	\$112,868,570.89	\$118,605,139.00	\$120,753,881.58
OTDA	\$108,656,784.46	\$111,045,968.60	\$122,453,939.89	\$118,629,591.18
OMRDD	\$59,612,036.04	\$48,394,014.07	\$65,729,534.28	\$89,959,636.86
TAX	\$98,908,619.83	\$109,331,686.03	\$98,852,455.99	\$88,655,424.74
ENCON	\$40,560,521.71	\$51,348,711.16	\$86,815,515.44	\$85,978,781.66
OFT	\$52,470,084.25	\$55,884,263.68	\$59,455,857.47	\$69,957,713.71
EDUC	\$51,763,628.77	\$57,166,385.52	\$78,081,811.86	\$69,079,549.41
DOL	\$86,932,272.65	\$76,750,146.19	\$79,902,710.42	\$69,032,748.11

Another anomaly involves the Office of General Services (OGS) which reported the second largest number of consultant employees to OSC (4,799 consultants) and DCS (5,059 consultants) but only reported \$28.3 million in expenditures for professional services consulting contracts in SFY 2006-07 according to the CTL 470 reports (see Tables 1 and 8). However, OGS reported \$68.2 million in consultant expenditures for only the last three quarters of SFY 2006-07 in the OSC Procurement Stewardship Act Report (OSC PS) (see Table 1). We believe that part of this discrepancy can be explained by the use of "Backdrop Contracts" that are issued by OGS for state agency use.¹ Many of these contracts were likely for temporary services. We are virtually certain that DOCS facilities that used such backdrop contracts to employ consultants that provided professional medical and clinical services did not include their expenditures for these services or report the number of consultants employed to provide these services to OSC for the OSC PS report. It is also likely that DOL, T&F and OTDA did not report their expenditures and number of consultants for the OSC PS report for some or all of their Backdrop Contracts used to hire consultants to provide professional services particularly if such services were provided on a temporary basis. It is also likely that OGS reported expenditures and consultant employees hired under Backdrop Contracts by other agencies as their own expenditures and consultants in the OSC PS report, particularly if such contracts were for temporary services.

OSC should issue guidance to state agencies as relates to the proper reporting of Backdrop Contracts that provide services that are subject to the reporting requirements of Chapter 10 of the Laws of 2006. All state agencies should include expenditures for and the number of consultants hired under Backdrop Contracts in the forms they are required to file by OSC and DCS in order to comply with Chapter 10 of the Laws of 2006. This will address some of the under-reporting of consultant expenses and employees that is currently occurring

¹ Backdrop Contracts are OGS Statewide contracts that are uniform in their Back-Drop Terms and Conditions. They are mostly used to provide computer related services but are also used for other types of professional services consulting contracts including medical and clinical and accounting and auditing services. These contracts pre-qualify contractors on a continuous recruitment basis to supply services to all authorized users including state agencies. The contracts establish not to exceed pricing for each contractor. The actual cost to an authorized user of these services is established per project using the "mini-bid" process.

Table 9 lists the top ten state agency expenditures for each type of professional consultant service in SFY2006-07. This table combines expenditures for all five Information Technology categories into one Information Technology Services category; combines expenditures for Capital Projects Engineers State Projects, Bridge Inspection, Engineering Supervision, and Material Testing categories into one Engineering Services category; and combines Capital Project Other Consultant Services and “Other Services” expenditures into one Other Consultant Services category.

Major observations from Table 9 include:

- OFT (\$66.6 million), OTDA (\$57 million) and DOL (\$45 million) account for over 50% of all the expenditures for information technology professional services consulting contracts;
- DOT (\$215.5 million) accounts for almost all of the consultant spending for engineering services;
- DOCS (\$122 million) accounts for over half of the consultant spending for medical and clinical services with SUNY (\$29.4 million), DOH (\$27.9 million), and OMH (\$23 million) having significant expenditures;
- OSC (\$3.2 million) and OMRDD (\$2.2 million) account for most of the consultant spending for accounting and auditing services;
- OCFS (\$44.9 million) accounts for over half of the consultant spending for conferences and training services; and
- OCFS (\$22.7 million), DOCS (\$18.8 million), SUNY (\$15.4 million), and OMRDD (\$13.3 million) account for over half of the consultant spending for client services.

Table 9 also shows that SUNY (\$738 million) and DOH (\$229 million) account for over 60% of the consultant spending classified as “Other Services”. Most of SUNY’s consultant spending coded as “Other Services” could be legitimate as this spending is supposed to be for “teachers, exam administrators, and religious services.” It is less clear how DOH, DOT (\$86.4 million), T&F (\$57.5 million), OTDA (\$52.7 million), DEC (\$47.1 million), and OGS (\$26.6 million) could have such significant consultant expenditures for “teachers, exam administrators, and religious services.” Our examination of contracts coded as “Other Services” for these agencies revealed that most of these contracts were for information technology and other professional services (see Chapter 5’s section on “Other Professional Consultant Services” for a more complete explanation).

OSC should take corrective steps with the agencies identified in this report as miscoding large amounts of their expenditures for consultant services as “Other Services”. We believe a great deal of the underreporting of expenditures for professional services consulting contracts in the Procurement Stewardship Act Report is due to this miscoding and corrective action will yield a more complete and accurate accounting of the number of consultants working in state agencies and their cost.

Appendix 3 contains for each State agency their expenditures for professional services consulting contracts by category from SFY 2003-04 to SFY 2006-07 as derived from the CTL 470 report.

Table 9

Category Consolidation	Agy	YTD Total
Accounting & Auditing Services	OSC	\$3,194,001.05
Accounting & Auditing Services	OMRDD	\$2,248,135.42
Accounting & Auditing Services	Parole	\$947,700.00
Accounting & Auditing Services	SUNY	\$911,281.34
Accounting & Auditing Services	LAW	\$509,972.74
Accounting & Auditing Services	DOT	\$290,526.57
Accounting & Auditing Services	DOH	\$246,963.00
Accounting & Auditing Services	OMIG	\$191,774.00
Accounting & Auditing Services	HESC	\$170,055.00
Accounting & Auditing Services	DOCS	\$154,942.94

Category Consolidation	Agy	YTD Total
Architectural Services	ENCON	\$957,589.09
Architectural Services	SUNY	\$313,625.90
Architectural Services	EDUC	\$51,142.55
Architectural Services	DOCS	\$7,575.10
Architectural Services	OPRHP	\$7,365.88
Architectural Services	OGS	\$5,664.65
Architectural Services	DOT	\$4,114.00

Category Consolidation	Agy	YTD Total
Client Services	OCFS	\$22,674,275.42
Client Services	DOCS	\$18,814,768.57
Client Services	SUNY	\$15,394,647.99
Client Services	OMRDD	\$13,280,955.79
Client Services	LAW	\$8,081,756.10
Client Services	DMV	\$8,026,977.08
Client Services	DOT	\$7,730,975.62
Client Services	OER	\$7,525,459.14
Client Services	OMH	\$5,425,156.93
Client Services	DOH	\$609,530.90

Category Consolidation	Agy	YTD Total
Conferences/Training Services	OCFS	\$44,875,860.18
Conferences/Training Services	SUNY	\$18,764,962.75
Conferences/Training Services	OTDA	\$8,760,834.07
Conferences/Training Services	DOT	\$2,082,398.94
Conferences/Training Services	OSC	\$1,892,680.75
Conferences/Training Services	DOH	\$1,387,952.65
Conferences/Training Services	OGS	\$555,394.99
Conferences/Training Services	DCJS	\$543,104.12
Conferences/Training Services	HESC	\$461,111.51
Conferences/Training Services	ENCON	\$443,676.15

Category Consolidation	Agy	YTD Total
Engineering Services	DOT	\$215,503,903.56
Engineering Services	ENCON	\$33,101,801.76
Engineering Services	OPRHP	\$3,500,586.13
Engineering Services	SUNY	\$2,064,533.34
Engineering Services	DOCS	\$248,826.00
Engineering Services	OGS	\$3,160.60

Category Consolidation	Agy	YTD Total
Information Technology Services	OFT	\$66,630,454.76
Information Technology Services	OTDA	\$57,057,577.80
Information Technology Services	DOL	\$45,031,824.50
Information Technology Services	SUNY	\$36,376,145.45
Information Technology Services	TAX	\$30,379,320.61
Information Technology Services	WCB	\$21,846,769.20
Information Technology Services	HESC	\$13,480,381.47
Information Technology Services	DOT	\$13,420,881.72
Information Technology Services	OMH	\$13,029,392.80
Information Technology Services	DOH	\$12,345,275.27

Category Consolidation	Agy	YTD Total
Legal Services	EDUC	\$2,465,281.41
Legal Services	SUNY	\$1,752,769.41
Legal Services	Parole	\$1,487,869.22
Legal Services	OFT	\$1,254,580.60
Legal Services	DOH	\$775,999.31
Legal Services	TAX	\$652,774.36
Legal Services	OSC	\$584,551.98
Legal Services	OCFS	\$490,365.35
Legal Services	DPS	\$420,673.45
Legal Services	DOCS	\$332,579.21

Category Consolidation	Agy	YTD Total
Medical/Clinical Services	DOCS	\$122,008,264.01
Medical/Clinical Services	SUNY	\$29,356,794.78
Medical/Clinical Services	DOH	\$27,873,972.31
Medical/Clinical Services	OMH	\$23,071,304.40
Medical/Clinical Services	OMRDD	\$6,420,935.86
Medical/Clinical Services	OCFS	\$3,927,668.67
Medical/Clinical Services	OSC	\$1,636,279.48
Medical/Clinical Services	AM	\$1,456,785.86
Medical/Clinical Services	OMIG	\$1,377,179.17
Medical/Clinical Services	LAW	\$1,357,598.47

Category Consolidation	Agy	YTD Total
Other Services	SUNY	\$738,001,465.12
Other Services	DOH	\$228,968,060.04
Other Services	DOT	\$86,391,616.52
Other Services	TAX	\$57,488,204.69
Other Services	OMRDD	\$57,035,372.22
Other Services	EDUC	\$54,749,900.38
Other Services	OTDA	\$52,741,303.01
Other Services	ENCON	\$47,161,568.06
Other Services	OCFS	\$44,260,552.46
Other Services	OGS	\$26,605,287.69

Chapter 3

Under Reporting of Professional Consultant Service Contracts

Summary

As much as 75-80 percent of state spending on professional services consulting contracts is not accounted for in the Office of State Comptroller's Procurement Stewardship Act Report because of under reporting by agencies. Most state agencies reported only 20-30% of their total spending on professional consultant contracts. The Banking Department, Department of Economic Development, State Board of Elections and the Division of Human Rights did not report any of their spending on professional consultants. Twelve state agencies account for almost all of the under reporting.

As we have discussed in the previous chapters, between 75% and 80% of the spending categorized as spending for professional services consulting contracts is not accounted for in the OSC Procurement Stewardship Act Report (OSC PS). Table 10 details for each major state agency that reported consultant spending for the OSC PS report, the total consultant spending they reported, their total expenditures categorized in the OSC CTL 470 report for professional services consulting contracts, and the percentage of those expenditures reported in the OSC PS report.

Table 10 shows that most state agencies reported between 20% and 30% of their total SFY2006-07 expenditures categorized as for professional services consulting contracts. However, 16 agencies reported 2% or less of their total expenditures for professional services consulting contracts including:

- Department of Agriculture and Markets (reported only 0.62% of their total consultant expenditures with \$20.2 million in expenditures unreported). PEF conducted a study of all of the department's contracts that were included in the Division of Budget's estimate of consultant expenditures in the SFY 2007-08 Executive Budget. The study found in those SFY 2006-07 contracts the Department spent \$3.4 million to hire 37 consultant workers at an average rate of \$93,146 per consultant worker.
- Banking Department (reported none of their \$1.8 million in consultant expenditures).
- Department of Correctional Services (reported 0.39% of their total consultant expenditures with \$174.2 million in expenditures unreported)
- Department of Economic Development (reported none of their \$4.87 million in consultant expenditures).
- State Board of Elections (reported none of their \$4.27 million in consultant expenditures).
- Division of Human Rights (reported none of their \$676,822 in consultant expenditures).
- Division of Lottery (reported 2.26% of their total consultant expenditures with \$22.7 million in expenditures unreported).
- Division of Parole (reported 1.75% of their total consultant expenditures with \$14 million in expenditures unreported).
- Commission of Quality Care & Advocacy (reported only .13% of their total consultant expenditures with \$4.6 million in expenditures unreported).
- Office of Real Property Services (reported only 0.56% of their total consultant expenditures with \$1.64 million in expenditures unreported).
- State Emergency Management Office (reported only .44% of their total consultant expenditures with \$5.9 million in expenditures unreported).

The Council on the Arts, Commission on Correction, Consumer Protection Board, Crime Victims Board, Council on Children and Families, and State Racing and Wagering Board also did not report any of their consultant expenditures in the OSC PS report but the amounts unreported are relatively minor (see Table 10)

Other state agencies with large amounts of unreported expenditures for professional services consulting contracts include:

- SUNY, \$798.94 million in unreported consultant expenditures, the largest amount of unreported expenditures by a state agency.
- Department of Transportation, \$221.58 million in unreported consultant expenditures.
- Department of Health, \$193.2 million in unreported consultant expenditures.
- Office of Children and Family Services, \$92.5 million in unreported consultant expenditures.
- Office of Mental Retardation and Developmental Disabilities, \$78.16 million in unreported consultant expenditures.
- Department of Labor, \$63.9 million in unreported consultant expenditures
- Department of Environmental Conservation, \$71.12 million in unreported consultant expenditures
- Department of Taxation and Finance, \$62.06 million in unreported consultant expenditures.

- State Education Department, \$60.2 million in unreported consultant expenditures.
- Office of Technology, \$40.2 million in unreported consultant expenditures.
- Office of Mental Health, \$38.9 million in unreported consultant expenditures.

Table 10

Consulting Service Contract Reports 2006-07				
Comparison of Reported Expenditures to Actual Expenditures				
Agency	Procurement Stewardship	Professional Consulting		
	Act Report	Services Expenditures	Amount	%
	7/2006 - 3/2007	Fiscal Year 2006-07	Not Reported	Reported
Adirondack Park Agency	\$18,307.85	\$121,030.47	\$102,722.62	15.13%
Aging, Office for the	\$301,580.00	\$821,287.91	\$519,707.91	36.72%
Agriculture and Markets, Dept of	\$125,529.92	\$20,330,888.53	\$20,205,358.61	0.62%
Alcoholic Beverage Control, Division of	\$375,327.62	\$329,723.88	-\$45,603.74	113.83%
Alcoholism & Substance Abuse, Office of	\$443,444.66	\$7,943,305.75	\$7,499,861.09	5.58%
Arts, Council on the		\$476,589.99	\$476,589.99	0.00%
Audit & Control, Dept of (OSC)	\$6,684,449.26	\$23,451,451.08	\$16,767,001.82	28.50%
Banking Dept		\$1,796,977.23	\$1,796,977.23	0.00%
Budget, Division of	\$8,454,459.34	\$15,953,994.61	\$7,499,535.27	52.99%
Children & Family Svces, Office of	\$28,224,910.25	\$120,753,881.58	\$92,528,971.33	23.37%
Civil Service Dept	\$3,501,580.01	\$4,055,921.65	\$554,341.64	86.33%
Commission on Correction		\$24,890.03	\$24,890.03	0.00%
Consumer Protection Board		\$158,005.12	\$158,005.12	0.00%
Correctional Services, Dept of	\$676,750.83	\$174,877,599.26	\$174,200,848.43	0.39%
Council on Children and Families		\$40,160.35	\$40,160.35	0.00%
Crime Victims Board		\$308,424.88	\$308,424.88	0.00%
Criminal Justice Services, Div of	\$3,965,881.77	\$14,833,239.43	\$10,867,357.66	26.74%
Economic Development Dept of		\$4,872,863.94	\$4,872,863.94	0.00%
Education Dept	\$8,854,250.34	\$69,079,549.41	\$60,225,299.07	12.82%
Elections State Board of		\$4,272,224.26	\$4,272,224.26	0.00%
Employee Relations, Governor's Office of	\$4,447,096.39	\$20,015,509.01	\$15,568,412.62	22.22%
Environmental Conservation, Dept of	\$14,854,266.63	\$85,978,781.66	\$71,124,515.03	17.28%
General Services, Office of	\$68,227,213.05	\$28,301,191.26	-\$39,926,021.79	241.08%
Health, Dept of	\$79,030,831.93	\$272,207,753.48	\$193,176,921.55	29.03%
Higher Education Services Corp	\$3,832,544.47	\$39,610,992.35	\$35,778,447.88	9.68%
Homeland Security, Office of	\$1,301,655.28	\$7,857,036.83	\$6,555,381.55	16.57%
Housing & Community Renewal, Div of	\$367,745.79	\$2,398,210.07	\$2,030,464.28	15.33%
Human Rights, Division of	\$7,646.00	\$676,822.31	\$669,176.31	1.13%
Insurance Dept	\$363,514.26	-\$60,547,788.83	-\$60,911,303.09	-0.60%
Insurance Fund	\$1,611,484.68		-\$1,611,484.68	
Labor, Department of	\$5,104,280.73	\$69,032,748.11	\$63,928,467.38	7.39%
Law, Dept of	\$4,768,083.24	\$21,576,085.50	\$16,808,002.26	22.10%
Lottery, Div of	\$526,095.92	\$23,289,024.77	\$22,762,928.85	2.26%
Medicaid Inspector General, Office of the	\$5,170,640.50	\$5,921,790.53	\$751,150.03	87.32%
Mental Health, Office of	\$14,774,859.85	\$53,705,986.30	\$38,931,126.45	27.51%
Mental Retardation and Dev Dis, Office of	\$11,799,527.31	\$89,959,636.86	\$78,160,109.55	13.12%
Motor Vehicles, Dept of	\$2,155,106.25	\$16,151,530.39	\$13,996,424.14	13.34%
NYSTAR	\$960,671.89	\$783,549.61	-\$177,122.28	122.61%
Parks, Rec & Historic Preservation, Office of	\$951,766.55	\$14,350,831.67	\$13,399,065.12	6.63%
Parole, Div of	\$250,053.60	\$14,269,181.85	\$14,019,128.25	1.75%
Prevention of Domestic Violence, Office for the	\$20,413.90	\$23,914.30	\$3,500.40	85.36%
Probation and Correctional Alternatives, Div of		\$131,888.74		
Public Service Dept	\$841,791.12	\$2,109,984.55	\$1,268,193.43	39.90%
Quality of Care & Advocacy, Commn of	\$5,867.88	\$4,619,676.28	\$4,613,808.40	0.13%
Racing & Wagering Board, State		\$473,698.39	\$473,698.39	0.00%
Real Property Services, Office of	\$9,198.10	\$1,650,674.16	\$1,641,476.06	0.56%
Regulatory Reform, Governor's Office of	\$592,235.14	\$55,136.92	-\$537,098.22	1074.12%
State Emergency Management Office	\$26,069.49	\$5,950,398.99	\$5,924,329.50	0.44%
State Police, Department of	\$5,489,995.22	\$10,108,505.12	\$4,618,509.90	54.31%
State, Dept of	\$739,436.26	\$4,578,958.93	\$3,839,522.67	16.15%
SUNY	\$44,192,728	\$842,936,226.08	\$798,743,498.41	5.24%
Tax & Finance, Dept of	\$26,596,106.82	\$88,655,424.74	\$62,059,317.92	30.00%
Technology, Office for	\$29,735,625.19	\$69,957,713.71	\$40,222,088.52	42.51%
Temporary & Disability Assistance, Office of	\$22,681,064.62	\$118,629,591.18	\$95,948,526.56	19.12%
Transportation, Dept of	\$104,233,315.61	\$325,820,688.85	\$221,587,373.24	31.99%
Veterans Affairs, Division of	\$34,479.87	\$157,524.99	\$123,045.12	21.89%
Workers Compensation Board	\$9,276,582.78	\$32,969,321.59	\$23,692,738.81	28.14%
	\$526,606,465.84	\$2,678,870,210.61	\$2,152,263,744.77	19.66%

There are a few anomalies in Table 10. As discussed in Chapter 2; the Office of General Services reported significantly more expenditures in the *OSC Procurement Stewardship Act Report* (\$68.2 million) than they reported in the CTL 470 report (\$28.3 million). We believe that this is probably explained by differences in how each OSC report accounts for Backdrop Contract expenditures for temporary professional services and that some of these expenditures and the consultants they support are really employed in other state agencies.

The Division of Alcohol Beverage Control, Office Of Regulatory Reform and the New York State Office of Science, Technology, and Academic Research (NYSTAR), (now known as the Foundation for Science, Technology, and Innovation), also reported more consultant expenditures in the *OSC Procurement Stewardship Act Report* than reported in the CTL 470 report but the amounts involved are relatively minor (see Table 10).

Another anomaly deals with the Insurance Department which reported a very small amount of expenditures for consultant services in the *OSC Procurement Stewardship Act Report* (\$363,514) but showed a negative amount of spending for professional services consulting contracts in the CTL 470 report (-\$60.55 million). We are not sure how to explain this anomaly. However, we do know that the Insurance Department enters into direct pay contracts with various auditing and accounting firms to conduct insurance examinations that could be completed by state employees at the department but are not because of short staffing issues. Such direct pay contracts have the insurance companies that are being audited directly pay the consultant auditors for the cost of the insurance examination/audit. The Insurance Department executes the contracts for such examinations but since none of the department's own funds are expended for such examinations they are not accounted for in the *OSC Procurement Stewardship Act Report* or the CTL470 report.

PEF's analysis of these direct pay contracts from January 1, 2001 to January 13, 2003, found the department expended \$15.2 million for such contracts. The estimated cost of the work, if it had been done by State employees, was \$3.4 million or \$12 million less than the department paid consultant auditors. Recently the department supplied PEF with an accounting of their direct pay consultant auditor contracts from January 1, 2003, to October 7, 2007. During this time period the department spent over \$27.6 million on contracts with consultant auditors. If this work had been done by state employees it would have cost \$7.7 million or \$19.9 million less than the department paid consultant auditors. Since 2001 the Department of Insurance has wasted over \$31 million by using consultant auditors instead of filling their state employee auditor vacancies (see Appendix 4).

In summary, over \$2 billion of expenditures for professional services consulting contracts are not accounted for in the *OSC Procurement Stewardship Act Report*. **Twelve state agencies account for almost all of this under reporting.** The Office of State Comptroller should investigate the reasons for this under reporting and take the action necessary to insure all state agencies report their expenditures and other data required under Chapter 10 of the laws of 2006 in their filings for the *OSC Procurement Stewardship Act Report*. The Office of State Comptroller should also request that the Insurance Department and any other agency that provides consultant services as defined in Chapter 10 of the Laws of 2006 through direct pay contracts report these expenditures and other data required under Chapter 10 of the Laws of 2006 in their filings for the *OSC Procurement Stewardship Act Report*.

Chapter 4

High Cost Consultant Contracts with State Agencies

Summary

The State pays private consultants significantly more than its public servants. The Insurance Department, for example, pays consultants an average of \$184.29 an hour. IBM information technology (IT) consultants get paid up to 289% more than public employees in similar jobs.

The issue of state agencies using high cost consultants rather than state employees to perform certain governmental functions was first reviewed by Comptroller Ned Reagan in a 1990 audit of the Department of Transportation. Comptroller McCall conducted a follow-up audit on the same issue in 1998. Both audits found that State employee engineers at the Department of Transportation could do the same work as consultant engineers hired by DOT for millions of dollars less annually. The 1998 audit also found that DOT could add state employee engineers without incurring a significant increase in their overhead costs. A KPMG study released in December 2000 confirmed the audit findings of the State Comptroller and concluded **that consultant engineers hired by DOT cost between 50% and 75% more than State employee engineers who do the same work.**

Building upon the Comptroller's findings the non-partisan Fiscal Policy Institute (FPI) found in the 2005 report discussed in Chapter 2 **that the State could save \$500 million annually if it used State employees to do a little more than half of the professional services work now contracted out to consultants.**

Since the release of the FPI report PEF has analyzed a large number of state agency contracts with consultants and has found that the state pays consultants up to 214% more than state employees to do the same work. A summary of those case studies follows.

PEF Studies Prove Consultant Waste in Numerous State Agencies

All the following studies' comparisons include the cost of State employee benefits; the complete studies and supporting documentation are posted on www.stopprivatization.com.

Department of Transportation - Bridge Inspections, Permitting Systems and the INFORM Program

Almost \$11 million in labor costs alone has been wasted on bridge inspection contracts since 2002. Private consultants cost at least 50 percent more than State employees who conduct the same bridge inspections.

The State will waste at least \$4 million on a current contract with Cambridge Systematics to provide permitting services that can be provided by State employees. Cambridge consultants cost between 81% and 91% more than State employees who do the same work.

Since 1995 at least \$4.2 million has been wasted by DOT's use of consulting companies to run the Information for Motorists' system, or INFORM, which allows DOT to determine when motorists should be redirected away from traffic bottlenecks. Consultants were paid up to 85% more than State employees to do the same work.

Insurance Department- Audits of Insurance Companies

As discussed in Chapter 3 the Insurance Department wasted \$12 million on contracts issued between January 1, 2001, and January 13, 2003, by paying private insurance examiners more than four times as much as public employees.

Another \$20 million was wasted on similar contacts issued between January 1, 2003, and October 7, 2007.

Office of Mental Retardation & Developmental Disabilities – Information Technology

OMRDD Information Technology consultants cost between 43% and 97% more than the highest paid State Information Technology professionals.

Office of Mental Retardation & Developmental Disabilities - Psychiatric Services

OMRDD pays 50 percent more for psychiatric services by contracting out for private psychiatrists.

Office of Children & Family Services (OCFS) - Information Technology

Thirteen Information Technology contracts cost OCFS 62% more than comparable State employees would cost.

Department of Taxation & Finance (T&F) - Information Technology

At least \$27 million has been wasted on T&F Information Technology consultant contracts since 2000 under which they paid consultants on average 53% more than comparable State employees.

Office of General Services (OGS) - Engineering/Architectural Services

Outsourced engineering and design work at OGS cost 70 percent more than the State employee cost.

Department of Agriculture and Markets (A&M) - Information Technology and Other Personal Service Contracts

In SFY2006-07 the Department spent \$3.4 million to hire 37 consultant workers at an average rate of \$93,146 per consultant worker. In one information technology contract, the department paid on average between 209% and 214% more to hire consultant employees rather than using comparable State employees.

Examples of High Cost Consultant Contracts from the Procurement Stewardship Act Report

This chapter provides a review of some of the high cost consultant contracts disclosed in the OSC *Procurement Stewardship Act Report* which covers the last three quarters of SFY 2006-07. This report is based on FORM B which state agencies file with OSC (see Appendix 5). The form includes information on the actual titles used, hours worked, and costs associated with consultant employees providing services for New York State government.

The OSC *Procurement Stewardship Act Report* (OSC PS) contains new information required by Chapter 10 of the laws of 2006. This new information is an important tool that enhances the transparency of NYS government with respect to the true size and cost of our state government. Fiscal conservatives often point to the number and associated costs of state employees when leveling criticism of the size and costs of state government, but these very same fiscal conservatives consistently fail to acknowledge the number and costs associated with consultant employees. Perhaps this failure is driven by ideology, or perhaps it is driven by the lack of readily available information related to these consultant employees. In any event, the OSC PS report provides a clearer picture of the true size and costs of government services.

Our analysis focuses on consultants that provided services that appear to be full-time in nature as the hours they have billed the state for are close to or in excess of the full-time equivalent of 1,950 hours per year. In a few cases, we combined the contracts of consultants that had multiple smaller contracts for a similar service. We then examined the contract information for the state agencies that had the highest overall consultant average hourly rate. In addition, we examined the worst case examples (highest consultant hourly rates) of the state agencies that had the largest number of consultant employees.

While the information in the OSC PS Report is comprehensive and centrally located, closer examination does not reveal any surprising information related to the costs of consultants. In fact, the PSA simply confirms a variety of reports cited earlier in this chapter that demonstrate that consultant employees cost the state significantly more than comparable state employees.

Table 11 indicates that the New York State Department of Transportation (DOT) has paid significantly more per hour for consultant engineers than it pays for comparable DOT titles. Specifically, in a bridge inspection contract with Clough Harbor and a bridge design contract with Vollmer/Stantec, DOT spent between 61% and 66% more per hour for similar engineering work in both mid and western New York regions. The cost difference is more

pronounced in the New York City-Long Island region as DOT spent between 120% and 150% more per hour on engineering consultants hired under contracts with Urbitran, Lockwood, Kessler & Barlett, and Hardesty & Hanover (see graph 1). It is important to note that these comparisons are based on a conservative estimate of the costs of comparable state employees as the hourly rates used are at the highest rate for that salary grade and include benefits.

Unfortunately, analysis of Form B of the OSC PS Report indicates that waste is not limited to DOT and engineering titles. Rather, the New York State reliance on costly consultants occurs across all agencies and professional titles. For example, Table 11 shows that the NYS Department of Health (DOH) spent approximately 280% more per hour for Financial Specialists employed by a private consultant (Mercer Health Benefits) than it would cost to employ a Principal Health Care Fiscal Analyst, SG-27, earning the maximum salary and benefits. Moreover, in the current fiscal year, DOH has paid more than \$16 million dollars to Island Peer Review Organization for Nurses and Healthcare Surveyors costing up to 48% more than comparable state titles. (see Table 11)

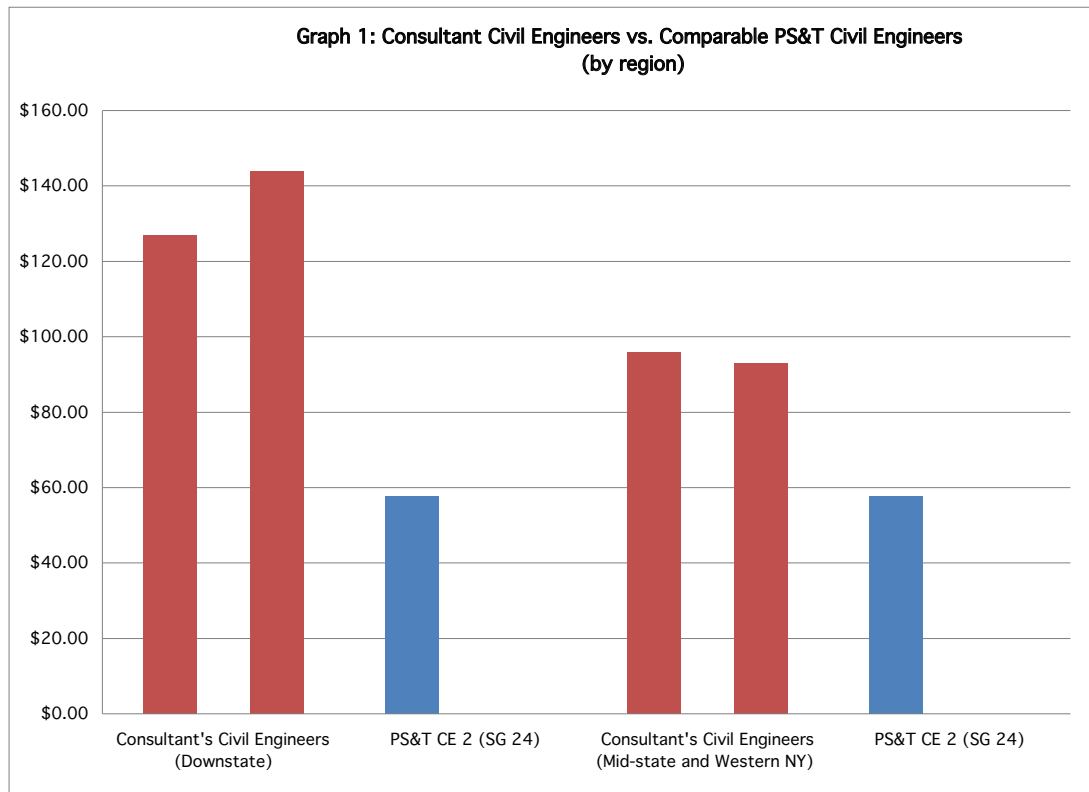


Table 11

Worst Case Examples of Waste from the State Agencies with the Overall Largest Number of Consultant				
Agency	Consultant's Data as Reported on Form B, Item 8 of the Procurement Stewardship Act Report		Based on the PS&T 2006-07 Salary Schedule	The Consultant Costs More!
	Name of Consultant	Consultant Title; hours worked; (Avg Hrly Rate)	Comparable State Title, SG (Avg Hrly Rate)*	Avg. Hrly Rate % Difference
OGS	Clough, Harbour & Associates,LLP	Mechanical Engineer; 1,977 hrs; (\$294.06)	Associate Mechanical Construction Engineer, SG27 (\$67.04)	339%
DOH	Mercer Health Benefits	Financial Specialists, all other; 1,734 hrs; (\$255.00)	Prin Health Care Fiscal Analyst, SG 27 (\$67.04)	280%
DOT (Downstate)	Urbitran Assoc	Civil Engineers; 4,955 hrs; (\$143.95)	CE 2, SG 24 (\$57.69)	150%
DOT (Downstate)	Lockwood, Kessler & Bartlett	Engineering Tech; 11,975 hrs; (\$87.50)	PET, SG 16 (\$39.45)	122%
DOT (Downstate)	Hardesty & Hanover	Civil Engineers; 12,613 hrs; (\$126.94)	CE 2, SG 24 (\$57.69)	120%
DEC	Fountain Forestry	Forester; 1,299 hrs; (\$76.32)	Snr Forest Appsr, SG 18 (\$43.17)	77%
SUNY Upstate	University Dialysis Clinic Inc	Registered Nurse; 10,400 hrs; (\$79.20)	T&R Nurse 2, SG 16 (\$46.99)	69%
DOT (Rochester)	Vollmer/Stantec	Civil Engineer; 1,661 hrs; (\$95.96)	CE 2, SG 24 (\$57.69)	66%
DOT (Mid-State; DOT Region 9)	Clough Harbour	Civil Engineer; 11,443 hrs; (\$92.89)	CE 2, SG 24 (\$57.69)	61%
DEC	Earth Tech	Environ Engineers, Scientists, Geoscientists, Biologists, Chemists; 9,655 hrs; (\$90.63)	Envir Eng 2, SG 24 (\$57.69)	57%
DEC	Dvirka/Bartilucci Consulting Eng	Environ Engineers; 9,111 hrs; (\$88.03)	Envir Eng 2, SG 24 (\$57.69)	53%
DOH	IPRO	Registered Nurses; 3,380.5 hrs; (\$75.00)	Nursing Services Consultant (\$50.51)	48%
OCFS	Intelistat Healthcare Inc.	Registered Nurse; 2,062 hrs; (\$52.63)	Nurse 2 (\$36.98)	42%
OMH	Jackson & Choker Locum Tenens, LLC	Psychiatrists; 1,808 hrs; (\$130.75)	Psychiatrist I, SG 35 (\$92.25)	42%

Form B of the Procurement Stewardship Act Report includes data reported during the 7/2006 - 3/2007 period.

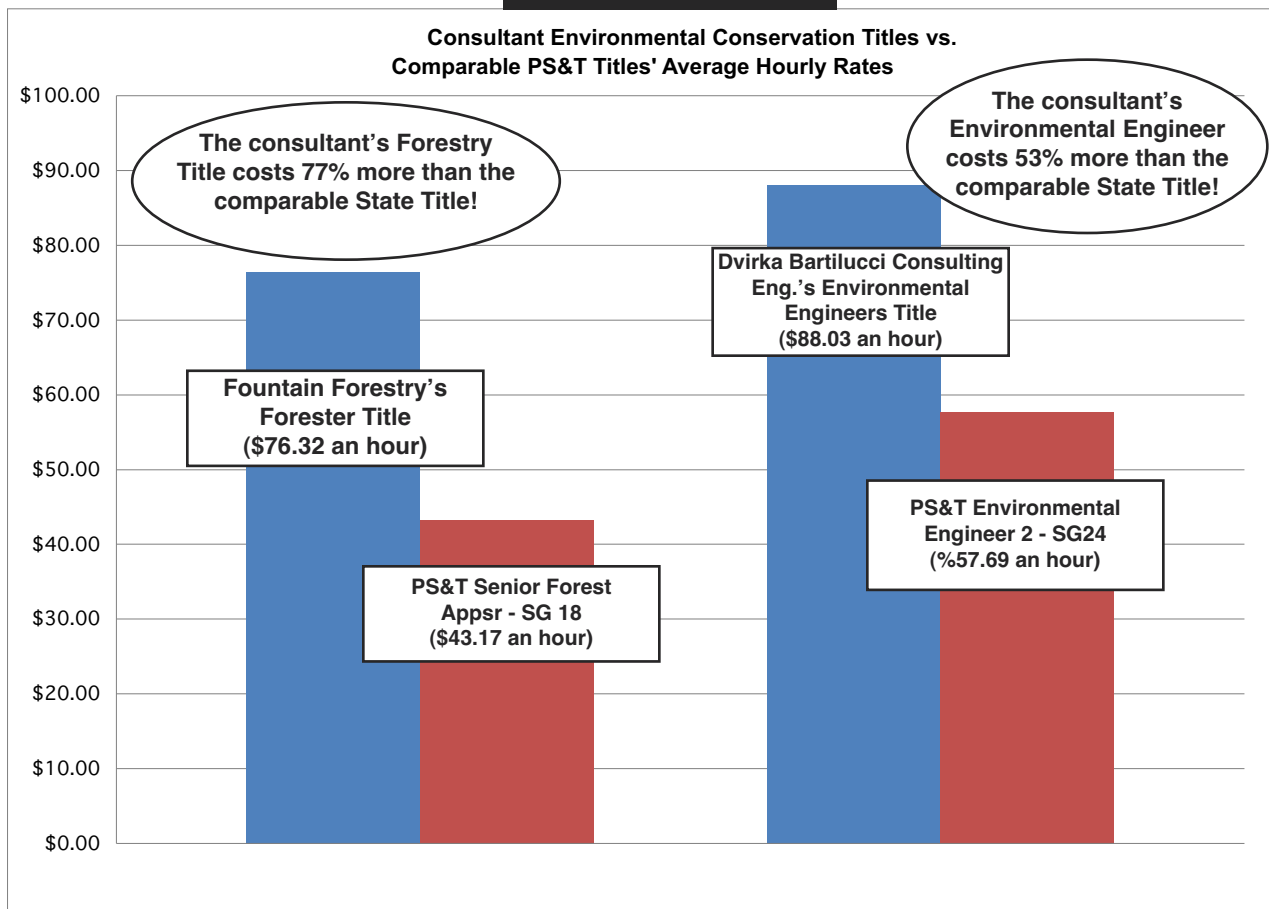
* Hourly Rate is the max rate for the given salary grade. This means that this figure is calculated by applying both longevity and fringe benefits to the title's job rate. The salary is divided by 1950 to calculate the hourly rate.

(1) Note: When calculating the PS&T hourly rates for institutional titles the salary, which is based on job rate and included longevity and benefits, was divided by 2080, for all other titles the annual rate was divided by 1950 to calculate the hourly rate. SUNY Downstate for 10+ years of service adds \$20,020 to SG-16 salary

Additionally, the Department of Environmental Conservation spent approximately between 53% and 77% more for consultants in Environmental Engineer, Biologist, Scientist, and Forester titles than it would cost for comparable state titles (see Graph 2).

We also analyzed contracts for seven agencies that paid consultants the highest overall average hourly rates which are summarized on **Table 12.** We eliminated agencies in which the consultants worked less than full-time hours or agencies which do not have PEF members to perform the professional services provided by contracted consultants or for which we do not have sufficient data to estimate the cost of providing those services with state employees. The eliminated agencies include the Governor's Office of Employee Relations, (\$324.62 average hourly consultant rate), Office of Real Property Services (\$169.55 average hourly consultant rate), Department of State (\$167.83 average hourly consultant rate), Governor's Office of Regulatory Reform (\$161.03 average hourly consultant rate), Department of Public Service (\$140.97 average hourly consultant rate), Division of Budget, (\$121.81 average hourly consultant rate), Department of Civil Service (\$118.97 average hourly consultant rate), Department of State Police (\$94.28 average hourly consultant rate), and State Emergency Management Office (\$94.03 average hourly consultant rate).

Graph 2



The consultants in the agencies cited in **Table 13** are primarily employed in Information Technology (IT) related services. The consultant's hourly rates for these seven agencies ranged from \$69.45 to \$268.91 an hour and are summarized on **Table 13.**

A Workers Compensation Board (WCB) contract with Unique Comp Inc. provided the most egregious example. The contract paid a consultant Computer Programmer an hourly rate of \$268.91 for 1,897 hours of work.

Table 12

State Agencies that Paid the Highest Average Hourly Rate to Consultants
SFY 2006-07

Agency	Average Hourly rate Paid To All Consultants
Insurance Dept	\$184.29
Alcoholic Beverage Control, Division of	\$173.88
Higher Education Services Corp	\$132.52
Workers Compensation Board	\$111.32
Criminal Justice Services, Div of	\$110.27
Temporary & Disability Assistance, Office of	\$95.23
Housing & Community Renewal, Div of	\$92.45

Graph 3

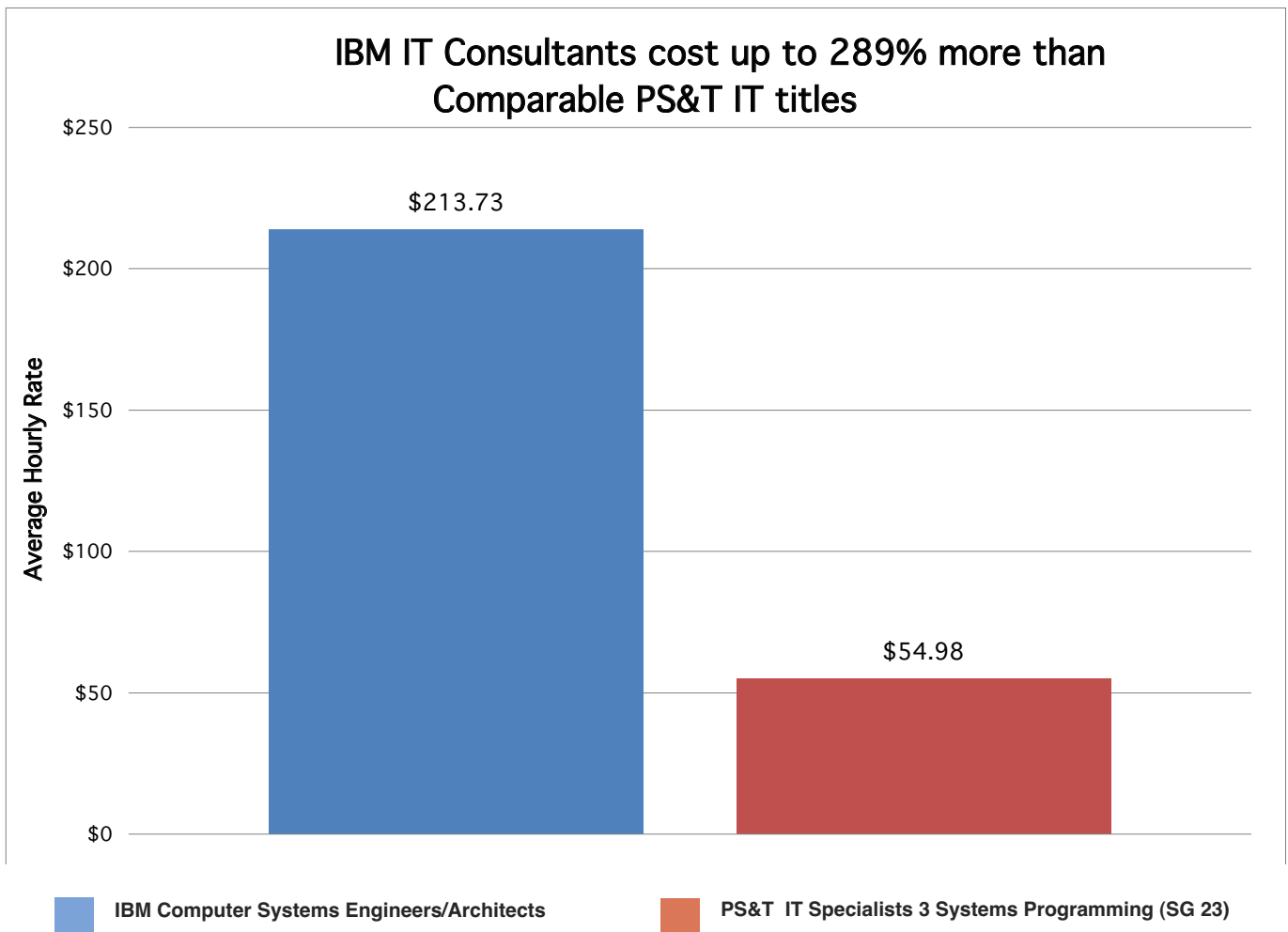


Table 13

Worst Case Examples of Waste from the State Agencies with the Overall Highest Consultant Average Hourly Rates			The Consultant Costs More!
Consultant's Data as Reported on Form B, Item 8 of the Procurement Stewardship Act Report		Comparable State Title, SG (Avg Hrly Rate)*	Avg Hrly Rate % Difference
Agency	Name of Consultant Consultant Title; hours worked; (Avg Hrly Rate)		
WCB	Unique Comp Inc Computer Programmer; 1,897 hrs; (\$268.91)	IT Specialist 3 Systems Programming, SG 23 (\$54.98)	389%
DCJS	IBM Computer Systems Engineers/Architects; 2,867 hrs; (\$213.73)	IT Specialist 3 Systems Programming, SG 23 (\$54.98)	289%
HESC	IBM Computer Specialists; 2,834 hrs; (\$179.62)	IT Specialist 3, SG 23 (\$54.98)	227%
Insurance	Sybase Inc. Senior Consultant; 1,789.5 hrs; (\$186.56)	IT Specialist 4, SG 25 (\$60.68)	207%
ABC	IBM Corporation Computer Software Engineers, Applications; 1,741.2 hrs; (\$171.43)	Information Technology (IT) Specialist 4, SG 25 (\$60.68)	183%
HESC	IBM Computer Software Engineer -- Applications; 9,245 hrs; (\$149.93)	IT Specialist 3, SG 23 (\$54.98)	173%
OTDA	MVP Consulting Plus Computer Specialists, All Other; 1,721 hrs; (\$149.00)	IT Specialist 3, SG 23 (\$54.98)	171%
OTDA	Unsys Corp Computer Systems Engineers/Architects; 1,926 hrs; (\$142.77)	IT Specialist 3 Systems Programming, SG 23 (\$54.98)	160%
OTDA	Unsys Corp Database Administrators; 2,004 hrs; (\$136.13)	IT Specialist 3, SG 23 (\$54.98)	148%
WCB	KMQ Enterprises Inc Computer Software Engineer, Systems Software; 2,018 hrs; (\$130.50)	IT Specialist 3, SG 23 (\$54.98)	137%
OTDA	Unsys Corp Computer and Info Systems Mgrs; 5,717 hrs; (\$138.56)	Manager IT Services 1, SG 27 (\$67.04)	106%
DCJS	Kcane Inc Computer and Information Systems Managers; 6,649 hrs; (\$103.88)	Manager IT Services 1, SG 27 (\$67.04)	55%
DHCR	GCOM Software Computer Systems Engineer; 1,615 hrs; (\$69.45)	IT Specialist 3, SG 23 (\$54.98)	26%

Form B of the Procurement Stewardship Act Report includes data reported during the 7/2006 - 3/2007 period.

* Hourly Rate is the max rate for the given salary grade. This means that this figure is calculated by applying both longevity and fringe benefits to the title's job rate. The salary is divided by 1950 to calculate the average. Description is from the OSC contract database.

Agencies or Contracts that are not included, though were among the agencies with the overall highest average hourly rates: The contract that had the highest amount of hrs worked by any of the consultants for ORP. The highest amount of hours worked by any of the DOS consultants was 673 hours for a lawyer and 116 hours for an Environmental Engineer title (\$91,03 hr), though comparable to a PS&T title the hours worked. Service Department, none of the contracts had over 1,300 hours - though one title had a high average hourly rate of \$162.13 an hr, it only worked 515.25 hours; and for OTDA - one of the contracts had an average 1 not fill out FORM B properly and instead lumped all "IT titles" together & another notable OTDA contract had a title that received \$271.83, but again only worked 219 hours.

The state employee title that does this same work is the Information Technology Specialists 3 Systems Programming, which pays \$54.98 an hour including the cost of the state employees' benefits. Therefore the Computer Programmer hired under the Unique Comp Inc. contract cost WCB 389% more than the comparable state employee title (see Table 12).

Although the Unique Comp Inc. contract was the most outrageous example of excessive consultant costs, the most frequently used IT consultants were provided by IBM and Unisys Corporation. Combined IBM and Unisys accounted for more than half of the billable hours in our "Highest Average Hourly Rate" analysis summarized in Table 13. The hourly rates for the IBM and Unisys consultants ranged from \$136 to \$213 per hour. This is between approximately 100% and 300% more than the \$54 to \$67 per hour rate for comparable state IT titles. (See Graph 3)

The title comparisons that were performed on the data provided by the consultants on Form B (OSC PS Report) appear to be on par with PEF's prior IT cost-benefit analysis findings. PEF's prior examination of IT Contracts within OMRDD, OCFS, T&F, and A&M indicated that consultant IT titles cost on average between 43 % and 214 % more than comparable state IT titles.

As this paper indicates, the new consultant reporting requirement may have been implemented somewhat unevenly or inconsistently and still requires fine tuning. Nevertheless, the various reports represent a new level of transparency and as such a major step forward for the citizens and taxpayers of New York State as there is now readily available information about consultant contracts and their cost. In the next chapter we will estimate how much money the state is wasting using these costly consultants rather than hiring state employees to do the work.

Chapter 5

New York State Can Save Up To \$712 Million Annually By Replacing Costly Consultants with State Employees

Summary

The state could save between \$556.8 million and \$712.6 million annually by replacing costly consultants with state employees. Half or more of the savings could come by just replacing IT and engineering & architectural consultants with state employees.

In 2005 the Fiscal Policy Institute found “New York State could save up to \$500 million a year by stopping sweetheart deals with high-priced consultants who are being overpaid to do jobs that state workers can do as well, if not better.” This conclusion was based on FPI’s analysis of SFY2004-05 disbursement data from OSC’s FIN 210 and 220 reports which covers all state agencies and entities. This report has updated and refined that data by using OSC’s SFY 2006-07 expenditure data as reported in their CTL 470 report. This allows us to exclude expenditures for professional services consulting contracts that occur in state agencies and entities that are not in the Civil Service of the State of New York. Therefore, in these excluded agencies either state employees are not readily available to perform the professional services provided by contracted consultants or, we do not have sufficient data to estimate the cost of providing those services with state employees as accurately as we can in the selected state agencies. Table 14 replicates the 2005 FPI study by assuming savings in all state agencies and entities while table 15 estimates those savings in selected agencies.

Based on the findings of the studies PEF has conducted on consultant contracts since the FPI findings and the data from the OSC *Procurement Stewardship Act Report* documenting continued high cost consultant contracts discussed in Chapter 4, we believe the consultant/state employee cost ratios used by FPI in their 2005 report are still accurate and probably underestimate the savings the state can achieve by replacing costly consultants with state employees.

The following sections discuss the assumptions used to estimate the cost savings shown in Tables 14 and 15 by the professional service category. These tables document that **the State could save between \$556.8 million and \$712.6 million annually by replacing costly consultants with state employees** (see Tables 14 and 15).

The State Can Save Up To \$217 Million Annually By Replacing IT Consultants With State Employees

To derive our savings estimates for replacing information technology consultants with state employees, we assumed that state employees could ultimately take over all of the work covered by object code 5620X but that some of the work covered by the other three object codes (5624X, 5626X and 5629X) might involve specialized expertise related to commercial software being purchased by state agencies. While state employees may ultimately be able to take over most of this work, the lower savings estimates in Tables 14 and 15 for categories 5624 and 5626 are based on the assumption that half of this work would continue to be contracted out. For category 5629, “Information Technology Services - Other,” we estimated what the savings would be if the state contracted in 30% of this work (the FPI study estimated a range of savings between 25% and 50%). The bulk of the spending in this category is for computer training, much but not all of which could be contracted in, and the State Comptroller’s Accounting Codes Manual indicates that this category might also include some expenditures for time-sharing services. We assume no savings for consultant expenditures for IT hardware maintenance.

After determining the specified percentage of work that could be quickly done by state employees the FPI report calculated a weighted average of PS&T/PEF and MC hourly rates for information technology titles including the cost of their benefits. FPI found that the average state IT employee hourly rate was only 19.3% of the IT consultants’ average backdrop contract hourly rate. This cost ratio is consistent with PEF’s analysis of IT consultant contracts as summarized in Chapter 4 and the consultant salary data from the OSC PS report as shown in Table 13. We used this cost ratio in calculating the IT savings in Tables 14 and 15 which show the estimated savings if state employees were used for each category of IT work. **Overall the state could save between \$177 million and \$217.8 million if it replaced some or most of the IT consultants with state employees who do the same work.**

The State Can Save Up To \$175 Million Annually By Replacing Engineering & Architectural Consultants with State Employees

To derive our savings estimates for replacing engineering and architectural consultants with state employees we applied the KPMG finding of a 75% cost difference figure for design work to the state expenditures for architectural services on state projects (Object Code 71090) and its finding of a 50% cost difference figure for construction inspection work to the state expenditures for bridge inspections (Object Code 71105). For the other five categories, we utilized a cost difference factor of 62.5% (the average of the findings in the KPMG study). This probably results in an underestimate of potential savings, particularly in regard to the largest of the categories, engineering consulting services on state projects. For the years examined by KPMG (excluding one year of extremely high expenditures on design consultants in anticipation of a substantial increase in the size of its capital program), spending on design consultants as a percentage of the spending on design and construction inspection consultants combined ranged from 56% to 75% with an average of 63.7% and a median of 65.3%. These percentages include the cost of state employee benefits and overhead. We assumed no savings for consultant expenditures for the “Capital Projects Consultant Services Other Local and Public Authority Projects” category. Based on PEF’s research on consultant engineering costs since the FPI report as summarized in Chapter 4 and the engineering consultant salary data from the OSC PS report as shown in Table 11 we believe the FPI cost ratios are still accurate.

We assumed state employees could completely replace engineering consultants for all categories of work except for the “Capital Project Other Consultant Services” category where we assumed state employees could only do 50% of this work as it is unclear what these services entail. Based on these assumptions and the FPI cost ratios, Tables 14 and 15 show the estimated savings if state employees were used for each category of engineering and architectural work. **Overall the state could save between \$104 million and \$175 million if it replaced engineering and architectural consultants with state employees who do the same work.** The total potential savings to the state of doing more of its capital projects engineering work-in house is probably greater than this figure since this analysis only applies to consultant costs associated with the portion of the state’s Capital Projects spending that is accounted for in the Comptroller’s cash-basis financial reports.

Table 14

**Estimated Savings If State Employees Replace Professional Service Consultants
in All State Agencies**

Cat	Category Description	Actual Consultant Cost FY 2006-07	Estimated Cost With State Employee 100% of Work	Estimated Savings With State Employee Doing 100% of Work	Estimated Savings With State Employee Doing Specified % of Work
5620_	IT Consultant - Design/Develop (100%)	\$189,091,845	\$36,527,700	\$152,564,144	\$152,564,144
5624_	IT Software Installation/Integration (50%)	\$11,982,847	\$7,148,812	\$4,834,034	\$2,417,017
5626_	IT Software Maintenance (50%)	\$90,145,847	\$53,779,858	\$36,365,990	\$18,182,995
5629_	IT Services - Other (30%)	\$119,139,774	\$95,108,518	\$24,031,256	\$7,209,377
5631_	Accounting & Auditing Services (50%)	\$11,834,806	\$3,564,700	\$8,270,105	\$4,135,053
5632_	Legal Services (50%)	\$124,986,078	\$83,359,359	\$41,626,719	\$20,813,360
5633_	Medical/Clinical Services (50%)	\$221,993,185	\$158,788,756	\$63,204,429	\$31,602,214
5634_	Client Services (25%)	\$110,060,193	\$82,545,145	\$27,515,048	\$6,878,762
5640_	Conferences/Training Services (25%)	\$89,379,877	\$67,034,908	\$22,344,969	\$5,586,242
71090	Cap Pri - Cnslt Svcs - Architects - State Projects (100%)	\$42,399,498	\$24,228,285	\$18,171,214	\$18,171,214
71100	Cap Pri - Cnslt Svcs - Engineers - State Projects (100%)	\$250,897,796	\$154,398,643	\$96,499,152	\$96,499,152
71105	Cap Pri - Cnslt Svcs - Bridge Inspection (100%)	\$28,012,711	\$18,675,140	\$9,337,570	\$9,337,570
71110	Cap Pri - Cnslt Svcs - Engineering Supervision (100%)	\$85,728,366	\$52,755,917	\$32,972,449	\$32,972,449
71115	Cap Pri - Cnslt Svcs - Material Testing (100%)	\$7,709,129	\$4,744,079	\$2,965,049	\$2,965,049
71120	Cap Pri - Cnslt Svcs - Other (50%)	\$38,192,235	\$22,829,270	\$15,362,966	\$7,681,483
	Subtotal	\$1,421,554,186	\$556,065,095	\$865,489,091	\$417,016,081
5699_	Other Services (Chapter 5 for detailed explanation)	\$1,700,013,487		\$156,569,389	\$83,198,393
	Total Cost:	3,121,567,673	Total Projected Annual Savings:	\$712,634,484	\$500,214,474

Table 15

**Estimated Savings If State Employees Replace Professional Service Consultants
in Selected State Agencies**

Cat	Category Description	Actual Consultant Cost FY 2006-07	Estimated Cost With State Employee 100% of Work	Estimated Savings With State Employee Doing 100% of Work	Estimated Savings With State Employee Doing Specified % of Work
5620_	IT Consultant - Design/Develop (100%)	\$188,399,894	\$36,394,033	\$152,005,861	\$152,005,861
5624_	IT Software Installation/Integration (50%)	\$11,829,351	\$7,057,239	\$4,772,112	\$2,386,056
5626_	IT Software Maintenance (50%)	\$76,572,753	\$45,682,324	\$30,890,430	\$15,445,215
5629_	IT Services - Other (30%)	\$118,314,798	\$94,449,945	\$23,864,853	\$7,159,456
5631_	Accounting & Auditing Services (50%)	\$11,202,923	\$3,374,375	\$7,828,549	\$3,914,274
5632_	Legal Services (50%)	\$12,245,428	\$8,167,078	\$4,078,350	\$2,039,175
5633_	Medical/Clinical Services (50%)	\$221,309,058	\$158,299,409	\$63,009,649	\$31,504,824
5634_	Client Services (25%)	\$110,054,470	\$82,540,853	\$27,513,618	\$6,878,404
5640_	Conferences/Training Services (25%)	\$86,385,100	\$64,788,825	\$21,596,275	\$5,399,069
71090	Cap Pri - Cnslt Svcs - Architects - State Projects (100%)	\$1,347,077	\$769,758	\$577,319	\$577,319
71100	Cap Pri - Cnslt Svcs - Engineers - State Projects (100%)	\$132,972,606	\$81,829,296	\$51,143,310	\$51,143,310
71105	Cap Pri - Cnslt Svcs - Bridge Inspection (100%)	\$28,012,711	\$18,675,140	\$9,337,570	\$9,337,570
71110	Cap Pri - Cnslt Svcs - Engineering Supervision (100%)	\$85,728,366	\$52,755,917	\$32,972,449	\$32,972,449
71115	Cap Pri - Cnslt Svcs - Material Testing (100%)	\$7,709,129	\$4,744,079	\$2,965,049	\$2,965,049
71120	Cap Pri - Cnslt Svcs - Other (50%)	\$38,183,450	\$22,824,018	\$15,359,432	\$7,679,716
	Subtotal	\$1,130,267,114		\$447,914,825	\$331,407,748
5699_	Other Services (Chapter 5 for detailed explanation)	\$1,516,323,348		\$108,886,704	\$78,011,220
	Total Cost:	\$2,646,590,461	Total Projected Annual Savings:	\$556,801,528	\$409,418,967

The State Can Save Up To \$12.4 Million Annually By Replacing Accounting & Auditing Consultants with State Employees

To derive our savings estimates for replacing accounting and auditing consultants with state employees we assumed that state employees could do between 50% and 100% of the work currently done by accounting and auditing consultants. The FPI report found that the average hourly rate for state employee accounting and auditing titles was 30.5% of the average of the median of the accounting and auditing consultant backdrop contract hourly rates including the cost of state employee benefits. This cost ratio is consistent with PEF's analysis of accounting and auditing consultant contracts as summarized in Chapter 4 and the consultant salary data from the OSC PS report as shown in Table 11. We used this cost ratio in calculating the accounting and auditing savings in Tables 14 and 15 which show the state could save between \$3.9 and \$8.2 million by using state employees to do some or all of the work currently performed by accounting and auditing consultants.

However, as discussed in Chapters 3 and 4, we know that the accounting and auditing consultant costs in Tables 14 and 15 do not include the Insurance Department's costs for hiring auditing consultants to perform insurance company examinations under "direct-pay contracts." These examinations were almost exclusively handled by state employees in the Insurance Department prior to 1995. From January 1, 2003 to October 7, 2007, the Insurance Department spent over \$27.6 million on contracts with consultant auditors. If this work had been done by state employees it would have cost \$7.7 million, which is \$19.9 million less than the department paid consultant auditors. The average monthly savings over this 58 month period would be \$343,911. This means the Insurance Department could save between \$3.1 and \$4.1 million in a year if it used state employees to perform between 75% and 100% of the insurance company examinations currently performed by consultant auditors. If we add these savings to the savings shown in Tables 14 and 15 we find that **the state could save between \$7 million and \$12.4 million by using state employees to do some or all of the work currently performed by accounting and auditing consultants.** The total potential savings is probably higher because this estimate does not include any accounting and auditing consultant work paid through direct pay contracts in other state agencies. We believe that such direct-pay contracts are probably used by the Banking Department in some of its examinations of banking institutions.

The State Can Save Up To \$42 Million Annually By Replacing Legal Services Consultants with State Employees

To derive our savings estimates for replacing legal services consultants with state employees we assumed that state employees could do between 50% and 100% of the work currently done by such consultants. The FPI report found that average hourly rate for state employee attorney titles was 66.7% of the average hourly rate available through the backdrop legal services contracts. Based on our examination of the current legal services backdrop contracts we believe this estimate is still accurate. Applying this rate differential to the Legal Services expenditures in Tables 14 and 15 we estimate **the state could save between \$2 million and \$42 million annually if it did some or all of its legal services in-house.**

The State Can Save Up To \$63 Million Annually By Replacing Medical & Clinical Service Consultants with State Employees

To derive our savings estimates for replacing medical and clinical service consultants with state employees we assumed that state employees could do between 50% and 100% of the work currently done by such consultants. The FPI report found that average hourly rate for state employee medical and clinical titles (including the cost of their benefits); including physician, psychiatrist, nursing, and pharmacist titles was 71.5% of the average hourly rate available through the temporary personnel backdrop contracts for these medical and clinical professions. This cost ratio is

consistent with PEF's analysis of medical and clinical consultant contracts as summarized in Chapter 4 and the consultant salary data from the OSC PS report as shown in Table 11. Applying this rate differential to the Medical and Clinical consultant expenditures in Tables 14 and 15 we estimate.

The State Can Save Up To \$206 Million Annually By Replacing Consultants Providing Other Professional Services to the State with State Employees

There are three remaining consultant expenditure categories in Tables 14 and 15: Client Services, Conference/Training Services, and Other Services. FPI did not project savings for the Client Services and Conference and Training Service categories and PEF has not examined these types of contracts in detail. However, based on our studies of other types of consultant contracts, an examination of the current temporary personnel backdrop contracts for various client services including dietitians/nutritionists, speech-language pathologists, occupational therapists, and physical therapists, and discussions with members who work in these titles, we believe that we can conservatively do 25% of this work at 75% of the cost (including the cost of state employee benefits). Applying this rate differential to the Client Services consultant expenditures in Tables 14 and 15 we estimate **the state could save between \$6.8 million and \$27.5 million annually if it used state employees to perform between one quarter and all of client services currently provided by consultants**. Applying this rate differential to the Conference and Training Services consultant expenditures in Tables 14 and 15 we estimate **the state could save between \$5.4 million and \$22.3 million annually if it used state employees to perform between one quarter and all of client services currently provided by consultants**.

As discussed in Chapter 2 the "Other Services" Object Code (5699X) is supposed to cover those contractual services expenditures not covered by the 21 more specific object codes for various kinds of contractual services established by the State Comptroller. It is supposed to be used for "services not otherwise classified such as teachers, exam administrators, and religious services." A review of the contract descriptions for the contracts pursuant to which Object Code 5699X expenditures were made during six of the past 12 months, it is clear that New York State does not spend \$1.7 billion a year on "teachers, exam administrators, and religious services."³ In fact, the expenditures processed with this object code included expenditures for the various types of professional services consulting contracts examined in this study (accounting and auditing, engineering services, information technology consulting, legal services, and medical and clinical services). To estimate the amount spent for these purposes, we calculated the expenditures pursuant to contracts with Contract Category Codes applicable to those purposes and applicable to all state agencies.⁴ We also identified the IT consulting contracts included within a more general "temporary personnel" contract category code. The result of these calculations was that information technology consulting accounted for about 7.9% of the \$713,947,838.26 of expenditures involved, accounting and auditing services for 2.7%, legal services for .2%, and medical and clinical services for 3.1%. These percentages were then applied to the \$1.516 billion in other services disbursements for the full year for selected agencies as reported in Table 15.⁵

To estimate the savings that might be realized in each of these component areas, we applied the cost factors and assumptions developed in conjunction with the analysis of the relevant applicable categories in the earlier sections of this chapter and applied those same cost factors and assumptions to the "other services expenditures in Tables 14 and 15. The result is that the state could save between \$78 million and \$157 million annually if it had in place a cost-effective approach to "contracting in" in relation to the provision of just this small portion (\$210 million of \$1.516 billion) of its Object Code 5699X expenditures. Combined with the savings estimates for Client Services and Conference and Training Services the state could save between **\$90 million and \$206 million by using state employees to perform a small portion of the consultant expenditures for other professional services**.

Chapter 6

Recommendations to Reduce the Use of Costly Consultants By State Agencies

Summary

The Division of Budget should institute a Consultant Reduction Plan with the goal of achieving \$408 million in annual savings by 2010-11. Additionally, the OSC should provide guidance to state agencies to ensure that the reporting required by the Procurement Stewardship Act is fulfilled.

The state is facing budget gaps of at least \$18 billion over the next three fiscal years. It obviously can no longer afford to waste between \$408.2 million and \$712.6 million annually on costly consultants to do work that can be done by state employees just as well and at a significantly lower cost. While it may be easier to institute a hiring freeze on the state workforce it is clear that such strategies just lead to expensive contracting out that end up costing the State hundreds of millions of dollars annually more than hiring the state employees needed to provide essential public services. The state needs a concrete plan to reduce its reliance on costly consultants with specific annual goals for state agencies to meet that would reduce their unnecessary expenditures on consultants and replace those consultants with state employees.

1. **The Division of Budget should institute a Consultant Reduction Plan with the goal to achieve \$408 million in annual savings by SFY 2010-11.** The plan would achieve these savings in three stages. 25% of the savings, or \$102 million, would be the savings goal in SFY 2008-09 which would be achieved by reducing the number of consultants and replacing them with state employees. The goal for SFY 2009-10 would be an additional 25% savings which would save an additional \$153 million (total SFY 2009-10 savings of \$255 million). The goal for SFY 2010-11 would be the remaining 50% in savings or an additional \$153 million in savings (total SFY 2010-11 savings of \$408 million). **Over the three year time period this plan would save the state \$765 million.** This is a very conservative plan that could be easily implemented by the state.
2. In order to successfully implement the Consultant Reduction Plan the Division of Budget should set savings target for each state agency included in Table 15 for each category of consultant spending. State agencies should focus on reducing their consultant spending for information technology and engineering services as these categories will achieve the greatest savings.
3. OSC should take corrective steps with the agencies identified in this report as miscoding large amounts of their expenditures for consultant services as "Other Services". Over \$1.7 billion in consultant expenditures are coded as "Other Services" which should only include expenditures for "teachers, exam administrators, and religious services. The suspected offending agencies include SUNY and DOH which account for over 60% of the consultant spending classified as "Other Services" as well as DOT, T&F, OTDA, DEC, and OGS. We believe a great deal of the underreporting of expenditures for professional services consulting contracts in the *Procurement Stewardship Act Report* is due to this miscoding and corrective action will yield a more complete and accurate accounting of the number of consultants working in state agencies and their cost.
4. OSC should issue guidance to state agencies as relates to the proper reporting of Backdrop Contracts that provide services that are subject to the reporting requirements of Chapter 10 of the laws of 2006. All state agencies should include expenditures for and the number of consultants hired under Backdrop Contracts in the forms they are required to file by OSC and DCS in order to comply with Chapter 10 of the laws of 2006. This will address some of the under-reporting of consultant expenses and employee that is currently occurring.
5. The Office of State Comptroller should also request that the Insurance Department and any other agency that provides consultant services as defined in Chapter 10 of the laws of 2006 through direct pay contracts, report these expenditures and other data required under Chapter 10 of the laws of 2006 in their filings for the OSC Procurement Stewardship Act Report. The Insurance Department has used direct pay contracts to pay consultant auditors over \$42 million to perform insurance company examinations that can be done by state employee auditors. If this work had been done by state employees it would have saved over \$31 million.

6. In light of the fact that over \$2 billion of consultant expenditures were not reported in the Procurement Stewardship Act Report required by Chapter 10 of the Laws of 2006, the Office of State Comptroller should take the necessary steps to improve the consultant reporting. OSC should direct state agencies not to make final payment to consultants until they have filed the reports required under Chapter 10 of the Laws of 2006 and if necessary make this a condition of all consultant contracts. In addition, both Form A and Form B should be submitted to the State electronically in such a way that would allow the State to release the information in a spreadsheet format, rather than the current pdf format. By requiring the information to be reported electronically the state will be able to better ensure that the forms are filled out completely and properly. The spreadsheet format will allow both the State and other interested parties to easily analyze the data reported and simplify cost benefit analysis.