

Letter Report

Contracting for Print and Mail Services

October 2008



Legislative Audit Bureau

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Janice Mueller
State Auditor

October 2, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed a review of the Department of Administration's (DOA's) oversight of a contract for print and mail staffing services, which we initiated in response to a complaint reported on the fraud, waste, and mismanagement hotline established by 2007 Wisconsin Act 126.

The complaint alleged that DOA was not exercising adequate oversight of contract staff provided by Spherion Corporation, whose employees filled 34.0 of 58.0 full-time equivalent positions in DOA's Bureau of Publishing and Distribution as of June 2008. We did not substantiate any allegations related to workplace safety concerns, a hostile work environment, and fraudulent time recording by contract staff. However, our report includes both a recommendation for DOA to recalculate its cost-benefit analysis related to print and mail service staffing and several strategies to better control state costs associated with DOA's print and mail services.

In fiscal year (FY) 2007-08, DOA spent \$20.4 million on print and mail services, including \$1.7 million paid to Spherion for staffing services. The current contract with Spherion will expire on June 30, 2009, and DOA has begun preparations to solicit bids in October or November 2008. Using a cost-benefit model developed by DOA, we estimate that as much as \$616,500 could be saved in the five-year period from FY 2009-10 through FY 2013-14 if state staff filled all print and mail positions currently filled by contract staff. However, contract costs will be difficult to estimate until DOA has received vendors' bids, and the actual cost of adding state staff is difficult to estimate because of the uncertainty of future salary, fringe benefit, and recruiting costs.

If DOA chooses to continue to contract for some or all print and mail staff in the future, we recommend formalizing billing procedures for supervisory staff, prohibiting the contractor from billing for time new contract staff are trained in the operation of printing and other equipment, and including in the contract standard provisions to impose damages if confidential information is disclosed.

We appreciate the courtesy and cooperation extended to us by DOA and Spherion in conducting this review.

Sincerely,


Janice Mueller
State Auditor

JM/PS/bm

CONTRACTING FOR PRINT AND MAIL SERVICES

The Bureau of Publishing and Distribution in the Department of Administration (DOA) provides print and mail services such as copying, binding, mainframe printing, insertion of materials into envelopes, and mail metering to state agencies, the Legislature (including the Legislative Audit Bureau), and some local governments. It prints and prepares a wide variety of documents for distribution, including checks from the State Controller's Office, vehicle registration forms, biennial budget documents, and informational brochures for state programs. DOA operates its print and mail center 24 hours per day, 365 days per year.

Since July 2000, DOA has contracted with Spherion Corporation, formerly known as Interim Services, Inc., for print and mail staff. Under the current contract, which is in effect from July 2004 through June 2009, Spherion provides a level of staffing specified by DOA and bills monthly at a specific hourly rate for each staff person it provides, based on his or her duties. The current hourly rates billed by Spherion range from \$18.02 for inserting machine operators to \$28.84 for shift supervisors. In addition, Spherion staff earn 80 hours of paid time off and 48 hours of holiday pay annually; DOA is billed at each employee's respective hourly rate when these hours are used.

Since April 2008, 2007 Wisconsin Act 126 has directed the Legislative Audit Bureau to establish a toll-free hotline to receive reports of fraud, waste, and mismanagement in state government and to investigate reports received through the hotline. We initiated this review in response to allegations that DOA has not exercised adequate oversight of the contract staff provided by Spherion, which allegedly resulted in workplace safety concerns, a hostile work environment, and Spherion billing DOA for hours that its staff claimed to have worked but did not.

To address these concerns, we analyzed contract documents, toured the Bureau of Publishing and Distribution facilities and interviewed 17 contract and state staff regarding the working environment, reconciled a sample of Spherion's staff time-recording documents to its invoices for services, and interviewed Spherion managers regarding their personnel and billing policies and practices. In addition, we reviewed staffing and expenditure data and compared the costs of contracting for print and mail services to the costs of hiring state staff. It should be noted that Spherion cooperated fully with our review, allowing us to privately interview its employees and providing us access to all billing and other records we requested.

During the course of our review, we did not substantiate any of the allegations made. However, we did identify strategies to better control state costs associated with DOA's print and mail services.

Print and Mail Staffing and Expenditures

As shown in Table 1, the number of full-time equivalent (FTE) print and mail staff positions filled by state employees decreased by 7.0 FTE positions from June 2005 to June 2008, while the number of Spherion contract staff increased by 5.0 FTE positions. Contract staff filled 50.0 percent of 60.0 FTE positions in June 2005, and 60.3 percent of 58.0 FTE positions in June 2008. DOA managers stated that the number of contract staff has increased because DOA chose to use its position authority to fill positions outside the Bureau of Publishing and Distribution.

Table 1

Number of Full-Time Equivalent Print and Mail Positions¹

Staff Type	June 2005		June 2008	
	Number	Percentage of Total	Number	Percentage of Total
State Employees²	30.0	50.0%	23.0	39.7%
Contract Staff				
Spherion Staff	29.0	48.3	34.0	58.6
Other ³	1.0	1.7	1.0	1.7
Subtotal	30.0	50.0	35.0	60.3
Total	60.0	100.0%	58.0	100.0%

¹ Represents filled positions.

² In addition, DOA employed one limited-term employee in June 2005 and two limited-term employees in June 2008.

³ Represents one contract staff person with administrative support duties who was employed by Hiring and Staff Services, Inc., through June 2008 and became a Spherion employee on July 1, 2008.

DOA funds its print and mail functions with program revenue it receives by charging users for printing, mail, communication, and information technology services. As shown in Table 2, DOA's expenditures for print and mail services increased 17.0 percent in the past four years, from \$17.4 million in fiscal year (FY) 2004-05 to \$20.4 million in FY 2007-08. During this same period, expenditures for postage increased by \$2.6 million, from \$9.0 million to \$11.6 million. However, DOA recovered most of its postage costs through charges to state agencies on whose behalf the documents were mailed.

Table 2

Expenditures for Print and Mail Services

Type	FY 2004-05	FY 2007-08	Percentage Change
Postage	\$ 9,049,400	\$11,587,100	28.0%
Maintenance and Repairs	1,981,000	2,070,600	4.5
Payments to Spherion for Staffing Services	1,577,400	1,743,900	10.6
Salary and Fringe Benefits for State Employees	1,760,000	1,482,800	(15.8)
Supplies and Services ¹	809,300	1,214,400	50.1
Payments to United Mailing Services for Presorting	693,200	1,115,200	60.9
Rent and Lease	581,200	521,400	(10.3)
Administrative and Operating Costs ²	489,100	423,300	(13.5)
Freight and Handling	74,100	90,700	22.4
Telecommunications	85,700	79,500	(7.2)
Equipment	325,900	68,800	(78.9)
Travel and Training	7,800	3,700	(52.6)
Total	\$17,434,100	\$20,401,400	17.0%

¹ Includes information technology and miscellaneous services, as well as printing and other supplies.

² Includes insurance, indirect and overhead costs, and the Bureau of Publishing and Distribution's share of the cost of installing a new air conditioning system in FY 2007-08.

Future Considerations for Print and Mail Staffing

During the course of our review, DOA managers expressed satisfaction with Spherion's services and noted they have a good working relationship with Spherion's on-site manager. However, as DOA begins a new bid solicitation process, we believe it will need to better estimate both the cost of continuing to contract for some print and mail services and the cost of hiring state staff to fulfill these functions.

2005 Wisconsin Act 89, enacted in January 2006, requires agencies to conduct a uniform cost-benefit analysis of each proposed procurement of contractual services involving estimated expenditures of more than \$25,000. It also requires DOA to prescribe procedures for conducting this analysis.

In April 2008, DOA completed a cost-benefit analysis of contracting for print and mail staff from FY 2009-10 through FY 2013-14, which estimated that contracting would save \$950,800 compared to hiring state staff. However, in its analysis DOA used a May 2007 estimate of FY 2007-08 Spherion payments, which was \$1.4 million. Actual payments to Spherion in FY 2007-08 were

significantly higher, and DOA currently anticipates spending up to \$1.8 million in FY 2008-09 for Spherion's services.

It should be noted that the cost of adding state staff is difficult to estimate because of the uncertainty of future salary, fringe benefit, and recruiting costs. In addition, contracting offers benefits such as increased flexibility in increasing or reducing the number of staff, which would have to be considered. For example, DOA indicates that the demand for print and mail services can be cyclical, and using contract staff allows it to temporarily reduce staffing levels during times of low demand.

Using the methodology prescribed by DOA, we independently calculated the cost of contracting for and hiring print and mail staff and, as shown in Table 3, we estimate that hiring state employees would save as much as \$616,500 from FY 2009-10 through FY 2013-14. Our calculation assumes a 1.0 percent increase in state salaries each year, which is the assumption used by DOA in its analysis. However, this may underestimate potential salary increases for state employees. We note that classified print and mail staff will receive a 2.0 percent salary increase in June 2009. If a 2.0 percent increase is assumed each year, total savings would be reduced to \$463,300 over the five-year period.

It should be noted that our analysis did not include costs associated with contract monitoring, which could not be easily determined, and therefore underestimates contract costs. DOA included contract monitoring costs in its analysis, but we believe it overestimated these costs by including supervisory costs that DOA would incur regardless of whether positions were filled with state employees or contract staff.

DOA indicates that it plans to issue a bid solicitation in October or November 2008. The extent to which contracting provides a less costly option than hiring state employees will depend on DOA's ability to negotiate contract terms that are more favorable to the State.

Table 3

Comparison of Estimated Costs of State Employees and Contract Staff

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	Total
Costs of State Employees						
Salaries	\$ 951,800	\$ 961,300	\$ 971,000	\$ 980,700	\$ 990,500	\$ 4,855,300
Fringe Benefits ¹	379,600	383,400	387,200	391,100	395,000	1,936,300
Overhead Costs ²	373,100	373,100	373,100	373,100	373,100	1,865,500
Productivity Loss Due to Leave	142,800	144,200	145,600	147,100	148,600	728,300
Productivity Loss Due to On-the-Job Training	111,000	112,100	0	0	0	223,100
Total	1,958,300	1,974,100	1,876,900	1,892,000	1,907,200	9,608,500
Costs of Contract Staff						
Payments to Contractor ³	1,740,000	1,740,000	1,740,000	1,740,000	1,740,000	8,700,000
Overhead Costs ⁴	247,000	247,000	247,000	247,000	247,000	1,235,000
Productivity Loss Due to On-the-Job Training	145,000	145,000	0	0	0	290,000
Total	2,132,000	2,132,000	1,987,000	1,987,000	1,987,000	10,225,000
Savings Associated with Hiring State Employees	\$ 173,700	\$ 157,900	\$ 110,100	\$ 95,000	\$ 79,800	\$ 616,500

¹ Includes Federal Insurance Contributions Act (FICA) tax, retirement, sick leave conversion, unemployment compensation, wage continuation premiums, health insurance, Employee Trust Funds administrative fees, life insurance premiums, and pension obligation bond payments.

² Includes costs for information technology support and equipment, liability insurance, space, general supplies, worker's compensation, training, and agency overhead.

³ Amount is based on current Spherion billing rates.

⁴ Includes costs for information technology support and equipment, liability insurance, space, and general supplies.

Recommendation

We recommend the Department of Administration recalculate its cost-benefit analysis using the specific cost information contained in vendors' bids and reconsider its assumptions regarding state employee salaries before deciding how to provide print and mail services in the future.

Strategies to Control Contract Costs

Whether it continues to contract with Spherion or a new vendor, we identified three areas in which DOA could better protect itself against unnecessary costs. First, we identified concerns with the current billing procedures for shift supervisors, which could be addressed in future contracts. DOA is billed differently for six Spherion shift supervisors than for other contract staff. Spherion bills for print and mail staff at an hourly rate based upon the number of hours actually worked. When overtime is authorized in advance by state managers, DOA is billed at the overtime rate of time-and-a-half for hours worked in excess of 40 per week. In contrast, Spherion typically bills 40 hours each week per supervisor, regardless of the number of hours a supervisor actually works, which sometimes exceeds 40 and is sometimes is less than 40. DOA and Spherion developed this practice, which is not prescribed in the contract, out of convenience in order to reduce the need for Spherion to request overtime for supervisors. However, during some peak periods Spherion still requests authorization for supervisor overtime, which is billed at a time-and-a-half rate for hours worked in excess of 40 per week.

In May 2008, Spherion's on-site manager first began tracking the number of hours actually worked by supervisors because of his concern that some supervisors were frequently working less than 40 hours per week. Previously, this information was not retained. Using the 14 weeks of data available, we estimate that if Spherion had billed DOA for supervisory time by using its billing procedures for other print and mail staff, DOA would have saved \$900 during this 14-week period, or an estimated \$3,300 for the full year. To avoid incurring unnecessary costs, we believe that DOA should specify all billing practices in future contracts.

Second, DOA has not enforced contract provisions related to training new contract staff. Contract staff indicated that training typically lasts two to four weeks per piece of equipment. Although the contract requires that new staff remain in a non-billable status while being trained on equipment, DOA has not enforced this provision. Most of the new staff Spherion provides have not been trained on the equipment used by the Bureau of Publishing and Distribution. Therefore, enforcing the contract provisions regarding the non-billable status of contract staff in training would help to reduce DOA's costs, especially when Spherion employees choose to stay at DOA a short time. For example, Spherion indicated that during the past year, six of its employees remained at DOA for six months or less.

Finally, the current contract does not include language allowing DOA to impose damages for unsatisfactory contractor performance, including security breaches in which confidential information is disclosed. Although the contract solicitation stipulated that the State would assess the contractor liquidated damages of up to \$10,000 each working day that a job was late, this language was removed at Spherion's request and replaced with a clause stating that Spherion will use reasonable effort to ensure that services are satisfactorily performed but will not provide any other express or implied warranties. Spherion noted that if the contract is to include liquidated damages for errors made by its staff, it should also include incentives when Spherion develops more efficient or effective strategies that result in savings. For example, Spherion contends that its efforts have significantly reduced maintenance costs associated with print and mail equipment. Data were not readily available to allow us to assess this assertion; however, DOA agrees that Spherion's on-site manager performs some ongoing maintenance functions that have reduced maintenance costs.

The current contract does require Spherion to have a theft responsibility bond, liability coverage, and worker's compensation coverage, and it allows DOA to cancel the contract at any time without penalty if Spherion fails to meet performance standards or for a substantial breach of security. Nevertheless, language allowing DOA to assess damages for security breaches may provide a useful contract management tool and provide greater assurance that sensitive and confidential information to which contract staff have access will be protected.

We note DOA indicated that in January 2008, Spherion staff did not detect a folding error affecting up to 5,000 tax forms that were mailed with taxpayers' Social Security numbers visible through the envelope window. The contract had no specific liquidated damage provisions, and DOA did not elect to pursue breach of contract damages from Spherion to pay the cost of addressing the security breach, including the cost of credit monitoring for affected taxpayers. DOA noted that it was not appropriate to require Spherion to pay for credit monitoring because it believes Spherion's overall performance has been satisfactory and the number of documents affected represented a small percentage of the total number processed.

DOA indicated that it has developed standard contract terms and conditions related to imposing liquidated damages and requiring contractors to pay the costs of security breaches for which they are responsible. It plans to encourage state agencies to incorporate these provisions into future contracts, where appropriate.

Recommendation

We recommend the Department of Administration:

- *negotiate formal procedures for its current contractor to use when billing for shift supervisors, and incorporate these procedures into future contracts for print and mail services;*
- *enforce the contract provision requiring new contract staff to remain in a non-billable status during equipment training, and incorporate this provision into future contracts for print and mail services; and*
- *incorporate into future contracts for print and mail services the standard contract terms and conditions it develops related to imposing liquidated damages and requiring contractors to pay the costs of addressing security breaches for which they are responsible.*

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