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THE FEASIBILITY OF CHARGING PRIVATE CONSULTING FIRMS
FOR TIME AND SERVICES
RENDERED BY STATE EMPLOYEES

by

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Legislative Reference Bureau
University of Hawaii

FOREWORD

This study on the use of state employees by private consulting firms under contract with the State has been prepared in response to Senate Resolution 6 of the Fifth Legislature of the State of Hawaii, Regular Session of 1970, which requested the Legislative Reference Bureau to conduct a study on the feasibility of charging private consulting firms for the time and services rendered by state employees.

The Legislative Reference Bureau would like to acknowledge with special thanks for the cooperation, information and suggestions provided by the state departments and the responding private consulting firms and states.

Henry N. Kitamura
Director

December 1970

LEGISLATIVE REFERENCE BUREAU

FEB 9 1971

STATE OF HAWAII

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SENATE RESOLUTION

REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO CONDUCT A STUDY
ON THE FEASIBILITY OF CHARGING PRIVATE CONSULTING FIRMS FOR
TIME AND SERVICES RENDERED BY STATE EMPLOYEES.

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WHEREAS, private consultants have profited by the use of
time and services of public employees in order to avoid cost in
preparing studies and other data to be sold for a fee; and

WHEREAS, some states have made a policy to charge fees for
time, services and data furnished by its employees for the prime
purpose of expediting interviews with private consultants; and

WHEREAS, the time and services rendered by state employees
should be equated with the profit motives of any business concern
for the purpose of maximizing efficiency and reducing cost; now
therefore,

BE IT RESOLVED by the Senate of the Fifth Legislature of the
State of Hawaii, Regular Session of 1970, that the Legislative
Reference Bureau be and is hereby requested to conduct a study on
the feasibility of charging private consulting firms for time and
services rendered by state employees and to report its findings
prior to the convening of the Sixth Legislature of the State of
Hawaii, Regular Session of 1971; and

BE IT FURTHER RESOLVED that certified copies of this Resolution
be transmitted to the Legislative Reference Bureau and to the
Directors of each Department of the State of Hawaii.

GENERAL INTRODUCTION

Many state departments and agencies from time to time, even under optimum conditions, find it necessary, expedient and prudent to utilize the services of outside or private consulting firms in solving some of their planning, organizational, managerial or technical problems. The hiring of private consulting firms for any of the mentioned types of services may be required when: (1) the governmental department lacks the necessary manpower or staff expertise, (2) the magnitude and urgency of the problem demand immediate attention, or (3) objectivity of an independent outside opinion will overcome the credibility problem.¹

Legislative Action

As the scope and complexity of governmental problems increase, it is uneconomical to maintain staffs equipped with the total range of capabilities and skills needed to solve them, and the practice of hiring private consulting firms to cope with some of these problems is becoming more prevalent in state government.² Because of the frequency with which the State hires private consulting firms, the Legislature has expressed a concern over the use of state employees by private consulting firms under contract with the State. Senate Resolution No. 6 of the Fifth Legislature of the State of Hawaii, Regular Session of 1970, requests the Legislative Reference Bureau to conduct a study on the feasibility of charging state-contracted private consulting firms for the time and services rendered by state employees. It expresses the concern that:

1. Private consultants have minimized costs for themselves by using state employees, gratis, while charging the State a fee for consultant services;
2. State employees have not always been used discreetly and expeditiously by private consulting firms under contract with the State; and
3. The State needs to consider ways on increasing efficiency and reducing costs in its contractual relationships.

Definition

In this study, the term private consulting firm is defined to include the following: (1) individuals, (2) profit-making private consulting firms, and (3) nonprofit agencies and professional associations.³ The individual private consultant is often a person who has a profession or other private employment, e.g., a university faculty member. His role as a private consultant requires only a portion of his time and his consultant work is usually performed after his regular working hours. In general, individual private consultants are given short-term contracts and usually do not require the assistance of state employees.

The second type, or profit-making private consulting firms, can be categorized as follows: (1) financial consulting firms including bonding brokerage firms for the placement of bond issues, and independent auditing firms; (2) management consulting firms providing professional services in the areas of reorganization, personnel systems analysis and control, efficiency analysis (PPBS), data processing equipment and adaptation and/or innovation and curricula development and/or evaluation; (3) engineering consulting firms conducting feasibility studies and/or cost studies on highways and capital construction planning; (4) urban development planning consulting firms preparing

land use maps and feasibility studies on conservation, zoning laws, economic base and transportation; and (5) ad hoc or other private consulting firms, including firms used for insurance review and architectural review.⁴

Nonprofit agencies and professional associations are organizations that do not include a margin of profit in their cost estimates and offer assistance to county and state governments in various areas of governmental activities. The Public Administration Service, Institute of Public Administration, Brookings Institute, and the National Council on Crime and Delinquency are a few examples of nonprofit agencies and professional associations.

SCOPE OF STUDY

For the purposes of this study, the terms private consulting firms and private consultant are used interchangeably and refer to the private consulting firms as previously defined. This study is concerned only with private consulting services that are purchased by the State, such as audits, management surveys, engineering cost or feasibility studies and other research. Excluded from this study are contracts for the purchase of construction, medical and legal services, including engineering and architectural services involving design and planning.⁵ However, engineering and architectural services involved in preliminary survey or cost feasibility studies, conducted prior to construction, are included. Also excluded are consultants hired by private industry and other governmental jurisdictions, although such consultants occasionally seek information from the State.⁶ For example, a typical situation would be where the Department of Planning and Economic Development provides statistical or analytic data to a private consulting firm under contract with a real estate developer to conduct a study on the future housing needs of the State.

The major objective of this study is to provide recommendations for maximum efficiency and to reduce costs to the State in the hiring of private consulting firms. In order to achieve a better understanding of this objective, a review of the policies of other states and Hawaii and the applicability of certain alternatives, such as the charging of the time and services rendered by state employees to private consulting firms under contract with the State, will be presented.

USE OF PRIVATE CONSULTING FIRMS-- POLICIES OF STATES

In July, 1970, the Legislative Reference Bureau initiated a survey of policies in other states. Ninety-two per cent of the states (45 of 49), responded to a questionnaire which specifically requested information relative to each state's policy on the use of state employees by private consulting firms which were under contract to the State.

Authority of State Departments to Hire Private Consultants

Of the majority of the forty-five states responding, there is no specific statutory authorization or prohibition against the hiring of private consulting firms. Consulting contracts are usually the responsibility of the initiating state agency or department.⁷ In some states as Illinois, for example, studies on various governmental problems are handled by a special study commission created by statute or resolution.⁸ In other states, such as New Hampshire and as of June 9, 1969, Hawaii, the governor is the ultimate authority who approves the hiring of a private consulting firm to handle an agency or departmental project.⁹

State Policy on the Hiring of Private Consultants

As a whole, despite the growing use of private consulting firms in state government, few states have sought to formulate and implement a general state policy covering all departments and agencies on the hiring of private consulting firms or the use of state employees by private consulting firms under contract with a state. In this study, a general state policy on the hiring of private consulting firms is considered to exist if a central department or agency, such as Budget and Finance or Accounting and General Services, issues directives or guidelines to achieve the following objectives:

- (1) To assist departments in the initial determination of the need for private consulting services;
- (2) To help secure the proper selection of private consultants; and
- (3) To set up, where necessary, approval and certification procedures in the hiring of private consulting firms.¹⁰

According to these criteria, only four of the forty-five responding states and Hawaii have a general state policy on the hiring of private consulting firms: California, Illinois, Pennsylvania and Washington. In California, these guidelines primarily relate to the development of proposed contracts for consultant services and rates of consultant compensation. In Hawaii, they relate to the need for consultant services and the conditions under which contracts may be entered. In Illinois, Pennsylvania and Washington, detailed directives concerning the need and selection of consultant services are in effect.

State Policy on the Use of State Employees

The majority of the states have no established policy concerning the practice of charging private consulting firms for

the time and services rendered by state employees. Forty-three of the forty-five, Ohio and California being the exceptions, have not considered establishing a charge policy for one or more of the following reasons:

1. They were satisfied with the work of private consulting firms and considered any assistance by state employees as "credit" against the fee charged by the private consultant for which adjustments are made during the contract negotiation.
2. State employees who assist private consulting firms do so during vacations or after working hours and are paid directly by the private consulting firm with the approval of the department head.
3. They have not used private consulting firms often enough to establish or consider any policies and practices relative to the use of state employees.

Ohio, after conducting a study, rejected the idea of charging for the use of its employees for the following reasons:

1. The State benefits from the knowledge gained by the studies done by the private consulting firms and this was thought to be a sufficient return for the State.
2. Several types of jobs require the public servant to spend considerable time with the public in conference, both formal and informal. It would be difficult to charge private consulting firms for the time the state employees spent with them, asking and answering the same questions he was hired to do for the public in general.
3. Finally, the process of keeping track of the time spent with consulting firms would require an extensive system of overseers in each department to supervise the billing and the rate of charge. The problem of dividing an employee's time into segments spent with a consulting firm would be disruptive to many departments.¹¹

California does charge private consulting firms under contract to other governmental jurisdictions who use the state employees' time and expertise in developing information which is utilized by the private consultants to fulfill their contractual obligations. A recent management memo issued by the California Director of Finance, and sections 8755 and 8766.1 of the California Administrative Manual (see Appendix A), establish the policy of charging for the services rendered by state employees. This policy was adopted statewide after the experience of one department, on a pilot basis, indicated that the practice of charging a fee greatly expedited interviews. According to the findings private consultants who know that they are going to be paying a fee for interviews with state employees come in with work far better organized and leave promptly, completing in one hour what might otherwise have occupied a half day.¹²

As evidenced by the response to the questionnaire there is a diversity or lack of a uniform policy even among the departments of one state which makes it difficult to describe a typical policy or prevailing practice for the majority of the responding states. On the basis of the survey, however, some conclusions may be drawn:

1. For the most part, state agencies and departments are allowed to contract for private consultant services at their discretion. In a few states, consultant contracts are handled under specific legislative enactments and in others, upon the approval of the governor.
2. Many of the details of participation by state employees are worked out during the contract negotiations, crediting the time and services of state employees against the consultant cost.
3. Ohio and California are the only states that have considered the problem of charging private consultants for the services performed by state employees.

STATE POLICY OF HAWAII

Prior Approval Procedures for the Hiring of Private Consultants

Since Act 270, Session Laws of Hawaii 1959, the following proviso has been included in each state operating budget:

No funds appropriated in this Act shall be used by a department for the purpose of conducting a study or survey of its management practices or of any other matter, except as authorized by this Act or any other Act of the Legislature, or by a legislative interim committee on reorganization, or by the Governor if there be no legislative interim committee in existence.

With the issuance of Administrative Directive 1969-1, dated June 9, 1969, and as supplemented by Administrative Directive 1969-3 on August 26, 1969, all studies or surveys of state departments or agencies are now subject to the prior approval of the governor (see Appendix B). Taken together, these directives establish a standard of control and uniformity regarding the hiring of any type of private consultants by requiring the departments to first submit a "Request for Permission to Engage the Services of a Consultant" to the Department of Budget and Finance. The request must contain: (a) a justification for consultant services, (b) a description of the nature and scope of the services for which a consultant is needed, (c) the final product to be delivered by the consultant, (d) the period for which the consultant will be hired, and (e) an approximation or estimation of the cost of consultant services. After analysis of the request, the Director of Budget and Finance makes appropriate recommendations for approval to the governor. Then, under paragraph 2 of section 76-16, Hawaii Revised Statutes, the request is routed to

the Department of Personnel Services for certification that the consultant services are "unique" or "special" and "essential to the public interest" and therefore, exempted from the civil service law. After the hiring department negotiates a contract with the private consulting firm, the contract is sent, under the authority of section 28-4, Hawaii Revised Statutes, to the Department of the Attorney General for approval as to form and legality, followed by a final approval by the comptroller who, under section 103-39, Hawaii Revised Statutes, must certify as to the availability of funds.

Survey of Consultant Contracts of State Departments

In addition to the survey of other states, an extensive survey was conducted of the state departments in Hawaii. In a letter accompanying a questionnaire, each department was requested to provide the following information on consultant contracts for the period December 1967 to December 1969: (1) the name of the private consulting firm hired, (2) the nature of the project for which the firm was hired, (3) the time period of the project and the fee paid, (4) the type of state personnel who participated in the project, (5) the average salary for each type of state personnel, (6) the type of work performed by the state personnel, (7) the number of hours each type of state personnel assisted the consulting firm, (8) the kinds of materials and supplies used, and (9) the cost of the materials and supplies provided the consultant at no charge. Unfortunately, much of the information regarding consultant contracts was too complex to lend itself to a detailed breakdown and some departments were forced to turn in modified responses. Also, because the departments are not required to keep records on items four through

nine, the information provided are only estimates based on the recall of project heads. On the basis of data that were furnished, covering the period from December 1, 1967 to December 30, 1969, the State of Hawaii has spent approximately \$8,108,452 for consultant services. These services were provided by some four hundred ninety-nine individuals and private concerns. (For breakdown by departments, see Appendix C.) Services provided ranged from a cost benefit analysis of tourism in Hawaii for the Department of Planning and Economic Development to a master plan on water uses and quality standards for the Department of Health. Amounts spent were as low as \$10 to pay an educational consultant on disadvantaged children and as high as \$143,894 for a comprehensive review of the land use districts and regulations.

Most of these expenditures were authorized in the general appropriation and capital improvements acts passed by the Legislature during the base period, December 1967 to December 1969. Others were the subject of special legislative authorizations and appropriations.¹³ The departments responding to the questionnaire reported that most of the funds used to pay consultant fees were state monies, but in some cases, where they were difficult to apportion, federal funds or monies contributed by county governments or nongovernmental sources may have been included.

Survey of State Participation in Consultant Contracts

Use of state employees by private consulting firms under contract with the State during the base period, amounted to approximately one hundred forty-seven state employees. These employees rendered an estimated 19,328 man-hours of assistance to thirty-eight of the four hundred ninety-nine private consulting firms under contract with the State. The types of

state employees utilized ranged from an economist to a cashier and a district curriculum specialist to a student helper. Stenographers and clerk typists were the types of state employees most frequently used.¹⁴

In thirty-seven of the projects, state assistance was outlined in the terms of the contract and was used as credit against the consultant's fee, with the fees being adjusted accordingly. The one exception was the unforeseen necessity of using twelve social workers for the statewide correctional study, conducted by the National Council for Crime and Delinquency for the Department of Social Services. However, because the study was under a rigid time schedule and the specialized nature of the work to be performed, the State allowed the private consulting firm to use the social workers at no charge.¹⁵

Experience of State Personnel with Consultant Contracts

In order to determine the experiences of state personnel with private consulting firms under contract with the State, interviews were arranged with representatives of the state departments that had the bulk of the consultant contracts during the base period. Although the Department of Taxation did not have any consultant contracts during the base period, a representative of the department was interviewed because of the frequency with which the department is asked to provide data to private consulting firms under contract with another state department. The Department of Education was not interviewed because most of its contracts were with individuals and, as indicated earlier, such consultants generally do not require the assistance of state employees. The Department of Transportation was also not interviewed because it was difficult to

determine which department contracts dealt with actual construction as opposed to cost or feasibility studies. Moreover, the department's fiscal reporting format did not lend itself to analysis.

A summarization of the viewpoints of the departments interviewed are that state and public interests have been sufficiently protected under the present arrangement.¹⁶ Each expressed satisfaction with past experiences concerning the working relationship between the department and the private consulting firm. When questioned specifically on the use of state employees by private consulting firms, all of the interviewees affirmed that state participation is usually credited against the consultant's cost and is outlined in the terms of the contract. When an unforeseen situation occurred, private consulting firms were provided with the services of state employees, not necessarily because this was provided under the terms of the contract or used as credit against the consultant's cost, but because the State deemed it as the most expedient method to solve the problem.¹⁷ As a whole, the use of state employees by private consulting firms were viewed by the departments as beneficial for the State, allowing for interaction and exchange of ideas and resulting in lower fees of consultant contracts.¹⁸

RECOMMENDATIONS

Ramifications of the Charge Method

Because of the emphasis contained in the language of Senate Resolution No. 6, the feasibility of charging private consulting firms for the time and services rendered by state employees was specifically considered as a method of increasing government efficiency and possibly, reducing costs. To evaluate this

method, interviews were arranged with representatives of seven private consulting firms with local branches. Letters were also sent to twelve mainland private consulting firms that were used by the State within the base period. The possible ramifications of adopting the charge method were specifically explored, along with suggestions for improving the present system of dealing with private consulting firms. The ramifications of adopting the charge method, as expressed by the private consulting firms contacted, in summary, are:

1. A decided effect on the fee to be charged to the State--the State would be recharged for the use of its state employees and would also pay for the carrying charge which would include the extra time and personnel the consultant would bear to keep accurate records on the use of state personnel.
2. A method of policing and accounting would have to be developed by the State for charging the outside consulting firm for the time and services of state employees. Some of the questions that need to be considered in developing a method are: Is there to be a central accounting system? Does the State charge the consultant by the hour, by the type of state employees that is used, by the salary of the employees or by the amount and/or type of data that are provided to the consultant?
3. Another avenue for adding on profit to the handling charges may be opened for the consultants.

Instead of adopting a rigid charge policy, the private consulting firms believe that the present system of state participation, with possibly some modifications, is necessary because it allows for:

1. Training of state employees and providing the consultant with the local "slant" on the problems being studied as well as leaving someone on the staff with a knowledge of what transpired during the consultation.

2. Reduced costs for the State, as the cost of the consultant staff to do the same work would be substantially higher.

Recommendations of Private Consulting
Firms and Their Evaluations

The private consulting firms who have worked for the State in the past have the following recommendations on how the State could possibly increase its efficiency and reduce costs when hiring private consulting firms:

1. The objectives and scope of the study should be stated in advance as clearly as possible.
2. The consultant's work plan should be carefully reviewed in detail and the assigned manpower and estimated man-days of work should be checked for validity and reasonableness as well as the portions of the project to be completed by the state employees and the portions to be completed by the consultant.
3. Progress should be reviewed at least monthly with the consultant to determine if he is on target, both with respect to work accomplished and budget consumed.
4. The substantive work accomplished and the work plan for the immediate future should be reviewed and examined on a monthly basis. In doing so, the undertaking of certain fact-finding investigations may prove to be unnecessary or unimportant from the department's point of view.¹⁹

It appears that the above suggestions would give the proper balance required of consultant contracts in that control over the project would be vested in the hiring agency and enough flexibility would be given to the consultant to exercise judgment and initiate innovations. Although it may be difficult to provide standard regulations that would be equally applicable to all departments, because of the many areas of specializations

of the departments, the possible benefits to be derived from adopting such standards would seem to be worthy of further consideration. It could safeguard against the results of being disappointed with an unwanted end product or of avoiding the situation where the consultant feels that he has met the terms of the contract satisfactorily, but the hiring department feels that the consultant has failed to meet the terms of the contract.

The reasons for Ohio's rejection of the charge policy may also be applicable to the existing situation in Hawaii. On the basis of the interviews with the representatives of the state departments, it appears that the State has benefited from the knowledge gained by the studies and that to account for the time that state employees have assisted private consulting firms would require an extensive system of record keeping.

Finally, the practice in California should be applied to Hawaii only after a careful review is conducted on the frequency with which private industry and other governmental jurisdictions use state employees and the reciprocal relationship the State has with private industry and other governmental jurisdictions. If the State is provided with similar assistance by private industry or other governmental jurisdiction, it should consider the repercussions the charge policy may have.

CONCLUSION

In a constant attempt to strive for economy and efficiency, the State appears to view the use of private consulting firms as one way of bringing about improved state operations in an environment of increasingly complex governmental problems. Making decisions on when, where and how to use private consulting firms is admittedly difficult in state government, but it is also vitally important to have maximum and efficient use of state

resources. The Legislature is cognizant that, while good sense and economy dictate the use of private consulting firms to augment the available state resources, consulting fees are a significant expense to the State. To receive the optimum benefits from the use of private consulting firms, the Legislative Reference Bureau was requested to conduct a study on the feasibility of charging private consulting firms for the use of state employees.

Our findings indicate, however, that the ramifications of a charge policy would increase rather than decrease costs and provide unnecessary complications for the State. In fact, there seems to be no "mechanical" methods for controlling the effectiveness and efficiency of consulting services. Perhaps, in addition to reviewing the suggestions made by the private consulting firms, consideration should be given to the desirability of having standards for evaluating the consultant's work and putting the recommendations into effect.²⁰ The reviewing of these suggestions may help the process of uncovering valuable answers to the effective, efficient and economical use of private consulting firms in state government.

FOOTNOTES

1. Robert D. Bell, Use of Outside Consultants in Government (St. Louis, Missouri: 1969), p. 3.
2. Philip W. Shay, "How to Get the Best Results from Management Consultants," Association of Consulting Management Engineers, Inc. (New York: 1965), p. 4.
3. Council of State Governments, Policy on Use of Consultants in State Government (Chicago: 1968), p. 1.
4. Herbert M. Kagi, "The Roles of Private Consultants in Urban Governing," Urban Affairs Quarterly, 5:1 (September, 1969), pp. 48-49.
5. Medical and legal services have been excluded because they are usually oral consultations rendered by individual consultants as identified in the definition. Engineering and architectural services involving design and planning and construction services were excluded because they do not require the assistance of state employees.
6. It is our understanding, through subsequent clarification by the sponsor of the Resolution that the intent of the study is to include only private consulting firms under contract with the State.
7. Based on the replies of the forty-five responding states.
8. Letter dated July 14, 1970, per George A. Nichols, Deputy Secretary of the State of Illinois Legislative Reference Bureau.
9. Council of State Governments, op. cit., p. 2.
10. Ibid., p. 4.
11. Letter dated July 15, 1970, per William P. Lewis, Director of the State of Ohio Legislative Reference Bureau.
12. Letter dated September 15, 1970, per Earl Coke, Secretary of the Agriculture and Services Agency of the State of California.

13. For example, Act 125, Session Laws of Hawaii of 1967, appropriated the sum of \$40,000 to study, review and revise the criminal, correctional and juvenile laws of the State and Act 229, Session Laws of Hawaii of 1969, made an appropriation of \$20,000 for a study on the retirement benefits and cost of living by the Employees' Retirement System.
14. Compilation of data received from state departments.
15. Interview with Mr. Ray V. Belnap, Director of the Corrections Division Administration of the Department of Social Services on October 1, 1970.
16. The representatives of the various state departments that were interviewed are: Mr. Edward Greaney, Deputy Director of Planning and Economic Development; Mr. Hiram Kamaka, Director of Budget and Finance; Mr. Charles James, who was at the time of the interview Assistant Vice-President of Business Affairs and Director of Auxiliary Services at the University of Hawaii; and Mr. Stanley Ooka, Assistant Director of the Property Technical Office of the Department of Taxation.
17. Conclusions drawn from interviews with representatives of state departments.
18. All representatives of private consulting firms interviewed reported that consultant fees will rise with the adoption of the charge policy.
19. Consensus of letters from private consulting firms.
20. Council of State Governments, op. cit., p. 5.

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Appendix A

MANAGEMENT MEMO

NO.

SUBJECT:

DATE ISSUED:

Charges for Services to Other Than State Agencies

REFERENCES:

EXPIRES:

TO: ALL STATE AGENCIES

A number of State agencies are authorized to perform services for individuals, firms, corporations and other governmental jurisdictions. Provisions for charging for these services are outlined in Section 8700 et seq of the State Administrative Manual.

Many private, profit-oriented firms under contract to other governmental jurisdictions, rather than contract with these agencies for services, have utilized countless hours of State employees' time and expertise in developing ideas, data and systems by the simple expedient of the personal interview. This information is then utilized by the firm to fulfill their contract obligations.

To discourage unwarranted use of the time and talent of State employees as consultants, at the expense of the taxpayer, private firms should be notified that any consultation with an employee which requires in excess of one hour of his time will be treated as a service for which charges will be made in accordance with Sections 8755 and 8755.1 of the State Administrative Manual.

WERNE ORR
Director of Finance

Distribution: A B C D M O

STATE ADMINISTRATIVE MANUAL
MISCELLANEOUS ACCOUNTING PROCEDURES

* * *

CHARGES FOR SERVICES TO OTHER THAN STATE AGENCIES (Revised 8/67) 8755

Many state agencies are authorized to perform services for individuals, firms, corporations, other governmental jurisdictions, etc. and charge for them at cost. Charges for such services will include all appropriate costs. (See Section 8755.1.) In order to maximize interest earnings, services provided will be billed for promptly. Progress billings will be made for services provided over an extended period.

In situations where charges are made for services to the Federal Government or other governmental jurisdictions, agencies will, if possible, arrange for advances rather than subsequent reimbursements. (Where an agency makes expenditures from a state fund -- such as the General Fund -- and later has that fund reimbursed by a federal or other trust fund in the State Treasury, it will at least assure that moneys are received by the trust fund from the jurisdiction served by the time the expenditures are made from the state fund -- rather than by the later date -- often a month later -- that the state fund computes the charges and bills the trust fund.)

COST ELEMENTS INCLUDED (Revised 2/70) 8755.1

The following costs will be included in developing charges for such services unless otherwise specified by law:

1. Direct Costs

- a. Identifiable salaries and wages incurred in rendering the service, computed at the rates prescribed in Section 8740 and 8740.1.
- b. Identifiable operating expenses incurred in rendering the service, such as the cost of materials, travel expenses, pool car rental expense, long distance toll charges, etc.
- c. Charges for other than incidental use of major equipment, such as heavy road and construction equipment, vehicles, punched card and data processing equipment, etc. at rates per mile, hour, etc. based upon costs of ownership, maintenance, and operation.

2. Overhead Costs:

Proportionate shares of unit, bureau, division, and department administrative, supervisory, and executive expense and indirect clerical expense, including expense for salaries and wages; state expense for employee retirement, social security, health benefits, and Workmen's Compensation; and general operating expenses.

The amount of overhead costs to be allocated to each direct labor hour worked by a unit may be computed by:

- a. Prorating the actual or estimated annual bureau, division, and department overhead to the unit concerned in the ratio that the total actual or estimated annual salaries and wages expense of the unit bears to the total actual or estimated annual salaries and wages expense of all units.
- b. Adding the amount determined in (a) above to the actual or estimated annual unit overhead of the unit concerned.
- c. Dividing the sum determined in (b) above by the total actual or estimated number of working hours during the year (at 1,814 hours per employee) for all employees of the unit except administrative, supervisory, or executive personnel. Department executive and administrative expense normally will include the expense of boards; the executive office; and the accounting, personnel, legal, business management, statistical, and similar units.

3. Other Costs:

Costs not paid by the agency. Normally special fund agencies are charged for General Fund services and the use of General Fund facilities. Therefore, such costs for special fund agencies normally will be included under Overhead Costs. Agencies supported from the General Fund, however, do not pay for several types of state expense that are borne by the General Fund. Pursuant to Government Code Section 11010, agencies supported from the General Fund must include in their charges for services to other than state agencies a charge for the following costs not paid by the agency which are not included in Direct Costs or Overhead Costs above:

- a. General administrative pro rata costs.
- b. Attorney General's services.

Each agencies' costs for these services will be furnished upon request by the accounting offices of the Departments of General Services and Justice respectively.

ACCOUNTING (Revised & Renumbered 2/65)

8755.2

The reimbursements will be accounted as appropriation reimbursements of the appropriation to the agency current at the time the service was performed. The fact that these reimbursements will include reimbursements of some costs not paid by the agency will be considered in budgeting.

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Appendix B

EXECUTIVE CHAMBERS
Honolulu

JOHN A. BURNS
Governor

June 9, 1969

ADMINISTRATIVE DIRECTIVE NO. 1969-1

TO: All Department Heads

SUBJECT: Approval of Consultant Contracts

Consultant contracts, as herein defined, shall be submitted to this office for approval prior to execution and prior to the Comptroller's issuance of certification as to the availability of funds.

As used in this directive, a consultant contract is any agreement between the State of Hawaii and an independent contractor for services the charges for which may be either a lump-sum amount or an amount measured by a unit of services rendered.

The following categories of consultant contracts are exempt from the requirements of this directive:

1. Medical Services
2. Legal Services
3. Engineering and Architectural Services

Other categories of consultant contracts may be exempted from the requirements of this directive only by written approval from this office upon advice and recommendation of the Comptroller.

The requirements of this directive become effective for all consultant contracts that have not as of this date been executed and certified by the Comptroller as to the availability of funds.

/s/ John A. Burns

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EXECUTIVE CHAMBERS
Honolulu

JOHN A. BURNS
Governor

August 26, 1969

ADMINISTRATIVE DIRECTIVE NO. 1969-3

TO: All Department Heads

SUBJECT: Supplemental Instructions Governing the Approval of
Consultant Contracts

Supplementing instructions issued under Administrative Directive No. 1969-1, departments contemplating the engagement of consultant services are hereafter advised to submit to this office a "Request for Permission to Engage the Services of Consultant." The request should include the following information and other pertinent data as may be appropriate:

1. Reasons for requiring the services of consultant.
2. Describe the nature and extent of services for which consultant is to be engaged.
3. The product to be delivered (documented report, implementation of a system, etc.).
4. Period for which consultant is to be engaged.
5. Probable cost -- a rough estimate will suffice.

All requests should be submitted prior to any negotiation for or with consultants. Route all requests through the Budget Office. A single page should be sufficient.

Approval of the request will constitute authorization to proceed with the negotiations for consultant services for the purpose requested. Contracts are to be reviewed by the Department of Budget and Finance before execution.

The exemptions from this process granted by Directive 1969-1 is to be strictly construed -- for example, "Engineering and Architectural Services" does not include development planning.

/s/ John A. Burns

Appendix C

HAWAII STATE DEPARTMENT EXPENDITURES
FOR CONSULTANT SERVICES
DECEMBER 1967 TO DECEMBER 1969

<u>Department</u>	<u>Number of Consultant Contracts</u>	<u>Expenditures on Consultant Fees</u>
Accounting and General Services	2	\$ 55,706.50
Agriculture	0	0
Attorney General	0	0
Budget and Finance	49	930,776.92
Defense	0	0
Education	320	332,652.30
Hawaiian Homes	0	0
Health	8	92,056.25
Labor	0	0
Land and Natural Resources	0	0
Personnel Services	7	13,230.00
Planning and Economic Development	33	894,315.69
Regulatory Agencies	1	24,485.42
Social Services	1	72,755.00
Taxation	0	0
Transportation	66	5,428,072.79
University of Hawaii	12	264,402.00
Governor's Office	--*	--
Lieutenant Governor's Office	0	0
Total	499	\$8,108,452.87

*Failed to return questionnaire.