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**District's Privatization Initiative Flawed
By Noncompliance and Poor Management**

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor reviewed compliance with the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended.

CONCLUSION

The District's Chief Procurement Officer (CPO) did not promulgate rules and regulations for use by agency contracting managers and officers in implementing the Privatization Act. The CPO had not established a uniform methodology to be used by agencies in performing cost/benefit analyses. As a result, the Auditor could not determine whether the provisions of the Act were complied with when privatization contracts were awarded.

The Office of Contracting and Procurement failed to establish and maintain a database of privatization contracts awarded by District agencies. The failure of OCP to maintain information relative to privatization contracts resulted in the Auditor having to contact District agencies directly in an attempt to obtain the information necessary to facilitate the review. The Auditor's review indicated that District agencies generally have not fully embraced privatization and have not adequately complied with the Privatization Act. The Auditor found numerous deficiencies such as an overall failure among agencies to maintain complete, credible, and coherent records regarding the contracting out of government services; failure to prepare cost/benefit analyses, failure to periodically evaluate privatization contracts to determine whether savings are being achieved, and failure to adequately monitor performance and the quality of services delivered under privatization contracts.

Agencies could not adequately respond to the Auditor's questions or provide documentation pertaining to privatization contracts. Of the 10 agencies that responded to the Auditor's survey for information, 8 could not provide a cost/benefit analysis. Basic information that should have been available such as a listing of privatized services that were previously performed in-house, the amount of cost savings achieved under privatization, and the impact of contracting out government services could not be provided in many instances. The Auditor found agency responses to be inadequate, insufficiently supported, or non-responsive.

No information was provided to the Auditor which documented agencies' compliance with employee job protection provisions of the Privatization Act or that the Department of Corrections (DOC) implemented any job protection provisions contained in D.C. Act 12-29.

D.C. Public Schools (DCPS) and DOC were the only two agencies indicating that employees were actually terminated as a result of contracting out services previously performed in-house by District employees. Officials from several other agencies indicated that their displaced employees were reassigned to other functions within the agency. Based on discussions with agency representatives and a review of survey responses, it appears that employees of these agencies were not offered an opportunity to bid on the services that were ultimately privatized.

The Auditor found that the principal goals of contracting out government services– to save money, improve government service delivery, and enhance productivity– are not being achieved because of the failure, in part, to monitor and measure cost and performance quality under privatization contracts. Privatization contract administration is affected by the same deficiencies as other District contracts, and more, due to the failure of most agencies to adhere to the provisions of the Privatization Act including a lack of: (1) monitoring; (2) established performance standards; (3) cost and price analyses; (4) sufficient implementing regulations; and (5) general knowledge regarding the mechanics and requirements of privatization. These deficiencies must be corrected. Additionally, monitoring and oversight are essential to ensure that contractors comply with the terms of privatization contracts and achieve established contract performance measures. Without corrective actions addressing these deficiencies, valid determinations cannot be reached as to whether privatized services achieved a cost savings, were delivered economically, efficiently, and in full compliance with the terms of privatized contracts.

FINDINGS

1. Rules and regulations were not promulgated to implement the Privatization Act.
2. Agencies could not adequately respond to the Auditor's questions or provide documentation pertaining to privatization contracts.
3. The District's Chief Procurement Officer did not maintain a database of privatization contracts.
4. Monitoring and oversight of privatization contracts must be improved.

5. Agencies were deficient in performing cost/benefit analyses.
6. The District lacked a uniform methodology for performing cost/benefit analyses.
7. Most District agencies appear not to have conducted a cost/benefit analysis before making a decision to contract out.
8. Twenty-three percent of respondents indicated that contracting out did not produce a savings.
9. Agencies' procedures for determining savings may not have produced reliable results.
10. Calculation of savings did not appear to include all cost elements.
11. Methodology used by some agencies to calculate savings did not comply with the Procurement Practices Act of 1985.
12. Agencies failed to comply with employee job protection provisions.
13. Improvements cited by agencies were not documented.

RECOMMENDATIONS

1. The Chief Procurement Officer must immediately promulgate rules and regulations pursuant to D.C. Code, Section 1-1191.4 governing the preparation of a cost/benefit analysis.
2. The Chief Procurement Officer must ensure that all contracting managers and contracting officers meet training standards and are certified as required by D.C. Code, Section 1-1191.4.
3. The Chief Procurement Officer must actively assist agency program officials in developing a viable process for competitively awarding privatization contracts and ensure that all procedures are followed.
4. The Chief Procurement Officer must develop and maintain a database of privatization contracts awarded by the District government

5. The Chief Procurement Officer and agency contracting officers must ensure that contract files contain all relevant documents and records related to privatization contracts awarded.
6. The Chief Procurement Officer and assigned agency contracting officers must adhere to the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended, to ensure that performance standards are established in each privatization contract and that they are met.
7. The Chief Procurement Officer must develop an effective system of monitoring privatization contracts, analyzing the quality of services provided, and determining the actual costs of services delivered under such contracts. Further, the CPO must develop a standard reporting format to establish uniformity in presenting results of monitoring and review efforts.
8. Agency officials must comply with the Privatization Act when determining whether savings were achieved through contracting out by comparing the contract cost with the cost of performing services in-house. Further, agency officials must include all relevant costs of operating the program or performing the services.

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor reviewed compliance with the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to determine whether:

1. agencies complied with the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended;
2. agencies achieved monetary savings by contracting out services that were previously performed in-house by agency employees;
3. services were efficiently delivered after contracting out; and
4. employees terminated as a result of contracting out were offered an opportunity to bid on contracts.

In conducting this review, the Auditor surveyed 26 District government agencies and offices regarding the impact of contracting out services which had previously been performed by District employees. (See Appendix I for a List of Agencies Surveyed) The review covered contracts that were awarded during fiscal years 1994 through 1999 and included agencies which were subject to the Privatization Act as well as agencies not subject to the Act that had awarded privatization contracts during this period. Contracts awarded by agencies not subject to the Privatization Act were not reviewed for compliance with the law but were included in the sample of all privatization contracts. For example, during a control period the Office of the Chief Financial Officer (OCFO) is exempt from the Privatization Act but privatization contracts awarded by the OCFO during the audit period were included in the report.

The Auditor interviewed contracting officers and other District agency officials, including the District's Chief Procurement Officer (CPO), regarding their role in privatizing District services previously performed by District employees. The Auditor examined the District of Columbia Procurement Practices Act of 1985, as amended, Title 27 of the District of Columbia Municipal Regulations and other applicable laws, regulations, and rules. Where available, the Auditor

examined cost/benefit analyses and other documents related to the privatization of District services and functions.

BACKGROUND

Privatization is defined by the General Accounting Office as "...any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector." The most widely used method of privatization is contracting out. Cities and states have generally used privatization as a means of saving money and improving the delivery of government services.

The District of Columbia Procurement Practices Act of 1985 (D.C. Law 6-85; D. C. Code, Section 1-1181.1 et seq.) was amended by D. C. Law 10-79, entitled "Privatization Procurement and Contract Procedures Amendment Act of 1993" (Privatization Act), effective March 19, 1994. This amendment established policies for contracting with the private sector to provide goods or services to or on behalf of the District of Columbia government that were previously provided by agency employees. The Privatization Act required agencies to show that contracting out would provide savings, over the duration of the contract, of at least 10%, and also required agencies to prepare a cost/benefit analysis comparing the in-house costs of providing the service with the costs associated with contracting out the service.

The District of Columbia Procurement Practices Act of 1985 was further amended in March 1996 by D.C. Law 11-98, entitled the "Budget Support Act of 1995." D.C. Law 11-98 reduced the percentage of savings to be obtained under privatization from at least 10 % to at least 5% over the duration of the contract. The law also included the requirement that privatization contracts contain specific performance criteria, and required the submission of monthly reports on the contractor's compliance with performance criteria.

Separate legislation was enacted to privatize the fleet management services of the Metropolitan Police Department (MPD). D.C. Law 10-253, entitled the "Multiyear Budget Spending Reduction and Support Temporary Act of 1995," effective March 23, 1995, established criteria for the privatization of MPD's fleet management services. The criteria established were similar to those contained in the Procurement Practices Act of 1985 and included a provision for the preparation of a cost/benefit analysis. However, unlike the Procurement Practices Act, D.C. Law 10-253 did not specify a percentage of savings that contracting out should achieve over the duration of the contract.

Further, D.C. Act 12-29, entitled the "Department of Corrections Privatization Emergency Facilitation Act of 1997," effective March 18, 1997, exempted, on an emergency basis, the Department of Corrections' privatization of food services, medical services, inmate finance services, canteen services, time and attendance responsibilities, and the sale and lease-back of the Correctional Treatment Facility. The Act established policies and criteria for privatization that, in most ways, were similar to provisions contained in the Privatization Act.

Results of Survey

The Auditor received responses from 24, or 92%, of the 26 agencies and offices surveyed. Officials from two agencies, the Department of Consumer and Regulatory Affairs and the Office of Property Management, failed to respond to the Auditor's request for information. Ten of the 24 responses received, or 42%, indicated that the responding agency had awarded a total of 26 contracts for services that were previously performed in-house by agency employees. (See Appendix II for a list of privatization contracts identified by responding agencies.) Officials from the other 14 agencies indicated the agency had not awarded any privatization contracts. (See Appendix III for a list of these agencies.)

Similarities Between Managed Competition and Contracting Out

Privatization is not the only methodology involving contracting out services performed by District employees¹. In the District's fiscal year 2000 proposed operating budget and financial plan, the Mayor proposed a managed competition initiative for fiscal year 2000. Approximately \$28.1 million in savings were projected to be achieved by the initiative. An Office of Competitive Services was established within the Office of the City Administrator to implement the managed competition initiative. At that time, several District government programs were under consideration for managed competition. (See Appendix IV for a list of programs identified for managed competition.) However, the managed competition initiative was not implemented as presented in fiscal year 2000.

¹In this particular discussion, the Auditor's use of managed competition and privatization was consistent with the terminology used by the District in its respective budget submissions. Moreover, it is well recognized that contracting out and managed competition are methods used to implement privatization initiatives.

The more recent fiscal year 2001 Proposed Operating Budget and Financial Plan submitted by the Mayor to the Council of the District of Columbia proposed the creation of a new Operational Improvements Division (OID) in the Office of the City Administrator. OID and agencies would use a variety of tools (collectively known as the "toolkit") to improve government operations. Included in the toolkit are Managed Competition and Outsourcing/Privatization.

According to a definition of terms provided by GAO in its report entitled, "Terms Related to Privatization Activities and Processes," privatization and managed competition have similar meanings. As previously stated, privatization has generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector, while under managed competition, a public-sector agency competes with private-sector firms to provide public-sector functions or services under a controlled or managed process. The basic similarities between these initiatives suggest that common concerns may exist regarding their successful implementation.

In a report dated May 7, 1999, entitled "Analysis of the Managed Competition Initiative as Presented in the FY 2000 Proposed Operating Budget and Financial Plan," the Auditor addressed areas of concern regarding the implementation of the managed competition initiative. The concerns discussed in the Auditor's report, many of which are similar to the concerns that must be considered for any privatization initiative, included obtaining accurate cost data for services currently performed by District employees, effective negotiations with labor unions, and establishing and implementing clearly defined policies and procedures. Privatization and the managed competition of District government functions may not be successfully implemented if rules and regulations are not promulgated, employees are not trained in the preparation of cost/benefit analyses, and other provisions of the privatization law are not fully implemented. Further, for both managed competition or any privatization effort, there must be clearly defined lines of authority, responsibility and accountability. A clearly defined organizational structure must be established for both initiatives. Also, concrete action plans must be developed that include clearly articulated goals and objectives and targeted performance measures.

FINDINGS

RULES AND REGULATIONS WERE NOT PROMULGATED TO IMPLEMENT THE PRIVATIZATION ACT

The District's Chief Procurement Officer had not promulgated rules and regulations for use by agency contracting managers and officers in implementing the Privatization Act. Rules and regulations must be established to ensure that all provisions of the law are uniformly implemented by each contracting officer and that consistent standards are used in awarding contracts. The CPO must immediately promulgate rules and regulations in order to fully implement the Privatization Act. The rules and regulations to be promulgated should ensure that:

- solicitations include information as to how District government employees can bid on privatization contracts;
- privatization contracts are submitted to the Council of the District of Columbia for a 45-day review;
- measurable performance criteria are developed and included in all privatization contracts;
- privatization contracts are terminated when a contractor does not comply with contract performance criteria;
- appropriate cost factors are considered in evaluating the total cost to the District of providing the service in-house or through privatization;
- a cost/benefit analysis is prepared for each service or function considered for privatization;
- the cost/benefit analysis is submitted to the Council of the District of Columbia for its review; and
- contractors offer displaced employees a right of first refusal to employment in an available, comparable position for which the employee is qualified.

Also, the D.C. Office of Personnel (DCOP) should ensure that:

- D.C. employees are given 30 days notice prior to any adverse impact resulting from contracting out; and
- whenever a suitable position exists, an opportunity for alternative employment in the District government is provided to qualified District employees displaced by the privatization.

D.C. Code, Section 1-1191.4, provides that:

(a) Any contracting manager or contracting officer who performs the cost/benefit analysis required by § 1-1181.5b(a)(1) shall meet certain training standards and be certified to ensure a level of management skills and experience in doing cost/benefit analyses.

(b) Within 60 days of August 14, 1995, the Mayor shall issue, as a part of the District Government Procurement Regulations, rules for all District government employees who participate in the preparation of any cost/benefit analysis for any proposal to contract out services previously provided by District employees. . . .

In as much as rules and regulations have not been promulgated to implement the provisions of the Privatization Act, neither the CPO nor any other District official could be assured that the provisions of the Act were complied with when awarding privatization contracts.

RECOMMENDATIONS

1. The Chief Procurement Officer must immediately promulgate rules and regulations pursuant to D.C. Code, Section 1-1191.4 governing the preparation of a cost/benefit analysis.
2. The Chief Procurement Officer must ensure that all contracting managers and contracting officers meet training standards and are certified as required by D.C. Code, Section 1-1191.4.

AGENCIES COULD NOT ADEQUATELY RESPOND TO THE AUDITOR'S QUESTIONS OR PROVIDE DOCUMENTATION PERTAINING TO PRIVATIZATION CONTRACTS

Officials from at least 8 of the 10 agencies responding to the Auditor's survey could not provide a copy of the cost/benefit analysis. Further, some agency officials could not adequately respond to the Auditor's questions regarding privatization contracts awarded by their agency. For example, the Auditor's survey requested agencies to provide a list of contracts which privatized services previously performed by agency employees and make available the related contractual information. Agencies were also requested to indicate the number of employees terminated as a result of contracting out, the amount (if any) of cost savings achieved under each privatization contract, and the impact of contracting out such services. Some responses from agency officials were inadequate, insufficiently supported, or non-responsive to the Auditor's questions. For example, responses related to at least eight contracts did not adequately respond to the question regarding savings realized under privatization contracts. Reasons for not providing the requested information included the following:

1. agency contracting officers were new and were not aware of the circumstances surrounding the award of certain privatization contracts; and
2. agency files did not contain cost data, reasons for contracting out services, or the procedures followed.

Without adequate documentation, the Auditor was unable to determine whether agencies followed all, some, or none of the privatization provisions of the Procurement Practices Act, as amended, when privatizing services previously performed by agency employees.

The Auditor also found that some of the contracts identified as privatization contracts were, in fact, not privatization contracts. These contracts are listed in Table I below.

TABLE I
Contracts Misclassified by Agencies
As Privatization Contracts

AGENCY	CONTRACTOR	CONTRACT AMOUNT	SERVICES CONTRACTED FOR
D.C. Dept. of Corrections 5/13/97-9/30/97	Corrections Corporation of America	\$6,831,000.00	To provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D.C. Dept. of Corrections Awarded 9/97	Corrections Corporation of America	\$32,779,450.00	Housing of Inmates to provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D.C. Dept. of Corrections 10/01/94-01/28/95	Town of Mason	\$1,009,760.00	Housing of Inmates to provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D.C. Dept. of Corrections 8/26/98-9/30/99	Virginia Department of Corrections	\$68,000,000.00	Beds for Inmates (housing) to provide confinement, care medical treatment and rehabilitation to District of Columbia inmates

Source: Agencies' responses to the District of Columbia Auditor's survey.

The contracting officer from the Department of Corrections (DOC) indicated that the contracts listed in Table I were awarded pursuant to the Interstate Corrections Compact Act rather than the Privatization Act. Also, DOC outsourced services pursuant to the National Capital Revitalization and Self-Government Improvement Act of 1997 (Revitalization Act) in preparation for the closing of the Lorton Correctional facility.

The fact that agency officials initially listed the contracts in Table I as privatization contracts indicates a lack of clarity as to when services procured by contract are considered a privatization of government services.

The District's Chief Procurement Officer Did Not Maintain a Database of Privatization Contracts

The District's Chief Procurement Officer did not maintain a database of information pertaining to privatization contracts awarded by District government agencies. The Office of Contracting and Procurement (OCP) was established by D.C. Law 11-259, entitled the "Procurement

Reform Amendment Act of 1996," effective April 1997. The statutory purposes of the law included the following:

to simplify, clarify, and modernize the law governing the procurement of property, supplies, services, and construction by the District of Columbia government; to centralize procurement . . . in an office headed by a chief procurement officer . . .

Although the OCP was established in 1997 to centralize procurement authority, the Auditor found that its predecessor, the Department of Administrative Services, apparently failed to establish a record of privatization contracts. To further exacerbate matters, OCP also did not establish or maintain a database of privatization contracts awarded by agencies under its jurisdiction. For example, in order to respond to the Auditor's request for privatization contracts and related information, OCP relied upon agency contracting officials to provide it with much of the information submitted to the Auditor. Further, the contracting officer for the D.C. Public Schools (DCPS)¹ referred the Auditor to the Director (Chief Procurement Officer) of the Office of Contracting and Procurement to answer questions about DCPS' privatization contract. On the other hand, the Director of OCP indicated that the DCPS contracting officer should respond to the Auditor's request for information.

The OCP could not provide any additional credible information on privatization contracts, and could not respond to the Auditor's questions regarding the privatization contracts awarded. For example, information initially provided by OCP indicated that the Department of Employment Services (DOES) had not awarded privatization contracts, however, the agency's response indicated that two privatization contracts had been awarded.

As a consequence of OCP's failure to establish a credible record of privatization contracts awarded by District agencies under its jurisdiction, the Auditor had to contact agencies directly in an attempt to obtain information necessary to facilitate this examination. Further, some agency contracting officers could not provide information regarding privatized contracts and referred questions to agency program officials.

¹In conducting this audit, both OCP and DCPS indicated to the Auditor that the DCPS procurement function was handled by OCP. However, comments received from the Office of the Corporation Counsel indicated that under the provisions of the Privatization Act, DCPS had independent contracting authority. In reality, the Auditor found that, at least since 1998, the Office of Contracting and Procurement has handled DCPS procurements and awarded its contracts.

It is apparent that District agencies have never fully embraced and implemented the concept of privatization and have not adequately complied with the Privatization Act. Hence, the Auditor found numerous deficiencies in compliance with the Privatization Act and an overall failure among District agencies to maintain complete, credible, and coherent records regarding the contracting out of government services.

In order to properly monitor privatization contracts and ensure that such contracts achieve the 5% savings, improve service delivery, and comply with all other provisions of the Privatization Act, the Chief Procurement Officer must develop a centralized database of information relevant to these contracts, in addition to an effective system of monitoring and analyzing the quality of services provided, and the actual cost of service delivery. Without establishing these fundamental processes, the value of privatization will continue to remain elusive.

RECOMMENDATIONS

1. The Chief Procurement Officer must actively assist agency program officials in developing a viable process for competitively awarding privatization contracts and ensure that all procedures are followed.
2. The Chief Procurement Officer must develop and maintain a database of privatization contracts awarded by the District government.
3. The Chief Procurement Officer and agency contracting officers must ensure that contract files contain all relevant documents and records related to privatization contracts awarded.

Monitoring and Oversight of Privatization Contracts Must Be Improved

The Auditor found that monitoring and oversight of privatization contracts appeared, in some instances, to be inadequate and in others to be non-existent. Overall, the Auditor found that there was no effective system in place to ensure that the privatization provisions of the procurement law were adhered to, that monetary savings were achieved under each contract, or that service delivery was improved. Thus, the principal goals of contracting out government services—to save money, improve government service delivery, and enhance productivity—are not being achieved because of the failure, in part, to monitor and measure cost and performance quality under privatization contracts.

The Auditor found that the administration of privatization contracts have the same deficiencies as any other District contract, as well as the deficiencies generated by the failure to adhere to the Privatization Act. A lack of: (1) monitoring; (2) established performance standards; (3) cost and price analyses; (4) sufficient implementing regulations; and (5) general knowledge regarding the mechanics and requirements of privatization are deficiencies that must be corrected. Monitoring and oversight are essential to ensure that contractors comply with contract provisions and achieve established performance measures. Further, based on discussions with officials in the Office of Contracting and Procurement, it appears that OCP had not established uniform procedures for all contracting officers to use in evaluating contractors' performance.

D. C. Code, Sections 1-1181.5c (a)(1) and (2) state, in relevant part, the following:

(a) In contracting out (including a lease or other agreement or any contracting policies or procedures relating to such contracts) to provide goods or services to or on behalf of the District government that currently are provided by employees, departments, or agencies of the District government, the Mayor shall make a determination and finding in writing submitted to the Council that the contract will meet the following criteria:

- (1) Meets specific performance criteria for the service to be contracted out including costs and savings resulting from the contract;
- (2) Includes a requirement for the submission to the District contracting officer of monthly reports on the contractor's compliance with the performance criteria; . . .

The Chief Procurement Officer indicated that he had not received reports from agencies regarding contractors' adherence to performance criteria, if any, established in privatization contracts. Further, some agency contracting officers interviewed by the Auditor indicated that they had not received such reports from the contractor and had not prepared and submitted such reports to the Chief Procurement Officer. Therefore, the Auditor was unable to determine whether services contracted out were delivered efficiently and in full compliance with the terms of the pertinent contracts.

Also, agencies could not provide documentation that a cost/benefit analysis was performed after contracts were awarded. As part of the monitoring process, contracting officers must be mindful of modifications in the cost of contracts after award to ensure that such changes will not adversely affect the cost of the contract and undermine the basis of awarding the privatization

contract rather than performing the services in-house. The D. C. Procurement Practices Act of 1985 does not require the periodic preparation of cost/benefit analyses to determine whether the purpose for contracting out is continuously achieved. However, if analyses of the cost and quality of services provided under privatization contracts are not performed on a regular basis, the District government has no way of determining whether these contracts are achieving the intended goals of the District's privatization law. Further, the potential exists for privatized services to be more costly to the District government and/or not of the quality expected than if the services were performed by District employees. Thus, agencies must continuously review the cost effectiveness of contracting out services to ensure that the best interests of the District government are achieved.

Without effective guidelines for monitoring and reviewing privatization contracts, monitoring activities may not generate information that is useful in making decisions regarding the effectiveness and economy of privatization contracts.

RECOMMENDATIONS

1. The Chief Procurement Officer and assigned agency contracting officers must adhere to the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended, to ensure that performance standards are established in each privatization contract and that they are met.
2. The Chief Procurement Officer must develop an effective system of monitoring privatization contracts, analyzing the quality of services provided, and determining the actual costs of services delivered under such contracts. Further, the CPO must develop a standard reporting format to establish uniformity in presenting results of monitoring and review efforts.

AGENCIES WERE DEFICIENT IN PERFORMING COST/BENEFIT ANALYSES

District Lacked A Uniform Methodology for Performing Cost/Benefit Analyses

The Chief Procurement Officer had not established a uniform methodology to be used by agencies in performing a cost/benefit analysis. The Privatization Act requires a cost/benefit analysis to be performed for all privatization contracts. Any analysis prepared should include reliable and complete cost data. According to GAO, complete costs are defined as the fully allocated costs of an activity, which includes all direct and indirect personnel costs, as well as the cost of materials and supplies, equipment, capital depreciation, rent, maintenance and repairs, utilities, insurance,

personnel, travel, operations overhead, and general and administrative overhead. A uniform methodology for preparing cost/benefit analyses should have been developed by the Chief Procurement Officer to ensure that agencies used complete and accurate cost data in preparing a cost/benefit analysis.

Most District Agencies Appear Not to Have Conducted a Cost/Benefit Analysis Before Making a Decision to Contract Out

The Procurement Practices Act of 1985, as amended, requires District agencies to prepare a cost/benefit analysis which compares the cost of providing a service in-house with the cost of permitting a contractor to provide the same service. Specifically, D.C. Code, Section 1-1181.5b(a)(1), states, in relevant part, the following:

(a) Any contract, including a lease or other agreements, or any contracting policies and procedures relating to such contracts, to provide goods and services to or on behalf of the District government shall provide that:

(1) With respect to contracting out to provide goods or services to or on behalf of the District government that currently are provided by employees, department, or agencies of the District government, a cost-benefit analysis comparing the in-house costs of providing the service with the costs associated with contracting for the service shall be completed for each contract proposed pursuant to this section: . . .
(Auditor's Emphasis)

The Auditor found that agencies could not provide documentation indicating compliance with D.C. Code, Section 1-1181.5b(a)(1) regarding the preparation of cost/benefit analyses. Cost is one of the most important factors to be considered in the privatization decision-making process. However, the failure to conduct a cost analysis was the most important element missing from the decision to contract out services or functions performed by District employees. Of the 10 agencies which indicated that they had awarded privatization contracts, only two were able to provide the Auditor with a cost/benefit analysis prepared before privatization contracts were awarded. The Metropolitan Police Department (MPD) prepared an analysis and the District of Columbia Health and Hospitals Public Benefit Corporation (PBC) submitted an analysis for one of the privatization contracts it awarded. Although the PBC is not presently subject to the Privatization Act, its privatization contracts are included in this report. The following is a discussion of the privatization contracts awarded by the Department of Corrections and the PBC, two agencies that were not subject to the Privatization Act.

Department of Corrections

The Department of Corrections did not provide a cost/benefit analysis, however, the Auditor was able to review the fiscal impact statement presented in D.C. Act 12-29 entitled, the "Department of Corrections Privatization Emergency Facilitation Act of 1997, which was enacted on an emergency basis "to exempt the privatization initiatives of the Department of Corrections from the D. C. Procurement Practices Act of 1985." The fiscal impact statement indicated that DOC would save an estimated \$491,436, annually in in-house costs by privatizing the services provided by the Correctional Treatment Facility (CTF). However, as reflected in Table II on page 16, no savings were achieved and the cost of privatizing the CTF services exceeded the cost of providing the services in-house by \$10,340,621, annually. Therefore, the fiscal impact statement's projected annual savings of \$491,436 have not been achieved.

Public Benefit Corporation

While the PBC has its own procurement system and was not subject to the Privatization Act, it did privatize obstetrics and gynecological services, midwifery services, physician radiology services, environmental management services, and the operation of its copy center. A discussion of PBC's contracts is included to provide an overview of the privatization procedures followed by agencies in reaching a decision to privatize services. PBC provided a cost analysis for only one of the five privatization contracts that it awarded. It appears that analyses were not performed for the remaining four contracts. The cost analysis submitted by PBC was for the operation of the copy center. The analysis covered the first year of the contract (fiscal year 1996) and projected savings of \$257,364 in that year. However, according to the information submitted by the PBC no discernible savings were achieved. The Auditor's evaluation of the cost analysis indicated that it may not have included all cost elements such as, but not limited to, salaries, fringe benefits, supplies, equipment and utility costs that the PBC would have incurred if the services were performed in-house.

For the other contracts listed in Table II on page 16, the Auditor was not provided a cost/benefit analysis prepared at the time the contracts were awarded. Therefore, the Auditor could not determine the amount of any projected savings or even whether the agency projected monetary savings prior to contracting out the services.

The Auditor was not able to determine whether the other eight agencies that awarded privatization contracts had prepared a cost/benefit analysis because the agencies failed to provide

this information upon the Auditor's request. For example, DOES and DPW could not provide a cost/benefit analysis for any of their privatization contracts. Thus, it appears that DOES and DPW did not prepare cost/benefit analyses for use in their decisions to privatize services. Without performing a cost/benefit analysis, these agencies did not know whether cost savings would be achieved by contracting out the services or whether it would be more beneficial, from a cost perspective, to continue to perform the services in-house.

23% OF RESPONDENTS INDICATED THAT CONTRACTING OUT DID NOT PRODUCE A SAVINGS

According to the information provided by the 10 agencies indicating that privatization contracts were awarded, 4, or 15%, of the 26 privatization contracts resulted in savings to the District government. The survey results also indicated that 6, or 23%, of the 26 privatization contracts did not result in any discernible savings. For 8, or 31%, of the 26 contracts, agencies did not indicate whether any savings were achieved. (See Appendix V) The remaining eight contracts were either not privatization contracts or the savings reported were not calculated according to the Privatization Act.

The Procurement Practices Act requires that prior to contracting out services, agencies must demonstrate that savings of a specified percentage will be achieved. Specifically, D.C. Code, Section 1-1181.5b(a)(2) states:

- (a) Any contract, including a lease or other agreement, or any contracting policies and procedures relating to such contracts, to provide goods and services to or on behalf of the District government shall provide that:
 - (2) Contracting out will provide savings over the duration of the contract of at least 5%. . .

Table II below presents the agencies which indicated that no savings were achieved by contracting out government service delivery. Again, PBC and DOC are included for the purpose of providing a discussion of privatization contracts awarded throughout the District government.

TABLE II
Agencies in Which the Cost of Contracting Out
Services Did Not Result in Savings

AGENCY	CONTRACTOR	CONTRACT AMOUNT	SERVICE	AMOUNT BY WHICH CONTRACTING OUT EXCEEDED THE COST OF PROVIDING SERVICE IN-HOUSE
D.C. Department of Corrections	Corrections Corporation of America	\$27 million	To provide drug treatment for District of Columbia inmates	\$10,340,621
D.C. Columbia Health and Hospitals Public Benefit Corporation	Xerox Business Services	\$812,026	For the provision of copiers, fax machines, and the operation of the copy center under a Facilities Management Agreement	\$249,326
D.C. Columbia Health and Hospitals Public Benefit Corporation	Medical Services Group	\$2,855,962	Obstetrics/Gynecological and Midwifery Services	\$1,582,575
D.C. Columbia Health and Hospitals Public Benefit Corporation	D.C. Radiology Associates Professional Corporation	\$1,616,026	Physician radiology services regarding diagnostics x-ray, mammogram, Ultra-Sound, CT scan, doppler, neuro-radiologic procedures, special and invasive procedures.	\$1,125,786
D.C. Columbia Health and Hospitals Public Benefit Corporation	Sodexho/Marriott Management, Inc	\$305,966	For the provision of Environmental Management Services including Pest Control	\$261,117
Department of Employment Services	Mell, Brownell and Baker	\$1,270,000	Administers all new claims for compensation as well as existing cases. The TPA advises employees of their rights and responsibilities; makes determinations of compensability on claims and approves awards of benefits.	Quantifiable savings have not been recognized.

Source: Agencies' responses to the District of Columbia Auditor's survey.

AGENCIES' PROCEDURES FOR DETERMINING SAVINGS MAY NOT HAVE PRODUCED RELIABLE RESULTS

Calculation of Savings Did Not Appear to Include All Cost Elements

Eight contracts from six different agencies indicated that savings were achieved by contracting out. Tables III and IV present the agencies that reported savings.

TABLE III
Agencies Indicating That
Contacting Out Services Produced Savings

AGENCY	CONTRACTOR	CONTRACT AMOUNT	SERVICES CONTRACTED OUT	SAVINGS
District of Columbia Health and Hospitals Public Benefit Corporation	Sodexo/Marriott Management, Inc.	\$1,476,913 FY 1999	For the provision of Dietary Management and Marriott Food Purchasing Program	\$300,984.43 in annual savings
Department of Corrections	Aramark Correctional Services	\$8,414,303.50	To provide food services at four Department of Corrections location in Lorton, VA. and District of Columbia.	\$5.9 million in savings annually
Department of Public Works	Urban Service Systems Corporation	\$6,384,350.00	Hauling of trash and white goods from the District's waste transfer stations to a licensed disposal facility.	\$521,520.00
Metropolitan Police Department	PFC Associates, LLC	\$5,193,378 estimated annual amount	Provides occupational medical services to sworn members of the D.C MPD and DCFD for injuries and illnesses sustained in the performance of duty. Provided medical and psychological testing of all applicants for Public Safety positions within MPD and DCFD. Provides health and wellness services to the MPD and DCFD members through physical examinations and other preventive health programs.	In first year (1998) saved \$2,039,400, or 15 percent

Source: Agencies' responses to the District of Columbia Auditor's survey.

Several of the agencies indicating that contracting out for services resulted in savings did not provide the methodology used to calculate the savings. For example, both the PBC and the Department of Public Works (DPW) responded that savings of the amounts reflected in Table III were achieved when contracts were issued for services previously performed in-house by employees. However, despite several calls to both agencies to request the assumptions and methodology used

to calculate savings, neither produced such information. Without knowing the assumptions and methodologies, the Auditor could not be assured that the agencies used complete cost data in calculating savings. Another example involved the Department of Corrections which indicated that budget data was used to calculate its savings. However, the Auditor's position is that actual cost could have varied significantly from budgeted amounts. Thus, the use of budget data would most likely produce unreliable savings.

In order to determine whether savings were achieved by contracting out, agencies should have included all costs related to the operation of a program or performance of a service in-house. These program costs should have included the cost of supplies, equipment, maintenance and repairs, utilities, fringe benefits, and salaries for management and support staff as well as other relevant direct and indirect costs. Further, if employees were terminated as a result of contracting out, any severance and liquidated annual leave paid to the terminated employees should have been included as part of the agency's cost of contracting out. Without accurate, complete cost data, agencies would not be able to obtain an accurate indication of the total cost of a program. Therefore, agencies may have understated the cost of the program which would have resulted in an overstatement of the savings achieved.

Methodology Used by Some Agencies to Calculate Savings Did Not Comply with the Procurement Practices Act of 1985

D.C. Code, Section 1-1181.5b(a)(1), states, in relevant part, the following:

. . . a cost-benefit analysis comparing the in-house costs of providing the service with the costs associated with contracting for the service shall be completed for each contract proposed pursuant to this section.

The Auditor found that some agencies did not compare the in-house cost of providing the service with the costs associated with contracting out when determining whether savings were achieved by contracting out. For example, DPW indicated that savings were achieved from the ticket processing contract, delinquent parking ticket collection contract, and the parking meters conversion contract. To calculate this savings, DPW compared the cost of services provided under two separate contracts with the combined costs of these services under a single contract. The methodology used by DPW did not compare the cost of the program prior to contracting out with the cost after contracting out. DPW attempted to claim savings from the parking ticket processing and delinquent ticket collections contracts for services that were never performed in-house by District employees, have been performed by the same contractor for the past 15 to 20 years, and were not subject to the privatization provisions of the procurement law.

For the parking meter contract, DPW cited the increase in revenue earned by repairing meters as the amount of savings achieved. Again, DPW officials did not compare the cost of performing meter repair services in-house with the cost of contracting out this function. Further, DPW ignored the fact that prior to awarding the parking meter contract, the District lost meter revenue as a result of its inability to repair or replace vandalized meters. Thus, a substantial portion of the \$6 million savings cited by DPW from the award of the parking meter contract represents a restoration of approximately \$7.2 million in parking meter revenue lost during fiscal years 1996 and 1997 that was previously collected by the District.

Table IV below reflects other agencies that did not use the criteria set forth in D.C. Code, Section 1-1181.5b(a)(1), when calculating savings achieved by contracting out services previously performed in-house by District employees.

Table IV
Agencies That Did Not Compare Cost of Contracting out
with Cost of Performing Services In-house

AGENCY	SERVICES	SAVINGS	METHOD OF CALCULATION
D.C. Lottery	Provided financial services to the Finance Department for the FY 1997 year-end close.	\$21 per hour	Compared amount paid by agency with amount that would have been paid if a contractor had been obtained through the CFO's office
Dept. of Public Works	Furnishing and implementing state-of-the-art, updated computer-based systems and equipment, performing ticket process and delinquent ticket collection services, and testing the equipment and training system users.	\$15,872,66.93	Combined two separate contracts into one. Previously, the Department of Motor Vehicles had one contract for ticket processing at an estimated cost of \$24,711,117 and another contract for ticket collection services at an estimated cost of \$14,246,550.93. The savings realized from combining the two contracts are \$15,872,667.93
	Provides management/supervision, equipment, supplies and to replace parking meters, provide preventive and corrective maintenance, install new meters and provide ongoing management of the meter program	\$12,654,493 parking meter revenue for fiscal year 1999	Resulted in an increase in revenue from \$6,694,032 for seven months of fiscal year 1998 to \$12,654,493 in fiscal year 1999
Department of Employment Services	Provides managed medical care services to DCP claimants.	\$7,553,359 (over three years)	Savings resulting from using managed care versus not using managed care

Source: Agencies' responses to the District of Columbia Auditor's survey.

The failure of agencies to comply with D.C. Code, Section 1-1181.5b(a)(1), in calculating costs and savings may, at a minimum, indicate that agencies are not aware of the criteria and cost factors to be used in determining whether savings were achieved by privatization or the agencies did not have the expertise in-house to perform cost/benefit analyses.

RECOMMENDATION

Agency officials must comply with the Privatization Act when determining whether savings were achieved through contracting out by comparing the contract cost with the cost of performing services in-house. Further, agency officials must include all relevant costs of operating the program or performing the services.

AGENCIES FAILED TO COMPLY WITH EMPLOYEE JOB PROTECTION PROVISIONS

The Department of Corrections and the D. C. Public Schools (DCPS) were the only agencies indicating that employees were actually terminated as a result of contracting out services previously performed in-house by District employees. Officials from other agencies indicated that employees were reassigned to other functions within their agency. The number of employees terminated by the Department of Corrections included the following: (1) Food Services-91; (2) CTF privatization-159; housing of inmates-110; and beds for inmates-254. Both the Privatization Act and the Department of Corrections Privatization Emergency Facilitation Act of 1997 contained provisions regarding the treatment of displaced employees. A provision contained in the Privatization Act required the Mayor to make efforts to assist affected employees by providing available alternative employment in the District Government to qualified, displaced workers. Further, D.C. Act 12-29 provided that the Mayor "may make reasonable efforts to assist affected District government employees." Also, the Privatization Act required the contractor to offer displaced District employees a right-of-first refusal to employment in a comparable available position for which the employee was qualified. No information was provided to the Auditor which documented that D.C. Public Schools complied with all employee protection provisions of the Privatization Act or that DOC complied with any of the employee protections contained in D.C. Act 12-29.

D.C. Act 12-29 allowed the Mayor to include in any DOC solicitations for privatization contracts the procedure by which District government employees could exercise the right to bid on such contracts. Also, the Privatization Act required that solicitations for privatization contracts include the same information. The Auditor did not find any solicitations prepared by the District that contained information concerning the procedure by which District employees could exercise their

right to bid on proposed privatization contracts. Further, based on the Auditor's review of survey responses, as well as discussions with agency representatives, employees of these agencies were not offered an opportunity to bid on services that were ultimately privatized.

IMPROVEMENTS CITED BY AGENCIES WERE NOT DOCUMENTED

Most agencies indicated that, when services were contracted out, there was an improvement in the delivery of such services. However, agencies did not provide statistics or other measurable documented evidence of the claimed improvements. Based on discussions with representatives of several agencies, the improvements cited were based on their personal observation of a program before and after contracting out the service. These individuals could not provide any documented evidence resulting from analytical procedures designed to measure or validate actual improvements.

On the other hand, DPW's response to the Auditor's survey indicated that the impact of contracting out its services for hauling trash and white goods from the District's waste transfer stations to a licensed disposal facility resulted in "no noticeable change in service."

Two agencies indicating improvements in services after contracting out also noted that when the services were performed in-house, the agency did not have the appropriate technology to effectively perform the services. In some instances, inadequate staff affected the quality of services provided by District employees. Moreover, the agencies did not conduct an analysis to determine whether it would have been more cost effective to provide adequate funds to obtain the necessary technology and more staff rather than contracting out. Instead, decisions were made to simply contract out the services.

PRIVATIZATION EFFORTS IN OTHER JURISDICTIONS

In an attempt to determine the extent to which privatization is being used by other governments, the Auditor contacted jurisdictions across the nation to inquire about their privatization efforts.

The Auditor obtained mixed results and opinions. In some instances, cities had decreased their emphasis on privatization as a means of improving service delivery. This decreased emphasis seemed to have occurred when there was a change in political leadership. Newly elected officials, in many instances, focused on other governance issues. For example, in Indianapolis, Indiana the election of a new Mayor resulted in a de-emphasis on privatization.

A representative of the Council of State Governments indicated that cities and states may have decreased their use of privatization because economic conditions have improved. Privatization is sometimes used as a means of reducing cost when jurisdictions are facing unfavorable economic conditions. When such conditions improve, jurisdictions may not use such cost-saving measures.

A representative of the Institute of Public Administration at the University of Delaware was of the opinion that many jurisdictions are continuing to privatize services. However, because it is no longer a new concept, the need for special offices (such as a competition council) to work exclusively on such issues has decreased. Further, managers may no longer view privatization as a panacea.

The Auditor also discussed the monitoring process with officials from other jurisdictions. Most officials indicated that the privatization contracts were monitored on a periodic basis. Some jurisdictions indicated that additional staff were hired to monitor contracts, visit sites, and ensure that the contractors performed in accordance with the contract.

CONCLUSION

The District's Chief Procurement Officer (CPO) did not promulgate rules and regulations for use by agency contracting managers and officers in implementing the Privatization Act. The CPO had not established a uniform methodology to be used by agencies in performing cost/benefit analyses. As a result, the Auditor could not determine whether the provisions of the Act were complied with when privatization contracts were awarded.

The Office of Contracting and Procurement failed to establish and maintain a database of privatization contracts awarded by District agencies. The failure of OCP to maintain information relative to privatization contracts resulted in the Auditor having to contact District agencies directly in an attempt to obtain the information necessary to facilitate the review. The Auditor's review indicated that District agencies generally have not fully embraced privatization and have not adequately complied with the Privatization Act. The Auditor found numerous deficiencies such as an overall failure among agencies to maintain complete, credible, and coherent records regarding the contracting out of government services; failure to prepare cost/benefit analyses, failure to periodically evaluate privatization contracts to determine whether savings are being achieved, and failure to adequately monitor performance and the quality of services delivered under privatization contracts.

Agencies could not adequately respond to the Auditor's questions or provide documentation pertaining to privatization contracts. Of the 10 agencies that responded to the Auditor's survey for

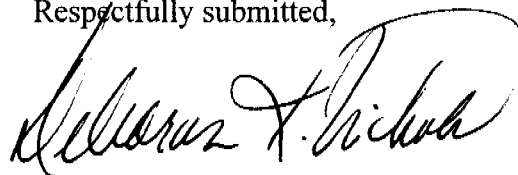
information, 8 could not provide a cost/benefit analysis. Basic information that should have been available such as a listing of privatized services that were previously performed in-house, the amount of cost savings achieved under privatization, and the impact of contracting out government services could not be provided in many instances. The Auditor found agency responses to be inadequate, insufficiently supported, or non-responsive.

No information was provided to the Auditor which documented agencies' compliance with employee job protection provisions of the Privatization Act or that the Department of Corrections (DOC) implemented any job protection provisions contained in D.C. Act 12-29.

D.C. Public Schools (DCPS) and DOC were the only two agencies indicating that employees were actually terminated as a result of contracting out services previously performed in-house by District employees. Officials from several other agencies indicated that their displaced employees were reassigned to other functions within the agency. Based on discussions with agency representatives and a review of survey responses, it appears that employees of these agencies were not offered an opportunity to bid on the services that were ultimately privatized.

The Auditor found that the principal goals of contracting out government services– to save money, improve government service delivery, and enhance productivity– are not being achieved because of the failure, in part, to monitor and measure cost and performance quality under privatization contracts. Privatization contract administration is affected by the same deficiencies as other District contracts, and more, due to the failure of most agencies to adhere to the provisions of the Privatization Act including a lack of: (1) monitoring; (2) established performance standards; (3) cost and price analyses; (4) sufficient implementing regulations; and (5) general knowledge regarding the mechanics and requirements of privatization. These deficiencies must be corrected. Additionally, monitoring and oversight are essential to ensure that contractors comply with the terms of privatization contracts and achieve established contract performance measures. Without corrective actions addressing these deficiencies, valid determinations cannot be reached as to whether privatized services achieved a cost savings, were delivered economically, efficiently, and in full compliance with the terms of privatized contracts.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols

District of Columbia Auditor

APPENDICES

APPENDIX I

AGENCIES INCLUDED IN THE AUDITOR'S SURVEY

Office of Tax and Revenue
Department of Recreation And Parks
Department of Health
Office of Corporation Counsel
Office of Finance and Treasury
Office of Finance and Resource Management
D.C. Office of Personnel
D.C. Office on Aging
D.C. Fire and Emergency Medical Services Department
District of Columbia Public Schools
D.C. Lottery and Charitable Games Control Board
The District of Columbia Health and Hospitals Public Benefit Corporation
Office of the Chief Financial Officer
Office of Contracting and Procurement
Department of Human Services
Office of Grants Management and Development
University of the District of Columbia
Department of Public Works
Department of Corrections
Department of Consumer and Regulatory Affairs
Metropolitan Police Department
Department of Insurance and Securities Regulation
Department of Employment Services
District of Columbia Public Library
Department of Housing and Community Development
Office of Property Management

APPENDIX II

PRIVATIZATION CONTACTS **SUBMITTED IN RESPONSE TO AUDITOR'S SURVEY** **FOR FISCAL YEARS 1994 THROUGH 1999²**

AGENCY	CONTRACTOR	CONTRACT AMOUNT	SERVICES CONTRACTED OUT
District of Columbia Health and Hospitals Public Benefit Corporation	Sodexo/Marriott Management, Inc.	\$1,476,913	For the provision of Dietary Management and Marriott Food Purchasing Program
District of Columbia Health and Hospitals Public Benefit Corporation	Xerox Business Services	\$812,026	For the provision of copiers, fax machines, and the operation of the copy center under a Facilities Management Agreement
District of Columbia Health and Hospitals Public Benefit Corporation	Medical Services Group	\$2,855,962	Obstetrics/Gynecological and Midwifery Services
District of Columbia Health and Hospitals Public Benefit Corporation	D.C. Radiology Associates Professional Corporation	\$1,616,026	Physician radiology services regarding diagnostics x-ray, mammogram, Ultra-Sound, CT scan, doppler, neuro-radiologic procedures, special and invasive procedures
District of Columbia Health and Hospitals Public Benefit Corporation	Sodexo/Marriott Management, Inc	\$305,966	For the provision of Environmental Services Management including Pest Control
D.C. Department of Corrections	Corrections Corporation of America	\$27 million	To provide drug treatment for District of Columbia inmates
D.C. Department of Corrections	Aramark Correctional Services	\$8,414,303.50	To provide food services at four Department of Corrections locations in the Lorton, VA. and District of Columbia
D.C. Dept. of Corrections Awarded 9/97	Corrections Corporation of America	\$32,779,450.00	Housing of Inmates; To provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D.C. Dept. of Corrections 10/01/94-01/28/95	Town of Mason	\$1,009,760.00	Housing of Inmates; To provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D.C. Dept. of Corrections 8/26/98-9/30/99	Virginia Department of Corrections	\$68,000,000.00	Beds for Inmates (housing); To provide confinement, care medical treatment and rehabilitation to District of Columbia inmates

²This list of privatization contracts was compiled from information submitted by the agencies indicated. This list may not be inclusive of all privatization contracts. Further, contracts listed may not have been awarded pursuant to the Privatization Act.

D.C. Dept. of Corrections 5/13/97-9/30/97	Corrections Corporation of America	\$6,831,000.00	To provide confinement, care medical treatment and rehabilitation to District of Columbia inmates
D. C. Public Schools	MVM, Incorporated	\$10,232,777.67	Provide security personnel and the uniforms, materials, and equipment needed to ensure maximum security at all D. C. Public Schools and administrative buildings.
D.C. Fire and EMS Department	Lockheed Martin IMS	\$845,594.29	Associated with the billing and collection of fees for the transport of patients requiring emergency medical services by the Fire and EMS Dept.
D. C. Lottery and Charitable Games Control Board	William H. Robinson	\$21,168.00	Provided financial services to the Finance Department for the FY 1997 year-end close.
D. C. Lottery and Charitable Games Control Board	Abramson, Ehrich Manes, Inc.	\$2,222,056.13	Procures production of advertising campaigns, collateral materials, media buying promotional merchandise and permanent point-of-sale (POS)
Department of Insurance and Securities Regulation	Assessment System Inc. (ASI)	\$25 per license	Licensing of insurance producers
Department of Employment Services	Mell, Brownell and Baker	\$1,270,000	Administers all new claims for compensation as well as existing cases. The TPA advises employees of their rights and responsibilities; makes determinations of compensability on claims and approves awards of benefits.
Department of Employment Services	CorVel Corporation	\$997,987.00	Provides managed medical care services to DCP claimants.
Department of Public Works	Urban Service Systems Corporation	\$6,384,350.00	Hauling of trash and white goods from the District's waste transfer stations to a licensed disposal facility.
Department of Public Works	Lockheed Martin, IMS	\$23,085,000.00 (base period of three years)	Furnishing and implementing state of the art, updated computer-based systems and equipment, performing ticket process and delinquent ticket collection services and testing the equipment and training system users.
Department of Public Works	Lockheed Martin, IMS	\$24,991,000 (base period of seven years)	Provide management/supervision, equipment, supplies and to replace parking meters, provide preventive and corrective maintenance, install new meters and provide ongoing management of the meter program

Metropolitan Police Department	PFC Associates, LLC	\$5,193,378 estimated annual amount	Provides occupational medical services to sworn members of the D.C. MPD and DCFD for injuries and illnesses sustained in the performance of duty. Provided medical and psychological testing of all applicants for Public Safety positions within MPD and DCFD. Provides health and wellness services to the MPD and DCFD members through physical examinations and other preventive health programs.
Metropolitan Police Department	Serco Management, Inc.	\$3,829,209 for base year	Services related to preventive maintenance and repair of MPD fleet
Office of Tax and Revenue	MBIA MuniServices Company (MMC)	30 percent of actual money collected	Discovery of unregistered taxpayers and collections of discovered business and individual taxes.
Office of Tax and Revenue	Municipal Tax Bureau (MTB)	Contingency Fee service arrangement based on actual collections	Reviewed known violations of the Homestead and/or senior citizens tax relief programs
Office of Tax and Revenue	First Union Bank	Dollar amount varies according to actual processing volume and was estimated at \$687,100 for the base year.	Provides return processing and deposit services for the Office of Tax and Revenue

APPENDIX III

AGENCIES RESPONDING THAT NO CONTRACTS WERE AWARDED FOR SERVICES PREVIOUSLY PERFORMED IN-HOUSE BY AGENCY EMPLOYEES

Department of Recreation and Parks

University of the District of Columbia

Office of Corporation Counsel

Office of Grants Management and Development

Department of Human Services

Office of Contracting and Procurement

Office of the Chief Financial Officer

Office of Finance and Resource Management

Department of Health

DC Office of Aging

D. C. Office of Personnel

Office of Finance and Treasury

Department of Housing and Community Development

District of Columbia Public Library

POTENTIAL PROGRAMS FOR MANAGED COMPETITION

PROGRAM	AGENCY	Value of Programs in FY 1999 (in millions)
Fleet Maintenance	DPW	8.8
Litter Can	DPW	INA**
Solid Waste Program Collection Disposal	DPW	8.6 12.1
Fall Leaf Removal	DPW	INA
Street and Alley Cleaning	DPW	8.4
Sign Replacements	DPW	2.2
Rat Abatement	DPW	INA
Vegetation Management	DPW	INA
Tree Trimming	DPW	1.8
Mowing	Parks and Recreation	0.6
Recycling Program	DPW	4.0
Pothole Repair	DPW	INA
Prison Health Services	DOC	30.3
Security	OPM	13.2
Custodial Services	OPM	3.0
Graffiti Removal	DPW	INA
Fleet Maintenance	FEMS	4.4
Facilities Management	DHS	3.6
Information Systems Management	DHS	9.7
Oak Hill Management	DHS	19.0
Management Information Systems	DOES	3.0
Youth/Summer Youth Program	DOES	6.8
Business Licensing	DCRA	1.1
Occupational Licensing	DCRA	0.4
Production	D.C. Cable TV	1.0
Home Purchase Assistance Program	DHCD	4.0

Homestead Housing Preservation Program	DHCD	2.6
Home Match Program	DHCD	1.4
Housing Programs*	DHCD	2.9
Printing	MPD	0.9
Printing	OCTO	1.8
Total Value of Programs		155.6

* Eight programs are small dollar programs that can be competed as a package

** INA - Information Not Available

Source: Office of Budget and Planning

APPENDIX V

AGENCIES WHOSE RESPONSES DID NOT INCLUDE AN AMOUNT FOR SAVINGS OBTAINED BY CONTRACTING OUT

AGENCY	CONTRACTOR	CONTRACT AMOUNT	SERVICE	SAVINGS (Response Per The Agency)
Office of Tax and Revenue	MBIA MuniServices Company (MMC)	30 percent of actual money collected	Discovery of unregistered taxpayers and collections of discovered business and individual taxes.	Agency indicated "Not applicable"
Office of Tax and Revenue	Municipal Tax Bureau (MTB)	Contingency Fee service arrangement based on actual collections	Reviewed known violations of the Homestead and/or senior citizens tax relief programs	Agency indicated "Not applicable"
Office of Tax and Revenue	First Union Bank	Dollar amount varies according to actual processing volume and was estimated at \$687,100 for the base year.	Provides return processing and deposit services for the Office of Tax and Revenue	Agency provided no response to this question
Department of Insurance and Securities Regulation	Assessment System Inc. (ASI)	\$25 per license	licensing of insurance producers	Agency provided no response to this question
Metropolitan Police Department	Serco Management, Inc.	\$3,829,209 for base year	Services related to preventive maintenance and repair of MPD fleet	Contract in Effect less than six months (at time of response)
D. C. Lottery and Charitable Games Control Board	Abramson, Ehrich Manes, Inc.	procures production of advertising campaigns	Production of advertising campaigns, collateral materials, media buying promotional merchandise and permanent point-of-sale (POS)	An amount of savings was not identified by Agency
D. C. Public Schools	MVM, Incorporated	\$10,232,777.67 1998 - 1999	Provide security personnel and the uniforms, materials, and equipment needed to ensure maximum security at all D. C. Public Schools and administrative buildings.	Budget for in-house security services with 280 full time employees plus 20 wages as earned employees was \$6.6 million. Current contract is for 315 employees at a cost of \$9.4 million.
D.C. Fire and EMS Department	Lockheed Martin IMS	\$845,594.29 (1999)	associated with the billing and collection of fees for the transport of patients requiring emergency medical services by the Fire and EMS Dept.	No cost savings provided by agency

Source: Agencies responses' to the District of Columbia Auditor's survey.

AGENCY COMMENTS

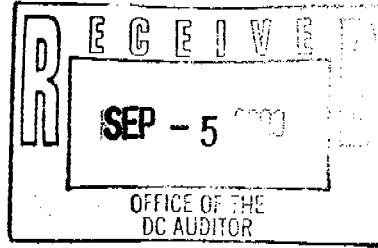
AGENCY COMMENTS

On August 14, 2000, the Office of the District of Columbia Auditor submitted this draft report for review and comment to the 26 District agencies included in the Auditor's survey.

Written comments were received from the following agencies: (1) Office of Contracting and Procurement; (2) Office of the Chief Financial Officer; (3) Department of Insurance and Securities Regulation; (4) Office of the Corporation Counsel; (5) Office of Tax and Revenue; (6) District of Columbia Public Schools; (7) D.C. Lottery and Charitable Games Control Board; and (8) D.C. Office of Personnel. The remaining agencies did not provide written comments. Where appropriate, changes to the final report were made to reflect the comments received. All written comments received by the Auditor are appended in their entirety to this report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of Contracting and Procurement

Director



September 1, 2000

Ms. Deborah K. Nichols
District of Columbia Auditor
717 14th Street, N. W.
Suite 900
Washington, D.C. 20005

Dear Ms. Nichols:

This letter is in response to your letter of August 14, 2000, in which you requested comments on the draft report entitled "Review of Privatization Contracts." Although your letter requested comments by August 28, 2000, Ms. Veronica Johnson granted our request for an extension of time until September 1, 2000.

I have reviewed the draft report and my responses are set forth in the enclosure to this letter. If you have any questions or need additional information, please do not hesitate to contact me at (202) 727-0252.

Sincerely,

A handwritten signature in cursive script that reads "Elliott B. Branch".

Elliott B. Branch

Enclosure

Recommendation 1: The Chief Procurement Officer must immediately promulgate rules and regulations pursuant to D.C. Code, Section 1-1191.4 for all District employees who participate in the preparation of a cost/benefit analysis as well as to implement all cost provisions of the Privatization Act, including but not limited to, a specific methodology for performing cost/benefit analyses.

Concur in Part: The Chief Procurement Officer concurs in part with the recommendation of the D.C. Auditor. D.C. Code sec. 1-1191.4 requires the promulgation of rules pertaining to the training standards and certification for the performance of cost/benefit analyses. Any rules concerning the methodology for performing a cost/benefit analysis will be developed in consultation with the Office of the Chief Financial Officer. The ultimate responsibility for conducting the cost/benefit analysis resides with agency program personnel, since those persons are the government officials with necessary programmatic information to conduct the analysis. The agency program personnel must, of course, conduct the cost/benefit analysis in conjunction with the Office of the Chief Financial Officer, which provides the financial and budget data necessary for the analysis. The Office of Contracting and Procurement will ensure that each privatization contract has the required cost/benefit analysis and that the analysis comports with statutory and regulatory requirements.

Recommendation 2: The Chief Procurement Officer must ensure that all contracting managers and contracting officers meet training standards and are certified as required by D.C. Code, Section 1-1191.4.

Concur: The Chief Procurement Officer concurs with this recommendation. During this fiscal year, the Office of Contracting and Procurement ("OCP") instituted a training program for all procurement personnel and any interested agency program personnel. The curriculum included courses on cost/price arrangements. The OCP will expand the training offered in fiscal year 2001 to include training and certification for cost/benefit analysis in accordance with rules promulgated by the Chief Procurement Officer.

Recommendation 3: The Chief Procurement Officer and agency contracting officers must adhere to the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended, to ensure that performance standards are established in each privatization contract and that they are met.

Concur in Part: OCP concurs with this recommendation in that any privatization

contract awarded must comply with the privatization provisions of the D.C. Procurement Practices Act of 1985, as amended. Nevertheless, OCP's position is that all contracts awarded by OCP contain performance standards in that each contract must contain a scope of work that describes the services that the contractor is required to provide. Contract monitoring, i.e., ensuring that performance standards are met, is the primarily the responsibility of the agency program office. D.C. Code sec. 1-1181.5(a) specifically states that "[d]epartments, agencies, and entities subject to the [PPA] shall be responsible for determining their requirements for goods and services and for technical direction of awarded contracts." In addition, 27 DCMR sec. 4001 provides that the using agency is responsible for assuring that the contractor's performance complies with the requirements of the contract and informing the contracting officer in instances of noncompliant performance. The contracting officer will take remedial action, such as a cure letter or termination, when notified by agency program personnel of performance deficiencies.

Recommendation 4: The Chief Procurement Officer must actively assist agencies in developing a viable process for competitively awarding privatization contracts and ensure that all procedures are followed.

Concur in Part: The Chief Procurement Officer concurs that OCP must ensure that all statutory and regulatory requirements for the procurement and award of privatization contracts must be followed; however, the Chief Procurement Officer contends that D.C. Procurement Practices Act of 1985, as amended, sets forth sufficient procedures to ensure a viable, competitive process for awarding privatization contracts. Outside of the need to establish rules in compliance with D.C. Code, sec. 1-1191.4 as to the cost/benefit analysis, the Chief Procurement Officer believes that the current law and regulations adequately describe the competitive process for privatization contracts.

Recommendation 5: The Chief Procurement Officer should develop and maintain a database of privatization contracts awarded by District agencies.

Concur: OCP is currently in the process of developing a database of contract actions. Effective April 1, 2000, contracting officers within OCP must report all actions pertaining to contracts over \$25,000 on a standardized reporting form. Initially, this is a manual process; however, OCP is working to automate the form and the reporting process. This database will reflect all contracts, including privatization contracts, and will include a field to

designate specifically those contracts that are privatization contracts.

Recommendation 6: The Chief Procurement Officer and agency contracting officials, as well as officials of the Office of the Contracting and Procurement, should ensure that contract files contain all relevant documents and records related to privatization contracts awarded.

Concur: OCP recognizes the importance of maintaining adequate contract files for all contracts, including contract files for privatization contracts. As part of the process of developing policy and procedure issuances, OCP will include an issuance on contract file format. In addition, the ongoing OCP training will emphasize the need for appropriate record keeping and file format.

Recommendation 7: The Chief Procurement Officer must develop an effective system of monitoring privatization contracts and analyzing the quality of services provided and the actual costs of services delivered under such contracts. Further, the CPO must develop a standard reporting format for uniformity in presenting results of monitoring and review efforts.

Concur: While contract monitoring is the responsibility of the agency program office, as indicated above in the response to Recommendation 3, the Chief Procurement Officer acknowledges that D.C. Code, sec. 1-1181.5c(a)(2) imposes a requirement for submission to the contracting officer of monthly reports on the contractor's compliance with the performance criteria of the contract. OCP will work with the appropriate agency program officials to develop a process that complies with the requirements of D.C. Code, sec. 1-1181.5c(a)(2).

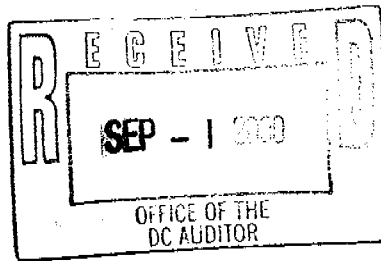
Recommendation 8: Agency officials must comply with the Privatization Act when determining whether savings were achieved through contracting out by comparing the contract cost with the cost of performing services in-house. Further, agency officials must include all relevant costs of operating the program or performing the services.

Concur in Part: The D.C. Procurement Practices Act, as amended, does not include a requirement for conducting cost/benefit analyses during the term of the contract after award, nor does it impose a requirement that the privatization contract actually achieve a savings of 5% over the duration of the contract. The requirement of D.C. Code, sec. 1-1181.5b(a)(1) is that, prior to award of a privatization contract, there must be a cost/benefit analysis projecting a 5% savings. OCP

does agree that any cost/benefit analysis conducted, either prior to award or after award, should follow a consistent methodology and should reflect a comparison of the in-house costs of providing the service with the costs associated with contracting for the service.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



September 1, 2000

Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington, DC 20005

Re: Review of Privatization Contracts

Dear Ms. Nichols:

The Office of the Chief Financial Officer (OCFO) is in receipt of your request for comments on the draft report entitled, "Review of Privatization Contracts". It is greatly appreciated that this office is allowed an opportunity to submit comments in regards to the draft report.

Title 1 Section 1-1181.4(c) of the D. C. Code provides in its pertinent part as follows:

"The Council of the District of Columbia, the Corporation Counsel, Inspector General, Auditor, and Chief Financial Officer may contract for the services of accountants, lawyers, and other experts when they determine and state in writing that good reason exists why such services should be procured independently of the CPO. During a control year, as defined by Section 47-393(4), the Office of the Chief Financial Officer of the District of Columbia shall be exempt from the provisions of this chapter, and shall adopt, within 30 days of April 12, 1997, the procurement rules and regulations adopted by the District of Columbia Financial Responsibility and Management Assistance Authority. During the control years, the Office of the Chief Financial Officer shall be bound by the provisions contained in this chapter."

The aforementioned statute of the D.C. Code expressly exempts the OCFO from the privatization provisions of the District of Columbia Procurement Practices Act of 1985, as amended. The following agencies fall within the purview of this exemption:

- Office of Tax and Revenue
- Office of Finance and Treasury
- Office of Financial Operations and Systems
- Office of the Chief Financial Officer

- Office of Grants Management and Development
- Office of Budget and Planning
- Office of Information Systems
- D.C. Lottery

Independent agencies are also exempt from the privatization law pursuant to Title 1-1183.20; which grants specific exemption to the following agencies:

- D.C. Convention Center
- D.C. Health and Hospitals Public Benefit Corporation
- D.C. Water and Sewer Authority

And, thus the draft report should reflect all applicable exemptions and rationale for it.

However, the OCFO does not agree with the discussion on page 14 of the draft report concerning Public Benefit Corporation because it is an exempt organization. Paragraph two (2) on page 15 should be changed to reflect the accurate quantitative and percentage numbers given the fact that it had included exempt agencies in its conclusions. Likewise Table II on page 16 should exclude Public Benefit Corporation, as it is exempt. Page 17 should be corrected to exclude Public Benefit Corporation from the text, as well as, the Table III. Page 19 should delete D.C. Lottery from Table IV, as it is also an exempt agency.

The OCFO agrees with the recommendation that rules and regulations should be promulgated to implement the privatization act. The OCFO also concurs with the advisement of maintaining a database for all privatization contracts within the District of Columbia government. OCFO is also in agreement that monitoring and oversight of privatization contracts must be improved and that a methodology for performing cost/benefit analyses must be implemented for all applicable agencies.

Thank-you again for the opportunity to comment and I hope that these recommendations will be considered for the final report.

Sincerely,

A handwritten signature in cursive script that reads "Natwar Gandhi / My JF 9/1/00".

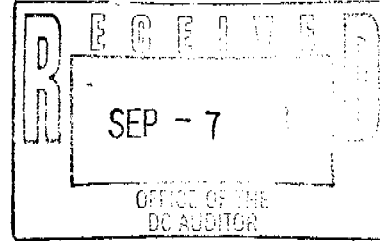
Natwar M. Gandhi
Chief Financial Officer

Government of the District of Columbia
Department of Insurance and Securities Regulation

Lawrence H. Mirel
Commissioner



September 1, 2000



Ms. Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, D.C. 20005

Re: Response to Draft Review of Privatization Contracts

Dear Ms. Nichols:

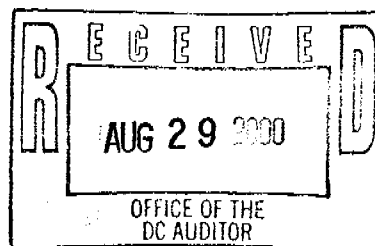
I have reviewed your comments concerning the Department of Insurance and Securities Regulation in this draft report. Exhibit 4 indicates that this Department is included with those agencies whose responses did not include an amount for savings obtained by contracting out. I just want to clarify the fact that this contract was entered into prior to the enactment of the Privatization Procurement and Contract Procedures Amendment Act of 1993. Efficiency, not savings, was the concern of the prior Commissioners. This Department was not technically equipped to handle the demands of issuing over 30,000 agent and broker licenses. No government employees were displaced and no cost savings occurred.

If I can be of any further assistance, please contact Bright Ahaiwe at 442-7778.

Sincerely,

Lawrence H. Mirel
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Corporation Counsel



MEMORANDUM

TO: Deborah K. Nichols
District of Columbia Auditor

FROM: Robert R. Rigsby
Corporation Counsel

A handwritten signature in dark ink, appearing to read "Robert R. Rigsby", is written over the printed name.

DATE: August 28, 2000

SUBJECT: Comments on Draft Report, "Review of Privatization Contracts"

By memorandum dated August 14, 2000, you asked that this Office submit comments to you regarding the above draft report "Review of Privatization Contracts" by close of business Monday, August 28, 2000. We have reviewed the draft report and have the following comments:

1. On page 5 of the draft report, the writer suggests that the Chief Procurement Officer ("CPO"), who functions as the director of the Office of Contracting and Procurement ("OCP"), must immediately promulgate rules and regulations to fully implement the Privatization Act to ensure that privatization contracts valued at one million or more dollars are submitted to the DC Council for approval. However, section 304 of the District of Columbia Self-Government and Governmental Reorganization Act, Pub. L. 104-8, 109 Stat. 151 (1995), modified the Charter of the District and provided that the Council must approve all contracts exceeding one million dollars over a 12-month period. The Charter provision for Council approval of contracts over one million dollars is set forth in D.C. Code §1-1130(b)(1), which provides:

No contract involving expenditures in excess of \$1,000,000 during a 12-month period may be made unless the Mayor submits the contract to the Council for its approval and the Council approves the contract (in accordance with criteria established by act of the Council).

Accordingly, there is no need for such regulations.

2. On page 5 of the draft report, the writer suggests that the D.C. Office of Personnel ("DCOP") should immediately promulgate rules and regulations to require contractors to offer displaced employees a right of first refusal to employment in a comparable position for at least a six month period. However, the law actually

requires contractors to offer displaced employees a right of first refusal to employment in a comparable available position for which the employee is qualified, for at least a six-month period during which the employee shall not be discharged without cause. See D.C. Code § 1-1181.5b(3).

3. On page 9 of the draft report, in the second paragraph, the writer discusses difficulties encountered in obtaining information regarding privatization contracts. After reviewing the paragraph, we detect confusion on the part of the writer regarding the District government procurement organization. DC employees who spend a majority of their time on procurement duties are employees of OCP, with the exception of the contracting operations at the District of Columbia Public Schools ("DCPS") and the Water and Sewer Authority ("WASA"). See D.C. Code § 1-1182.7. Therefore, the Contracting Officer at DCPS should have knowledge regarding privatization contracts for DCPS, the Contracting Officer at WASA should have knowledge regarding privatization contracts for WASA, and the CPO should have knowledge regarding privatization contracts for the subordinate agencies under his control. Under the current system, the CPO has assigned various Agency Chief Contracting Officers ("ACCO") to governmental agencies. These ACCO's derive their contracting authority from the CPO and are employees of OCP. For all agencies under the CPO, the District of Columbia, through the Office of Contracting and Procurement, is the agency that exercises contracting authority. See D.C. Code § 1-1182.3. The exceptions to the CPO's contracting authority are set forth in DC Code § 1-1181.4. Those exceptions involve procuring the use of experts by the Council of the District of Columbia, the Corporation Counsel, the Inspector General, the Auditor, and the Chief Financial Officer ("CFO").
4. On page 10 of the draft report, the writer sets forth four recommendations that incorrectly assume that the agencies exercise their own contracting authority. As noted above, the CPO exercises contracting authority for the agencies, and the ACCO's report to the CPO.

If you have any questions, please contact Howard Schwartz at 724-5512 or Warren Nash at 724-5507.

JJS

GOD:PS:HSS/WJN:wjn
File No. PA-00-238

Attachments

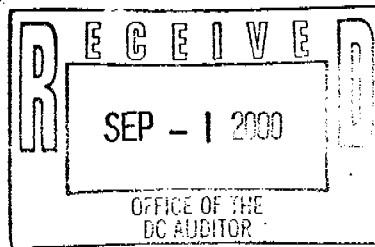
GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Herbert J. Huff
Deputy Chief Financial Officer

Tax and Revenue

August 29, 2000



CONFIDENTIAL

Ms. Deborah K. Nichols
District of Columbia Auditor
717 14th Street NW, Suite 900
Washington, DC 20005

Dear Ms. Nichols:

Subject: Response to the Review of Privatization Contracts

I am in receipt of your draft report entitled Review of Privatization Contracts. As requested, I am providing comments on the DC Auditor's findings and recommendations made in the respective report regarding the Office of Tax and Revenue's (OTR) contracts.

I agree with your finding that further clarification is needed regarding when contracts are considered a privatization of government services. In fact, when we were contacted initially on this matter, a clear explanation of what constituted a privatization contract was not provided. Therefore, we submitted the Discovery contract information that seemed to meet the parameters of the request.

The statement attributed to "A representative of the Office of Tax and Revenuethat the services performed by MBIA MuniServices Company were never performed by agency employees and, if they were, the contracts were awarded prior to the effective date of the Privatization Act." is not totally accurate. The Discovery contract was not finalized until early 1999 and activities were initiated in April of the same year. While perhaps not covering all possible areas in which a Discovery contractor might get involved, OTR was involved in collection activities, similar in nature to what the contractor was being paid to do for us. Further, we had also planned to allow the contractor to initiate follow up contacts on delinquent tax accounts previously worked by OTR but now deemed as lower priority work. Therefore, we determined that the Discovery contract appeared to meet the privatization definition.

Response to the Review of Privatization Contracts

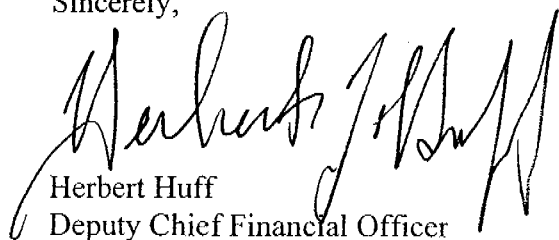
August 29, 2000

Page 2

In review of your report, I agree with your recommendations. However, since the Office of Tax and Revenue's procurement activities are not handled by the District's Chief Procurement Officer, I will instruct the Office of the Chief Financial Officer's (OCFO) Procurement Director to review the privatization requirements and ensure that where applicable your recommendations are implemented for OCFO contracts.

If you have any further questions or concerns please contact me at (202) 442-6383 or Lee Monks, Director of Operations, at (202) 442-6569.

Sincerely,

A handwritten signature in black ink, appearing to read 'Herbert Huff', is written over the typed name and title.

Herbert Huff

Deputy Chief Financial Officer

cc: Louis Parker, Director, Mission Support Center
Sheila Mobley, Director, Procurement



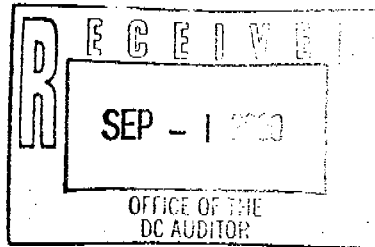
**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**

Office of the Superintendent

825 North Capitol Street, N. E., 9th Floor
Washington, D.C. 20002-4232
202-442-5885, fax: 202-442-5026
www.k12.dc.us

August 28, 2000

Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, D.C. 20005



Subject: Response to the Draft Report "Review of Privatization Contracts".

Dear Ms. Nichols:

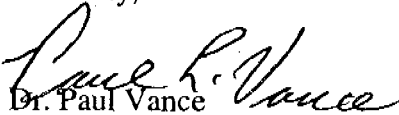
In October of 1996 a contract was awarded to MVM, Incorporated to provide security personnel, uniforms, materials and equipment needed to ensure maximum security at all D.C. Public Schools and Administrative Buildings.

There was no Cost-Benefit analysis performed. The decision to outsource Security Services was the result of a mandate to the Superintendent of D.C. Public Schools from the D.C. Financial Responsibility Authority (the Authority) to reduce the number of Full-time Employees (FTE) positions within the school system. To attain this requirement the intent was to outsource the Divisions of School Security, Food Services and Facility. However, the Division of the School Security was the only unit outsourced.

As a result of contracting security services, approximately 300 positions were eliminated. The original allotment of the contract was 6.3 million dollars. However, as the requirements and obligations of the school system increased, so did the need to enhance the total security efforts, which included additional personnel. The increase in personnel is generated by and at the request of the school system and not by the contractor.

If further information is needed please feel to contact me at (202) 442-5885

Sincerely,


Dr. Paul Vance

Superintendent, D.C. Public Schools

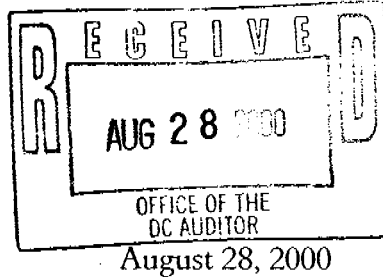
Cc: Patrick Fiel, DCPS
Delores Chambers-Dupuy, OCP, DCPS



GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
2101 MARTIN LUTHER KING, JR. AVENUE, S.E., 5TH FLOOR
WASHINGTON, D.C. 20020-5731



Anthony S. Cooper
Executive Director



(202) 645-8010
Fax: (202) 645-3683
E-mail: tony.cooper@dclottery.com

Ms. Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW Suite 900
Washington, DC 20005

Dear Ms. Nichols:

Enclosed are the Lottery's comments on the draft report entitled, "Review of Privatization Contracts." Should you have questions, please call Carol Godley or me on 645-8010.

Sincerely,

Anthony S. Cooper
Executive Director

Enclosure

cc: Claudia Booker

**D.C. LOTTERY AND CHARITABLE GAMES
CONTROL BOARD COMMENTS
TO THE REPORT "REVIEW OF PRIVATIZATION CONTRACTS"**

The D.C. Lottery and Charitable Games Control Board's Comments address audit findings specific to the lottery. The findings are in the left column below; lottery comments are in the right.

Auditor Finding

Agency did not use criteria established in the Procurement Practices Act of 1985 when calculating savings achieved by contracting out services previously performed in-house by District employees (i.e., services for FY 1997 year-end close) [Table IV, page 19]

LOTTERY COMMENT

Not applicable.

The agency did not view the contract to close the year-end books as privatization. No employee was being replaced; the function was not being covered at that time. The contract was a tool used to get the best temporary expertise in lottery finances for closing the books in a very short period of time. The failure to close the Lottery's books would have had an impact on the agency's and possibly the city's audit opinion for FY 1997.

The agency's immediate past chief financial officer (CFO), an accountant, had always coordinated the year-end closing. However, his departure—along with that of several key employees months earlier—decimated the finance department, including hampering its ability to close the books. Realizing that closing on time was unlikely, we issued a short-term, emergency contract to the former CFO. That the Lottery realized a monetary savings of \$21 per hour compared to services from an accounting firm contracted by the District's CFO is important. Even more important, however, is that the books were closed on time because we avoided the inevitable learning curve for an accountant inexperienced in lottery finances.

By contracting with the former agency CFO, the Lottery offered him the first right of refusal. Later on, this former employee and the others noted above were rehired to address, correct and strengthen critical weaknesses in the finance department's operations.

Auditor Finding

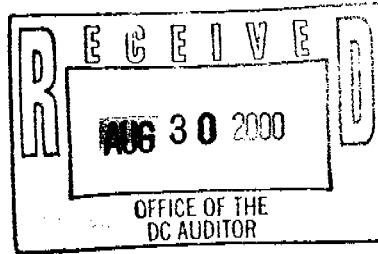
Agency response did not include an amount for savings obtained by contracting out (to an advertising agency). [Appendix IV, NP]

LOTTERY COMMENT

We agree in part, and will adhere to the law should we privatize functions in the future. It should be noted, however, that since its inception the Lottery has generally contracted for the production of advertising campaigns, collateral materials, and promotional merchandise and permanent point-of-sale (POS) materials. On occasion, we have produced in-house public service announcements and other similar campaigns that required limited technicality.

Media buying has been contracted out for most of the Lottery's history, with the exception of a few years in the early 1990's. The Lottery contracted for these services again after media buyers we hired from the early to mid 1990s ended their employment at the Lottery. At the time the contract was issued to the advertising agency, no professional media buyer was on the Lottery's staff. An in-house media buying process lacks the flexibility, quick response to market forces, and economies of scale that advertising agency placement provides.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF PERSONNEL



MEMORANDUM

TO: Deborah K. Nichols
District of Columbia Auditor

FROM: *Milou Carolan*
Milou Carolan
Director of Personnel

DATE: August 25, 2000

SUBJECT: Draft Report, "Review of Privatization Contracts"

This is in response to your letter of August 14, 2000, in which you solicited comments on the subject report.

According to the draft report (pages 5 and 6), the D.C. Office of Personnel (DCOP) is to promulgate rules in three specific areas. However, with respect to the first area listed, DCOP has no statutory or delegated authority to issue rules on matters that are to be included in a Request for Proposal (RFP) or a contract. If rules are needed to insure the statutory mandate that contractors offer displaced employees a right of first refusal to employment, those rules should be issued by the Office of Contracting and Procurement rather than DCOP. With respect to the other two areas (the 30-day notice to employees adversely affected by contracting out and efforts to provide alternative employment, in the District government, for displaced employees), DCOP's reduction-in-force process already provides these rights to all displaced employees, whatever the reason for displacement.

Regarding the statement on the bottom of page 20 that no information was provided to the Auditor which documented that the Department of Corrections complied with all employee protection provisions of the Privatization Act, please be advised that such information should be available with respect to those areas within the purview of DCOP. Specifically, depending on how long ago specific terminations were effected, DCOP's Servicing Personnel Office No. 2 should be able to provide you with documentation that the 30-day notice requirement was complied with and that affected employees were included in the District government's Displaced Employee Program. The Department of Corrections should have information on placement efforts in its Agency Reemployment Priority Program. My office will be glad to assist you in obtaining this information should it still be desired. In any event, however, the reduction-in-

force rules in effect during the entire period in question required that 30-day notices be provided and provided that affected employees would automatically be included in these placement programs.

I appreciate having been given the opportunity to comment on this draft report and trust that the appropriate modifications will be made. Please feel free to call me at (202) 442-9600 or have your appropriate staff person call E. Jacqueline Edgett, Associate Director, Office of Policy and Performance Management, at (202) 442-9644 if you have any questions.

MC/dn