TO: Joseph Salema
   Chief of Staff

FROM: Michael J. Scheiring

DATE: January 30, 1992

SUBJECT: AUDIT PRIVATIZATION

As you are aware, many of the Governor's Management Review Commission's audit reports contained recommendations for the privatization of certain operations and services.

In order to assist the current budget process, we have compiled a summary listing of the GMRC's privatization recommendations. In addition, we also summarized other opportunities for privatization which were not specifically addressed and/or recommended within our reviews. A number of opportunities on this second list may be quite attractive from a viability and cost efficiency perspective.

If you have any questions or desire further research on these issues, please let me know.

MJS: pjw: 756
Attachments

cc: Stanley C. Van Ness
    David Applebaum
    Brenda Bacon
    Samuel Crane
    Robert DeCotiis
    Carl Van Horn
AUDIT PRIVATIZATION RECOMMENDATIONS

The Governor's Management Review Commission recommended the privatization or contracting of a number of current government services. The areas recommended for privatization are as follows:

1. Contingency Staffing
   The recommendation was to utilize an intermittent work force in lieu of overtime payments and/or overstaffing for peak times.

2. Employee Benefits
   Employee Health care should be provided through a managed health care system rather than the state's "traditional" program.

3. Vehicle Inspection
   The Commission recommended contracting with a single vendor to provide vehicle inspection services (and stations) on a for fee basis. Savings potential was estimated at $22 million annually plus significant cost avoidance.

4. Record Storage
   The records storage operation with the Department of State was recommended for outsourcing. A one time savings was estimated of $63 million with annual cost savings of $14 million.

5. Pensions Administration
   The Commission recommended that the state's benefits administration be contracted.

6. Chemistry Testing
   The Commission recommended privatizing the Department of Agriculture's Chemistry testing services with estimated savings of $310,000 annually.

7. Microfilming
   If 100% verification is not required the state should consider outsourcing its microfilm operation at a annual savings of $144,000.

8. Security (Katzenbach)
   Contract security services at the Katzenbach School for the Deaf. Estimated annual savings of $65,000.

9. Food Service (Katzenbach)
   Contract for food service operations at the Katzenbach School for annual savings of $60,000.

10. Tax Collections
    Turn certain delinquent tax cases to private attorneys or collection agencies for collections. Estimated yield of $25 million annually.
<table>
<thead>
<tr>
<th>11. Pensions</th>
<th>Allow private concerns to manage the investments of the state pension systems.</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Print Shops</td>
<td>Contract with private vendors for the printing of state business cards. Annual savings estimated at $65,000.</td>
</tr>
<tr>
<td>13. Community Affairs</td>
<td>Establish a non-profit fund raising organization for the Hackensack Meadowlands Development Commission's Environmental Center</td>
</tr>
<tr>
<td>14. Recovery of Payments</td>
<td>The recovery of third party liabilities for medicare and medicaid services (DHS) could be increased through a private contractor. Likewise, a supplemental trauma recovery project should be contracted.</td>
</tr>
<tr>
<td>15. Data Entry</td>
<td>Data entry for maintaining the Department of Health's Birth Defects Registry and Division of Epidemiology should be contracted to private vendor or employment service.</td>
</tr>
<tr>
<td>16. Annual Inventories</td>
<td>Consider utilizing outside vendors to conduct annual physical inventories and periodic cycle counts of warehouses and stockrooms.</td>
</tr>
<tr>
<td>17. System Design</td>
<td>OTIS should be competitive with outside vendors. External vendors should be used when they are able to provide more efficient delivery.</td>
</tr>
<tr>
<td>18. Accident Reporting</td>
<td>The Bureau of Transportation Data Development prepares statistical summaries of motor vehicle traffic accidents in the state. This function should be reviewed for privatization.</td>
</tr>
<tr>
<td>19. Vehicle Maintenance</td>
<td>Privatization of vehicle maintenance within DOT should be used where it is cost effective to do so.</td>
</tr>
<tr>
<td>20. Facility Maintenance</td>
<td>Continually examine the mix of contracted and state provided services to assure an efficient balance. Decrease the usage of contracted employees through a better utilization of state employees and contracted services.</td>
</tr>
<tr>
<td>21. Building Security</td>
<td>Make greater use of the central monitoring system to decrease the amount of contracted security services.</td>
</tr>
</tbody>
</table>
22. Road Projects

The decision to use outside resources in construction, maintenance and design should be based on a cost/benefit analysis to determine if the outside services are more cost effective.

23. Project Design

A competitive process should be utilized for DOT design jobs using outside firms. The Department should be able to price shop when performing this developmental work. Potential savings are estimated at $3 - $5 million annually.
## PRIVATIZATION OPPORTUNITIES

In addition to making the above specific recommendations for privatization, the GMRC discussed the possibility of privatizing operations in the following areas:

1. **Energy Management**  
   Privatization opportunities exist with respect to the performance of energy audits, cogeneration and management of demand side.

2. **Commerce**  
   Publication of certain state directories may be better provided by the private sector.

3. **Insurance**  
   Possible operations with the Department of Insurance include its insurance reserve evaluation unit and insurance examination functions.

4. **Civil Service Exams**  
   Civil Service examinations currently administered by the Department of Personnel would fit well into the private sector.

5. **Sick Leave Injury**  
   The state's SLI program can be replaced with a (private) disability insurance program.

6. **State Museum**  
   Privatization of the State Museum was raised as a possible way to fund and operate the State Museum.

7. **Bank Examinations**  
   Bank examinations may lend themselves to privatization.

8. **Pensions**  
   "Privatize" investments by purchase of investment contracts.

The following areas may have significant opportunity for privatization but were not specifically addressed, discussed or recommended in the GMRC reports:

1. **Prison Operations**  
   Privatized prisons operations is one of the fastest growing areas. In most instances new construction is part of the contract. GMRC did not recommend.

2. **Prison Health Services**  
   The State of Texas contracts its health services to the University of School of Medicine. Other private concerns may be interested in providing such service.

3. **Prison Education**  
   There may be significant opportunities to privatize the educational systems within both adult and juvenile prisons.
4. Hospital Audits
A contractor could also be hired to conduct hospital "credit balance" audits for the Department of Human Services.

5. Medical Air Services
The Emergency Medical Services Helicopter Response Program can be privatized.

6. Asbestos Testing
The Department of Health under Executive Order No. 59 is responsible for testing potential asbestos workers. This function could be privatized.

7. Food Service Operations
Food service operations within the Department of Human Services (state hospitals, group homes) and within Military and Veterans Affairs (veteran's hospitals) are relatively large operations that are well suited for privatization.

8. Medical Services
Other medical services (i.e., Veteran's hospitals, mental health hospitals) may have the potential for privatization.

9. Laboratory Services
Certain task currently performed by various state laboratories lend themselves to privatization.