

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 5, 2011

To: Johnny Thomas, Chairman, Committee on Finance and Audit

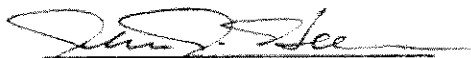
From: Jerome J. Heer, Director of Audits
Steve Cady, Fiscal & Budget Analyst, County Board Staff

Subject: BHD Food Service Privatization Audit (File No. 10-290)

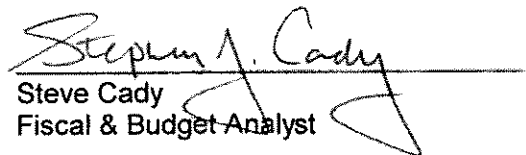
We were asked at the May 19, 2011 meeting of the Committee, to make recommendations regarding whether requirements included in the Privatization Initiatives Checklist should be added to those contained in the due diligence ordinance and/or fiscal note relating to future privatization efforts. Copies of the Privatization Initiatives Checklist (Checklist) and MCGO 32.88 are attached for your reference.

In our review of Ordinance 32.88, we noted that Section 7, Privatization review, already includes the multitude of requirements contained in the Checklist. However, the organization and detailed guidance provided by the Checklist would aid in the development of the fiscal estimate required under the ordinance, as well as documenting, in a standardized format, the various components making up the fiscal estimate.

As a result, we recommend the checklist be added to the County Administrative Manual with the directive it be used in carrying out the requirements of Ordinance 32.88 relating to privatization initiatives, that all requirements of the ordinance be completed prior to submission to the County Board for approval, and the checklist also be used to support summary information reported in any fiscal note involving a privatization initiative.



Jerome J. Heer
Director of Audits



Steve Cady
Fiscal & Budget Analyst

JJH/SC/PAG/cah

Attachment

cc: Finance and Audit Committee Members
Chris Abele, Milwaukee County Executive
Geri Lyday, Interim Director, Department of Health and Human Services
Paula Lucey, Director, DHHS – Behavioral Health Division
Patrick Farley, Director, Department of Administrative Services
Terrence Cooley, Chief of Staff, County Board Staff
Carol Mueller, Chief Committee Clerk

Privatization Initiatives Checklist

If a department is considering a new privatization initiative, DAS requests that the following spreadsheet be used when calculating savings. A calculation must be done for the initial year of implementation and the subsequent year on a budget and an actual basis.

| | Current Year Budget | Initial Year Budget | Subsequent Year Budget | Current Year Actual | Initial Year Actual | Subsequent Year Actual | NOTES |
|--|---------------------|---------------------|------------------------|---------------------|---------------------|------------------------|-------|
| Fiscal Considerations | | | | | | | |
| Salary (5199) | | | | | | | |
| Social Security (6312) | | | | | | | |
| Overtime (5201) | | | | | | | |
| FTE (include detail of all abolished and created positions on a separate form with title code, salary etc) | | | | | | | |
| Active Fringe Benefits (5420 and 5421)* | | | | | | | |
| Support Services Analysis (i.e. reduction or increase in maintenance, fiscal, HR, administration, contracts, QA outside of service area) | | | | | | | |
| Unemployment Compensation (Use Federal UE compensation rates and work with DAS to determine a % of employees likely to collect UE) | | | | | | | |
| Displacement Services (Work with Central HR to consider costs per employee depending on field) | | | | | | | |
| Revenue Adjustment - include explanation of loss of revenue if any. | | | | | | | |
| Crosscharge Adjustments (include Ceridian, IMSD, Central Service etc) | | | | | | | |
| Sick Pay Balance Payout | | | | | | | |
| Payout for vacation (depends on timing) | | | | | | | |
| Miscellaneous and Other fiscal issues | | | | | | | |
| Cost of contract (Include an explanation of how this was calculated - i.e. using RFP bids, industry standards etc) | | | | | | | |
| Other increased costs related to implementation of the contract such as oversight, supplies etc | | | | | | | |
| Other Considerations | | | | | | | |
| Program Changes - include benefits to the program and potential issues from a programmatic point of view. This should be reviewed after one year and reassessed. | | | | | | | |
| Performance Measures - Establish performance measures before privatization and track them for at least one quarter prior to privatization and continue to track them on a regular basis after contract implementation for the life of the contract. | | | | | | | |
| Assess if the contract should be Purchase of Service or Professional Service (refer to Audit for more information and detail) | | | | | | | |

*If doing as a budget initiative, please use the budgeted fringe rate. If doing mid-year, use memos from DAS- Accounting regarding the actual fringe rate for the year.

32.88. Due diligence.

(1) *Definitions.* The meaning of certain terms used in this section is as follows:

(a) *Due diligence.* A systematic, formal review of financial and business risks associated with ventures with non-county entities.

(b) *Non-county entities.* Any agency, business, group or corporation including both private sector proprietary and nonproprietary entities and governmental entities.

(c) *Ventures.* For purposes of this section, ventures shall be defined as any agreement involving a shared responsibility regarding management, development, financing, expenditure or revenue sharing for programs, services or facilities. This includes, for example, revenue based leases but does not include flat fee property rentals. Further, this section shall apply only to ventures where potential total expenditures or revenues are equal to or greater than one hundred thousand dollars (\$100,000.00).

(2) *Responsibility.* Any Milwaukee County agency considering a venture with a non-county entity is responsible for ensuring that all relevant provisions of this section are addressed subject to Department of Administrative Services - Fiscal Affairs Division review.

(3) *Bonding.* Adopted county board policy states that in any future public/private partnership agreements or contracts, wherein the county issues bonds for the construction of a facility and there is a multi-year schedule for repayment of the bonds through a rental agreement with a third party, that the agreement or contract contain provisions for the repayment to coincide with or commence prior to the time of the due date for each payment on the outstanding bonds. In those contracts where such a condition would not be feasible or where there is deemed a "worthy community purpose" wherein the county decides to "underwrite" a given policy by not requiring payments to retire debt on bonds, any alternative proposal must be brought back to the county board for review and approval by the county board and county executive.

For purpose of this section, this policy also applies to ventures with governmental agencies.

(4) *Checklist.* Prior to recommending any venture for consideration, responsible county agencies shall ensure that any of the following applicable factors have been identified:

- (a) Letter of full disclosure and cooperation.
- (b) Cash flow projections for the venture.
- (c) Operating budget impact.
- (d) Debt management responsibilities, schedules and procedures.
- (e) Legal liability for all priorities.
- (f) Financial reporting systems and controls.
- (g) Right-to-audit provisions.
- (h) Project feasibility studies and market analysis.
- (i) Key factors for success/failure of the venture.
- (j) Governance structure and procedures.
- (k) Public policy impacts (e.g. Affirmative Action, Disadvantaged Business).
- (l) Employee/labor relations impacts (including benefits).
- (m) Environmental concerns.
- (n) Tax consequences.
- (o) Capital management (e.g. maintenance).
- (p) Conflicts of interest/ethics.
- (q) Performance measurements.
- (r) Organizational chart and mission statement.
- (s) Name of lending institution or bank to determine single or combined reporting.

Each relevant item noted above should be included in the description of the proposal that is submitted for approval by the county executive and county board.

(7) *Privatization review.* In addition to the checklist of applicable factors above, it is understood that the review of a proposed privatization may include other factors, especially in instances where county positions are being eliminated and duties replaced by a private vendor. In these cases, the following factors should also be considered in addition to the list above:

- (a) Analysis of proposed fiscal costs, or savings, for current and subsequent year(s), including any revenue offsets, fringe benefit impacts, unemployment compensation costs or any other one-time costs.
- (b) Commitment of the proposed vendor to make a good faith effort to retain county workers that may otherwise be subject to layoff.
- (c) Assessment of the current marketplace to determine if adequate competition exists to ensure that future year price agreements are competitively priced.
- (d) Location of employer and residences of proposed employees to assess the amount of public funds that will be retained in Milwaukee County.
- (e) Description of current and proposed performance standards and how accountability from the private vendor will be measured and reported.