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STATE AUDITOR'S DETERMINATION
ON THE
DEPARTMENT OF EMPLOYMENT AND TRAINING'S
PRIVATIZATION
OF OFF-SITE STORAGE AND RETRIEVAL OF RECORDS

OFFICIAL AUDIT REPORT

JAN 31 1996

**ISSUED BY THE
Department of the State Auditor**

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INTRODUCTION

Background

Chapter 296 of the Acts of 1993, the Commonwealth's privatization law, outlines the process that must be followed by agencies and applicable Authorities seeking to contract for a service that is presently performed by state or Authority employees. The law, which became effective December 15, 1993, applies to contracts that have an aggregate value of \$100,000 or more.

Pursuant to this law, a specific process must be followed to demonstrate and certify to the State Auditor that (a) the agency complied with all provisions of Chapter 7, Section 54, of the General Laws and all other applicable laws, (b), the quality of the services to be provided by the designated bidder is likely to equal or exceed the quality of services that could be provided by regular agency employees, (c) the total cost to perform the service by contract will be less than the estimated in-house cost, (d) the designated bidder has no adjudicated record of substantial or repeated noncompliance with relevant federal and state statutes, and (e) the proposed privatization contract is in the public interest in that it meets applicable quality and fiscal standards. The State Auditor has 30 days to approve or reject the agency's certification.

The process that the agency must follow includes preparing a detailed written statement of service, estimating the most cost-efficient method of providing those services with agency employees, selecting a contractor through a competitive bidding process, and comparing the in-house cost and the cost of contract performance. The agency must also ensure that the private bids and private contract, if ultimately awarded, contain certain provisions regarding wages, health insurance, the hiring of qualified agency employees, nondiscrimination, and affirmative action.

Department of Employment and Training (DET)

Each year approximately 420,000 Massachusetts residents lose their jobs and apply for unemployment insurance benefits. For each claim, a batch file four pages in length is created by the DET branch offices. Batch files are stored for three years in accordance with a disposal schedule agreed upon between DET and the state's Records Conservation Board. A second file, called an adjustment file, is

also created whenever the decision on a claim is disputed by either the claimant or the claimant's former employer. There are approximately 200,000 adjustment files created each year. The files average 10 to 12 pages in length and are stored for approximately four years.

All files are sent to the DET's Charlestown Records Center, where they are stored, retrieved as needed, and eventually disposed of. Records are retrieved for reasons such as internal quality audits, hearings, appeals, and fraud investigations. Approximately 18,000 files are retrieved and returned to the Records Center each year. With about 620,000 files being created and 18,000 being requested each year, the retrieval rate is approximately 3%. Therefore, after being stored, 97% of the files are never touched until they are disposed of.

On December 18, 1995 DET notified the State Auditor of its intent to award a privatization contract for the off-site storage and retrieval of its unemployment insurance records. As required by law, the notification was accompanied by a certification signed by the Commissioner of DET and the Secretary of Administration and Finance, and by the supporting documentation required by the privatization guidelines issued by the State Auditor.

Scope, Objectives, and Methodology

The objective of this review was to determine whether DET has complied with Chapter 296 of the Acts of 1993, the privatization law, and whether the cost of performing the off-site storage and retrieval of records by contract would be less than the estimated cost for performing these services in-house with agency employees.

To meet these objectives, we examined the written statement of services for the storage and retrieval function, the management studies of the function which had been done, the request for proposals, the summary of bids received, the successful proposal, and the proposed privatization contract. We also examined the cost forms and supporting documentation submitted by DET and compared the estimated cost of contract performance with the estimated cost to perform the services in-house with agency employees. All of the cost elements listed in the cost forms were traced to the supporting documentation

and were verified by us. We also interviewed DET management officials and toured the facility where the function was presently being performed.

DETERMINATION

Based on our examination, we have concluded that DET has complied with Chapter 296 of the Acts of 1993 in reaching its decision to award a privatization contract for the off-site storage and retrieval of its records, a service which had previously been performed in-house with agency employees.

DET determined that the quality of services to be provided by the vendor is at least equal to or greater than that which had been provided by agency employees, that the designated vendor has no adjudicated record of noncompliance with relevant statutes, and that the cost of having the work performed by contract will be less than the estimated cost of having the work performed in-house with agency employees. We approve DET's certification in each of these required areas.

As summarized in Exhibit A, the cost of performance for the three-year period of the contact is estimated to be \$609,294, or \$264,434 less than the estimated cost of \$873,728 to perform the work in-house with agency employees. Accordingly, we approve DET's certification and awarding of the subject contract to the designated vendor.

Exhibit A

Department of Employment Training
Cost Comparison
(Three-year period)

In-House Cost Estimate

Personnel Costs:

Wages	\$403,680	
Fringe Benefits	<u>152,107</u>	\$555,787
Materials and Supplies		27,200
Rent		265,320
Disposal		23,261
Security		<u>2,160</u>

Total In-House Costs		\$873,728
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Less:

Contract Performance Costs:

Contract Price		\$308,564
Contract Administration		292,101
Transition Costs		<u>8,629</u>

Total Contract Costs		<u>609,294</u>
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Total Potential Cost Savings		<u>\$264,434</u>
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Source: Department of Employment and Training