COMMONWEALTH COMPETITION COUNCIL

RICHMOND, VIRGINIA

SPECIAL REPORT

APRIL 2003

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 30, 2003

The Honorable Emmett Hanger, Jr.
Chairman of the Commonwealth Competition Council
P.O. Box 2
Mount Solon, Virginia 22843-0002

Mr. David Von Moll
State Comptroller
101 N. 14th Street
Richmond, Virginia 23219

Gentlemen:

In accordance with Item 62 of Chapter 899 of the 2002 Acts of the Assembly (Appropriation Act), we must "certify to the Comptroller the total new savings realized by state agencies in the preceding fiscal year as a result of Commonwealth Competition Council recommendations." The Commonwealth Competition Council submitted on January 6, 2003 a letter with supporting information to the Director of the Department of Planning and Budget a list of items for consideration, which it believes complies with the provision of the Appropriation Act.

The Director of Planning and Budget has completed his review of the submission of Commonwealth Competition Council and notified both the Commonwealth Competition Council and the Auditor of Public Accounts of his finding in a letter dated March 28, 2003.

The Commonwealth Competition Council has submitted the following two items to the Department of Planning and Budget for consideration.

1. Savings of $1.2 million that the Departments of Corrections and Mental Health, Mental Retardation and Substance Abuse should realize from changes in the methods used to order and stock food inventories.

2. The sale of a tract of land by Mary Washington College and other state agencies that should generate $3 million in savings.

The Director of Planning and Budget did conclude that the first item noted above did generate savings to both departments, however, during the 2000 session of the General Assembly this saving was recognized and taken from both departments in the 2000-2002 biennium budget.

Therefore, there is no funding available for a transfer to the Commonwealth Competition Council.

For the second item noted above the Commonwealth Competition Council transmittal letter to the Department of Planning and Budget addressed other surplus properties; however, the supporting documentation only addressed the sale of land at Mary Washington College. Subsequently, the Commonwealth Competition Council provided a detailed listing of other properties under consideration for sale due to being surplus. As of the date of this certification, none of the other agencies have sold their surplus property.

There are two issues with who should receive credit for identifying the Mary Washington College properties as available for sale. The Joint Legislative Audit and Review Commission originally identified the Mary Washington College property as surplus in a report released in October 1994. The Commonwealth Competition Council cites the Governor's Commission Report on *Conversion of State - Owned Property – Initial Report and Recommendations* dated April 1996 as support for their claim to receive a portion of the proceeds from the sale. However, there is no formal documentation that the Commonwealth Competition Council ever acted to recommend the property's sale.

While the Commonwealth Competition Council staff provided support to the Governor's Commission and several members of the Council served on the commission, there is no clear indication that their service on the commission was due to their Council service or their other duties. As an example, a member of the Commonwealth Competition Council served as Chairman of the Governor's Commission; however, the individual was also the Secretary of Administration, who has oversight of the Department of General Services, who disposes of all state surplus properties.

The Commonwealth Competition Council has not provided any evidence that the sale of the Mary Washington College property was the result of any report or action taken by them. Our understanding of Item 62 of the Appropriation Act requires that we be able to associate the saving with an action of the Commonwealth Competition Council and we cannot make this association.

We will continue to make ourselves available to certify any new savings the Council proposes. Attached to this letter is a brief outline of the procedures we followed in reaching the conclusion in this letter.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

SHW:whb
whb:37

Outline of Review Procedures to Certify Savings

1. Obtained the Director of Planning and Budget evaluation of the Commonwealth Competition Council proposal with all supporting documentation.

2. Obtain the Commonwealth Competition Council proposal and all supporting documentation.

3. Review and verify all documentation.

4. Meet with the Director of Planning and Budget and his staff and discuss the Director's conclusion on the Commonwealth Competition Council's proposal.

5. Verify all supporting documentation.

6. Prepare and draft of certification letter and discuss with appropriate personnel.

COMMONWEALTH of VIRGINIA

Commonwealth Competition Council

Mark R. Warner
Governor

January 6, 2003

MEMORANDUM

TO: Richard D. Brown
Director
Department of Planning and Budget

FROM: Emmett W. Hanger, Jr.
Chairman
Commonwealth Competition Council

SUBJECT: Validation of Commonwealth Competition Council recommendations and savings

It is now time to begin the new mechanics for the Commonwealth Competition Council's special funding effective July 1, 2003. At that time the Council will be funded from 10 percent of total new savings realized by state agencies in the preceding fiscal year as a result of Council recommendations. The Council believes it has achieved its funding for next fiscal year through the $1.2 million in savings in the food distribution systems at Corrections and Mental Health and in excess of $3 million in surplus state-owned real estate property sales at Mary Washington College and other state agencies. We note that other real estate tracts identified by Mike Thomas' report for higher and better use have been sold and recorded as productivity savings.

The attachment to this memorandum is the Council's report of savings in accordance with Item 62 of the current Appropriation Act, with accompanying documentation. This is to request your assistance in validating the reported savings and forwarding the information to the Auditor of Public Accounts for certification prior to April 2003. This is the process that was discussed at the April 2002 Council meeting.

This is to further request that, if at all possible, the validation action be completed no later than January 19, 2003.

Please let me hear from you if you have questions or concerns.

Attachments

cc: Phil K. Bomersheim
Executive Director

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Commonwealth Competition Council
Funding Process

Year of Recommendations	April 1 Certification of preceding fiscal year savings	Year of Funding
July 1, 1999 – June 30, 2000		
July 1, 2000 – June 30, 2001		
July 1, 2001 – June 30, 2002		
July 1, 2002 – June 30, 2003	April 1, 2003 2001-2002	July 1, 2003 – June 30, 2004
July 1, 2003 – June 30, 2004	April 1, 2004 2002-2003	July 1, 2004 – June 30, 2005
July 1, 2004 – June 30, 2005	April 1, 2005 2003-2004	July 1, 2005 – June 30, 2006
July 1, 2005 – June 30, 2006	April 1, 2006 2004-2005	July 1, 2006 – June 30, 2007
July 1, 2006 – June 30, 2007	April 1, 2007 2005-2006	July 1, 2007 – June 30, 2008

Savings resulting from recommendations of the Commonwealth Competition Council

	FY 00-01	FY 01-02	Amount Savings Earned for FY_____
Food delivery system for prisons and mental health hospitals			
Department of Mental Health, Mental Retardation and Substance Abuse Services	($196,658) GF		$ FY_____
		($196,658) GF	$ FY_____
Based on House Document 61, 2000, report of the taskforce study on the food delivery system for the prisons and mental health hospitals in Virginia: This budget amendment to Item 323 #16c reduced funding in state mental health and mental retardation facilities to implement recommendations by the Competition Council that the facilities reduce their food inventories to a seven-day supply.			
Department of Corrections, Division of Institutions	($2,500,000) GF		$ FY_____
		($1,000,000) GF	$ FY_____
Based on House Document 61, 2000, report of the taskforce study on the food delivery system for the prisons and mental health hospitals in Virginia: This budget amendment to Item 450 #2h requires the Department of Corrections to reduce on-hand food inventory. Current on-hand food inventory was approximately a 60-day supply. Based on an average daily consumption of $85,000, it was anticipated that			

	FY 00-01	FY 01-02	AMOUNT SAVINGS EARNED FOR FY_____
the Department would save $2,500,000 the first year and $1,000,000 the second year as the current inventory levels are reduced, thereby requiring a reduction in purchasing.			
Item 450 C of the 2000-2002 Appropriation Act states that the Department shall reduce food inventory on-hand to an average 30-day supply beginning July 1, 2000, and an average 14-day supply beginning July 1, 2001.			

SALE OF SURPLUS STATE REAL PROPERTY

Based on Governor's Commission on Conversion of State-Owned Property, initial report and recommendations dated April 25, 1996, and Virginia's Real Estate "Opportunities for Higher or Better Uses," Governor's Commission on Surplus Property, report dated November 5, 1997:

Mary Washington College

Rowe Tract 2, City of Fredericksburg Reference No. 21A 1997 Fair Market Value	$500,000	$	FY_____
Rowe Tract 3, City of Fredericksburg Reference No. 21A 1997 Fair Market Value	$840,000	$	FY_____

Savings resulting from recommendations of the Commonwealth Competition Council

		FY 00-01	FY 01-02	Amount Savings Earned for FY_____
Department of Military Affairs				
Chesapeake Armory Reference No. 9C 1997 Fair Market Value	$1,328,700		$	FY_____
Hopewell Armory Reference 26B 1997 Fair Market Value	$199,900		$	FY_____
Department of Corrections				
Correctional Field Unit #11 Culpeper County Reference 17A 1997 Fair Market Value	$720,000		$	FY_____

COMMONWEALTH of VIRGINIA

Richard D. Brown
Director

Department of Planning and Budget

200 N. Ninth St., Room 418
Richmond, VA 23219

March 28, 2003

MEMORANDUM

TO: Walter J. Kucharski

FROM: Richard D. Brown RDB

SUBJECT: Validation of Commonwealth Competition Council's Savings

Item 62 of the 2002 Appropriation Act, Chapter 899, provides that no later than April 1 of each year the Auditor of Public Accounts shall certify to the Comptroller the total new savings realized by state agencies in the preceding fiscal year as a result of recommendations of the Commonwealth Competition Council (CCC).

The CCC has submitted the following two claims for consideration to meet the requirements of Item 62 of Chapter 899.

1. Mary Washington College land sale

CCC claims savings in excess of $3.0 million for the sale of surplus property at Mary Washington College (MWC) and other state agencies. The properties in question are identified in the Governor's Commission on Surplus Property titled *Virginia's Real Estate "Opportunities for Higher or Better Uses"* dated November 5, 1997, pages 88 – 89. Supporting documentation provided by the Council was limited to the tracts belonging to Mary Washington College and copies of the above titled report as well as an earlier report titled *Governor's Commission on Conversion of State –Owned Property – Initial Report and Recommendations* dated April 25, 1996. The stated purpose of both reports was to identify real estate assets that could be considered for sale. Both reports identified the properties displayed on *Attachment 1*.

MWC Findings: The first property is known as MWC Rowe Tract 2, City of Fredericksburg (Reference No. 21A). This 43.6 acre tract was sold by the College to a developer for $1.2 million in October of 2002. The proceeds of the sale have been placed in the college's auxiliary reserve fund with the approval of the Secretary of Administration.

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The second property referenced is known as MWC Rowe Tract 3, City of Fredericksburg (Reference No. 21A). This tract has been removed from the surplus property list by the college. The tract has not been sold and the college indicates that the property will be used by MWC for either parking or student residences.

With one exception, the other properties displayed in A*ttachment 1* continue to be used by the controlling state agency. One property is currently included in the list of properties declared surplus and is being sold, with revenues to accrue to the Commonwealth in the current biennium.

2. Food Distribution systems

Next, the CCC submitted a claim for validation for a total of $1.2 million in savings in the food distribution systems at the Department of Corrections (DOC) and in the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS).

Background: The CCC cited $1.0 million in food distribution system savings in the Department of Corrections. Documentation of this claim provided by CCC included the report of the *Task Force on the Food Delivery System for the Prisons and the Mental Health Systems in Virginia, House Document Number 61, 2000,* a $1.0 million general fund budget reduction amendment authorized by the 2000 session of the General Assembly on DOC for FY2002, and a language requirement in Item 450 C, Chapter 1073, 2000 Acts of Assembly, that DOC reduce its food inventory to an average fourteen-day on-hand supply beginning July 1, 2001.

The recommendations of the Task Force are shown in *Attachment 2*. The Task Force had eight specific recommendations. The thrust of the recommendations called for the prisons and mental health hospitals to institute a policy of "just-in-time" food deliveries. One objective was to better control food inventories and to move away from the practice of maintaining a 45-day food supply inventory in the prisons and a 30-day supply of food in the mental health hospitals. A second objective was to develop a prime vendor program, utilizing a public private partnership, with the Virginia Distribution Center (VDC) acting as a buying group and the prime vendor providing warehousing and "just-in-time" deliveries. The final objective was an evaluation of the requirement that prisons and mental health hospitals continue to mandate purchases from only two sources – the Virginia Distribution Center and the Department of Corrections Agribusiness Operations.

DOC findings: DOC has made progress in decreasing its food costs, however DOC believes that the savings that have resulted over the prior and current biennium do not reflect the Competition Council's recommendations to reduce food inventories to a fourteen-day supply using a just-in-time food distribution system. DOC argues that reductions to its food service appropriation amounting to $2.5 million in FY 2001 and $1.0 million in FY 2002 were made in anticipation of savings to result from reducing inventory levels to an average 30-day supply on July 1, 2000 and fourteen-day supply on July 1, 2001 respectively. Language was included in the Appropriations Act (Chapter 1073) Item 450 C. to establish these inventory standards, but was subsequently

removed from the Appropriations Act (Chapter 899). The department's reductions in food distribution costs were continued in the base budget and $1.0 million each year in savings was carried forward into the Department's 2002-04 biennium budget.

DOC has cited difficulty in meeting the lower inventory standards. The department believes that the difficulty reflects the inability of its required supplier, the VDC, to guarantee complete bi-weekly deliveries to all facilities statewide throughout the year. The VDC delivery vehicles travel their routes every other week. If they fail to deliver complete orders, some institutions can be left without required food items for up to 30 days. In addition, as part of its public safety mission, DOC's facilities are often called upon to provide food supplies to local communities in response to various weather-related emergencies. Both of these factors preclude the department from managing inventory on anything less than a 30-day standard.

As part of the October 2002 reductions, DOC further reduced its food service costs by $563,000 in FY 2003 and $1.1 million in FY 2004, by the following steps:

- Scrutinizing menus to use the least expensive options whenever possible;
- Greater use of agribusiness when it benefits food costs; and
- Continued efforts at portion control (monitoring both the number of meals prepared to prevent waste and actual amounts served to each offender).

DMHMRSAS findings: The Department of Mental Health Mental Retardation and Substance Abuse (DMHMRSAS) had its food distribution appropriations reduced in Chapter 1073 by $197,000 beginning in FY 2001 and FY 2002 "…to implement recommendations by the Competition Council that the facilities reduce their food inventories to a seven-day supply." The General Assembly inserted the above parenthetical comment in an amendment (Item 323 #16c) included in the *2000 session Conference Report on House Bill 30.* However, there was no budget bill language included in Item 323 to give this the force of law.

DMHMRSAS has attempted to implement this action. An informal survey of the hospital facilities affected indicated a general consensus that there have not been any real savings resulting from the changes in the distribution process. Half of the comments indicated that any savings resulted from the three-week inventory drawdown period. Two comments indicated that capital renovations were required prior to implementation. However, renovations have not been completed and implementation has not begun. One comment indicated that implementation had never been attempted.

Conclusions: The Department of Planning and Budget can confirm that in FY 2003, $2.4 million in savings was realized resulting from various actions identified by the CCC. However, some of these savings have already been captured in the budget so it is not clear that they constitute "additional savings" per the language in Item 62 of the 2002 Appropriation Act. Below is a summary of these savings.

1. Proceeds of $1.2 million resulted from the sale of a tract of land owned by Mary Washington College and identified as Rowe Tract 2. This is a one-time savings.

2. The 2000 session of the General Assembly reduced the FY 2002 budgets of DOC and DMHMRSAS for food distribution costs. DOC had its general fund food service budget reduced by $1.0 million. Language added by the General Assembly directed DOC to phase-in, over the course of the 2000–2002 biennium, reductions in the food supply inventory to an on-hand average of a 30-day supply by July 1, 2000. This was to be reduced further down to a 14-day supply by July 1, 2001. As noted above, DOC says the phase down to a 14-day on-hand supply was never implemented.

DMHMRSAS appropriation was reduced by $197,000 in FY2002 for savings to be realized by reducing their food inventories to a seven-day supply. These savings have already been taken in the DOC and DMHMRSAS budgets by the General Assembly, so they do not constitute additional savings, which can be accessed for funding the CCC.

I am now forwarding this package to you to certify the savings in accordance with the provisions in Chapter 899.

Attachments

c: The Honorable Emmett W. Hanger, Jr.
The Honorable John M. Bennett
Phil K. Bomersheim
David A. VonMoll

Attachment 1

Virginia's Real Estate "Opportunities for Higher or Better Uses"
Governor's Commission on Surplus Property, final report dated November 5, 1997

The Commission was authorized by Executive Order Number Seventy-Eight (97). The Commission was composed of fifteen members with staff support to be provided by the Department of General Services, the Commonwealth Competition Council, the Offices of the Governor's Secretaries and other executive branch agencies as needed.

The Commonwealth Competition Council (CCC) in their request dated January 6, 2003 asked the Department of Planning and Budget (DPB) to assist in validating their claim of saving in excess of $3.0 million in surplus state-owned real estate property sales at Mary Washington College and other state agencies. The properties in question appear on:

Table 3 Area A property Recommended for Higher or Better Use.

Ref #	Locality	Description	Acreage	Estimated Value	Current Status
16A	Clark	Department of Corrections Field Unit #7	5.0	$500,000	Under Consideration for action in FY2003
17A	Culpepper	Department of Corrections Field Unit #11	9.62	$720,000	Shared use by VDOT & DOC (Not surplus)
18A	Fauquier	Department of Forestry: Warrenton office	2.65	$386,200	Not surplus – still in use by DOF
37A	Prince William	Department of Corrections Haymarket Field Unit #6	39.00	$375,000	Not surplus – still in use by DOC
40A	Shenandoah	Department of Forestry: Woodstock office	1.25	$134,400	Not surplus – still in use by DOF
21A	**Fredericksburg**	**Mary Washington College: Rowe Tract Parcel 2**	**43.60**	**$500,000**	**Sold Oct, 2002: $1.2 million**
21A	Fredericksburg	Mary Washington College: Rowe Tract Parcel 3	27.90	$840,000	Removed from Surplus List will be used by College
		Total Table 3	**129.02**	**$3,455,600**	**$1,200,000**

The following recommendations are offered to the Governor and the General Assembly as a series of available options to improve the state's food delivery system:

- Pilot for up to one year a Prime Vendor program with "just-in-time" deliveries for a group of mental health hospitals and prison facilities;
- Abolish the prisons' 45-day food supply inventory requirement and the 30-day food supply inventory at mental health hospitals;
- Institute a policy of "just-in-time" deliveries, which could release $5 to $6 million in funds;
- Require the Virginia Distribution Center to implement a policy of "just-in-time" food deliveries for prisons and mental health hospitals;
- Require the Virginia Distribution Center to compete with Prime Vendors for a statewide "just-in-time" food delivery system;
- If pilot Prime Vendor program is successful, engage the food delivery professionals at Virginia Polytechnic Institute and State University to assist the state in developing a total outsourced Prime Vendor program with "just-in-time" deliveries for all mental health hospitals, prisons, and other current stakeholders, with eventual expansion to local governments and non-profit organizations, or;
- Enter into a public-private partnership with a Prime Vendor with the Virginia Distribution Center serving as a "buying group" and the Prime Vendor providing warehousing and "just-in-time" deliveries;
- Evaluate the necessity to continue the requirements for prisons and mental health hospitals to buy from two mandated sources of supply - the Virginia Distribution Center and the Department of Corrections Agribusiness Operations.

These recommendations are compatible with the Administration's economic development policies. With the September 1999 announcement of the AmeriServe Food Distribution, Inc. expansion in Prince William County, the Secretary of Commerce and Trade is quoted as saying "existing businesses in Virginia are key to Virginia's economic success. The state is dedicated to fostering a positive business climate for the distribution industry."