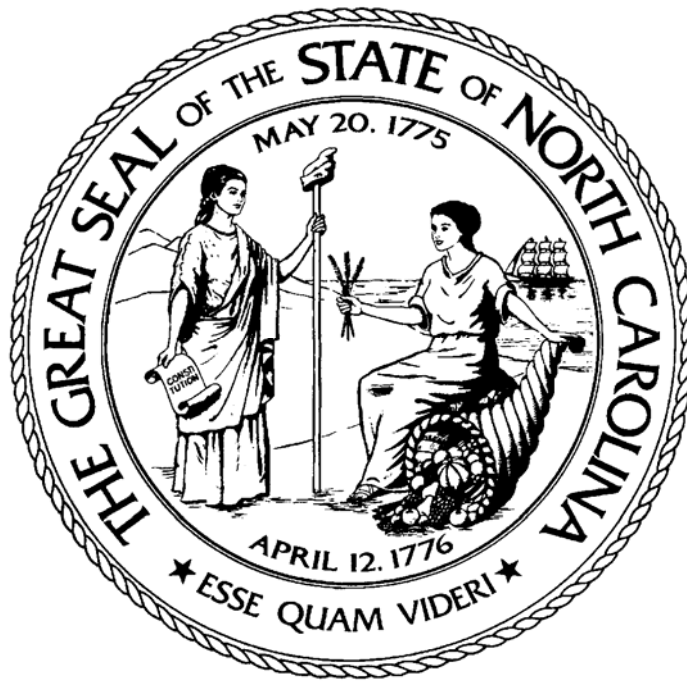


**2003 REPORT OF THE  
HOUSE SELECT COMMITTEE ON  
STATE GOVERNMENT EFFICIENCY**



**REPORT TO THE 2003  
GENERAL ASSEMBLY OF NORTH CAROLINA**

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### A HOUSE RESOLUTION DIRECTING THE APPROPRIATIONS COMMITTEE TO EXAMINE POTENTIAL COST SAVINGS AND METHODS OF EFFICIENCY IN STATE GOVERNMENT

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HOUSE SELECT COMMITTEE ON  
STATE GOVERNMENT EFFICIENCY

MEMBERSHIP

Representative James Crawford, Co-chair  
Representative William Owens, Co-chair  
Representative Charles Buchanan  
Representative Walter Church  
Representative Nelson Cole  
Representative Beverly Earle  
Representative Stanley Fox  
Representative Richard Morgan  
Representative Drew Saunders  
Representative Wilma Sherrill

Staff:

Ann Jordan, Committee Clerk

Marilyn Chism, Fiscal Analyst  
Erika Churchill, Committee Co-Counsel  
Michele Nelson, Fiscal Analyst  
Wendy Graf Ray, Committee Co-Counsel

The House Select Committee on State Government Efficiency, hereinafter the "Select Committee", was created by the Speaker of the House of Representatives in response to the need for increased efficiency and productivity of State government. Over the past several years, North Carolina has seen unemployment rise, manufacturing plants close, the economy decline, and State budget deficits grow. During budget year 2001-2002, the Governor implemented cost savings measures to insure the State did not operate at a deficit. Additionally, the Governor created the Commission to Promote Government Efficiency Savings on State Spending, which undertook the task of reviewing all aspects of State government in order to recommend changes to increase efficiency.

The Speaker charged the Select Committee with the task of reviewing the work, conclusions and recommendation of the Governor's Commission to Promote Government Efficiency Savings on State Spending and other committees previously studying efficiencies in government. In completing this task, the Select Committee was to determine the most efficient use of funds entrusted to State government, including eliminating duplication of effort and insuring maximum benefit from the funds for the people of North Carolina. The Select Committee is to report it's finding, with any proposed legislation prior to the convening of the 2003 General Assembly.

### **Committee Proceedings**

The House Select Committee on State Government Efficiency held five full Committee meetings before the start of the 2003 Session of the North Carolina General Assembly. The

Committee also divided into two separate Subcommittees, and those Subcommittees each met two times and reported back to the full Committee.

### **First Meeting – September 4, 2002**

At its first meeting, held on September 4, 2002, Representative Crawford and Representative Owens, Co-Chairmen of the Committee, each made opening remarks and explained the Committee's charge.

Next the Committee heard from Dan Gerlach, Governor's Senior Advisor on Fiscal Affairs. Mr. Gerlach gave the Committee an overview of the activities of two commissions formed by the Governor: the Governor's Commission to Promote Government Efficiency and Savings on State Spending, and the Commission on Efficiency and Loophole Closing.

A discussion by Committee members followed. Several Representatives listed concerns and issues they would like to see addressed by the Committee. Those concerns included duplication of government services, motor fleet management, State employee incentives, zero-based budgeting, State purchasing, consolidation of office space, State surplus property, State personnel, information technology, State construction, and prescription drug costs.

### **Second Meeting – November 21, 2002**

At the second meeting, held on November 21, 2002, the Committee heard a presentation from John Leaston, State Purchasing Officer. Mr. Leaston discussed efficiency in the Division of Purchase and Contract and provided the Committee members with a handout listing his recommendations for increased efficiency and cost savings in State purchasing. After questions and discussion by the Committee, it was decided that appointing a Subcommittee to look at Mr. Leaston's suggestions in greater detail would be appropriate.

Next the Committee heard a presentation from Speros Fleggas, Director of the State Construction Office. Mr. Fleggas offered his observations and recommendations for increased efficiency in the area of State construction. Again, after discussion by the Committee, it was decided that appointing a Subcommittee to look at Mr. Fleggas' suggestions in greater detail would be appropriate.

Representative Crawford agreed to chair the Subcommittee on State Purchasing, and Representatives Cole, Earl, Fox, and Sherrill were appointed to the Subcommittee. Representative Owens agreed to chair the Subcommittee on State Construction, and Representatives Buchanan, Church, Morgan, and Saunders were appointed to that Subcommittee.

Other concerns raised by Committee members before the meeting adjourned included centralization of the Office of State Personnel, performance incentives for State employees, the ratio of personnel employees to general employees in State agencies, and State surplus property with no anticipated future use.

### **Third Meeting – December 4, 2002**

Separate meetings of the Subcommittees on State Purchasing and State Construction preceded the third meeting of the full Committee, held on December 4, 2002.

#### **Subcommittee on State Purchasing:**

The Subcommittee on State Purchasing, Chaired by Representative Crawford, met to discuss the suggestions offered by John Leaston at the previous full Committee meeting. The Subcommittee first heard from Frayda Bluestein from the Institute of Government, who was asked to present her suggestions for increased efficiency in purchasing. She expressed to the Subcommittee her opinion that the main thing needed right now is training and education in order to make the most out of the resources and tools currently available.

Mr. Leaston then answered questions from the Subcommittee members regarding what types of purchasing, and how much purchasing, is covered by the Division of Purchase and Contract. He stated that statutory changes would not be necessary in order to implement some cost saving strategies, but the Division would appreciate the support of the General Assembly if it encountered resistance upon implementing changes.

The Subcommittee then reviewed each of the suggestions made by John Leaston at the previous full Committee meeting. There was discussion about the amount of warehouse space the State owns or leases and how much money could be saved by closing warehouses that would no longer be necessary with direct delivery of supplies. George Millsaps, with the Department of Administration, gave an update on the activities of the Governor's Efficiency Commission with regard to State vehicles and aircraft. Mr. Carlton responded to questions from the Subcommittee regarding employee travel. He said that this issue has been studied repeatedly. Mr. Leaston suggested that a central travel office might be beneficial in placing employees together for carpooling purposes. Finally, the Subcommittee discussed the possibility of advertising on State travel maps to cover printing costs. After discussion, it was agreed that the idea would have to be looked at very carefully to determine what types of advertising would be appropriate.

#### **Subcommittee on State Construction:**

The Subcommittee on State Purchasing, Chaired by Representative Owens, met to discuss the suggestions offered by Speros Fleggas at the previous full Committee meeting. Mr. Fleggas began by reviewing his suggestions, which he distributed in a handout.

Following Mr. Fleggas' remarks, a discussion ensued regarding the number of people working in State construction, particularly the number of employees in the State Construction Office and the number of employees in construction with the University System. Kevin McNaughton, with the University System, was present to answer questions. He estimated that they have 135 employees

currently, although some are temporary due to recently acquired bond money. Mr. Fleggas estimated that the State Construction Office has 32 technical and 50 administrative employees.

Representative Owens then inquired about the use of prototypes in State construction. Mr. McNaughton explained that prototypes were experimented with in State Parks, but they were not successful because of different construction conditions in different regions. Representative Owens suggested that Mr. McNaughton look to the Department of Public Instruction and their use of prototypes as an example.

Finally, the Subcommittee adopted the recommendations of Mr. Fleggas but also encouraged the State Construction Office and the University System to continue discussions and work together on future recommendations.

### **Full Committee:**

The full Committee met immediately following the Subcommittee meetings, and the meeting started with a report from each of the Subcommittee Chairs. The full Committee adopted the recommendations of the Subcommittees along with any proposed legislation that would be required to carry out the recommendations.

The Committee then heard a presentation by Thomas Wright, Director of the Office of State Personnel, who also provided the Committee with a list of recommendations. When asked if he would recommend centralization of personnel divisions, Mr. Wright said that he believed it would be a challenge to keep a handle on statewide activities under a completely centralized system.

Lanier Cansler, Deputy Director with the Department of Health and Human Services, was then recognized to make a presentation on North Carolina's Medicaid Program. Mr. Cansler pointed out that they do not currently have the resources to properly manage and control the program. He advised that the best thing the Legislature can do is to set goals for the program and then give them the flexibility to accomplish those goals.

Again it was decided that the Committee should divide into Subcommittees to study the issues of State Personnel and Medicaid further prior to the next full Committee meeting.

### **Fourth Meeting – December 17, 2002**

Separate meetings of the Subcommittees preceded the fourth meeting of the full Committee, held on December 17, 2002.

### **Subcommittee on State Personnel:**

The Subcommittee, Chaired by Representative Crawford, met to discuss the suggestions offered by Thomas Wright at the previous full Committee meeting. Mr. Wright reviewed his suggestions and reported that his main concern was a revision of Chapter 126 of the General Statutes, basically rewriting the State Personnel Act. Mr. Wright also expressed concerns about the

employment compensation system and insurance for employees. As these issues are extremely complex, Representative Crawford asked that Mr. Wright and the Office of State Personnel provide more detailed information and suggestions in the future.

#### **Subcommittee on Medicaid Program:**

The Subcommittee, Chaired by Representative Owens, met to discuss the suggestions offered by Lanier Cansler at the previous full Committee meeting with regard to Medicaid. Mr. Cansler explained some things that were being done by other states with prescription drugs: prior authorization lists, preferred drug lists, and supplemental rebates. Representative Owens asked about the possibility of expanding the prior authorization list, but Mr. Cansler was not sure how much money that would save or by how much the list could be expanded within a certain time frame.

Mr. Cansler requested that the Department be given support in two major areas: flexibility in attaining goals and elimination of programmatic areas. He said that there are ways to increase efficiency within the program, but it may take an initial investment to implement them and save money in the long term.

#### **Full Committee:**

The full Committee met immediately following the Subcommittee meetings, and the meeting started with a report from each of the Subcommittee Chairs. Ralph Campbell, State Auditor, was then recognized to give an overview on the performance audit of the State Construction Process and the State Construction Office.

Joe Henderson from the State Property Office spoke to the Committee next. He stated that the job of the State Property Office is to act as a primary broker for State agencies. The Office maintains an inventory of land and buildings, but Mr. Henderson explained that it is not detailed enough to determine how effectively the property is being utilized. He said that there probably is some surplus property in the State, but it has not been identified. Discussion followed about the State Property Office's other functions and possible ways to identify and utilize surplus property.

#### **Fifth Meeting – January 15, 2003**

The Committee held its fifth meeting on January 15, 2003. Representative Church spoke to the Committee first on behalf of Dr. Rance Henderson, who was unable to attend the meeting. His recommendation was to consolidate two facilities in Morganton, which he explained to the Committee would bring considerable savings to the State.

Jeff Davies spoke to the Committee next in order to respond on behalf of the University System to the State Auditor's Performance Audit on the State Construction Process and the State Construction Office. An overview of the audit and recommendations had been presented to the Committee at a previous meeting.



Following the presentations, the Committee engaged in some discussion of items they would like to see included as recommendations in the Committee's final report. The Committee then reviewed and approved its final report to the General Assembly with the amendments adopted.

## **Recommendations**

The House Select Committee on State Government Efficiency and its Subcommittees recommend more extensive review of the following items as deemed suitable by either the Full House Appropriations Committee or upon its delegation to the respective appropriations subcommittees, or by House substantive committees appointed in the 2003 Regular Session:

### I. Department of Administration

#### A. Purchase and Contract Division

The Committee invited comments from an attorney with the Institute of Government (IOG) and recommendations from the Department of Administration. The Committee recognized that some aspects of state purchasing and contracting (e.g., competitive bidding) are inherently inconsistent with efficiency because of the public sector environment within which the State operates. The Committee endorsed the recommendation of the IOG attorney that increased efficiency will result if more training is provided on the use of the Internet, e-procurement, and strategic sourcing to ensure that purchasing and contracting personnel become contract managers and

not just purchasers. The Committee endorsed the Department's recommendations outlined in Appendix 1, with the following exceptions and additional considerations:

The Committee recognized that an endorsement of strategic sourcing might involve making a policy decision that affects agencies' flexibility to deal with local vendors. The Department also believed that further review of how well strategic sourcing is being utilized in other states is necessary. With these considerations in mind, the Committee asked the Department to provide an estimate of the savings that could result from implementing strategic sourcing contracts. Regarding the Prime Vendor and the Just-in-Time Concepts, the Committee asked the Office of State Property to provide an inventory of the State's warehouse and storeroom space. (Refer to C(2) below). The Committee also adopted a recommendation that the Office of State Budget and Management survey the State agencies on their utilization of their assigned warehouse and storeroom space. Also, the Committee recognized there exists statutory authority for strategic sourcing contracts as well as the use of the Prime Vendor and Just-in-Time concepts. However, the Committee recommends legislation that requires the study of the use of these types of contracts where feasible.

The Committee considered the recommendations of the Governor's Efficiency Commission on Vehicles and Aircraft. Those recommendations included implementing statewide fuel contracts, maximizing maintenance assets, implementing a State contract for aviation maintenance, and a review of the efficiency of existing aircraft.

The Committee recommended further review of the studies conducted by the Office of State Budget and Management on employee travel and Motor Fleet Management.

The Committee recommended that the General Assembly consider developing and adopting a policy on the use of advertising on State maps to pay for printing

#### B. State Construction Office

In response to the Committee's request to discuss the means of improving the process and procedures affecting State construction projects, the State Construction Office offered and the Committee adopted the five (5) recommendations outlined in Appendix 2. A sixth, recommendation presented by the chairs was added to the list, and directs the Office to consider construction costs that would be more in line with the private sector in an effort to be more cost efficient. The Committee considered and endorsed the recommendations of the Performance Audit on the State Construction Process and the State Construction Office released by the Office of the State Auditor on December 17, 2002. The findings and recommendations from the performance audit are outlined in the audit's Executive Summary in Appendix 3. The complete report is available from the Auditor's Office or from [www.ncauditor.org](http://www.ncauditor.org).

#### C. State Property Office

The list of topics considered by the Committee included (1) the identification and disposal of State surplus property over 500 square feet and (2) a review of warehouse space owned and leased by the State. In response to C(1) the Committee adopted the recommendation of the State Property Office, which involves a six-step procedure for identifying and disposing of surplus State-owned land with relevant statutes and APA rules that would be affected -- refer to Appendix 4. Additionally, printouts of owned and leased warehouse space prepared by the State Property Office are on file with the Fiscal Research Division and available for review. The Committee also reviewed a cost to lease analysis related to C(2), and the recommendations which outline the approach to permanent vs. non-permanent State facilities -- refer to Appendix 5. As a final measure related to the State's property matters, the Committee recommends a decentralized approach in selecting locations for warehouse space, and the General Assembly's consideration of the findings in the Regional Office Consolidation Plan that is due to the Chairs of the Appropriations Committees of the Senate and the House and Fiscal Research Division on February 1, 2003.

## II. Department of Health and Human Services

Discussion of potential areas in which to achieve efficiency included consideration of the State's Medicaid cost. The Department prepared a 3-page handout that addressed budget reduction issues and efforts to achieve efficiencies related to Medicaid and other Human Services programs that are detailed in Appendix 6. The Committee endorsed the efficiency measures presented by the Department.

## III. Office of State Personnel (OSP)

At the request of the Committee, OSP presented a list of items that were considered measures to making State Personnel and Human Resources more efficient. The efficiencies outlined in Appendix 7 were reviewed by the Committee and include rewriting the State Personnel Act through revisions to G.S. 126.

The Committee wants to go on record as recognizing that State employees are the State's most important asset. Additionally, assessment of measures to motivate State employees should include input from line personnel.

## IV. Department of Transportation

The Committee endorses a review of the budget and operations of the department.

#### V. Consolidation of Functions/Facilities

The Committee accepted combining the Office of Education Services with the Superintendent's Office in Morganton.

#### VI. Zero-based Budgeting

The Committee endorses the concept of zero-based budgeting, and suggests that the General Assembly implement this concept.

#### VII. Continue the House Select Committee on State Government Efficiency

In consideration of the many issues that arose during the Committee proceedings that were not addressed, the Committee recommends reappointment of the Committee in the 2003 Regular Session.