

THE FLORIDA LEGISLATURE  
*Sunset Review*  
OFFICE OF PROGRAM POLICY ANALYSIS  
& GOVERNMENT ACCOUNTABILITY



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**Florida Government  
Accountability Act  
Sunset Reviews**

The act establishes the process, criteria, and schedule for the Legislature to assess whether state agencies and advisory committees need to continue to exist.

The following agencies are on the second year schedule for Sunset Reviews to be conducted by July 1, 2009.

- Department of Children and Families
- Department of Community Affairs
- Department of Management Services
- Department of State

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## OPPAGA Reports on the Department of Management Services - 2000-2008

### 2008

*Less Costly Alternatives to the Executive Aircraft Pool Exist for State Officials and Employees*, Report No. 08-57, October 2008. Several viable options are available that could meet the travel needs of state officials and employees at a lower cost than the current executive aircraft pool. These include selling the jet aircraft and using only turboprop planes, reducing the number of planes in the fleet, and outsourcing some or all air transportation services for officials other than the Governor. There are advantages and disadvantages associated with each of these options.

*The Legislature and Department of Management Services Have Taken Steps to Improve Acquisition Management*, Report No. 08-43, July 2008. Consistent with our recommendations, the Legislature and Department of Management Services have modified some aspects of state purchasing operations. In particular, the Legislature enacted revised certification requirements for contract negotiators and authorized the department to provide associated training. In addition, the Legislature established the Council on Efficient Government, which will review and issue advisory reports for business plans for state agency outsourcing projects that meet specific cost thresholds. However, the department has not been directed to review current statutory

exemptions from competitive bidding, and problems with collecting complete procurement data remain.

*DMS Has Improved People First, But Some System Components Are Still Not Fully Implemented*, Report No. 08-31, May 2008. The Department of Management Services has taken steps to address problems highlighted in OPPAGA's 2006 review of the People First human resources initiative. Notably, the department has improved timesheet entry and data warehouse usability. However, the department has not yet fully implemented some planned elements of the People First system. Remaining challenges include adjusting original goals of some system functions, such as electronic personnel files.

The department has substantially reduced its estimate of projected savings from the People First initiative. While the initial business plan projected \$93 million in savings over seven years, the department now projects savings to be \$12 million over the contract's amended nine-year period. The reduction is due in part to unanticipated agency costs, such as the need to modify the system to resolve functionality and security issues. We continue to recommend that the department report cost changes to the Legislature and re-assess cost savings as it amends the contract with Convergys.

*Florida Retirement System Pension Plan Fully Funded and Valuation Met Standard*, Report No. 08-30, April 2008. Our actuarial consultant, Gabriel, Roeder, Smith & Company, concluded that the 2007 valuation was made in accordance with relevant state laws and rules and actuarial standards. It further concluded that the assumptions and methods used in the 2007 valuation were generally reasonable. However, our consultant also made several noteworthy observations and recommendations.

- Our consultant noted that the 2007 valuation disclosed the actuarial present value of future benefits and the actuarial present values of future pay. However, these values do not take into account an assumption for the probability that system members will participate in the Deferred Retirement Option Program (DROP). As a result, our consultant recommended that future valuations include such disclosures that fully reflect the effect of expected DROP participation.
- Additionally, our consultant continues to recommend that the valuation be improved by providing prior-year results in a side-by-side comparison with current-year results as appropriate. This information would provide a ready comparison of changes in values and percentage changes in the Florida Retirement System's membership, assets, and benefits.

Our consultant also continues to note that the amortization of the system's surplus determined using the system's rate stabilization method may not produce an equivalent result to amortizing the surplus over a 30-year period as set forth in Governmental Accounting Standards Board standards. For example, our consulting actuary pointed out that for the 2007 actuarial valuation, the amortization of the surplus using the rate stabilization method was \$174 million, while an amortization of the surplus over a 30-year period was \$357 million. However, our consultant also commented that this difference may not be considered a material amount in light of the size of the Florida Retirement System. To address this concern, we recommend that in future valuations, the Department of Management Services' consulting actuary monitor the rate stabilization mechanism for consistency with Governmental Accounting Standards Board standards and report the results of its monitoring activities.

*DMS Has Improved State Leasing Processes, Additional Performance Measures Needed*, Report No. 08-22, April 2008. Consistent with our recommendations and 2007 legislative action, the Department of Management Services has improved its leasing operations. The department has contracted with three new tenant brokers, improved its monitoring of tenant broker services, and changed the way it measures tenant broker contract performance. The department is also conducting training for tenant brokers and agency staff on state procurement and leasing policies. However, we continue to recommend that the department

- develop additional contract performance measures for tenant broker services;
- conduct customer satisfaction surveys rather than having the tenant broker perform these surveys; and
- use lease-versus-buy analyses to improve state leasing.

## **2007**

*FCHR Has Taken Steps to Improve Investigation Reports and Increase Customer Satisfaction*, Report No. 07-43, November 2007. Consistent with our recommendation, the Florida Commission on Human Relations has taken steps to improve its investigation process, including reviewing all cases and increasing staff training. In addition, the commission implemented a customer satisfaction survey to enable individuals who use its services to provide feedback. Survey results indicate that respondents are satisfied with commission intake services. As available resources allow, the commission should continue its efforts to electronically track complaints and expand customer satisfaction surveys to other units and services.

*Florida Retirement System Pension Plan Fully Funded and Valuation Met Standard*, Report No. 07-24, April 2007. Our actuarial consultant, Gabriel, Roeder, Smith & Company, concluded that the 2006 valuation was made in accordance with relevant state laws and rules and actuarial standards and that the assumptions and methods used in the valuation were generally reasonable. However, our consultant also made several noteworthy observations and recommendations.

- Our consultant noted that the 2006 valuation disclosed the actuarial present value of future benefits and the actuarial present values of future pay, which were not

disclosed in the 2005 valuation. However, these values do not take into account an assumption for the probability that system members will participate in the Deferred Retirement Option Program (DROP). As a result, our consultant recommended that future valuations include such disclosures that fully reflect the effect of expected DROP participation.

- Additionally, our consultant continues to recommend that the valuation be improved by providing prior year results in a side-by-side comparison with current year results as appropriate. This would provide a ready comparison of changes in values and percentage changes in the Florida Retirement System's membership, assets, and benefits.
- Our consultant also noted that the amortization of the system's surplus determined using the system's rate stabilization method may not produce an equivalent result to amortizing the surplus over a 30-year period as set forth in Governmental Accounting Standards Board standards. For example, our consulting actuary pointed out that for the 2006 actuarial valuation, the amortization of the surplus using the rate stabilization method was \$157 million, while an amortization of the surplus over a 30-year period was \$329 million. However, our consultant also commented that this difference may not be considered a material amount in light of the size of the Florida Retirement System. To address this concern, we recommend that in future valuations, the Department of Management Services' consulting actuary monitor the rate stabilization mechanism for consistency with Governmental Accounting Standards Board standards and report the results of its monitoring activities.

*While Improving, People First Still Lacks Intended Functionality, Limitations Increase State Agency Workload and Costs*, Report No. 06-39, April 2006. Some planned elements of the People First system have yet to be fully implemented and several of its proposed benefits have not been realized. As a result, the state has been unable to retire its legacy COPES system, and workload for agency human resource staff has been higher than anticipated, which some agencies have addressed by using other staff to manage personnel-related workload. Some agencies also have incurred unanticipated costs to accommodate the system's limited functionality, and DMS has not established a cost-

savings methodology for determining if People First has achieved projected cost savings.

DMS has taken steps to address these problems and improve People First. Remaining challenges include adopting a formal implementation plan; establishing a cost-savings methodology; restoring electronic records management capability; improving customer service center operations; improving data warehouse usability; providing additional training; conducting a staffing assessment; and providing continuing quarterly reports.

*Program Review of the Florida Retirement System Pension Plan Fully Funded and Valuation Met Standard*, Report No. 06-38, April 2006. Our actuarial consultant, Gabriel, Roeder, Smith & Company, concluded that the 2005 valuation was made in accordance with relevant state laws and rules and actuarial standards. It further concluded that the assumptions and methods used in the 2005 valuation were generally reasonable. However, our consultant also made several technical recommendations and observations.

- The department's consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities, which would enable an outside actuary to better assess the factors causing recent gains and losses. For example, the valuation could be improved by providing prior year results along with side-by-side current year results as appropriate. This information would provide a ready comparison both in terms of changes in absolute value and percentage changes.
- Additional analysis of the causes of the greater than expected increase in actuarial liabilities should be conducted. For example, additional analysis and detail is warranted for the liability loss of \$1.317 billion that was attributed to inactive data clean up.

Based on observations made by our consultant and our review of the 2005 valuation and experience study, we made two additional recommendations.

- We continue to recommend that all information required for actuarial reports for local public employee retirement systems as specified in Chapter 60T-1, *Florida Administrative Code*, also be included in the FRS actuarial valuation report.

- We also recommend that the Legislature, the Department of Management Services, and the department's consulting actuary continue to monitor closely the FRS pension plan's funding status.

*Steps Have Been Taken to Enhance State Acquisition Management, But Further Improvement Is Needed*, Report No. 06-35, April 2006. In Fiscal Year 2004-05 state agencies purchased more than \$6.4 billion in goods and services. Of the \$3 billion spent on non-construction related goods and services, slightly over half was exempted from the state's competitive purchasing processes.

The Department of Management Services and state agencies have taken steps to increase the value of goods and services purchased through state-level term contracts and related initiatives. However, further improvements are needed, especially for acquisitions of complex services.

We recommend that the Legislature take steps to

- increase the volume of purchases made through competitive processes;
- require agencies to develop a process to record information on all purchases in the state's Financial Management Information System, which will enhance the state's ability to use strategic sourcing practices; and
- require agencies to develop more complete business cases for major complex acquisitions by mandating analyses of associated procurement and contract management requirements.

*Eliminating FCHR Would Limit Options and Increase Costs to Citizens Seeking Remedy for Discrimination*, Report No. 06-09, January 2006. Although other state, federal, and local entities enforce anti-discrimination laws, the Florida Commission on Human Relations does not duplicate the functions of these entities due to differences in jurisdiction, types of complaints processed, and provisions of applicable laws. The commission provides a reasonably effective method for resolving discrimination complaints, although it should examine the results of its new internal reviews of complaint investigations and revise investigative procedures as needed to address quality issues.

It would not be cost-effective to authorize the commission to hold its own administrative hearings. Eliminating the commission could simplify the process for pursuing discrimination complaints. However, it would reduce citizens' options for addressing discrimination complaints, likely increase costs to Florida citizens and the state, and lengthen resolution time.

*Workspace Management Initiative Can Benefit State, But DMS Not Taking Adequate Steps to Ensure Goals Are Met*, Report No. 06-06, January 2006. If properly managed and monitored, the Department of Management Services (DMS) Workspace Management Initiative and use of a private tenant broker should produce savings and better office space utilization. However, DMS is not taking adequate steps to ensure that all of the initiative's goals are met. Specifically, while using the tenant broker has produced short-term savings, questionable cost-savings methodology and modification of lease safeguards make the initiative's long-term fiscal impact uncertain and appear to conflict with statutory requirements. In addition, DMS has made only limited efforts to implement workspace standards for new leases, and some new leases may not improve the quality of buildings housing state workers unless the Legislature provides special funding for that purpose.

DMS must take additional steps to ensure that the initiative's overall goals are met, including assigning a property management professional to monitor the tenant broker contract and ensure that DMS adheres to federal "smart buyer" best practices; implementing contract performance measures; conducting "lease-versus-buy" analyses for master leases; and ensuring that tenant broker and agency leasing staff are trained on state procurement and leasing procedures. While DMS amended its tenant broker contract on December 15, 2005, to address some of these concerns, it is too early to evaluate whether these changes will improve services.



## 2005

*Division of Retirement Exploring Feasibility of Sharing Call Center Software: Center Hours Not Expanded*, Report No. 05-36, May 2005. The Division of Retirement has taken some steps to improve its outreach services and is exploring using the Department of Revenue's call center software. The division has not expanded its hours of call availability, although recent data demonstrates that this step would likely increase customer service.

*Program Review of the Florida Retirement System Pension Plan Fully Funded and Valuation Met Standards*, Report No. 05-25, April 2005. The Florida Retirement System pension plan continues to be fully funded. The 2004 actuarial valuation determined that the plan's assets exceed its liabilities, with a surplus of \$11.3 billion as of July 1, 2004. However, the 2004 actuarial valuation also shows that the plan's funding status (as measured by the ratio of its assets to liabilities) has experienced a decline over the last five fiscal years (from 118% in Fiscal Year 1999-00 to 112% in Fiscal Year 2003-04).

Our actuarial consultant, Gabriel, Roeder, Smith & Company, concluded that the 2004 valuation was made in accordance with relevant state laws and rules and actuarial standards. It further concluded that the assumptions and methods used in the 2004 valuation were generally reasonable.

However, our consultant also made several technical recommendations.

- The department's consulting actuary should demonstrate their rationale for each of their recommended changes in the actuarial assumptions.
- The department's consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities, which would enable an outside actuary to better assess the factors causing recent gains and losses.

Based on observations made by our consultant and our review of the 2004 valuation, we made two additional recommendations.

- All information required for actuarial reports for local public employee retirement systems as specified in Chapter 60T-1 should also be included in the FRS Actuarial Valuation Report.
- The Legislature, the Department of Management Services, and the department's consulting actuary should continue to closely monitor the FRS pension plan's funding status.

## 2004

*Division of Administrative Hearings Significantly Improves the Method of Assessing Fees*, Report No. 04-48, July 2004. As we recommended in our December 2002 review, the Division of Administrative Hearings (DOAH) has implemented a time tracking system and began billing state agencies for time actually spent in hearings. The division also no longer bills for cancelled and continued hearing hours. However, DOAH's revised time tracking system does not require judges to track non-hearing time spent on cases.

- DOAH has reduced the costs passed on to state agencies when prorating its budget in two ways.
- DOAH increased its contract rate for hearing services provided to other entities from \$100 to \$129 per hour to fully cover costs, which generated an additional \$77,054 in revenue.
- DOAH now assesses the Workers' Compensation Appeals Program for administrative support. In Fiscal Year 2004-05, the program was assessed \$435,431 for administrative costs.

DOAH continues to conduct hearings for certain entities at little or no charge. The Legislature could consider authorizing DOAH to bill for the cost of hearing services that it is not recovering through other means.

*Merging DMS Quasi-Judicial Entities Would Not Result in Savings or Increased Efficiencies*, Report No. 04-37, June 2004. There are no compelling reasons for merging the Commission on Human Relations, Division of Administrative Hearings, Public Employees Relations Commission, State Retirement Commission, and Unemployment Appeals Commission.

There is no duplication among these entities, a merger would not result in increased efficiencies that could not be gained without a merger, and there would be no cost savings to the state.

- The Commission on Human Relations and the Unemployment Appeals Commission should not be considered for merger with the other entities because they do not have similar functions.
- Merging the State Retirement Commission with the Division of Administrative Hearings is feasible, but would result in increased state costs.
- Merging the Public Employees Relations Commission with the Division of Administrative Hearings is feasible, but the disadvantages outweigh the advantages.

*Program Review of the Florida Retirement System Pension Plan Fully Funded and Valuation Met Standards*, Report No. 04-13, February 2004. Our actuarial consultant found that the 2003 valuation was made in accordance with relevant state laws and rules, and actuarial standards. It further concluded that the assumptions and methods used in the 2003 valuation were generally reasonable.

The Florida Retirement System pension plan continues to be fully funded. The 2003 actuarial valuation determined that the plan's assets exceed its liabilities, with a surplus of \$12.3 billion as of July 1, 2003. However, the 2003 actuarial valuation also shows that the plan's funding status (as measured by the ratio of its assets to liabilities) has experienced a decline over the last three fiscal years (from 118% in Fiscal Year 1999-00 to 114% in Fiscal Year 2002-03).

Our consultant made several technical recommendations. A major recommendation is that the Department of Management Services' consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities. This would enable an outside actuary to better assess the factors causing recent gains and losses. Also, although the plan's funding status is not currently a concern because the plan is fully funded, the plan's funding status should continue to be closely monitored.

## **2003**

*Outsourcing Pension Plan's Outreach Services Would Not Be Cost-Effective*, Report No. 03-61, November 2003. The Florida Legislature directed OPPAGA to examine the potential benefit and cost-effectiveness of outsourcing specific participant outreach functions currently performed by the Division of Retirement for the Florida Retirement System Pension (FRS) Plan. Among other activities, the division performs participant outreach by answering telephone calls and conducting educational seminars. These services have been outsourced for the FRS Investment Plan, which is administered by the State Board of Administration.

Outsourcing these specific Pension Plan outreach services would not be cost-effective. The state would not be able to take full advantage of a private company's service potential and infrastructure across various types of functions, and it would not produce substantial reductions of division costs.

However, a broader approach to outsourcing the full range of division activities may be feasible and should be explored. The division should also expand its call hours and enhance its ability to track statistical information on call operations.

*Recommended Florida Retirement System Contribution Rates Remain Reasonable; Asset Growth Has Slowed*, Report No. 03-21, March 2003. The Florida Retirement System continues to be fully funded. The 2002 actuarial valuation determined that the system's assets continued to exceed its liabilities, with a surplus of \$12.936 billion as of July 1, 2002. However, the 2002 actuarial valuation also shows that the growth rate in the system's ratio of assets to liabilities has leveled off and begun a downward trend. The system's ratio of assets to liabilities was 118.09% in Fiscal Year 1999-00, 117.93% in Fiscal Year 2000-01, and 114.96% in Fiscal Year 2001-02.

Buck Consultants, Inc., concluded that the 2002 valuation recommended reasonable contribution rates and was made in accordance with relevant state laws and rules, and actuarial standards. It further concluded that the assumptions and methods used in the 2002 valuation were generally reasonable.

However, it also made several technical recommendations.

- Although improvements have been made since the 2001 valuation, the department's consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities. This would enable an outside actuary to better assess the factors causing recent gains and losses.
- Retirement rate assumptions should be monitored for appropriateness, especially for younger system members.

## 2002

*Division of Administrative Hearings Method of Assessing Fees Needs Significant Revision*, Report No. 02-70, December 2002. The Division of Administrative Hearings method for assessing fees is expedient but does not accurately charge state agencies for their use of services. The division tracks whether cases meet deadlines but not how much time its employees spend on individual state agency cases. The division uses a proxy (scheduled hearing hours) as the basis of assessments, which provides agencies with no accountability for the actual time spent on their workload. The assessment method also passes on costs to state agencies for services provided to other entities.

The division should change its system for charging state agencies by tracking the time administrative law judges actually spend on cases and using this information when prorating its budget among state agencies. The division also should bill other entities at rates that cover its costs.

The Legislature should authorize the Division of Administrative Hearings to charge for all hearing services and require the Workers' Compensation Appeals Program to fund the program's share of the division's indirect administration and support costs.

Implementing these changes would reduce state agency costs to support the division by an estimated \$1.3 million annually, of which \$199,000 would be general revenue.

*Alternative Fee Options Exist for the Public Employees Relations Commission*, Report No. 02-66, December 2002. Total revenue for the Public Employees Relations Commission consists of \$3.4 million with all but \$53,648 provided by state general revenue. Although funding PERC with general revenue is a reasonable use of these

funds, the Legislature may wish to consider options for using assessments or fees from entities creating PERC caseload.

- Local government employer fees could generate \$1.7 million annually and recover PERC costs of providing this service, but would be difficult to administer.
- State government employer fees could generate \$1.6 million annually, of which half would be from trust funds.
- Petitioner filing fees could help encourage settlement and discourage frivolous petitions, and would provide an estimated \$84,000 annually.
- Increased union registration fees could help recover an estimated \$35,000 of PERC annual costs to register unions.

*Downsizing Project Management Services Produces Savings, Few Adverse Effects*, Report No. 02-57, November 2002. Prior to 2001, the Department of Management Services' Division of Building Construction was authorized to oversee construction projects for local governments. The 2001 Legislature eliminated this authority to avoid competition with the private sector. As a result of this action, and a corresponding decline in the value of state construction projects, the Legislature cut program positions. These changes have had three primary results.

- The savings from position cuts more than offset the revenue lost by discontinuing local government projects.
- Remaining program project managers have a manageable workload.
- Local governments report few adverse effects from the elimination of state construction management assistance.

*Better Contracting Practices Would Aid the Construction Industry in Florida*, Report No. 02-50, October 2002. In response to subcontractor proposals to limit or replace retainage, the 2000 Legislature directed OPPAGA to examine various construction industry practices and recommend whether Florida construction law should be revised.

OPPAGA concluded that any legislation that would limit contractual flexibility could interfere with the free market and have a negative effect on the construction industry. However, to facilitate improved contract negotiations, OPPAGA recommended that the Department of Management Services identify and disseminate best practices that could limit the barriers to final project completion and facilitate the equitable release of retainage.

To date, the Department of Management Services has not developed best practice guidelines for construction contracting.

*Improved State Vehicle Management Could Save Florida Up to \$2.4 Million Annually*, Report No. 02-31, May 2002. There are over 5,000 state vehicles assigned to state employees. During Fiscal Year 1999-00, 65% were driven the minimum 10,000 miles to justify continued assignment. However, the state could continue improving fleet management by assigning vehicles more rationally and by restricting commuting.

Because agency heads may waive the minimum mileage requirement, some state vehicles are driven substantially less than 10,000 miles per year. The state lacks an adequate policy defining criteria for agency head waivers.

Of assigned vehicles used for commuting, 395 or 26% were used primarily for transporting employees to and from work. The Legislature should develop a policy restricting commuting in state vehicles. Requiring employees to reimburse the state for commuting in state vehicles would generate from \$39,300 to \$2.1 million per year.

Agencies reimburse many other employees for personal vehicle mileage in excess of the amount needed to acquire, operate, and maintain a state vehicle. The state could save \$313,000 annually by financing the purchase of vehicles for most of these employees, with additional money received when the state disposes of these vehicles.

*Recommended Florida Retirement System Contribution Rates Are Reasonable*, Report No. 02-20, March 2002. The Florida Retirement System continues to be fully funded. The 2001 actuarial valuation determined that the system's assets continued to significantly exceed its liabilities, with a surplus of \$14.524 billion as of July 1, 2001.

Buck Consultants, Inc., concluded that the 2001 valuation recommended reasonable contribution rates and was made in accordance with relevant laws, rules, and actuarial standards. It further concluded that the assumptions and methods used in the 2001 valuation were generally reasonable. However, it also made several technical recommendations.

- Although improvements have been made since the 2000 valuation, the department's consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities in future valuations.
- Retirement rate assumptions should be monitored for appropriateness, especially for younger system members.

## **2001**

*Management Services Makes Progress by Implementing OPPAGA Recommendations*, Report No. 01-35, August 2001. The Legislature and the Department of Management Services Support Program implemented many of the recommendations from our 1998 report. State agencies are now collecting and reporting data on vehicle assignment and utilization. The program streamlined purchasing to eliminate outmoded practices that caused unnecessary delays. Also, the program consolidated its three federal surplus property distribution centers, which will result in an annual savings of \$163,128 and a reduction of eight full-time equivalent employee positions.

The department is in the process of implementing other OPPAGA recommendations relative to motor vehicle operations, which could save between \$800,000 and \$2.4 million annually.



*DMS Adopts OPPAGA's Workforce Recommendations; However, a Strong Outsourcing Contract Is Imperative*, Report No. 01-33, July 2001. The Department of Management Services' Workforce Program and the Legislature generally adopted the recommendations made in OPPAGA's 1998 report. The program increased its monitoring of agency personnel offices and developed a state human resource strategic plan.

The 2001 Legislature authorized the department to outsource state agency human resource services. This means that a vendor under contract with DMS will perform numerous payroll preparation and leave functions for over 100,000 state employees.

In developing its plan for outsourcing personnel services, the department must include safeguards to ensure that the accuracy and reliability of state employees' payroll and leave records will not be compromised. From its plan, DMS should develop a detailed performance-based contract specifying appropriate measures and standards.

Such a contract will allow state employees to remain confident that they will continue to have easy access to informed persons who can address their questions or concerns regarding payroll and leave problems.

Legislators will likely receive complaints if the administration of these records is not dealt with efficiently and effectively, thus causing state employees economic hardship and stress.

*Options to Re-Design State Employee Health Insurance Benefits Presented*, Report No. 01-21, March 2001. The State Employees' Group Health Insurance Program has experienced growth in health care costs resulting in projected program deficits beginning in Fiscal Year 2001-02. Expenses are projected to exceed revenues by \$28.8 million in Fiscal Year 2000-01 and are projected to exceed revenues by \$121.3 million in 2001-02 and \$225.1 million in 2002-03. The Legislature should consider options in four areas to better control costs, provide enrollees more choices for their health insurance benefits, and address contribution rate inequities:

- modifying the health insurance plan design;
- modifying the contribution rate design;
- increasing medical claims cost controls; and
- increasing prescription drug cost controls.

*Recommended Florida Retirement System Contribution Rates Are Reasonable*, Report No. 01-18, March 2001. The Florida Retirement System continues to be fully funded. The 2000 actuarial valuation determined that the system's assets continued to significantly exceed its liabilities, with a surplus of \$13.555 billion as of July 1, 2000.

Buck Consultants, Inc., concluded that the 2000 valuation recommended reasonable contribution rates and was made in accordance with relevant laws, rules, and actuarial standards. It further concluded that the assumptions and methods used in the 2000 valuation were generally reasonable. However, it also made several technical recommendations.

- The department's consulting actuary should include a more detailed analysis of the causes of gains and losses to the system's liabilities in future valuations.
- Retirement rate assumptions should be monitored for appropriateness, especially for younger system members.

*Feasibility of Outsourcing Florida's Statewide Retirement Systems*, Report No. 01-12, February 2001. The Division of Retirement of the Department of Management Services serves 800,000 statewide retirement system members and oversees almost 500 local government retirement systems.

The feasibility of outsourcing depends upon generating competition among a sufficient number of bidders willing to provide the same or better services at lower cost combined with strong contract monitoring by the state.

The outlook for competition is good. Although none of the public retirement systems we examined have been outsourced, private companies are available that administer large private sector pension plans. In response to our inquiries, representatives of 12 companies indicated that their companies could provide most of the division's services. However, many of these companies do not wish to assume responsibility for oversight of local government retirement systems and handling benefit appeals; outsourcing these two functions may not be feasible or appropriate.

If the Legislature decides to outsource the Division of Retirement, the Department of Management Services should follow these steps:

- identify the services to be outsourced;
- identify state costs for these services;
- identify desired performance levels for the services;
- issue a request for information (RFI);
- review the RFI responses;
- issue a request for proposal (RFP) using a managed competition approach;
- assess the RFP responses;
- establish a strong contract oversight mechanism; and
- contract with a vendor or vendors.

The potential cost-effectiveness of outsourcing Division of Retirement Services can be determined only when vendors submit price bids that can be compared to current Division of Retirement costs.

## **2000**

*Inflexibility in Contracting and Retainage Practices Could Hurt Construction Industry*, Report No. 00-26, December 2000. Retainage is a common construction contracting practice whereby a certain percentage of compensation is withheld by the project owner from the general contractor and, in turn, by the general contractor from subcontractors until the project is completed satisfactorily. Retainage is also used as leverage to assure timely completion.

Florida's subcontractors, who felt that retainage often creates undue financial hardships, asked the 2000 Legislature to consider limiting the allowable percentage of compensation that could be retained. In response, the Legislature requested OPPAGA to evaluate retainage and other construction practices identified by subcontractors.

OPPAGA determined that limiting retainage may have the harmful unintended side effect of thwarting the development of new business or retarding the growth of existing businesses. In addition, owners and prime contractors may use other means to minimize risk, which may be less favorable than retainage.

The fiscal impact of retainage on subcontractors can be lessened through the payment of interest on their percentage of compensation that has been retained. Although the Legislature could require payment of interest by law, ideally, this would be negotiated as part of the contracting process. Consideration of such legislation should take into account the fiscal impact to the state of Florida and other units of government.

OPPAGA also recommends the Department of Management Services identify and disseminate best construction practices that, if implemented, would facilitate final project completion and release of retainage.

*State Airfare Contract Reinstated in 1999 After 1998 Suspension Failed to Produce Results*, Report No. 00-21, December 2000. At the suggestion of local officials who contended that the state term contract for air carrier service might be a disincentive for airlines for improving service to Tallahassee, the 1998 Legislature authorized the Department of Management Services to suspend the contract.

Our 1999 report found that the suspension failed to produce all the desired results. The number of commercial flights at the Tallahassee airport did increase slightly, although jet service declined, and the cost of fares charged the public did not materially change. However, state air travel costs increased substantially. The 1999 Legislature rescinded the initiative, and the department entered into a new contract in December 1999.

The new contract provides standardized airfares for government travel and fully unrestricted and refundable tickets. However, the contract fares are not necessarily the least expensive available for travel to certain cities.

While the availability of commercial airline service in Tallahassee decreased overall since our 1999 report, the City of Tallahassee has recruited a new air carrier, Northwest Airlink.

*Retirement Program Addresses Backlog, But It Defers Developing Re-Engineering Indicators*, Report No. 00-01, August 2000. The Retirement Program still has not established performance indicators for assessing the results of its \$38 million re-engineering project. Program managers cite other priorities as

causing them to defer developing these indicators, but plan to establish them in the fall of 2003.

Current program managers agree with our recommendation to assess whether the Florida Retirement System benefit choices are helping attract and retain public employees. This is especially important in light of the 2000 Legislature creating a new defined contribution plan option for Florida Retirement System members.

Consistent with our recommendations, the Legislature has addressed the Retirement Program's backlog in reviewing local actuarial reports. The Legislature amended the law in 1999 to allow the program to streamline the review process. The Legislature also funded a second actuarial position in Fiscal Year 2000-01 to help the program cope with its workload problems.

# *The Florida Legislature*

## *Office of Program Policy Analysis and Government Accountability*

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### *The Florida Government Accountability Act Sunset Reviews*

The 2006 Legislature passed the Florida Government Accountability Act (Ch. 2006-146, *Laws of Florida*) to create a Sunset review process. The act

- establishes the process, criteria, and schedule for the Legislature to assess whether state agencies and advisory committees need to continue to exist;
- provides for the creation of a Legislative Sunset Advisory Committee and describes the membership and organization of the committee and committee duties; and
- requires reports and assistance from state agencies and the Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA).

Using these reports and other information, the Sunset Advisory Committee is to produce a report that includes recommendations to abolish, continue, or reorganize an agency or advisory committee under review.

### *Second Year Schedule for Agency Reviews*

Agencies to be reviewed by July 1, 2010:

- (a) Department of Children and Family Services
- (b) Department of Community Affairs
- (c) Department of Management Services
- (d) Department of State

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