

PERFORMANCE AUDIT REPORT

**Assessing the Propriety of Certain Actions
Related to the Privatization of
Kansas Industries for the Blind**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 1996**

Legislative Post Audit Committee

Legislative Division of Post Audit

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December 12, 1996

To: Members, Legislative Post Audit Committee

Senator Lana Oleen, Chair
Senator Anthony Hensley
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Senator Alicia Salisbury
Senator Don Steffes

Representative Jim Lowther, Vice-Chair
Representative Tom Bradley
Representative Duane Goossen
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This report contains the findings, conclusions, and recommendations from our completed performance audit, *Assessing the Propriety of Certain Actions Related to the Privatization of Kansas Industries for the Blind*.

This reports includes a recommendation for the Kansas Performance Review Board to develop guidelines for purging records or inventories that State agencies should follow when functions or programs of those agencies are to be privatized. We would be happy to discuss this recommendation or any other item in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor



EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

***Did Kansas Industries for the Blind Inappropriately
Throw Away Equipment and Destroy State Records
Before it was Supposed to be Privatized?***

The Kansas Council on Privatization identified the Topeka workshop as a candidate for privatization. page 3
The Industries for the Blind workshop in Topeka provides employment for blind and disabled people who probably couldn't find another job. The workshop historically hasn't been profitable. Department officials decided privatization might improve its chances of making a profit, and issued a request for proposals in late 1995. A bidder was selected in February 1996, and the Department began negotiations with the intent to transfer the workshop's management to the bidder on July 1, 1996. However, at the last minute negotiations weren't finalized, so the workshop wasn't privatized.

To prepare for privatization, employees at Kansas Industries for the Blind told us they discarded some old, broken equipment. page 5
An allegation had been made that, in anticipation of the coming privatization, employees were instructed to throw away equipment needed to make such things as aprons, brooms, pillow cases, and shower curtains. Shortly before privatization was to occur, workshop employees told us they inventoried the workshop's contents, and threw away several pieces of furniture and equipment that were old and broken and didn't appear on any of the inventory lists. Based on our interviews and other testwork, it appears that none of the discarded equipment was used in the workshop's manufacturing process.

At the same time, workshop employees also discarded State forms and other records more than two years old. page 6
An allegation also had been made that employees had destroyed records that were needed for the workshop's future operations. Employees told us that the week before the workshop was to be privatized, they discarded records they thought the private company wouldn't need, including blank State forms, out-of-date catalogs, and other obsolete documents, as well as policy and procedure manuals and accounting and personnel records that were more than two years old. We found that duplicates or back-ups of all these older records are available from the Departments of Administration or Social and Rehabilitation Services, and we received no indication that records had been thrown away to hinder the privatization process.

Discarding office records apparently caused a slight delay in operations when workshop employees needed some of the State forms, and needed records for vendors they hadn't dealt with in several years. Employees told us the problem was easily resolved by contacting the Department's central office for new forms and copies of records.

A national agency's recent compliance audit found no major problems with the workshop's operations. page 7
In October 1996, officials from the Committee for Purchase from People Who are Blind or Severely

Disabled, an independent federal agency, did a compliance audit of the workshop. They had no major concerns with the manner in which the workshop was operated.

Conclusion page 7

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This audit was conducted by Tracey Elmore. If you need any additional information about the audit's findings, please contact Ms. Elmore at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: **LPA@PostAudit.ksleg.state.ks.us.**

Assessing the Propriety of Certain Actions Related to the Privatization of Kansas Industries for the Blind

Kansas Industries for the Blind is one of the programs offered by the Department of Social and Rehabilitation Services to provide employment for people who are blind. The Program offers a sheltered workshop in Topeka, which manufactures a variety of textile products and recycles laser printer cartridges for State agencies.

For fiscal year 1996, the Department requested additional General Fund subsidization for Industries for the Blind. In its budget request, the Department noted it was evaluating the future of the program because of recommendations made by the Kansas Council on Privatization to privatize the program. Apparently, the Department had decided to privatize Kansas Industries for the Blind effective July 1, 1996. For several reasons, that privatization effort didn't go through as planned.

Allegations have been made that, in anticipation of the coming privatization, employees at Kansas Industries for the Blind were instructed to throw away equipment used in the textile manufacturing process, and to destroy all records pertaining to the State of Kansas, to keep the transition to the private sector from going smoothly. It also was alleged that, because of such actions, Industries for the Blind didn't have the equipment and records it needed to operate effectively. To determine whether these allegations could be substantiated, the Legislative Post Audit Committee directed this 100-hour performance audit to answer the following question:

1. Did Kansas Industries for the Blind inappropriately throw away equipment and destroy State records before it was supposed to be privatized?

To answer this question, we interviewed Department officials and employees at Kansas Industries for the Blind, including the workshop's production manager, accountant, office assistant, office specialist, inventory manager, and two employees from the production line. We also interviewed a representative of a national organization that had just completed a compliance audit of the workshop.

To try to independently assess whether equipment that was being used in the manufacturing process had been thrown away, we compared fiscal year 1994 equipment records with current equipment records. We also checked a random sample of equipment shown on the current list to ensure the items were on the premises.

To try to independently assess whether records that were needed for the workshop's operations had been destroyed, we compiled a list of records we expected the workshop to have, and checked to see if those records were available. We also reviewed a sample of those records for completeness and accuracy. Finally, we reviewed financial records for the first three months of fiscal year 1997, and noted no adverse operating results. In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

Based on our interviews and corroborating testwork, we generally weren't able to substantiate the allegations that had been made. No one we interviewed indicated that any actions had been taken to intentionally thwart the privatization process. Also, our reviews revealed nothing that would suggest such a pattern. Workshop em-

ployees had inventoried and discarded some equipment before Blind Industries was supposed to be privatized, but all indications were that this equipment was old or broken, and wasn't being used in the manufacturing process.

Employees also threw away some blank State forms, older personnel records, and other records more than two years old—including interfund vouchers, purchase requisitions, and accounts receivable records. This action apparently did cause a slight delay in identifying which vendor to reorder thread from after the privation effort fell through. However, workshop employees told us they were able to get that information from the Department of Administration, which maintains purchasing-related records for five years. We questioned whether Industry employees should have thrown away some of the personnel files they did, but found that duplicate personnel records are kept in the Department of Social and Rehabilitation Services' central files. These and other findings will be discussed in more detail after a brief overview.

Overview of the Kansas Industries for the Blind

Kansas Industries for the Blind operates the State's workshops for blind and disabled individuals. The State has two such workshops, one in Topeka and another in Kansas City. Both workshops began operating during the 1940s. The Kansas City workshop was privatized in 1988, but the Topeka workshop is managed by the Division of Services for the Blind in the Department of Social and Rehabilitation Services. Administrative support is provided by employees working for the Department's Rehabilitation Center for the Blind, and the administrator for the Rehabilitation Center also serves as the administrator for Kansas Industries for the Blind. In this audit, we focused on activities at the Topeka workshop.

The workshop's budget for fiscal year 1996 was \$1.6 million, and its fiscal year 1996 expenditures totaled \$1.3 million. The workshop's budget for fiscal year 1997 is also \$1.6 million. At the time of this audit, the workshop employed 33 people, including 19 full-time employees and 14 part-time employees.

The workshop manufactures textiles including aprons, brooms, pillow cases, and shower curtains. In addition, the workshop recycles laser printer cartridges and prepares them for reuse. The workshop's primary customers include State agencies and local school districts.

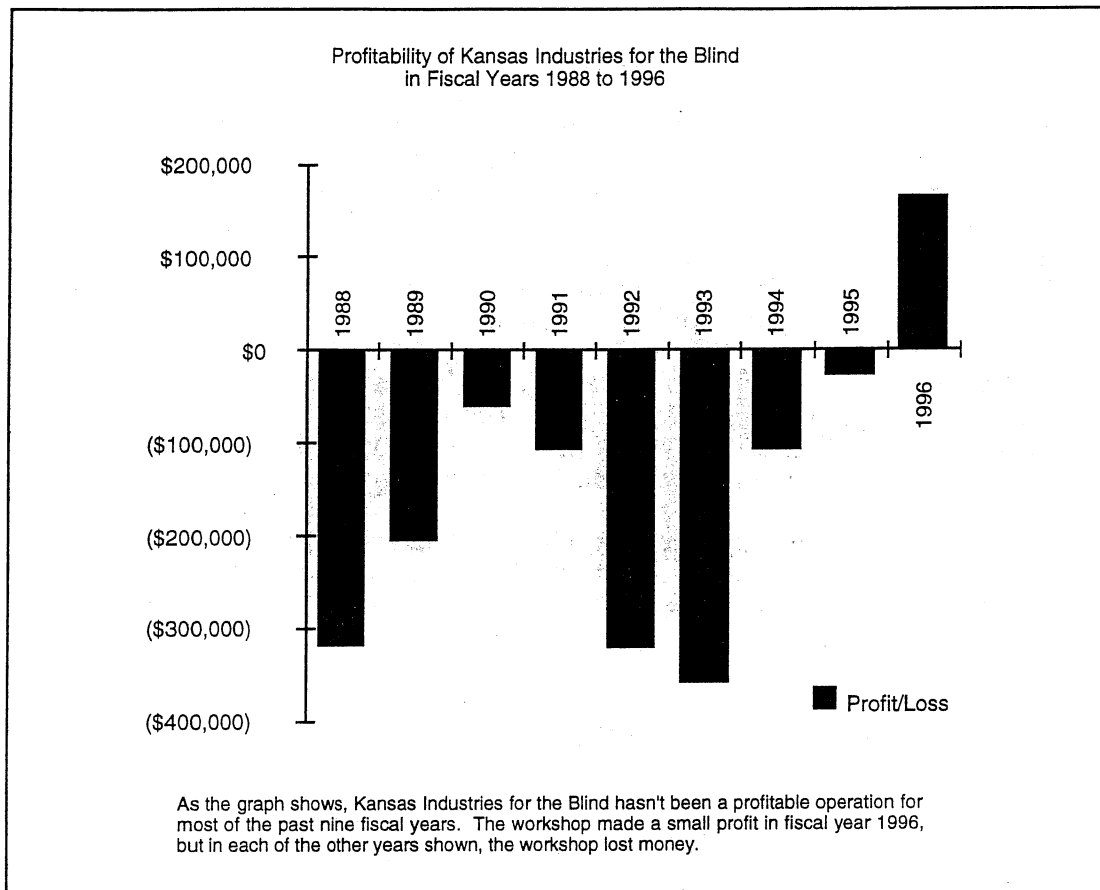
The Industries for the Blind Workshop in Topeka Historically Has Not Been a Profitable Operation

For example, from fiscal year 1953 to fiscal year 1988, the workshop made a profit in only seven years. The workshop lost money each year from fiscal year 1989 to fiscal year 1995. In fiscal year 1996, the workshop made a small profit for the first time since fiscal year 1984. The graph at the top of the next page outlines the workshop's profit/loss history.

In recent years, the Legislature and Department officials have become concerned about the workshop's profitability. Historically, the purpose of the workshop was to provide employment for blind and disabled individuals who probably couldn't find another job. But in 1984, when the Department was preparing its annual budget, Department officials decided the workshop also needed to generate a profit or at least break even consistently. A five-year plan was developed to achieve this goal, but that plan wasn't successful.

The Kansas Council on Privatization Identified the Topeka Workshop As a Candidate for Privatization

In 1995, the Kansas Council on Privatization released a report identifying State operations that were good candidates for privatization. Kansas Industries for the Blind was named, and shortly after the report was released, the Department started exploring privatization options. Department officials decided privatization might improve the workshop's chances of making a profit. In late 1995, the Department developed a request for proposals from organizations interested in managing the workshop. Department officials told us they specified that any bidder assuming operation of the workshop had to retain all employees for at least one year.



Several organizations expressed an interest, but only one bid actually was submitted. The Department accepted the bid and started negotiations in February 1996. Negotiations progressed well, and the Department agreed to transfer the workshop's management to the bidder on July 1, 1996.

However, during the last few weeks before July 1, the Department and the bidder conflicted on certain issues. Because of these conflicts, the bidder didn't assume management of the workshop on July 1, but the Department and the bidder continued working to negotiate an agreement. By early August 1996, they decided they couldn't reach an agreement and negotiations ceased.

Workshop employees we interviewed told us they didn't want the operation to be privatized, so they viewed this development as good news. They also told us they are working to find ways to improve workshop operations and increase profitability. But Department officials told us the Department hasn't dismissed the possibility of privatizing the workshop, and they may try again.

Did Kansas Industries for the Blind Inappropriately Throw Away Equipment and Destroy State Records Before It Was Supposed to be Privatized?

Based on our interviews and corroborating testwork, we couldn't confirm that the Industries for the Blind took any inappropriate action in discarding equipment and records. Shortly before privatization was to occur, employees at Kansas Industries for the Blind inventoried the workshop's equipment and reviewed the files and documents stored on the premises. During this process, they threw away several pieces of equipment that were old and broken and didn't appear on any of the workshop's inventory lists. Apparently, none of this equipment was used in the workshop's textile manufacturing process. In addition, employees identified and threw away records and documents that were out-of-date or that they thought the private contractor wouldn't need. Although some of these records could provide useful information to anyone operating the workshop, we received no indication that they were discarded to thwart the privatization process. In addition, duplicates of all these records were available from other State offices. These and other findings are presented in the sections below.

To Prepare for Privatization, Employees at Kansas Industries for the Blind Told Us They Discarded Some Old, Broken Equipment

When employees learned the workshop was to be privatized and a contract was being negotiated, the workshop administrator instructed two workshop employees to begin an extensive inventory of the workshop's contents. These employees told us they looked at every piece of equipment and furniture on the premises, and checked those items off on State inventory lists.

During this process, the employees located several pieces of equipment and furniture that weren't on the inventory lists. They told us that these items, which were stored in the back of the workshop, were old and broken. For example, the employees said they found two old, broken typewriters. They also found some broken chairs and file cabinets and other miscellaneous pieces of furniture and equipment. None of these items were on any of the workshop's inventory lists, and none of the employees knew when these items had been placed in storage. Also, according to the employees we interviewed, none of this equipment was being used. The employees said they determined the items had no cash value, and they discarded them into a dumpster behind the workshop.

Concerns had been expressed that workshop employees acted inappropriately when they discarded this equipment. But, based on our interviews with workshop employees, we found no problem with the employee's actions. Allegations also had been made that some of the discarded equipment was newer machinery needed for current operations. To learn if this was true, we checked a sample of equipment from the inventory list. Each item in our sample was still on the premises or was accounted for. Also, none of the employees we interviewed said the discarded equipment had been used in current operations.

Finally, concerns had been expressed that some of the workshop's equipment had been damaged recently. We asked several workshop employees about the condition of the equipment used for manufacturing the workshop's products. Each person described the equipment as old and in need of frequent maintenance. But each person said the amount of repair work needed hadn't increased recently, and they said there were no unusual problems with the equipment.

To Prepare for Privatization, Employees at Kansas Industries for the Blind Also Discarded State Forms and Old Records

If Kansas Industries for the Blind had been privatized, the private company would have had no use for State forms such as employee leave request forms and purchase requisition forms. According to workshop employees, the week before the workshop was to be privatized, all blank State forms on hand at the workshop were thrown away.

In addition, employees in the workshop's offices told us they reviewed their files and discarded records they thought the private company wouldn't need. Accounting and office records over two years old—such as interfund vouchers, purchase requisitions, and accounts receivable records—were discarded. Also, old policy and procedure manuals, out-of-date catalogs, and other obsolete documents were discarded. The employees said they purged the personnel files of records for employees who no longer worked at the workshop. They also purged the personnel files of some older records for current employees. Finally, the employees discarded records in storage, some dating back to the 1940s.

Concerns have been expressed that the employees shouldn't have purged their files because these records were needed for future operations. However, as described in the sections that follow, duplicates or back-ups of all the older records that were thrown away are available from the Departments of Administration or Social and Rehabilitation Services. When we did a random review of the workshop's current records, each record we requested was available and appeared to be complete and accurate. If privatization had gone through, there's no way to know whether the private contractor would have needed some of the discarded information, or whether the contractor would have known such information was available from other agencies. Again, however, we received no indication that records had been thrown away to try to hinder the privatization process.

Although workshop employees had purged their files of some older personnel records, we found that the Department's central office maintained hard copies of those records for the last five years, and all older records are on microfilm. These records are never destroyed. Because permanent copies of these records are available elsewhere, we didn't regard the fact that the workshop's employees discarded its personnel records as a problem.

Discarding office records later caused a slight problem when employees at Kansas Industries for the Blind needed to order supplies, but that problem was easily resolved. Several employees we interviewed told us that discarding State forms and old records caused slight delays in operations when the workshop wasn't

privatized. They said they needed some of the State forms to request personal leave. They also needed the records for vendors they hadn't dealt with in several years. For example, the workshop's production manager needed to order some thread for the first time in more than two years. The employees told us no one at the workshop remembered where the last order of thread came from, or the specifications of the type of thread ordered. Without the records, it was impossible for the workshop's employees to get this information from the office files.

Although this caused a slight delay, it was easy to resolve. To order the thread, workshop employees called the Department's administrative services warehouse and asked for copies of the last thread order. The warehouse stores all the Department's purchasing-related records for five years, and warehouse employees were able to locate these records without much difficulty. The workshop used these records to place a new order. To get new State forms, the workshop's employees called the Department's central office and ordered new forms.

A National Agency's Recent Compliance Audit Found No Major Problems with the Workshop's Operations

Kansas Industries for the Blind receives both federal and State funding, and occasionally representatives from the federal government audit the workshop's operations. In October 1996, officials from the Committee for Purchase from People Who Are Blind or Severely Disabled, an independent federal agency, did a compliance audit of the workshop.

We contacted a representative of this organization, located in Arlington, Virginia, and learned that no major problems had been found during the latest audit. The official we talked with said the organization considered the workshop to be in compliance with federal requirements, and had no major concerns with the manner in which the workshop was operated. In addition, the audit found no problems with the workshop's equipment, and found that all required records were available for review and appeared to be reasonably complete and accurate.

Conclusion

Kansas Industries for the Blind employees did discard old equipment and records right before the Topeka workshop was to be privatized, but we had no indication that their actions weren't logical or well-intentioned. At most, employees may have thrown away some records that should have been kept, but their actions had no negative consequences because copies of those records all are available elsewhere.

Given that other State functions and programs are being privatized, and that other questions may be raised about whether or how employees should purge their records or inventories, it would make sense for the State to provide centralized guidance in this area.

Recommendation

The Kansas Performance Review Board should develop guidelines for purging records or inventories that State agencies should follow when functions or programs within those agencies are to be privatized. In implementing this recommendation, the Board should do the following:

- a. contact State agencies and private companies that already have been involved in privatization efforts to learn from their experiences with the transfer of State records and inventories to private contractors
- b. identify any requirements of State law that apply to the transfer of State records and inventories to private companies, and incorporate those requirements into the guidelines
- c. make the guidelines available to State agencies considering privatization of functions or programs
- d. provide a copy of the guidelines to the Legislative Post Audit Committee

APPENDIX A

Agency Responses

On December 4, 1996, we provided copies of the draft audit report to the Department of Social and Rehabilitation Services, which oversees the operations of Kansas Industries for the Blind, and the Department of Administration. The Department of Social and Rehabilitation Services pointed out minor corrections needed in our discussion of the privatization negotiations. We have made those corrections. The Department of Administration's response suggested that our recommendation to develop guidelines for handling records and equipment during privatization be addressed to the Kansas Performance Review Board established by the 1996 Legislature. We have made that change. According to the Department of Administration, the Board is newly appointed and hasn't begun operations. When the Board has begun operations, we will make sure it's made aware of this recommendation. The written responses are included as this appendix.

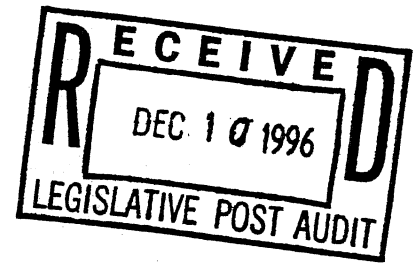


KANSAS DEPARTMENT OF SOCIAL
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ROCHELLE CHRONISTER, SECRETARY

December 10, 1996



Barbara J. Hinton, Legislative Post Auditor
Mercantile Bank Tower
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Dear Ms. Hinton:

Thank you for the opportunity to review the legislative post audit report. We appreciate the opportunity to respond to the audit "Assessing the Propriety of Certain Actions Related to the Privatization of Kansas Industries for the Blind." Our response to your recommendations follows.

We wish to correct statements made in the performance audit, Assessing the Propriety of Certain Actions Related to the Privatization of Kansas Industries for the Blind. The report on page 4, paragraph 1, presents two issues on which the bidder and agency reportedly conflicted. The description of the issues is incorrect. The agency had several guarantees of conditions of employment. They applied to all employees at the Kansas Industries for the Blind. One condition was for the bidder to retain all workers who are legally blind for a period of not less than one year; and retain all other workers and civil service staff for a period of not less than one year. Regarding state funding for operations, a state funded subsidy for the bidder was not offered as part of the request for proposals; however, an establishment grant for purposes of re-tooling was offered. The details of the negotiations remain confidential.

The final statement on page 4 cites officials as indicating the Department wouldn't be so concerned about privatizing the operation if it were profitable. In fact, the Department questions the appropriateness of state operation of a sheltered workshop and maintains that KIB could be more efficiently operated by a private entity.

The Department concurs with the Department of Administration that the Kansas Performance Review Board as established by Senate Bill 102 passed during the 1996 Legislative Session would best address development of guidelines regarding records and inventories of agencies that are to be privatized.

Thank you for the opportunity to respond to this audit report.

Sincerely,

Rochelle Chronister

Rochelle Chronister
Secretary

RC:LLH:am

STATE OF KANSAS



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December 9, 1996

DAN STANLEY, *Secretary*
JEFF WAGAMAN, *Deputy Secretary*

BILL GRAVES, *Governor*

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
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Dear Ms. Hinton:

Thank you for providing us the opportunity to review your Legislative Post Audit Report. We are pleased to respond to the audit "Assessing the Propriety of Certain Actions Related to the Privatization of Kansas Industries for the Blind." Your audit is comprehensive and well researched. What follows is a summary of our response to your recommendations.

As you may be aware, during the 1996 Legislative Session, Senate Bill 102 was passed by both Chambers and signed into law by Governor Graves. This legislation established the Kansas Performance Review Board. The enabling legislation establishes the Board is "responsible for reviewing governmental functions and recommending whether such functions should be privatized, eliminated, retained or modified." The Board is also authorized to "adopt rules and regulations, conduct research and investigate new methods to promote government efficiency...." Currently, five members of the Board of Directors have been appointed and the Board is now finalizing the organization.

When the Privatization Council begins full time operations, we are confident that issues such as guidelines for record keeping and inventories will be considered and established by the Board. In fact, as the Board makes recommendations on governmental functions to privatize, these analyses will most certainly include specific recommendations such as record keeping and transfer of state documents to private contractors.

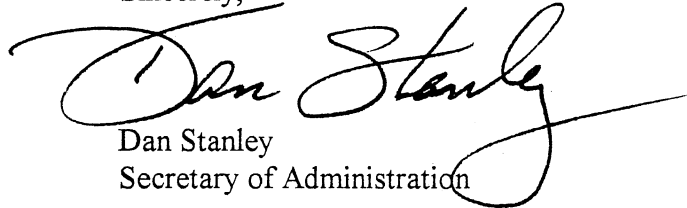
In my view, the nature and the purpose of the Privatization Council places it in a better position to assess and determine the necessary records required to facilitate a successful privatization initiative.

Barbara J. Hinton
December 9, 1996
Page 2

Although the Kansas Performance Review Board is not fully organized at this time, my staff from the Department of Administration is prepared to help the Board when they seek our assistance.

Thank you for the opportunity to respond to this audit report.

Sincerely,

A handwritten signature in black ink that reads "Dan Stanley". The signature is written in a cursive style with a large, sweeping initial "D" and a long horizontal stroke extending to the right.

Dan Stanley
Secretary of Administration

DS:JSW:dp

cc: Rochelle Chronister, Secretary
Department of Social and Rehabilitation Services

Lynn Markel, Chair
Kansas Performance Review Board