



A. JOSEPH De NUCCI
AUDITOR

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

TEL (617) 727-6200
FAX (617) 727-5891

NO. 97-2506-9

**STATE AUDITOR'S DETERMINATION OF
HOLYOKE COMMUNITY COLLEGE'S
PROPOSAL TO PRIVATIZE
FOOD SERVICE OPERATIONS**

**OFFICIAL AUDIT REPORT
SEP 26 1996**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Background	1
Scope, Objectives and Methodology	2
DETERMINATION	3
EXHIBITS	
A. Cost Comparison	4
B. In-House Cost Estimate	5
C. Contract Performance Costs	6

INTRODUCTION

Background

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

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

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

Holyoke Community College is a two-year public community college with an approximate enrollment of 3,500 students attending day classes and 1,900 students attending evening and Saturday classes. There are 320 full-time faculty and staff and 198 part-time faculty. The college operates a cafeteria and catering service on campus for its students and faculty. The food service, which is operated by 10 employees, generated gross revenues of \$536,000 during fiscal year 1996.

On August 23, 1996, the college notified the State Auditor of its intent to award a privatization contract to a vendor to operate the cafeteria and catering service. As required by law, the notification was accompanied by a certification signed by the President of the College and the Secretary of Administration and Finance, and by documentation subject to review by the State Auditor in accordance with the privatization law and applicable guidelines issued by the State Auditor.

Scope, Objectives and Methodology

The objective of this review was to determine whether the college has complied with Chapter 296 of the Acts of 1993, the privatization law, and whether the cost of providing food services by contract would be less than the estimated cost for providing these services in-house with college employees.

To meet these objectives, we examined the written statement of services for the food service function, the management study of the present in-house operations, the Request for Proposals, the summary of bids received, the successful proposal, and the proposed privatization contract. We also examined the cost forms and supporting documentation submitted by the college and compared the estimated cost of contract performance with the estimated cost to perform the services in-house with college employees. We traced and verified all of the cost elements listed in the cost forms to the supporting documentation. We also interviewed management officials and toured the kitchen, serving, and dining areas at the Campus Center, where the food is prepared and served.

DETERMINATION

Based on our review, we have concluded that Holyoke Community College has complied with Chapter 296 of the Acts of 1993 in reaching its decision to award a privatization contract for the management of its food services activities, a function which had previously been performed with college employees.

The college certified and demonstrated that the quality of food services to be provided by the vendor is at least equal to or greater than that which had been provided by its employees, that the designated vendor has no adjudicated record of noncompliance with relevant statutes, and that the costs of having the work performed under contract will be less than the estimated cost of having the work performed with college employees. We hereby approve Holyoke Community College's certification in each of these required areas.

As summarized in Exhibit A, having the food services activities performed by contract for one year would yield net revenues of \$29,880, whereas having the services performed in-house by college employees is estimated to result in a loss of \$25,314, thereby generating an overall savings of \$55,194 through privatization. Accordingly, we approve Holyoke Community College's certification and awarding of the subject contract to the designated vendor.

We also reviewed the college's compliance with the following other statutory provisions of the privatization law.

- (1) Section 54(2) of the law contains certain requirements related to the wages to be paid by the contractor to individuals who will be employed under the contract. Our review determined that the wages to be paid by the contractor were in compliance with this section.
- (2) Section 54(3) requires the contractor to offer available positions to qualified employees who are being terminated as a result of the privatization. The contractor has demonstrated compliance with this requirement by inviting affected workers to submit a job application for employment. One employee was hired, and another was offered a job but declined. Two additional employees were considered but were not offered jobs. The remaining employees did not submit an application.
- (3) Our review also determined that the contractor intends to comply with the health insurance requirements of Section 54(2).

Exhibit A

Holyoke Community College
Privatization of Food Service Operations
Cost Comparison

In-House Cost Estimate (Net Loss)	\$(25,314)
Net Revenue from Contract Performance	<u>29,880</u>
Cost Savings	<u>\$ 55,194</u>

Exhibit B

Holyoke Community College
Privatization of Food Service Operations

	<u>In-House Cost Estimate</u>			
	Per Holyoke Community College	Audit <u>Adjustments</u>	Adjusted Cost <u>Estimate</u>	<u>Notes</u>
Revenues	<u>\$536,000</u>		<u>\$536,000</u>	
In-House Costs:				
Direct Costs				
Personnel Wages	\$142,200		\$142,200	
Fringe Benefits	<u>50,614</u>		<u>50,614</u>	
	<u>\$192,814</u>		<u>\$192,814</u>	
Materials and Supplies:				
Food	\$214,400		\$214,400	
Office Supplies	5,500		5,500	
Other	<u>25,000</u>		<u>25,000</u>	
	<u>\$244,900</u>		<u>\$244,900</u>	
Other Direct Costs:				
Contract Labor	\$ 98,130	\$ 14,370	\$112,500	1
Equipment	2,700		2,700	
Repair	<u>8,400</u>		<u>8,400</u>	
	<u>\$109,230</u>		<u>\$123,600</u>	
Total Direct Costs	\$546,944		\$561,314	
Indirect Costs	<u>22,000</u>	<u>(22,000)</u>	<u>-</u>	2
Total In-House Costs	<u>\$568,944</u>	<u>\$ (7,630)</u>	<u>\$561,314</u>	
Net Profit (loss)	<u>\$(32,944)</u>	<u>\$ (7,630)</u>	<u>\$(25,314)</u>	

1. The college omitted the contract labor costs for laundry, exterminator, and other services. This adjustment represents the amount spent in fiscal year 1996.
2. The college allocated \$22,000 based on the number of accounts payable and accounts receivable transactions (20%) processed by the accounting department for the food services function. We deleted the \$22,000 because, since no jobs had been eliminated, this cost had not been avoided. According to the college's Comptroller, there are plans to reallocate the duties of two of the four individuals in the accounting department to perform other accounting department work that needs to be done, such as analyzing budget variances and performing other accounting analysis work. However, until such a reassignment actually takes place and other duties are actually performed, these costs cannot be classified as having been avoided.

Exhibit C

Holyoke Community College
Privatization of Food Service Operations
Contract Performance Costs

	<u>Per Holyoke Community College</u>	<u>Audit Adjustments</u>	<u>Adjusted Contract Performance Costs</u>	<u>Notes</u>
Contract Price (Revenue)	<u>\$40,000</u>	<u>\$ 2,880</u>	<u>\$42,880</u>	1
Cost of Contracting				
Contract Administration	\$ 1,000		\$ 1,000	
Transition Costs (Severance)	1,350	\$ (1,350)		2
Unemployment Insurance	<u>-</u>	<u>12,000</u>	<u>12,000</u>	3
Total	<u>\$ 2,350</u>	<u>\$10,650</u>	<u>\$13,000</u>	
Net Revenue	<u>\$37,650</u>	<u>\$ 7,770</u>	<u>\$29,880</u>	

1. The college based the revenue on 8% of estimated sales of \$500,000 for the fiscal year ending August 31, 1997. The in-house cost estimate used sales of \$536,000, the same level as fiscal year 1996. To be consistent, we used the \$536,000, which would increase revenue by \$2,880.
2. No severance costs have been or are expected to be incurred.
3. Three employees have applied for and are expected to receive unemployment insurance. This adjustment represents three people each collecting approximately \$250 a week for 16 weeks, which is the average length of time that a person receives unemployment insurance assistance in Massachusetts.