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INDEPENDENT STATE AUDITOR'S
DETERMINATION ON
SPRINGFIELD TECHNICAL COMMUNITY
COLLEGE'S PROPOSAL TO PRIVATIZE ITS
CAMPUS BOOKSTORE

OFFICIAL AUDIT
REPORT
SEPTEMBER 9, 2008

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INTRODUCTION

Background

Chapter 296 of the Acts of 1993, as amended, 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 \$200,000 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 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 (with the authority to extend the review an additional 30 days) to approve or reject the agency's certification.

The process that the agency must follow includes preparing a detailed written statement of service, 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.

Springfield Technical Community College (STCC) is part of the system of public institutions of higher education as promulgated by Chapter 15A, Section 5, of the Massachusetts General Laws. A Board of Trustees appointed by the Governor governs STCC and establishes its administrative policies. STCC's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and guidelines established by the Department of Higher Education.

STCC is proposing the privatization of its College Bookstore, which serves its students, faculty, staff and visitors. STCC is seeking a vendor for the complete management and operation of its Campus Bookstore, including:

- Operating on its own account and managing the activities of the College Bookstore
- Providing services that are deemed in the best interest of the students, faculty, and staff
- Providing competent, skilled, and professional individuals to assure quality performance of duties
- Selling books and merchandise considered typical sale items for a College bookstore, as well as operating concessions for souvenir sales, as specified by the College
- Determining with the College acceptable procedures for the ordering of textbooks and establishing deadlines for requisitions for each term
- Obtaining specified textbooks and supplies, both required and recommended prior to the opening of each term
- Assuring good customer relations will be met in having textbooks available to students on or before the first day of class
- Paying commissions to the College on a monthly basis
- Providing audited financial statements to the College within 30 days after the end of each fiscal year

On July 9, 2008, STCC notified the Office of the State Auditor (OSA) of its intent to award a privatization contract for this activity. As required by law, the notification was accompanied by a certification signed by the President of Springfield Technical Community College and the Secretary of the Executive Office for Administration and Finance, and by documentation subject to review and determination by the OSA in accordance with state law and applicable guidelines issued by the OSA.

During the performance of our review, STCC made certain revisions to its previously submitted documentation. Accordingly, we redirected our review to STCC's revised material as requested by STCC on July 28, 2008.

Audit Scope, Objectives, and Methodology

Springfield Technical Community College (STCC) has proposed that Follett Higher Education Group, Inc. (Follett) operate its Campus Bookstore in accordance with the highest standards and commercial practices in the college bookstore industry.

The objectives of this review were to determine whether STCC complied with Chapter 296 of the Acts of 1993, as amended, the privatization law, including the quality and compliance requirements of the law, and whether the cost of operating the Campus Bookstore would be less than the estimated cost for performing these services in-house with STCC employees.

To meet these objectives, we examined the Request for Proposal (RFP), the responses received, the proposed operating agreement between STCC and Follett, and quality and compliance information. We also examined the cost forms and documents submitted by STCC supporting the privatization proposal, and compared the estimated revenue from contract management to the estimated revenue by performing the services in-house with STCC employees. We traced and verified all revenue and expense elements listed in the cost forms to the supporting documentation and interviewed STCC management officials.

DETERMINATION

Based on our review, we have concluded that Springfield Technical Community College (STCC) has complied with Chapter 296 of the Acts of 1993, as amended, in reaching its decision to award a privatization contract for the operation of its Campus Bookstore at STCC, a service that has been performed in-house with STCC employees.

STCC has certified and demonstrated that the quality of services to be provided by the contractor is at least equal to or greater than that which has been provided by the STCC employees, that the designated contractor has no adjudicated record of noncompliance with relevant statutes, and that the revenue enhancement of having the work performed under the management agreement will exceed the estimated revenue of having the work performed in-house with STCC employees. We therefore approve STCC's certification in each of those required areas.

EXHIBIT A***Springfield Technical Community College - Privatization of Campus Bookstore******Revenue Comparison******Five Year Period Ending July 31, 2013***

Management Agreement Revenue (Exhibit C)	\$ 1,856,378
In-House Revenue Estimate (Exhibit B)	<u>1,096,912</u>
Estimated Five-Year Revenue Enhancement	<u>\$ 759,466</u>

EXHIBIT B***Springfield Technical Community College - Privatization of Campus Bookstore******In-House Revenue Estimate******Five Year Period Ending July 31, 2013***

	STCC Revenue <u>Estimate</u>	Audit <u>Adjustments</u>	STCC Revenue Estimate <u>As Adjusted</u>
College Bookstore Revenues	\$ 16,089,639	-	\$ 16,089,639
Direct Costs:			
Personnel	\$2,125,300	(\$57,000) (1)	\$2,068,300
Cost of Goods Sold	12,016,336	-	12,016,336
Other Direct Costs:			
Administrative Expenses	220,802	-	220,802
Operational Services	38,174	-	38,174
Equipment Purchases	220,868	(89,868) (2)	131,000
Equipment, Lease & Repair	45,468	-	45,468
Construction	400,000	(3,807) (3)	396,193
Uncollectible Accounts	<u>76,454</u>	-	<u>76,454</u>
Total In-House Costs	<u>\$15,143,402</u>	<u>(\$150,675)</u>	<u>\$14,992,727</u>
In-House Revenue Estimate	<u>\$ 946,237</u>	<u>(\$150,675)</u>	<u>\$ 1,096,912</u>

(1) *The OSA adjusted the fringe benefit rate to 25.8% reflecting the FY 2009 Fringe Benefit and Payroll Tax Rate (Comptroller Memo FY#2009-01).*

(2) *The OSA adjusted equipment purchases to reflect the needs as revised by STCC.*

(3) *The OSA adjusted construction costs to reflect the budget estimate of STCC.*

EXHIBIT C***Springfield Technical Community College - Privatization of Campus Bookstore******Management Agreement Revenue******Five Year Period Ending July 31, 2013***

	<u>Per</u> <u>STCC</u>	<u>Audit</u> <u>Adjustments</u>		<u>Adjusted</u> <u>Management</u> <u>Agreement</u> <u>Revenue</u>
Management Agreement Revenue:				
Commission Receipts	\$1,889,700	(\$50,037)	(4)	\$1,839,663
One-Time Retail Ready Contribution	-	50,000	(5)	50,000
Textbook Scholarships	25,000	-		25,000
Computer Systems	41,000	-		41,000
Bookstore Renovation	<u>50,000</u>	<u>-</u>		<u>50,000</u>
Total Management Agreement Revenue	<u>\$2,005,700</u>	<u>(\$ 37)</u>		<u>\$ 2,005,663</u>
Transition Costs:				
Loss on Sale of Inventory	<u>\$40,000</u>	<u>-</u>		<u>\$40,000</u>
Total Transition Costs	<u>\$40,000</u>	<u>-</u>		<u>\$40,000</u>
Other Revenue:				
State Income Tax	\$ 5,003	-		\$5,003
Sales Tax	<u>10,030</u>	<u>(\$9,690)</u>	(6)	<u>340</u>
Total Other Revenue	<u>\$15,033</u>	<u>(\$9,690)</u>		<u>\$5,343</u>
Deduct Continuing Costs				
Operational Services	-	\$38,174	(7)	\$38,174
Uncollectible Accounts	<u>-</u>	<u>76,454</u>	(8)	<u>76,454</u>
Total Continuing Costs	<u>-</u>	<u>\$114,628</u>		<u>\$114,628</u>
Management Agreement Revenue	<u>\$1,980,733</u>	<u>(\$124,355)</u>		<u>\$ 1,856,378</u>

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- (4) *The OSA calculated commission receipts in accordance with the terms of the contract; 11.1% of all Gross Revenue up to \$2,000,000 plus 11.6% of any part of Gross Revenue over \$2,000,000 annually.*
- (5) *The OSA increased the Management Agreement Revenue to reflect the One-Time Retail Ready Contribution of \$50,000. The OSA is concerned about the legality of STCC transferring revenue, received as financial consideration pursuant to a competitive bidding process to operate STCC's bookstore, to the College's Foundation. STCC should seek guidance from the State Comptroller and the opinion of the Attorney General as to the propriety of this practice.*
- (6) *The OSA reduced the Management Agreement Revenue (other revenue, sales tax) to reflect the sales tax attributable to the projected increase in taxable sales.*
- (7) *Operational Services (fixtures, shelving, carpet, and furniture to keep the bookstore functional and current with the times) will continue to be a responsibility of STCC as per paragraph 7.1 of the Operating Agreement.*
- (8) *Uncollectible Accounts will continue to be STCC's responsibility. Paragraph 7.7 of the Operating Agreement requires Follett to extend credit to STCC for financial aid and departmental charge accounts in accordance with the terms set forth in Follett's standard credit application. STCC will furnish to Follett all required information and will pay all accounts within 30 days of invoice.*