



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Independent State Auditor's Determination on Quinsigamond Community College's Proposal to Privatize Its Campus Bookstore





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Making government work better

August 11, 2016

Gail Carberry, Ed.D, President
Quinsigamond Community College
670 West Boylston Street
Worcester, MA 01606

Dear President Carberry:

I am pleased to provide this review of Quinsigamond Community College's proposal to privatize the management and operation of its campus bookstore. This report details our objectives, scope, and methodology and our determination based on our review. My audit staff discussed the contents of this report with the management of Quinsigamond Community College.

It is the determination of this office that Quinsigamond Community College has complied with all provisions of Massachusetts General Laws c. 7, §54, and all other applicable laws, and thus this office has no objection to your request for the privatization of the management and operation of your campus bookstore.

I would also like to express my appreciation to Quinsigamond Community College for the cooperation and assistance provided to my staff during our review.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue horizontal line.

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

Follett	Follett Higher Education Group, Inc.
MGL	Massachusetts General Laws
OSA	Office of the State Auditor
QCC	Quinsigamond Community College
RFP	Request for Proposal

EXECUTIVE SUMMARY

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 \$553,275 or more.¹

Pursuant to this law, a specific process must be followed to demonstrate and certify to the State Auditor that (1) the college complied with all provisions of Massachusetts General Laws (MGL) c. 7, §54 and all other applicable laws; (2) the quality of the services to be provided by the designated bidder is likely to satisfy the quality requirements of the written statement of services and equal or exceed the quality of services that could be provided by college employees; (3) the total cost to perform the services by contract will be less than the estimated in-house cost; (4) the designated bidder has no adjudicated record of substantial or repeated noncompliance with relevant federal and state statutes; and (5) 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 college's certification.

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

Quinsigamond Community College (QCC) is part of the system of public institutions of higher education as established by MGL c. 15A, §5. In accordance with MGL c. 15A, §22, QCC operates under the direction of a board of trustees, whose responsibilities include establishing policies necessary for the administrative management of personnel, staff services, and the general business of the college. QCC's president is responsible for implementing the policies set by the board, in accordance with the policies

1. Pursuant to MGL c. 7, §53, the Privatization Law threshold, set at \$500,000 in 2009, is adjusted as of January 1 each year according to the Consumer Price Index as calculated by the U.S. Bureau of Labor Statistics.

and guidelines established by the Massachusetts Department of Higher Education and the QCC board bylaws.

QCC is proposing the privatization of the management and operation of its campus bookstore, which serves its students, faculty, staff, and visitors. QCC is seeking a vendor for the complete management and operation of its campus bookstore, as stated in the QCC Request for Proposal (RFP). These activities include the following:

- providing services that are deemed in the best interests of the students, faculty, staff, and visitors of the college at no monetary reimbursement from the college
- providing competent, skilled, and professional individuals to assure quality performance of duties
- creating and implementing effective strategies to reduce the cost of textbooks/course materials to students by offering a comprehensive textbook rental program, a strong used-textbook program, an innovative digital textbook/course materials program, and by utilizing emerging technologies
- providing exceptional value to students, faculty, staff, and visitors by offering high-quality products and services at fair prices and multiple price points
- communicating and coordinating effectively and proactively with faculty regarding the use of all types of course materials
- using a point-of-sale system and having a website available to students, faculty, staff, and visitors
- leading the transformation from traditional textbooks to digital course materials
- improving customer satisfaction

On July 5, 2016, QCC notified the Office of the State Auditor (OSA) of its intent to award its privatization contract to Follett Higher Education Group, Inc. to manage and operate its campus bookstore. As required by law, the notification was accompanied by a certification signed by QCC's president and the Secretary of the Executive Office for Administration and Finance and by documentation subject to review by OSA in accordance with state law and applicable OSA guidelines.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to determine whether Quinsigamond Community College (QCC) complied with the Privatization Law, including the law's quality and compliance requirements, and whether the cost of managing and operating the campus bookstore would be less than the estimated cost for performing these services in-house with college employees.

To meet these objectives, the Office of the State Auditor (OSA) examined the Request for Proposal (RFP) and the corresponding responses, reviewed the proposed operating agreement between QCC and Follett Higher Education Group, Inc. (Follett), and evaluated documentation and held discussions with QCC management as well as management from other Massachusetts colleges and universities related to the quality of services to be provided by Follett.

OSA also evaluated the validity of the revenue and cost analysis² as well as other documentation³ prepared by QCC management that supported the privatization proposal. In addition, OSA compared the anticipated net revenue per the proposed Follett contract to the projected net revenue from performing the services in-house to ensure that the proposed privatization would result in cost savings to the Commonwealth. OSA cross-referenced revenues and expenses to supporting documentation, including independently verifying revenue and cost summaries to the Massachusetts Management Accounting and Reporting System, performing unemployment-benefit calculations based on the Department of Unemployment Assistance's benefit rates, and verifying fringe-benefit rates from the Office of the State Comptroller.

Additionally, OSA examined the quality of contract performance by reviewing the QCC RFP as well as Follett's RFP response and was able to verify that QCC will monitor contract effectiveness through (1) the creation of an advisory council, which will be composed of QCC staff, faculty, and students; (2) management reporting, to include monthly operating reports, forecasts, budgets, sales and commission statements, and, upon request, inventory reports; (3) partnership / relationship surveys; and (4) a "Quarterly Strategic Partner Review," which highlights store sales and trends, course material delivery statistics, system enhancements, employee training, and new merchandise programs.

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2. QCC provided OSA with the following documentation, which includes but is not limited to in-house consolidated and summarized cost forms, personnel cost worksheets, cost form reconciliation and notes, Higher Education Price Index, and a schematic design of the bookstore.
 3. Other documentation includes, but is not limited to, all submitted bids, bid criteria rating system and scoring matrix, proposed Follett contract, and certificates of compliance.

OSA staff also toured the campus bookstore, interviewed bookstore employees who are affected by the proposed privatization, and surveyed three Massachusetts state colleges and universities that use Follett to manage and operate their campus bookstores. These actions provided OSA with significant insight on how Follett (1) manages its personnel; (2) operates on a day-to-day basis; and (3) provides products and services to students, faculty, and staff in each of those institutions.

DETERMINATION

Based on our review, we have concluded that Quinsigamond Community College (QCC) has complied with the specific requirements set forth in the Privatization Law, Massachusetts General Laws (MGL) c. 7, §§ 52–55, in reaching its decision to privatize the management and operation of its campus bookstore, a service that has been performed in-house with college employees.

QCC has certified and demonstrated to the Office of the State Auditor (OSA) that the quality of the services to be provided by Follett Higher Education Group, Inc. (Follett) will equal or exceed the quality of services that could be provided by college employees, that the anticipated revenue from the proposed contract will exceed the anticipated revenue from performing the services in-house with college employees, that Follett has no adjudicated record of substantial or repeated noncompliance with relevant federal and state statutes, and that the proposed privatization contract is in the public interest in that it meets applicable quality and fiscal standards. We therefore approve QCC's certification in each of those required areas.

We reviewed QCC's compliance with the statutory provisions of the Privatization Law and have concluded that QCC has complied with all provisions of the Privatization Law as follows:

1. QCC issued a Request for Proposal (RFP) on May 2, 2016, with an initial response due date of May 23, 2016, for its campus bookstore. In response to the RFP, two potential providers submitted a bid for review. Follett's bid was selected. The terms of the proposed contract will not exceed five years.
2. For each position in which Follett will employ any person pursuant to the privatization contract and for which the duties are substantially similar to the duties performed by a college employee, QCC's statement of services includes a statement of the appropriate minimum wage rate to be paid for that position. Follett's bid and the proposed privatization contract include provisions specifically establishing the wage rate for each such position, which is not less than the appropriate minimum wage rate. Additionally, Follett's bid and the proposed contract include provisions for Follett to pay not less than a percentage, comparable to the percentage paid by the Commonwealth for state employees, of the costs of health insurance plans for every employee employed for not less than 20 hours per week. Moreover, the proposed contract includes a provision requiring that Follett's health insurance plan provide coverage to the employee and the employee's spouse and dependent children. The QCC RFP and Statement of Services also requires that each bidder submit quarterly payroll records to QCC, listing the name, address, Social Security number, hours worked, and hourly wage paid for each employee in the previous quarter.

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3. The proposed contract between QCC and Follett contains a provision requiring Follett to offer available positions to qualified college employees whose state employment is terminated because of the privatization contract and who satisfy Follett's hiring criteria. The proposed contract contains a provision requiring Follett to comply with equal opportunity and affirmative action laws as required by the Fair Labor Standards Act, MGL c. 7, §§52–55 (the Privatization Law), and all other regulations required by federal and state laws.
 4. QCC prepared a comprehensive written estimate of the costs for college employees to manage and operate the campus bookstore in the most cost-efficient manner. These cost estimates include all direct and indirect costs of college employees including, but not limited to, personnel costs and other employee benefit costs.

QCC also prepared a comprehensive written estimate of the projected revenue for college employees to provide services in-house as well as the estimated revenue as stated in contract. These in-house revenue estimates include all bookstore sales, commissions, and interest income while the estimated proposed contract revenue includes the agreed-upon percentage of projected commission sales, textbook scholarships, and one-time bookstore facility renovation and transition cost offset contributions to be provided by Follett to QCC.

5. QCC provided notice to the relevant employee organization (AFSCME Union) on January 19, 2016 and held a meeting on March 21, 2016 with the college employees and Union to discuss the college's intent to issue a RFP prior to QCC's publication of said RFP on May 2, 2016. As a result of this meeting, the Union has not presented any objection to the proposed privatization.
6. After soliciting and receiving bids, QCC publicly designated Follett as the bidder to which the contract would be awarded.
7. QCC President Gail Carberry and Executive Office for Administration and Finance Secretary Kristen Lepore provided certifications of compliance with the following requirements detailed in the Privatization Law, MGL c. 7, §54 (7):
 - (i) *the agency complied with all the provisions of Section 54 and all other applicable laws;*
 - (ii) *the quality of the services to be provided by Follett is likely to satisfy the quality requirements of the statement of services, and to equal or exceed the quality of services that could be provided by agency employees;*
 - (iii) *the contract cost will be less than the estimated cost of regular QCC employees providing the services, taking into account all comparable types of costs;*
 - (iv) *Follett and their supervisory employees, while in the employ of Follett, have no adjudicated record of substantial or repeated willful noncompliance with any relevant federal or state regulatory statute, including, but not limited to, statutes concerning labor relations, occupational safety and health, nondiscrimination and affirmative action, environmental protection, and conflicts of interest; and*

(v) the proposed privatization contract is in the public interest, in that it meets the applicable quality and fiscal standards set forth herein.

Regarding the fiscal standards, OSA's financial analysis, as set forth in the attachments to this determination, demonstrates that, over a four-year period, the revenue for QCC's campus bookstore would be approximately \$1,514,849 if operated in-house with college employees, whereas the proposed contract with Follett would bring in an estimated \$2,278,275. Thus, the privatization of QCC's campus bookstore would increase QCC's revenues by \$763,426.

For all these reasons, it is the determination of this office that QCC has complied with all provisions of the Privatization Law and all other applicable laws, and thus this office has no objection to QCC's request for the privatization of its campus bookstore.

APPENDIX A

Quinsigamond Community College Campus Bookstore Privatization Revenue Comparison Four-Year Period Ending June 30, 2020

	QCC Revenue Estimate [#]	OSA Adjustments	Revenue Estimate as Adjusted [§]
Contract Revenue [@] (Appendix C)	\$ 2,357,626	\$ (79,351) [‡]	\$2,278,275
Less In-House Net Revenue (Appendix B)	1,834,720	(319,871) [†]	1,514,849
Estimated Four-Year Revenue Enhancement	\$ 522,906	\$ 240,520	\$ 763,426

[#] QCC provided these estimates based on an average of fiscal years 2013, 2014, and 2015 income and costs which may have then been adjusted, up or down, based on a series of factors that includes budget, potential future spending, and historical trends.

[§] OSA calculated these revenues and costs based on fiscal year 2015 actuals.

[@] Contract revenue includes the agreed-upon percentage of projected commission sales, textbook scholarships, and one-time bookstore facility renovation and transition cost offset contributions to be provided by Follett to QCC.

[‡] OSA added unemployment costs to properly reflect the 30-week / \$722-per-week maximum benefit for all full-time-equivalent employees.

[†] OSA adjusted bookstore sales to reflect the actual 2015 fiscal year sales and not the average of fiscal years 2013, 2014, and 2015. Additionally, this adjustment includes an increase in personnel costs and the associated fringe benefits, based on salaries for all regular bookstore employees as of July 1, 2016. Finally, OSA made an adjustment to Equipment & Furniture based on QCC's equipment purchasing trends.

APPENDIX B

Quinsigamond Community College Campus Bookstore Privatization In-House Net Revenue Four-Year Period Ending June 30, 2020

	QCC In-House Income/Cost Estimate [#]	OSA Adjustments [†]	In-House Income/Cost Estimate as Adjusted [§]
Income			
Bookstore Sales	\$ 15,659,171	\$ 292,486	\$ 15,951,658 [*]
Commission Income	37,099	7,724	44,823
Interest Income	3,600	(140)	3,460
Total Income	\$15,699,870	\$300,070	\$ 15,999,941[*]
Costs			
Personnel Costs	\$ 1,210,144	\$ 464,206	\$ 1,674,349
Cost of Goods Sold	12,214,154	265,800	12,479,954
Administrative Expenses	207,619	(27,522)	180,097
Operational Services	77,888	(5,590)	72,298
Equipment & Furniture	72,527	(63,988)	8,539
Repair & Maintenance	82,820	(12,965)	69,855
Total Costs	\$ 13,865,150^{**}	\$ 619,941	\$ 14,485,092
Total In-House Net Revenue	\$ 1,834,720	\$ (319,871)	\$ 1,514,849

[#] QCC provided these estimates based on an average of fiscal years 2013, 2014, and 2015 income and costs which may have then been adjusted, up or down, based on a series of factors that includes budget, potential future spending, and historical trends.

[†] OSA adjusted bookstore sales to reflect the actual 2015 fiscal year sales amount and not the average of fiscal years 2013, 2014, and 2015. Additionally, this adjustment includes an increase in personnel costs and the related fringe benefits, based on salaries for all regular bookstore employees as of July 1, 2016. Finally, OSA made an adjustment to Equipment & Furniture based on QCC's equipment purchasing trends.

[§] OSA calculated these revenues and costs based on fiscal year 2015 actuals.

^{*} Total may be off by \$1 because of rounding.

^{**} Total may be off by \$2 because of rounding.

APPENDIX C

Quinsigamond Community College Campus Bookstore Privatization Contract Revenue Four-Year Period Ending June 30, 2020

	QCC Contract Revenue Estimate	OSA Adjustments	Contract Revenue Estimate as Adjusted
Base Contract Revenue			
Commission Receipts	\$ 2,304,725	\$ 1,290	\$ 2,306,014 [*]
Textbook Scholarships	40,000	0	40,000
Bookstore Renovations	50,000	0	50,000 [†]
One-Time Contribution	50,000	0	50,000 [§]
Total Base Contract Revenue	\$ 2,444,725	\$ 1,290	\$ 2,446,014[*]
Transition Costs			
Unemployment & Retirement Costs	0	80,641 [‡]	80,641
Loss on Sale of Inventory	50,000	0	50,000
Total Transition Costs	\$ 50,000	\$ 80,641	\$ 130,641
Other Revenue			
Book Buy-Back Commission	(37,099)	0	(37,099)
Total Other Revenue	\$ (37,099)	\$ 0	\$ (37,099)
Total Contract Revenue	\$ 2,357,626	\$ (\$79,351)	\$ 2,278,275[*]

* Total may be off by \$1 because of rounding.

† Represents a one-time bookstore renovation payment to be provided by Follett to QCC in the amount of \$100,000, which is amortized over 8 years.

§ Represents a one-time contribution provided by Follett to QCC to offset transition costs in the amount of \$100,000, which is amortized over 8 years.

‡ OSA added unemployment costs to properly reflect the 30-week / \$722-per-week maximum benefit for all full-time-equivalent employees.