



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

Making government work better

Official Audit Report – Issued November 13, 2017

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





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Office of the State Auditor
Suzanne M. Bump

Making government work better

November 13, 2017

Patricia Gentile, EdD, President
North Shore Community College
One Ferncroft Road
Danvers, MA 01923

Dear President Gentile:

I am pleased to provide this review of North Shore 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 North Shore Community College.

It is the determination of this office that North Shore 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 like to express my appreciation to North Shore Community College for the cooperation and assistance provided to my staff during our review.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

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
NSCC	North Shore 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 \$559,637 or more.¹

Pursuant to this law, a specific process must be followed to demonstrate and certify to the State Auditor that (1) North Shore Community College (NSCC) 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 the private contract, if ultimately awarded, contain certain provisions regarding wages, health insurance, the hiring of qualified college employees, nondiscrimination, and affirmative action.

NSCC 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, NSCC 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. NSCC’s president is responsible for implementing

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.

the policies set by the board, in accordance with the policies and guidelines established by the Massachusetts Department of Higher Education and the NSCC board bylaws.

NSCC is proposing the privatization of the management and operation of its campus bookstore, which serves its students, faculty, staff, and visitors. NSCC is seeking a vendor for the complete management and operation of its campus bookstore, as stated in the NSCC Request for Proposal (RFP NSCC 17-04).

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, and an innovative digital textbook / course materials program, and by using 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 September 25, 2017, NSCC 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 NSCC'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 North Shore Community College (NSCC) 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 NSCC 17-04) and the corresponding responses, reviewed the proposed operating agreement between NSCC and Follett Higher Education Group, Inc. (Follett), and evaluated other related documentation. We also held discussions with NSCC management and 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 NSCC management that supported the privatization proposal. In addition, OSA compared the anticipated net revenue per the proposed Follett contract with 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 and verifying fringe-benefit rates from the Office of the State Comptroller.

Additionally, OSA examined the quality of contract performance by reviewing the NSCC RFP as well as Follett's RFP response and was able to verify that NSCC will monitor contract effectiveness through (1) the creation of an advisory council; (2) management reporting, including monthly operating reports, forecasts, budgets, sales and commission statements, and, upon request, inventory reports; (3) partnership / relationship surveys; and (4) performance measures, including quantitative cost performance, qualitative and timeliness performance, and effectiveness of performance.

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2. The documentation that NSCC provided to OSA includes, but is not limited to, in-house consolidated and summarized cost forms, personnel cost worksheets, cost form reconciliation, and notes.
 3. Other documentation includes, but is not limited to, all submitted bids, the bid criteria rating system and scoring matrix, the 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 into 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 North Shore Community College (NSCC) 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.

NSCC 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 NSCC's certification in each of those required areas.

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

1. NSCC issued a Request for Proposal (RFP NSCC 17-04) on March 20, 2017 with an initial response due date of May 17, 2017 for its campus bookstore. In response to the RFP, two potential providers submitted a bid for review. Follett's bid was selected. The term of the proposed contract is for three years with an option for extending the contract for up to two additional two-year periods.
2. Follett will interview and hire interested, current full-time NSCC Bookstore employees at their current pay levels. Follett agrees to honor and recognize their years of service with NSCC as years of service with Follett for vacation accrual, service awards, and short-term disability. All employees who have one year of employment with NSCC are also eligible to immediately participate in Follett's 401(k) program. For each position in which a bidder will employ any person pursuant to the privatization contract and for which the duties are substantially similar to the duties performed by a regular college store employee, the minimum wage rate shall be the lesser of (a) step one of the grade under which the comparable college store employee is paid, or (b) the average private-sector wage, as determined by the Executive Office for Administration and Finance. 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.

3. 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. NSCC 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. NSCC 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 the 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 NSCC.
5. NSCC provided notice to the relevant employee organization, the AFSCME union, on January 30, 2017 and held a meeting on February 23, 2017 with union representatives to discuss NSCC's intent to issue an RFP prior to NSCC's publication of said RFP (NSCC 17-04) on March 20, 2017. Due to several retirements in the NSCC Bookstore, AFSCME had one employee remaining that NSCC agreed to offer employment in another area of the college when the selected bidder takes over the bookstore operations. Due to the fact that there are no AFCSME members being laid off, the union has not presented any objection to the proposed privatization.
6. After soliciting and receiving bids, NSCC publicly designated Follett as the bidder to which the contract would be awarded.
7. NSCC's president and the Executive Office for Administration and Finance 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 NSCC 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 three-year period, the net revenue for NSCC's campus bookstore would be approximately \$152,516 if operated in house with college employees, whereas the proposed contract with Follett would bring in an estimated net revenue of \$608,945. Thus, the privatization of NSCC's campus bookstore would increase NSCC's net revenues for the three-year period by \$456,429.

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

APPENDIX A

North Shore Community College Campus Bookstore Privatization Revenue Comparison for the Three-Year Period Ending June 30, 2020

	NSCC Revenue Estimate*	OSA Adjustments	Revenue Estimate as Adjusted
Contract Net Revenue[†] (Appendix C)	\$1,001,464	\$(392,519) [‡]	\$ 608,945
Less In-House Net Revenue (Appendix B)	152,516	0	152,516
Estimated Three-Year Net Revenue Enhancement	\$ 848,948	\$(392,519)	\$ 456,429

* NSCC provided these estimates based on fiscal years 2015, 2016, and 2017 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.

† 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 NSCC.

‡ OSA adjustments include a reduction of NSCC estimated commission by \$25,462 (NSCC took commissions on total sales by 14.1%) plus the facility investment of \$213,000, which is not considered revenue. In addition, NSCC listed facilities as avoidable cost, but by contract it is required to supply all facility space and utilities at a cost of \$96,572, and it excluded the write-off of bad debt on the purchase of books through financial aid of \$57,485. The total revenue reduction should be \$392,519.

APPENDIX B

North Shore Community College Campus Bookstore Privatization In-House Net Revenue for the Three-Year Period Ending June 30, 2020

	NSCC In-House Income / Cost Estimate*	OSA Adjustments	In-House Income / Cost Estimate as Adjusted
Income			
Bookstore Sales	\$6,210,279	\$ 0	\$6,210,279
Miscellaneous Income	30,055	0	30,055
Interest Income	8,755	0	8,755
Total Income	<u>\$6,249,089</u>	<u>\$ 0</u>	<u>\$6,249,089</u>
Costs			
Personnel Costs	\$1,101,362	\$ 0	\$1,101,362
Cost of Goods Sold	4,406,980	0	4,406,980
Other Costs	588,231	0	588,231
Total Costs	<u>\$6,096,573</u>	<u>\$ 0</u>	<u>\$6,096,573</u>
Total In-House Net Revenue	<u>\$ 152,516</u>	<u>\$ 0</u>	<u>\$ 152,516</u>

* NSCC provided these estimates based on fiscal years 2015, 2016, and 2017 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.

APPENDIX C

North Shore Community College Campus Bookstore Privatization Contract Revenue for the Three-Year Period Ending June 30, 2020

	NSCC Contract Revenue Estimate	OSA Adjustments	Contract Revenue Estimate as Adjusted
Base Contract Revenue			
Commission Receipts	\$ 881,121	\$ (25,462)*	\$ 855,659
Textbook Scholarships	6,000	0	6,000
Bookstore Renovations	213,000	(213,000)*	0
One-Time Contribution	50,000	0	50,000
Total Base Contract Revenue	<u>\$1,150,121</u>	<u>\$ (238,462)</u>	<u>\$ 911,659</u>
NSCC Administration / Facility Costs			
Student Financial Services	\$(37,781)	\$ (57,485)†	\$ (95,266)
IT – Oversight	(15,177)	0	(15,177)
Facilities	0	(96,572)†	(96,572)
Total Administration / Facility Costs	<u>\$(52,958)</u>	<u>\$ (154,057)</u>	<u>\$ (207,015)</u>
Transition Costs			
Loss on Sale of Inventory	\$(86,000)	\$ 0	\$ (86,000)
Total Transition Costs	<u>\$(86,000)</u>	<u>\$ 0</u>	<u>\$ (86,000)</u>
Other Revenue			
Book Buy-Back Commission	\$ (9,699)	\$ 0	\$ (9,699)
Total Other Revenue	<u>\$ (9,699)</u>	<u>\$ 0</u>	<u>\$ (9,699)</u>
Total Contract Net Revenue	<u><u>\$1,001,464</u></u>	<u><u>\$ (392,519)</u></u>	<u><u>\$ 608,945</u></u>

* OSA adjustments include a reduction of NSCC estimated commission by \$25,462 (NSCC took commissions on total sales at 14.1%) plus the facility investment of \$213,000, which is not considered revenue. The total revenue reduction should be \$238,462.

† OSA adjustments include an increase in expenses for utility costs, required by contract, of \$96,572 and the write-off of bad debt on the purchase of books through financial aid of \$57,485. The total expense increase should be \$154,057.