



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

FINAL REPORT

**Audit of Metropolitan Nashville Public Schools
Custodial Outsourcing**

Date Issued: August 15, 2012

Office Location and Phone Number
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Nashville, Tennessee 37201

*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

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INTRODUCTION

Audit Initiation The performance audit of the Metropolitan Nashville Public Schools outsourcing of custodial and ground keeping services was part of the work plan approved by the Metropolitan Nashville Audit Committee. The audit was initiated by a request in October 2010 from Council Lady Erica Gilmore, Chair of the Education Committee.

Audit Completion Experis (formerly Jefferson Wells) Risk Advisory Services was retained by the Metropolitan Nashville Office of Internal Audit to perform the performance audit of the Metropolitan Nashville Public School system outsourcing of custodial and ground keeping operations to GCA Services Group.

The audit report prepared by Experis Risk Advisory Services can be found in Appendix A.

Metropolitan Nashville Public Schools management response to the report can be seen in Appendix B.

APPENDIX A - EXPERIS AUDIT REPORT

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Metropolitan Nashville Public Schools

Custodial Outsourcing

Custodial Outsourcing Final Audit Report

AUGUST 15, 2012

EXPERIS
(FORMERLY JEFFERSON WELLS)
RISK ADVISORY SERVICES
ATLANTA OFFICE

This report is intended solely for the use of Metropolitan Nashville and Davidson County Government and is not intended to be and should not be used by any other parties without the prior written consent of Experis.

EXECUTIVE SUMMARY

August 15, 2012

Results in Brief	Background and Recommendations
<p>A performance audit of the Metropolitan Nashville Public School (MNPS) system outsourcing of custodial and ground keeping operations to GCA Services Group (GCA) was conducted. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none"> <p>• <i>Were the expected financial benefits of outsourcing custodial and ground keeping services at MNPS realized?</i></p> <p>Yes. When GCA started with MNPS in July 2010, MNPS saved at least \$6.5 million in fiscal year 2011 compared to what was budgeted for custodians and ground keepers.</p> <p>• <i>Were there any unforeseen costs associated with outsourcing custodial and ground keeping services at MNPS?</i></p> <p>Yes. In fiscal year 2011, MNPS had incurred additional costs of \$404,485 for early start-up and transition costs at the end of the school year as employees retired or separated. MNPS also paid GCA \$41,190 for additional cleaning services outside of the specified contract/hours for cleaning up after a fire and for third-party events. These types of events are typically recouped from insurance companies or from the third-party.</p> <p>• <i>Were service level expectations for outsourcing custodial and ground keeping services at MNPS realized?</i></p> <p>Yes. GCA compiles District Wide Report Cards on six measures of contract performance for each school each month. The school principal completes the Report Card and submits it to GCA. These report cards were rated “A” 75 percent of the time and “B” 19 percent of the time on a scale of “A” to “F”.</p> 	<p>MNPS issued a request for proposals (RFP) for custodial and ground keeping services on March 15, 2010. GCA Services Group (GCA) signed a contract with MNPS on May 28, 2010. GCA provides custodial services and Landscape Services, Inc., (LSI) a sub-contractor to GCA, provides ground keeping services. The contract is \$22,668,024 a year for five years.</p> <p>The one recommendation of this report was that management of MNPS should formally document a contract management plan for the GCA contract.</p>

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INTRODUCTION

Audit Initiation

The performance audit of the Metropolitan Nashville Public Schools outsourcing of custodial and ground keeping services was part of the work plan approved by the Metropolitan Nashville Audit Committee. The audit was initiated by a request in October 2010 from Council Lady Erica Gilmore, Chair of the Education Committee.

Background

The \$22,668,024 per year contract with GCA represents 3.6 percent of the fiscal year 2011 budget.

In fiscal year 2010, Metropolitan Nashville Public Schools (MNPS) employed almost 11,000 certified (teachers, administrators, and coordinators, etc.) and support (maintenance, operations, bus drivers, clerical, etc.) staff making the district the second largest employer in the county and the fourth largest employer in the state. Certified employees represented 59 percent of total employees and support staff represented 41 percent. The fiscal year 2010 budget as originally presented was \$620,762,100.

Due to the effects of the recession and declining tax receipts, the school system in fiscal year 2010 had to work with a static budget that was a replica of the previous year's total operating budget amount. However, costs for employee benefits, step increases, and general inflation on supplies and materials continued to rise. As a result, the fiscal year 2010 MNPS budget eliminated 162 teaching positions, 66 custodial positions, and 32 campus supervisors compared to the fiscal year 2009 budget.

MNPS issued a request for proposals (RFP) for custodial and ground keeping services on March 15, 2010. GCA Services Group (GCA) signed a contract with MNPS on May 28, 2010. GCA provides custodial services and Landscape Services, Inc., (LSI) a sub-contractor to GCA, provides ground keeping services. The contract is \$22,668,024 a year for five years.

GCA is a national provider of janitorial/custodial services with 30,000 employees in 45 states. Their clients include over 170 K-12 school districts serving 1.7 million students daily. LSI is a second generation family-owned and operated landscape firm headquartered in Nashville. Their 350 employees provide landscape services throughout the Southeast.

As a result of the outsourcing contract, a total of 586 custodial and ground keeping employees resigned, retired, or were laid off between March 1, 2010 and June 30, 2010. Some of these former MNPS employees were subsequently hired by GCA.

The MNPS fiscal year 2011 budget was \$633,342,600 and the \$22,668,024 per year contract with GCA represents 3.6 percent of the budget. The next largest vendor contract, excluding grant contracts, was for \$4,709,582 to purchase school buses.

OBJECTIVES AND CONCLUSIONS

MNPS saved at least \$6.5 million in fiscal year 2011 compared to what was budgeted for custodians and ground keepers.

1. *Were the expected financial benefits of outsourcing custodial and ground keeping services at MNPS realized?*

Yes. When GCA started with MNPS in July 2010, MNPS projected a savings of at least \$6.5 million in fiscal year 2011 compared to what was budgeted for custodians and ground keepers.

In fiscal year 2010, MNPS budgeted \$29.2 million for custodial and ground keeping services. The MNPS analysis and breakdown in the table below is based on the MNPS fiscal year 2009-2010 budget:

Function Number	Function Name	MNPS FY2010 Budget	Full Time Equivalents
5110	Supervision	507,300	8
5200	Care of Grounds	1,601,500	27
5210	Custodial Services	26,454,300	609
5211	Custodial Services - Special Education	410,400	9
5330	Maintenance of Operations Equipment	217,500	3
	Total	\$29,191,000	656

GCA Services proposal: \$22,668,100

Potential first year savings on budgeted amounts: \$ 6,522,900

Over the five-year contract, MNPS could potentially save a minimum of \$32.6 million. The contract with GCA does not contain a price escalation clause for inflation and the base monthly payments to GCA would only increase if MNPS adds additional students, facilities, or services outside of the contract. Additionally through outsourcing custodians and ground keeping services, MNPS avoids the additional expense of increased costs for employee salary increases, pension contributions, and medical insurance costs.

2. *Were there any unforeseen costs associated with outsourcing custodial and ground keeping services at MNPS?*

Yes. In fiscal year 2011, MNPS negotiated a one-time charge of \$404,485 for early start-up and transition costs at the end of the school year as employees retired or separated. MNPS also paid GCA \$41,190 for additional cleaning services outside of the specified contract/hours. This consisted of \$24,442 to clean up after a fire at the Martin Luther King School, and \$18,748 for after-hours school events and third-party events, such as church services. These types of events are typically recouped from insurance companies or the third-party, and will partially offset this amount. The base contract amount of \$1,889,002 per month totaled \$22,668,024 for fiscal year 2011. The base contract amount does not change unless MNPS increases or decreases the number of

facilities or square footage to maintain or request additional services.

There was a \$333,000 prepayment in December 2011 to GCA for supplies that will be used in 2012. The following six months have a monthly payment of \$1,833,502 per month in order to recoup the \$333,000 prepayment. (\$1,889,002 less (\$333,000/6 or \$55,500) equals \$1,833,502.) The base contract amount of \$1,889,002 per month and the adjusted \$1,833,502 per month totaled \$17,001,018 for nine months to date in fiscal year 2012. Total base service payments in fiscal year 2012 will total \$22,668,024 as specified in the contract.

3. *Were service level expectations for outsourcing custodial and grounds keeping services at MNPS realized?*

████████████████████
A performance report card grade of "A" and "B" was awarded 94 percent of the time.
████████████████████

Yes. Each month, GCA distributes a District Wide Report Card to each of the principals. The report card tracks six measures of contract performance on an A, B, C, D, and F scale:

- Hallways clean
- Cafeteria clean
- Classrooms cleaned nightly
- Restrooms cleaned nightly
- Outside perimeter policed
- Management responsiveness

We reviewed and tabulated the report cards from August 2010 through February 2012. No report cards are issued for May, June, and July. On average, the total response rate from the principals over this period was 84 percent, the "A" grades were 75 percent, and the "B" grades were 19 percent. A grade of "A" and "B" was awarded 94 percent of the time.

We judgmentally surveyed 19 principals consisting of elementary, middle, and high schools throughout the district. We asked two questions:

1. "For the 2011-2012 school year, please give an overall grade (A through F) of the service provided to your school by the GCA custodians and grounds keepers."
2. A free response question of any additional comments about GCA's performance.

We received 15 of 19 replies (79%) with an overall average grade of B.

Additional comments ranged from "*I think GCA has done a great job with our school and grounds this year. Their work is good. I think their management responsiveness is tremendous*" to "*Need to be*

more conscientious regarding restrooms (paper towels, toilet paper)” to “We have struggled with keeping our building clean all year.”

4. *Did MNPS have a contract monitoring plan and was there evidence the plan was utilized to verify contractor invoices prior to payment?*

Generally yes. The contract is monitored several ways. The contract itself outlines the GCA quality assurance process of Area and Zone Manager responsibilities, monthly Principal report cards, and quarterly Joint Review meetings with MNPS. The MNPS Director of Purchasing as well as the Facilities and Grounds Maintenance Department approve the monthly GCA invoice. Unforeseen costs are additionally approved by a combination of the MNPS Chief Financial Officer, and/or Facilities and Grounds Maintenance Department. Invoices for routine cleaning charges outside of the contract for third-party use of school facilities are approved by a Coordinator at the Central Office. However, MNPS does not have a formal, written, and documented contract monitoring plan (see Observation A).

5. *How many custodians or ground keepers were not hired back by the contractor(s)? What were the top three to five reasons why custodians or ground keepers were not hired by the contractor?*

We identified 586 MNPS custodians and ground keepers who resigned, retired, or were laid off between March 1, 2010 and June 30, 2010. Of these 586 employees, 555 were laid off on June 30, 2010.

GCA stated they had hired 233 former MNPS employees as of August 17, 2010. We were able to identify and verify that 209 of the 233 (90%) were former MNPS employees. This was accomplished by using the GCA employee's first and last names to identify them as former MNPS employees. We may have been able to verify the additional 24 GCA employees were former MNPS employees had we had additional information such as the Social Security number of each of these 24 GCA employees.

According to GCA's hiring statistics in their Joint Review Committee PowerPoint to MNPS, dated September 14, 2010, of the former MNPS employees not hired, the top four reasons were:

- Did not receive a hiring recommendation from their principal
- Did not apply
- Did not clear the TBI/FBI background check
- Declined GCA's hiring offer

Only one former MNPS ground keeper was hired by Landscape Services, Inc. although they made offers to 14 former MNPS ground keepers.

6. *What was the difference in annual compensation and benefit plans (employee and employer costs) for the employees hired back by the contractor(s)?*

GCA pays more in hourly wages and benefits than the private sector pays but less than the government sector pays.

We obtained from GCA the actual starting hourly wages for former MNPS employees who were hired as GCA Custodian Helpers (\$9.75/hour) and as GCA Day Custodians (\$12/hour). For the GCA Night Leads, we used an average starting hourly wage of \$14.12 which was provided by GCA. Actual hourly wages for this position ranged from \$11.25 to \$17.00 depending on the size and scope of the school. We compared the actual MNPS hourly wage to the actual GCA hourly wage for each of the GCA employees, except for Night Leads where we used the GCA provided average hourly wage. GCA provided an average benefit rate per hour and MNPS provided average benefit rates per employee job title. Based on our analysis, the average hourly wage and benefits for those former MNPS employees hired by GCA was:

GCA Job Title	GCA Hourly Wage and Benefit	Average Hourly Wage and Benefit when on MNPS Payroll	Average Dollar Decrease in Transition to GCA	Average Percentage Decrease in Transition to GCA
Custodian Helper	\$12.07	\$18.32	(\$6.25)	(34)
Day Custodian	14.85	19.60	(4.75)	(23)
Night Lead	17.47	19.60	(2.13)	(9)

We then obtained median (average) hourly earnings and benefits from the National Compensation Survey (December 2009-January 2011) published by the United States Department of Labor, Bureau of Labor Statistics:

	Private BLS Building Cleaning-Janitors	Government BLS Building Cleaning - Janitors	GCA (Weighted average of all custodians)	MNPS (Custodian Helper – lowest paid position)	MNPS (Senior Custodian-second lowest paid position)
Hourly Wage	\$11.24*	\$14.06*	\$13.93	\$12.20	\$14.35
Benefits	2.77**	5.68**	3.31	5.55	6.32
Total	\$14.01	\$19.74	\$17.24	\$17.75	\$20.67

* - obtained from Bureau of Labor Statistics.

** - obtained from Bureau of Labor Statistics. 40.4% benefits percentage for government service workers and 24.6% for private service workers.

Based on Bureau of Labor Statistics averages, GCA pays more in hourly wages and benefits than the private sector pays but less than the government sector pays.

For benefits, we observed the following:

- Metro and GCA employee contributions for either employee only or for family coverage are comparable. Metro Nashville Blue Cross Blue Shield is \$60/\$143 biweekly and GCA is \$58/\$147 respectively.
- GCA offers four tiers of participation – employee only, employee and spouse, employee and child(ren), and family. Metro only offers employee only and family.
- Metro calendar year in-network deductible for either employee only or for family coverage is zero whereas GCA is \$5,000 and \$10,000 respectively.
- Metro annual out of pocket maximum for employee only coverage is \$1,000 and for family coverage is \$2,000 whereas GCA is \$6,000 and \$12,000 respectively.
- Emergency room care is \$100 for Metro and \$250 for GCA.
- Metro dental employee contributions are zero for employee only and \$15 for family coverage whereas GCA is \$13 and \$34 respectively.
- Metro provides \$50,000 of life insurance and accidental death and dismemberment insurance at no charge. GCA provides \$10,000 respectively at no charge to the employee.

7. *What was the potential impact of MNPS custodians and grounds keepers outsourcing to the Metropolitan Nashville General Hospital Employee Incentive Plan for 2011?*

The average Metro Nashville employee, excluding teachers, participation rate in the Metropolitan Nashville General Hospital Employee Incentive Plan in fiscal year 2011 was 0.81 percent. The average annual billings for services for Metro Nashville employees, excluding teachers, participating in the Metropolitan Nashville General Hospital Employee Incentive Plan for 2011 was \$118.

The amount of potential lost billings from former MNPS custodians and ground keepers is in the range of \$63,000 to \$76,000 per year based on the percentage of these former employees compared to the employee population.

OBSERVATIONS AND RECOMMENDATIONS

A – Contract Monitoring Plan

MNPS does not have a formal, written, and documented contract monitoring plan. The contract itself outlines the GCA quality assurance process of Area and Zone Manager responsibilities, monthly Principal report cards, and quarterly Joint Review Committee meetings with MNPS.

Although not formally documented, MNPS does have a process to monitor the GCA contract. The issue is that this process may not be followed or contract knowledge may be lost as employees quit or retire. The monthly base GCA charges are approved for payment by the Facilities and Grounds Maintenance Department as well as by the Director of Purchasing.

Significant charges outside of the contract such as the early start-up and the fire at MLK School are additionally approved by a combination of the MNPS Chief Financial Officer, and/or the Facilities and Grounds Maintenance Department. Invoices from GCA for third-party use of school facilities are approved by a Coordinator at the Central office.

Additionally, GCA and MNPS meet, usually but not always quarterly, as part of the GCA Joint Review Committee process. This is a GCA-initiated quality process to encourage open and formal communication of operational performance in the previous month and quarter and focuses on current and future issues, expectations, and initiatives.

This contract is the largest vendor contract, excluding grant contracts, that MNPS has and as such there should be a formal, written, and documented contract management plan.

Criteria:

Prudent business practices

Risk:

Without a contract management plan, there is no formal documentation of MNPS roles and responsibilities for managing the GCA contract. Although MNPS has an informal plan, individuals may retire or otherwise leave and knowledge about the contract may be lost and clear lines of command may become unclear.

Recommendations:

The management of MNPS should document the contract management plan for the GCA contract. Items to include would be:

- Overall responsibility for the contract

- Approval limits and requirements for GCA invoices
- Input from Principal stakeholders and others as to contract performance (other than to GCA)
- Annual review of spending

GENERAL AUDIT INFORMATION

Statement of Compliance with GAGAS

We conducted this performance audit from May 2012 to June 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Scope and Methodology

The audit period focused primarily on the MNPS fiscal year 2010 budgeting and actual expenses, the June 30, 2010, employee layoffs, and the July 1, 2010 through April 1, 2012, payments to GCA under the terms of the contract. Data outside but close to the scope, particularly MNPS employee payroll and termination data, was also used to provide insight.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, various forms of data, reports and information pertaining to the MNPS outsourcing. For many of our procedures we used MNPS payroll and termination data files. Additionally, select MNPS and GCA management employees were interviewed.

Criteria

In conducting this audit, the performance of MNPS custodial outsourcing was evaluated for compliance with:

- *The Committee of Sponsoring Organizations Internal Control - Integrated Framework*
- Prudent Business Practices

Consultant

Tim Lietz, CIA – Experis Director

Acknowledgement

Connie Brown, CPA, CIA – Experis Director

Roger Grigg, CPA, CIA, CISA – Experis Engagement Manager

APPENDIX B - MANAGEMENT RESPONSES

- Management's Response Starts on Next Page –



Chris M. Henson
Chief Financial Officer

2601 Bransford Ave. • Nashville, TN 37204 • 615/259-8515 • Fax: 615/214-8895

August 14, 2012

Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

RE: Metropolitan Nashville Public Schools Custodial Outsourcing

Dear Mr. Swann:

This letter acknowledges that the Metropolitan Nashville Public Schools (MNPS) received the report entitled Audit of Metropolitan Nashville Public Schools Custodial Outsourcing. MNPS has evaluated the observations and the recommendation in the report, and our management response is attached.

MNPS would like to express appreciation for the assistance and cooperation of you and your staff during this process. Any improvement that this department can make toward increasing the effectiveness and efficiency of the Metropolitan Government is always welcomed.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris M. Henson".

Chris M. Henson

CMH:ppw

cc. Dr. Jesse Register

WWW.MNPS.ORG

**Metropolitan Nashville Public Schools
Management Response to Audit Recommendations - August 2012**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. The management of MNPS should document the contract management plan for the GCA contract. Items to include would be:</p> <ul style="list-style-type: none"> • Overall responsibility for the contract • Approval limits and requirements for GCA invoices • Input from Principal stakeholders and others as to contract performance (other than to GCA) • Annual review of spending 	<p>Accept</p> <ul style="list-style-type: none"> • Draft GCA Contract Management Plan – 9/1/2012 • Review/edit/approval – 9/15/2012 • Publish final Plan – 9/15/2012 	<p>MNPS Director of Purchasing</p>	<p>September 15, 2012</p>