

**Savings from BHD Food  
Service Privatization Fall  
Short of Expectations  
but Remain Substantial**

**August 2010**

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Department of Audit

# Milwaukee County

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August 17, 2010

To the Honorable Chairman  
of the Board of Supervisors  
of the County of Milwaukee

We have completed an audit of the 2009 privatization of the Milwaukee County Behavioral Health Division (BHD) Dietary Food Service operations.

The report concludes that savings achieved through the privatization have fallen short of initial budget projections, particularly during the first year of operation. However, actual savings of \$1.2 million, projected for 2010 by the Department of Audit, remain substantial.

The report also summarizes the disposition of the 68 former Milwaukee County employees that were displaced by the privatization, and assesses the quality of food and service provided by the private vendor.

A response from the Behavioral Health Division is included as Exhibit 2. We appreciate the cooperation extended by administrators and staff of BHD, as well as the private vendor contracted to provide food services, during the course of this audit.

Please refer this report to the Committee on Finance and Audit.

Jerome J. Heer  
Director of Audits

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors  
Scott Walker, Milwaukee County Executive  
Cynthia Archer, Director, Department of Administrative Services  
Terrance Cooley, Chief of Staff, County Board Staff  
John Chianelli, Administrator, DHHS-Behavioral Health Division  
Steven Kreklow, Fiscal & Budget Director, DAS  
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# Savings from BHD Food Service Privatization Fall Short of Expectations but Remain Substantial

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## Summary

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In 2007, the purchasing and supervisory duties for Milwaukee County Behavioral Health Division's (BHD's) Dietary Food Services were contracted out to a private vendor. In 2008, total expenditures for Dietary Food Services (before revenues and abatements) were approximately \$7.5 million. The Milwaukee County 2009 Adopted Budget included a provision for privatizing the remainder of the BHD food service function, abolishing 75 positions (two Dietician positions were created for a net reduction of 73). The budget narrative for the initiative identified anticipated savings of \$1,251,076 with an anticipated effective date of April 1, 2009.

The 2010 Adopted Budget included a directive for the Department of Audit to initiate a review of the effectiveness of BHD food service privatization in terms of achieving anticipated cost savings, the impact on displaced workers and the impact on service delivery.

### **Delays reduce first-year savings from privatizing BHD Food Service; ongoing savings fall short of expectations, but remain substantial.**

The \$1.25 million in savings identified in the 2009 Adopted Budget for the privatization initiative were calculated based on a start date of April 1, 2009. The savings were primarily comprised of reduced wage and benefits payments (about \$2.7 million), as well as reduced food and provisions expenditures (about \$2.0 million), offset by about \$3.5 million in anticipated vendor payments. The savings were projected for the nine-month period April through December 2009, or annualized savings of \$1.67 million.

As part of our review, we confirmed that BHD properly excluded 'legacy' fringe benefit costs associated with the abolished positions from its calculation of savings. This is because the legacy portion of fringe benefit costs—the cost of current retiree health care and the amount of unfunded pension liability applicable to current retirees—remain with the County even after the positions to which those costs were previously allocated are abolished. Those legacy costs remain an obligation of the County; they were simply re-allocated to the remaining positions within County government.

### **Implementation Delay Reduces Budgeted Savings**

Due to delays in selecting a vendor and final contractual approvals, the BHD food service privatization initiative began 68 days later than anticipated in the Adopted Budget. Irrespective of any other factors, this implementation delay alone would reduce anticipated savings by about

\$309,000. However, as detailed in this report, other factors reduced actual first-year savings realized in 2009 from BHD food service privatization even further.

### **Savings Calculated and Reported by BHD**

In a memo dated February 9, 2010, BHD reported average monthly savings of \$137,376 for the six-month period July through December 2009 (June was excluded from BHD's analysis because it was a partial month). The savings calculated by BHD for the period July through December 2009 totals \$824,256 for the six-month period. Prorating the calculated monthly savings rate to include the 23 days in June that A'viands provided service adds another \$103,032 in savings for an estimated total savings in 2009 of \$927,288.

Therefore, according to calculations reported by BHD, actual first-year savings from food service privatization fell \$323,788 short of the \$1,251,076 budgeted for 2009, primarily due to the two-month delay in implementing the initiative. The same calculations reported by BHD indicate that actual annualized savings of \$1.65 million in 2009 were essentially equal to budgeted projections of \$1.67 million.

### **Audit Calculated Savings**

In general, we agree with the methodology chosen by BHD to calculate actual 2009 savings attributable to the privatization of food service operations. However, we made several audit adjustments that significantly reduce the actual savings reported by BHD in its February 9, 2010 memo to the County Board Health and Human Needs Committee.

The largest audit adjustment involves the legacy portion of fringe benefit costs associated with the positions abolished as part of the privatization initiative. Whereas the legacy costs were properly excluded from estimated savings in BHD's budget projections, they were inadvertently included in BHD's calculations of actual 2009 savings. This adjustment reduces the 2008 base cost from which 2009 privatization savings are calculated. This audit adjustment reduced the average monthly 2008 base cost (reported by BHD as \$621,932) by \$72,644.

Another audit adjustment was made to reflect outside revenue obtained by BHD for meals provided in 2008 to St. Charles and Clinicare, private social services agencies that lease space from BHD. This adjustment totaled \$26,359 per month. To the extent that outside revenue offsets expenditures, there is no County 'cost' to be saved through the privatization initiative. A similar audit adjustment is made to BHD's calculation of post-privatization average monthly costs, although

the adjustment is smaller because once the privatization occurred, St. Charles contracted directly with A'viands for meals.

Another audit adjustment is \$159,246 in total 2009 unemployment compensation costs associated with the displaced BHD food service workers who did not obtain subsequent employment. Other minor audit adjustments are detailed in the report.

Audit adjusted actual savings from the privatization of BHD food services in 2009 was about \$123,000. This is about \$800,000 less than the amount reported by BHD in its February 9, 2010 memo (pro-rated to include the partial month of June), or about \$1.1 million less than anticipated in the 2009 Adopted Budget.

For 2010 and subsequent years, however, annual savings are closer to initial expectations. The Department of Audit's estimate of annual BHD food service privatization savings for 2010 is \$1.2 million. Ongoing operations in subsequent years are likely to yield similar savings.

It should be noted that the Department of Audit worked closely with BHD budget staff to complete this analysis. The issues related to correctly identifying precise savings as a result of a budget initiative are numerous and complex. It is the firm belief of the audit team that BHD reports identifying savings from the privatization of food services were prepared in good faith and that any errors made were unintentional.

**About Two-Thirds of 68 County workers displaced by the privatization are currently working, attending school or have retired.**

By the time the BHD food service privatization initiative was implemented on June 8, 2009, seven of the 75 positions abolished in the adopted Budget were vacant. Consequently, 68 individuals employed by Milwaukee County lost their jobs. **Section 2** of this report summarizes the disposition of the 68 former Milwaukee County employees approximately one year after displacement. More than half (35) were employed by either A'viands (24) or another department of Milwaukee County (11) as of the end of May 2010.

**BHD dieticians were unanimous in praising food quality, but State inspection identifies sanitation problems.**

The Dieticians assigned to BHD were unanimous in describing the quality of the meals prepared by A'viands as better than the meals previously prepared by BHD staff. The reasons cited during our interviews with the Dieticians included the following:

More fresh food, fruits and vegetables are used to prepare the meals and more of the meals are made from scratch. Less prepackaged food items are used.

More variety of meals is offered. Currently, the menu is on a four-week cycle. That is, a different meal (breakfast, lunch and dinner) is prepared for each day during a four-week period. In addition, there is a seasonal change to the menu. The meals offered during the Fall and Winter are different than the meals offered during the Spring and Summer period. (Previously, BHD dietary staff used a three week cycle that remained the same throughout the year.)

We also contacted the Senior Meal Program Director for the Department on Aging and the Detention Superintendent for the Delinquency and Court Services Division of the Department of Health and Human Services. Both expressed satisfaction with the food quality and service delivered by A'viands.

During our interviews regarding the quality of the food served, several comments were made that the vendor is much more responsive compared to the previous BHD dietary operation. As a result, according to BHD Dietitians, they receive fewer complaints, as issues are resolved by the vendor on a timelier basis.

### **Facility Inspections**

On June 3, 2010, the State of Wisconsin issued a Statement of Deficiency report as a result of a Recertification Survey for Life Safety Code compliance conducted by the Wisconsin Division of Quality Assurance at the Milwaukee County Behavioral Health Center. As part of the survey, conducted in May 2010, both the on-site dietary areas (dishwashing, food set-up and dry storage) and the off-site food production area were inspected. Each area was cited for various deficiencies that required corrective action. Several deficiencies involved unsanitary conditions, poorly maintained equipment and the lack of appropriate cleaning schedules. Some of the comments by State inspectors indicated the condition of coolers and other equipment was such that it would be impossible to maintain sanitary conditions (e.g., non-smooth surfaces due to corrosion or peeling paint). Such comments are an indication the conditions may have been long-standing.

By June 14, 2010 BHD management submitted its initial corrective action plan regarding the deficiencies to the State of Wisconsin, including expected dates that corrections would be completed. All the issues identified appeared to be addressed. A key component of the corrective action plan is improved oversight of contracted services, including food service operations.

According to BHD management, the State of Wisconsin surveyors will return at an unannounced future date to confirm that the deficiencies were corrected.

The report includes recommendations to enhance the consistency and thoroughness of savings projections for any future privatization initiatives, and to adhere to the corrective action plan related to oversight of contracted dietary services, outlined to the State of Wisconsin in its response to the Statement of Deficiencies and Plan of Correction report for the survey completed on May 11, 2010.

We wish to acknowledge the cooperation of staff from BHD, as well as A'viands, throughout the audit process. A management response from BHD management is presented as **Exhibit 2**.

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## Background

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In 2007, the purchasing and supervisory duties for Milwaukee County Behavioral Health Division's (BHD's) Dietary Food Services were contracted out to a private vendor. In 2008, total expenditures for Dietary Food Services (before revenues and abatements) were approximately \$7.5 million. The Milwaukee County 2009 Adopted Budget included a provision for privatizing the remainder of the BHD food service function, abolishing 75 positions (two Dietician positions were created for a net reduction of 73). The budget narrative for the initiative identified anticipated savings of \$1,251,076 with an anticipated effective date of April 1, 2009. After a competitive Request for Proposal process, on May 15, 2009, BHD entered into a professional services agreement with A'viands, LLC to provide food preparation and delivery services for several programs and locations. These include:

- Multiple BHD sites:
  - Acute Care Inpatient—120 beds
  - Psychiatric Crisis Services Admission Center and Observation Unit—16 to 18 beds
  - Rehab Center Hilltop Units (for the developmentally disabled)—72 beds
  - Rehab Center Central (a Skilled Nursing Facility)—70 beds
  - Day Treatment Program—15 to 20 clients
- Children's Court Center—100 to 175 detainees
- St. Charles Adolescent Treatment Program—80 to 100 beds [*Note: Beginning in July 2009 St. Charles contracts directly with A'viands and is no longer part of the BHD contract.*]
- ClinicCare/Milwaukee Academy Adolescent Treatment Program—20 beds
- Milwaukee County Department on Aging:
  - Senior Meal Program—250 to 300 elderly clients
  - Meals on Wheels Program—700 elderly clients
- Miscellaneous Catering

As of June 8, 2009 A'viands began providing services under the contract and 68 employees were displaced (seven of the 75 abolished positions were vacant at that time). However, A'viands agreed to give BHD Dietary Food Service employees priority consideration for employment before any public posting or advertising. Any former BHD Dietary Food Service employee hired would be offered a trial employment period of 60 days.

The 2010 Adopted Budget included a directive for the Department of Audit to initiate a review of the effectiveness of BHD food service privatization in terms of achieving anticipated cost savings, the impact on displaced workers and the impact on service delivery.

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## **Section 1: Delays reduce first-year savings from privatizing BHD Food Service; ongoing savings fall short of expectations, but remain substantial.**

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**The 2009 Behavioral Health Division budget identified total first year savings of approximately \$1.25 million associated with the privatization of food service operations.**

In the 2009 Adopted Budget, the Budget Highlights section of the Behavioral Health Division budget identified total first year savings of approximately \$1.25 million associated with the privatization of food service operations. The savings were calculated based on a start date of April 1, 2009 and were primarily comprised of reduced wage and benefits payments (about \$2.7 million), as well as reduced food and provisions expenditures (about \$2.0 million), offset by about \$3.5 million in anticipated vendor payments. Minor adjustments related to utility costs and internal cross-charge modifications resulted in projected savings of \$1,251,076 for the nine-month period April through December 2009, or annualized savings of \$1,668,101.

### **Budgeted Savings from Privatization**

**Our review of the calculations used by BHD to estimate cost savings in the 2009 Adopted Budget identified two conceptual errors.**

Our review of the calculations used by BHD to estimate cost savings in the 2009 Adopted Budget identified two conceptual errors. First, there was no consideration of revenue offsets from outside (i.e., non-government) entities. In 2008, BHD received approximately \$316,000 in revenue for meals provided to two private social service agencies that lease space from BHD. At the time of the 2009 budget preparation, there was no reason to believe either of those revenue streams would discontinue, but conceptually the revenue should have been considered. For instance, if the revenue obtained for meals provided was intended to cover costs, and costs under privatization were expected to go down, it would have been logical to assume a commensurate reduction in revenue. In fact, as of July 1, 2009, shortly after the privatization initiative was implemented, one of the social service agencies discontinued its meal arrangement with BHD and contracted directly with A'viands for food service. This reduced both BHD's costs, as well as annual revenues of

about \$240,000, associated with its provision of approximately 82,000 meals annually for the agency.

The second conceptual error in BHD's development of budgetary savings projections from the privatization was that no allowance was made for potential unemployment compensation costs associated with the elimination of 75 positions. According to BHD staff, there was a fair degree of confidence that most displaced workers would remain employed, either by the vendor providing food service or as a result of a special Certified Nurse Assistance training program offered by BHD. Staff acknowledged, however, that some amount of unemployment compensation costs should have been included as an offset to estimated first-year privatization savings. BHD incurred actual unemployment compensation costs of \$159,246 in 2009 as a result of the food service privatization initiative.

**We confirmed that BHD properly excluded 'legacy' fringe benefit costs associated with the abolished positions from its calculation of savings.**

As part of our review, we confirmed that BHD properly excluded 'legacy' fringe benefit costs associated with the abolished positions from its calculation of savings. This is because the legacy portion of fringe benefit costs—the cost of current retiree health care and the amount of unfunded pension liability applicable to current retirees—remain with the County even after the positions to which those costs were previously allocated are abolished. Those legacy costs remain an obligation of the County; they were simply re-allocated to the remaining positions within County government.

### **Implementation Delay Reduces Budgeted Savings**

**The BHD food service privatization initiative began 68 days later than anticipated in the Adopted Budget.**

Due to delays in selecting a vendor and final contractual approvals, the BHD food service privatization initiative began 68 days later than anticipated in the Adopted Budget. Irrespective of any other factors, this implementation delay alone would reduce anticipated savings by about \$309,000. However, as detailed in the following analysis, other factors reduced actual

first-year savings realized in 2009 from BHD food service privatization even further.

### **Actual Savings from Privatization**

One approach to identifying actual savings associated with the BHD food service privatization initiative is to compare actual average monthly costs incurred during the pre-privatization period in 2009 (January 1 through June 7) to the actual average monthly costs incurred once the privatization occurred (June 8). This approach is problematic, however, because it is difficult to assign precise cutoffs for various costs incurred during the pre-privatization period. For instance, some of the food and provisions consumed during the first six months of the year may have been purchased in bulk during the previous year; conversely, some food and provisions purchased during the pre-privatization period may not have been consumed prior to the transition.

Another approach to identify actual savings from the privatization is to compare average monthly costs after the privatization occurred to the average monthly costs incurred during the entire pre-privatization year of 2008. Using the monthly average for an entire year of the pre-privatization period for comparison purposes eliminates the impact of imprecise cutoff dates because of the annual process of closing the County's financial books. For these reasons, BHD chose this latter approach to identify actual savings attributable to food service privatization in monthly reports to the County Board Health and Human Needs Committee beginning in November 2009.

### **Savings Calculated and Reported by BHD**

In a memo dated February 9, 2010, BHD reported average monthly savings of \$137,376 for the six-month period July through December 2009 (June was excluded from BHD's analysis because it was a partial month). **Table 1** summarizes the data reported by BHD.

**BHD reported average monthly savings of \$137,376 for the six-month period July through December 2009.**

**Table 1**  
**Actual 2009 Privatization Savings**  
**As Reported by BHD**

2008 Monthly Average Cost (Pre-Privatization)	\$621,932	
2009 Monthly Average Cost July—December 2009 (Post-Privatization)		
To Vendor		\$429,718
Ancillary Costs*		\$54,838
Subtotal	<u>\$484,556</u>	
Average Monthly Savings	\$137,376	
Actual Savings July—December	\$824,256	
<b>Annualized Savings</b>	<b>\$1,648,512</b>	

\* BHD retained dietician staff and various cross-charge and small expenses remained post-privatization.

Source: Memo from BHD to Health and Human Needs Committee dated February 9, 2010.

The average monthly savings of \$137,376 calculated by BHD for the period July through December 2009 totals \$824,256 for the six-month period. Prorating the calculated monthly savings rate to include the 23 days in June that A'viands provided service adds another \$103,032 in savings for an estimated total savings in 2009 of \$927,288.

**According to calculations reported by BHD, actual first-year savings from food service privatization fell \$323,788 short of the \$1,251,076 budgeted for 2009, primarily due to the two-month delay in implementing the initiative.**

Therefore, according to calculations reported by BHD, actual first-year savings from food service privatization fell \$323,788 short of the \$1,251,076 budgeted for 2009, primarily due to the two-month delay in implementing the initiative. The same calculations reported by BHD indicate that actual annualized savings of \$1,648,512 in 2009 were essentially equal to budgeted projections of \$1,668,101.

**Audit Calculated Savings**

In general, we agree with the methodology chosen by BHD to calculate actual 2009 savings attributable to the privatization of

food service operations. In particular, we endorse the concept of comparing average monthly post-privatization food service costs in 2009 to average monthly food service costs in 2008, prior to the privatization initiative.

**We made several audit adjustments that significantly reduce the actual savings reported by BHD.**

However, we made several audit adjustments that significantly reduce the actual savings reported by BHD in its February 9, 2010 memo to the County Board Health and Human Needs Committee.

The largest audit adjustment involves the legacy portion of fringe benefit costs associated with the positions abolished as part of the privatization initiative. Whereas the legacy costs were properly excluded from estimated savings in BHD's budget projections, they were inadvertently included in BHD's calculations of actual 2009 savings. This adjustment reduces the 2008 base cost from which 2009 privatization savings are calculated. This audit adjustment reduced the average monthly 2008 base cost (reported by BHD as \$621,932) by \$72,644.

Another audit adjustment was made to reflect outside revenue obtained by BHD for meals provided in 2008 to St. Charles and Clinicare, private social services agencies that lease space from BHD. This adjustment totaled \$26,359 per month. To the extent that outside revenue offsets expenditures, there is no County 'cost' to be saved through the privatization initiative. A similar audit adjustment is made to BHD's calculation of post-privatization average monthly costs, although the adjustment is smaller because once the privatization occurred, St. Charles contracted directly with A'viands for meals.

Another audit adjustment is the previously mentioned \$159,246 in total 2009 unemployment compensation costs associated with the displaced BHD food service workers who did not obtain subsequent employment.

Other minor audit adjustments were made for items related to utility cost reimbursements. cross-charges that were eliminated as County costs and capital outlay expenditures. An audit adjustment was also made to eliminate the legacy portion of fringe benefit costs associated with the three Dietician positions retained by BHD post-privatization, since those costs are borne by the County regardless of whether or not the privatization initiative was implemented.

**Table 2** shows the Department of Audit's calculation of 2009 savings from the BHD food service privatization initiative.

**Table 2**  
**Actual 2009 Privatization Savings**  
**Including Audit Adjustments**

2008 Monthly Average Cost per BHD (Pre-Privatization)	\$621,932
<i>Audit Adjustment for Legacy Portion of Fringe Benefit Costs</i>	<i>(\$ 72,644)</i>
<i>Audit Adjustment for Outside Revenue Offset to Costs</i>	<i>(\$26,359)</i>
2008 Audit Adjusted Monthly Average Cost	\$522,929
2008 Monthly Average Cost per BHD July—December 2009 (Post-Privatization)	
To Vendor	\$429,718
Ancillary Costs*	\$54,838
<i>Audit Adjustment for Outside Revenue Offset to Costs</i>	<i>(\$9,439)</i>
<i>Audit Adjustment for Misc. Items (e.g., Utilities Reimbursement)</i>	<i>\$10,031</i>
<i>Audit Adjustment for Legacy Portion of Fringe Benefit Cost for 3 Dieticians</i>	<i>(\$3,977)</i>
2009 Audit Adjusted Monthly Average Cost	<u>\$481,171</u>
Adjusted Average Monthly Savings	\$41,758
Adjusted Actual Savings July—December	\$250,548
Pro-rated Savings June 8—June 30	\$31,318
Subtotal	<u>\$281,866</u>
<i>Audit Adjustment for Unemployment Compensation Costs</i>	<i>(\$159,246)</i>
<b>Total 2009 Savings</b>	<b>\$122,620</b>

\* BHD retained dietician staff and various cross-charge and small expenses remained post-privatization.

Source: Memo from BHD to Health and Human Needs Committee dated February 9, 2010 and Department of Audit adjustments

**Audit adjusted actual savings from the privatization of BHD food services in 2009 was about \$123,000.**

As shown in **Table 2**, audit adjusted actual savings from the privatization of BHD food services in 2009 was about \$123,000. This is about \$800,000 less than the amount reported by BHD in its February 9, 2010 memo (pro-rated to include the partial month of June), or about \$1.1 million less than anticipated in the 2009 Adopted Budget.

**The most significant reasons for initial year savings falling \$1.1 million short of budgetary projections were the delay in implementing the initiative and higher than projected contract costs.**

#### Reasons for Savings Falling Short of Expectations

There are several reasons that contributed to the shortfall in anticipated savings from the BHD food service privatization. The most significant reasons for initial year savings falling \$1.1 million short of budgetary projections were the previously mentioned delay in implementing the initiative and higher than projected contract costs. The 68-day delay in implementation resulted in the expenditure of more than \$1 million for unbudgeted costs for personnel, food and other provisions. The same delay in implementation should have resulted in vendor payments that would total approximately \$865,000 less than budgeted. However, vendor payments in 2009 were just \$475,000 less than budgeted, leaving a gap of about \$390,000. According to BHD staff, the higher vendor costs, while within the contractual limit, exceeded expectations because final bids were higher than estimates used during budget preparation, and because BHD did not include the provision of snacks as a specification in the Request for Proposal process in which the food service vendor was selected. BHD worked with A'viands to address the issue throughout 2009 and a small increase was included in a contract amendment for 2010.

Additional reasons for the shortfall in 2009 savings were previously-mentioned unemployment compensation costs, the loss of outside revenue that occurred mid-year, and the occurrence of unbudgeted staff overtime prior to the privatization implementation date.

**For 2010 and subsequent years, annual savings are closer to initial expectations.**

For 2010 and subsequent years, however, annual savings are closer to initial expectations. **Table 3** shows the Department of Audit's estimate of annual BHD food service privatization savings for 2010.

<b>Table 3 Department of Audit Estimate of 2010 Privatization Savings</b>		
<u>Type of Cost</u>	<u>2010 Projected</u>	<u>Est. Cost Without Privatization</u>
Awards Contractual	\$5,416,201	----
Food & Supplies	Incl. Above	\$2,700,000
Food Transport	Incl. Above	\$240,687
County Personnel (Active Fringe Only)	\$199,934	\$4,151,381
Unemployment Compensation	\$16,803	----
Less Outside Revenue Offsets	(\$144,893)	(\$382,967)
<b>Total Projected Cost</b>	<b>\$5,488,045</b>	<b>\$6,709,101</b>
<b>Estimated 2010 Savings from Privatization</b>	<b>\$1,221,056</b>	
Source: Department of Audit analysis of Milwaukee County Advantage System fiscal reports and source documents, 2008—2010.		

### **Conclusions and Recommendations**

Savings achieved through the privatization of BHD food service operations have fallen short of initial budget projections, particularly during the first year of operation. Further, savings monitoring reports submitted by BHD have inadvertently overstated ongoing annualized savings achieved by the privatization. While initial budget projections and subsequent BHD reports indicated annualized savings of approximately \$1.6 million have not been achieved, actual savings of \$1.2 million projected for 2010 by the Department of Audit remain

substantial. Ongoing operations in subsequent years are likely to yield similar savings.

**It is the firm belief of the audit team that BHD reports identifying savings from the privatization of food services were prepared in good faith and that any errors made were unintentional.**

It should be noted that the Department of Audit worked closely with BHD budget staff to complete this analysis. The issues related to correctly identifying precise savings as a result of a budget initiative are numerous and complex. It is the firm belief of the audit team that BHD reports identifying savings from the privatization of food services were prepared in good faith and that any errors made were unintentional.

To ensure future savings projections from proposed privatization initiatives are as accurate and consistent as reasonably possible, we recommend that BHD management:

- 1. Work with the Department of Administrative Services to develop a comprehensive standardized checklist of elements for consideration in calculating savings from privatization initiatives. The checklist should include, but not limited to, all personnel costs, including active fringe benefit costs, overtime, unemployment compensation, and employee displacement services, as well as outside revenue offsets and other costs. The calculations should be made for both the initial year of implementation and for subsequent years, if materially different.*

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## Section 2: About Two-Thirds of 68 County workers displaced by the privatization are currently working, attending school or have retired.

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By the time the BHD food service privatization initiative was implemented on June 8, 2009, seven of the 75 positions abolished in the adopted Budget were vacant. Consequently, 68 individuals employed by Milwaukee County lost their jobs.

**Table 4** summarizes the disposition of the 68 former Milwaukee County employees approximately one year after displacement.

<b>Table 4</b>	
<b>Disposition of 68 Former</b>	
<b>Milwaukee County Employees Displaced</b>	
<b>by BHD Food Service Privatization</b>	
<b>As of May 2010</b>	
<b>24</b>	<b>Currently Working for A'viands (Includes 1 County Retiree)</b>
<b>11</b>	<b>Currently Working for Other County Departments</b>
4	Originally hired by A'viands, Now Back with County
4	Obtained Another County Position (Not Placed by HR)
3	Placed by HR
<b>5</b>	<b>Went Back to School</b>
<b>4</b>	<b>Retired from County</b>
<b>7</b>	<b>Worked for Other County Departments, Later Terminated</b>
5	Laid Off
1	Separated (Terminated?) during Probation
1	Placed by HR and Subsequently Resigned
<b>6</b>	<b>Worked for A'viands, Later Terminated, No Further Information</b>
<b>10</b>	<b>Current Status Unknown</b>
8	No Information
2	On Medical Leave/Disability When Displaced--No Further Information
<b>1</b>	<b>Deceased</b>
<b>68</b>	<b>Total</b>

Source: Department of Audit compilation from Milwaukee County Human Resources records.

As indicated in **Table 4**, the current status of 10 displaced County employees is unknown. Additionally, we have no further information for a total of 13 displaced employees that initially obtained jobs with either the County or A'viands, but were later

terminated. Attempts to contact these 23 individuals for updates were unsuccessful.

### **Displaced Employees Hired by A'viands**

As part of the privatization initiative, the Request for Proposal issued by BHD specified that the selected vendor was required to give priority hiring preference for County employees displaced by the contract award. A'viands agreed to interview all interested County workers displaced by the action for potential employment. As a result, 47 County employees applied for positions with the firm. Offers of employment were made to 46 of the 47, and 34 individuals accepted the offer. As of the end of May 2010, 24 former County employees remained working for A'viands.

**Offers of employment were made to 46 displaced County employees, and 34 individuals accepted the offer.**

### **Benefits Offered to A'viands Employees**

According to A'viands management, all former County employees hired were started at their former County wage rates for purposes of maintaining morale. A lone exception was one displaced hourly County employee that was offered a full time position with A'viands at a reduced hourly rate. However, that individual was terminated after failing a background check.

In addition, A'viands offers health care and pension benefits to its employees. Employee contribution rates for 2010 are summarized in **Table 5**.

**Table 5  
A'viands Employee Contribution  
Rates for 2010 Benefits Offered**

**Medical Rates**

**\$2,000 Deductible Plan**

	<b>Monthly Premiums</b>	
	Total	Employee Contribution
Single	\$ 463.00	\$ 175.00
Single + 1	973.50	430.26
Family	1,482.50	684.76

**\$3,000 HSA\***

	<b>Monthly Premiums</b>	
	Total	Employee Contribution
Single	\$ 412.50	\$ 75.00
Single + 1	866.00	301.76
Family	1,320.00	528.76

**Dental Rates (100% Employee Contribution)  
Monthly Premiums**

Employee Only	\$23.60
Employee & Spouse	46.66
Employee & Child(ren)	50.60
Employee & Family	76.80

**Vision Rates (100% Employee Contribution)  
Monthly Premiums**

Employee Only	\$ 8.32
Employee & Family	17.90

**401(k) Retirement Savings Plan**

A'viands will contribute a 50% match for employee contributions up to a maximum 8% (4% match) of wages. Employees must have completed at least 1,000 hours and at least one year of service to be eligible for this program.

\* Health Savings Account

Source: A'viands, LLC

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## **Section 3: BHD dieticians were unanimous in praising food quality, but State inspection identifies sanitation problems.**

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Customers of the privatized food service operations at BHD described the quality of the meals prepared by A'viands, the vendor under contract with BHD, as better than or equal to the quality of the meals previously prepared by BHD staff.

### **Customer Comments**

**The Dieticians assigned to BHD were unanimous in describing the quality of the meals prepared by A'viands as better than the meals previously prepared by BHD staff.**

For instance, the Dieticians assigned to BHD were unanimous in describing the quality of the meals prepared by A'viands as better than the meals previously prepared by BHD staff. The reasons cited during our interviews with the Dieticians included the following:

More fresh food, fruits and vegetables are used to prepare the meals and more of the meals are made from scratch. Less prepackaged food items are used.

More variety of meals is offered. Currently, the menu is on a four-week cycle. That is, a different meal (breakfast, lunch and dinner) is prepared for each day during a four-week period. In addition, there is a seasonal change to the menu. The meals offered during the Fall and Winter are different than the meals offered during the Spring and Summer period. (Previously, BHD dietary staff used a three week cycle that remained the same throughout the year.)

We also contacted the Senior Meal Program Director for the Department on Aging and the Detention Superintendent for the Delinquency and Court Services Division of the Department of Health and Human Services.

The Senior Meal Program Director described the quality of the food as very good and is satisfied with the service. She also noted that there was a period of adjustment for the program participants once the vendor took over. The Director said there were complaints about the portion sizes, but she explained to the

participants that the meals provided were in compliance with federal standards and that the excessive portions that were provided in the past were not healthy.

The Detention Superintendent rated the quality of the meals as comparable to the previous meals prepared by BHD staff. He also stated that A'viands is very responsive. On two occasions (one in April 2010 and one in November 2009), he deemed the meals unacceptable. The vendor was able to provide a substitute meal "fairly quickly," according to the Superintendent.

**Several comments were made that the vendor is more responsive compared to the previous BHD dietary operation.**

During our interviews regarding the quality of the food served, several comments were that the vendor is much more responsive compared to the previous BHD dietary operation. Respondents attributed the improved responsiveness to the following:

- The contractor began maintaining a complaint log in October 2009. The log lists the date of the complaint, a description of the complaint and the location, who lodged the complaint, the initial response, the corrective plan of action and the person responsible for making the correction. The complaints are typically received via e-mails.
- The vendor hired a full-time Registered Dietician to staff the tray assembly line to address problems and manage dietary orders.
- The vendor added a Quality Assurance position that monitors food quality.
- The vendor added two additional telephone lines to the tray assembly line area in early March 2010. The additional lines were added to the lone existing line so that the vendor's supervisors and staff could answer incoming calls more promptly and improve customer service. In conjunction with the additional telephone lines the vendor initiated a call log to record issues that were called in. The call log allows managers to investigate and address the various concerns and issues brought to the vendor's attention. The vendor's staff record data similar to that maintained in the previously-mentioned complaint log for tracking and follow-up purposes.

As a result, according to BHD Dieticians, they receive fewer complaints, as issues are resolved by the vendor on a timelier basis.

### **Facility Inspections**

In August 2009 the Wauwatosa Health Department conducted an inspection of the off-site kitchen (food production) facility located north of the BHD complex. Two violations were cited in the inspection report. One week later a follow-up inspection noted that the two violations were corrected and no additional violations were reported. The Wauwatosa Health Department conducted another inspection of the facility in November, 2009 and no violations were reported.

However, on June 3, 2010, the State of Wisconsin issued a Statement of Deficiency report as a result of a Recertification Survey for Life Safety Code compliance conducted by the Wisconsin Division of Quality Assurance at the Milwaukee County Behavior Health Center. As part of the survey, conducted in May 2010, both the on-site dietary areas (dishwashing, food set-up and dry storage) and the off-site food production area were inspected. Each area was cited for various deficiencies that required corrective action. Several deficiencies involved unsanitary conditions, poorly maintained equipment and the lack of appropriate cleaning schedules. Some of the comments by State inspectors indicated the condition of coolers and other equipment was such that it would be impossible to maintain sanitary conditions (e.g., non-smooth surfaces due to corrosion or peeling paint). Such comments are an indication the conditions may have been long-standing.

**Several deficiencies cited in a State of Wisconsin inspection involved unsanitary conditions, poorly maintained equipment and the lack of appropriate cleaning schedules.**

By June 14, 2010 BHD management submitted its initial corrective action plan regarding the deficiencies to the State of Wisconsin, including expected dates that corrections would be completed. All the issues identified appeared to be addressed. A key component of the corrective action plan is improved

oversight of contracted services, including food service operations. The corrective action plan, including deadlines for completion, states, in part:

Management and Oversight of Contract Services

The Infection Control Practitioner (ICP) will provide oversight & guidance to the Dietary Department.

Contract administration will work with the ICP to provide oversight and guidance to the Dietary Department by:

- Meet with the Dietary management staff to review and update cleaning schedules for completeness and timeframes. Completed 6-8-10.
- Ensure that the Dietary Department has a plan to monitor the work done per the cleaning schedule. Completed 6-8-10.
- Develop a plan to audit the Dietary Department's cleaning schedule and monitoring system. Completed 6-25-10.

According to BHD management, the State of Wisconsin surveyors will return at an unannounced future date to confirm that the deficiencies were corrected.

**Conclusions and Recommendations**

Customers of BHD food service operations voiced consistent praise for the quality of meals and responsiveness of A'viands in addressing complaints as the operation transitioned from in-house staff to a contracted service.

However, a recent inspection by the State of Wisconsin identified serious deficiencies related to unsanitary conditions, poorly maintained equipment and the lack of appropriate cleaning schedules in food preparation and storage areas. BHD management's response to the State appears to address all deficiencies identified, but comments made by inspectors indicate the problems may have been long-standing. To ensure

appropriate standards of cleanliness and sanitation are observed at all times in the BHD food service operations, we recommend BHD management:

2. *Adhere to the corrective action plan related to oversight of contracted dietary services, outlined to the State of Wisconsin in its response to the Statement of Deficiencies and Plan of Correction report for the survey completed on May 11, 2010.*

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## Audit Scope

The Department of Audit conducted an audit of the Milwaukee County Behavioral Health Division Dietary Food Service privatization. The audit focused on the years 2008 through 2010 to determine:

- Whether or not the privatization of the BHD food service operations achieved the cost savings anticipated in the 2009 Milwaukee County Adopted Budget.
- The impact of the privatization on the Milwaukee County employees that were replaced.
- Whether or not there been any impact on the quality of the food service delivered to BHD patients.

The audit was conducted in accordance with standards set forth in the United States Government Accountability Office *Government Auditing Standards (2007 Revision)*.

We limited our review to the areas specified in this Scope Section. During the course of the audit, we:

- Reviewed Adopted Budget information relating to the BHD Dietary Food Service.
- Obtained and reviewed the contract between BHD and the private contractor.
- Obtained and reviewed the various BHD reports to the Health and Human Needs Committee related to the BHD Dietary Food Service cost savings.
- Observed BHD Dietary Food Service operations.
- Interviewed BHD staff to obtain a clear understanding of how the cost savings reported to the Health and Human Needs Committee were calculated.
- Analyzed various Advantage expenditure and revenue accounts related to the BHD Dietary Food Service to determine whether all appropriate income and costs were used to calculate cost savings.
- Obtained BHD patient census data and compare this data to the number of meals that were billed by the private contractor. We also compared contract rates to invoice rates.
- Obtained data related to displaced BHD Dietary Food Service employees and reviewed Ceridian records, unemployment payment files and attempted to contact former employees to determine their current employment status.
- Interviewed BHD staff and other Milwaukee County department staff regarding the quality of food service provided by the private contractor.
- Interviewed BHD and private contractor staff regarding complaint log and call log procedures.

- Reviewed BHD correspondence files related to Dietary Food Service.
- Obtained and compared menus used before and after BHD contracted with the private food service contractor.
- Reviewed a State of Wisconsin Statement of Deficiency report dated June 3, 2010 conducted by the Wisconsin Division of Quality Assurance and BHD's response as it related to the BHD Dietary Food Service operations.
- Obtained and reviewed the Wauwatosa Health Department inspection reports of the BHD Dietary Food Service facilities.

COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICTATION

Date: August 13, 2010  
To: Jerry Herr, Director of Audits  
From: John Chianelli, Administrator  
Behavioral Health division  
Subject: Departmental Response to Audit of BHD Food Service Privatization

First, I would like to thank the staff of the Audit Department for their professional and cooperative manner in which this audit has been conducted, resulting in reasonable resolutions agreeable to both parties.

Specific Responses to Recommendations:

*Recommendation 1: Work with the Department of Administrative Services to develop a comprehensive standardized checklist of elements for consideration in calculating savings from privatization initiatives. The checklist should include, but not be limited to, all personnel costs, including active fringe benefit costs, overtime, unemployment compensation, and employee displacement services. The calculations should be made for both the initial year of implementation and for subsequent years, if materially different.*

Response 1: BHD fiscal and budget staff agree completely with this recommendation and will work with DAS to prepare a template to standardize this presentation of this data in the privatizations initiatives. Table 3, which is included in the Audit Report, is an appropriate starting point.

*Recommendation 2: Adhere to the corrective action plan related to oversight of contracted dietary services, outlined to the State of Wisconsin in its response to the Statement of Deficiencies and Plan of Correction report for the survey completed on May 11, 2010.*

Response 2: The following citation directly related to the monitoring of contracts and specifically the dietary contract.

CMS Citation Federal A 043: Governing Body will be effective in its responsibility for managing the hospital, by managing and oversight of the contracted services for food safety, sanitation and medical record storage.

Department response: The Contract Services Coordinator will oversee the contractor responsible for these services. The Hospital's Governing Body will ensure that the facility has sufficient resources to appropriately manage the facility and maintain a clean and sanitary environment. On 6/7/10, the division Administrator directed the appointment of a standing Environment of Care Committee to be chaired by the division Assistant Administrator – Environment of Care Compliance. Specific sanitation issues have been corrected and will be monitored and inspected on a regular schedule. As part of the overall BHD contract management plan, Milwaukee County will oversee and manage contracted services to ensure dietary services are appropriate and effective through the following.

- Maintain a record for each contractor which includes, but is not limited to, infection control plans, copies of contracts and agreements, contract deliverable plans and audit data. The records will be maintained within the contract administration area of the Fiscal Department.
- Review all contracts and agreements for compliance with contract deliverables and compliance with federal, state and county and facility policies. Policies include, but are not limited to HIPAA, Infection Control and reporting standards.
- Contract Services Coordinator will be an active member of the IC Committee.
- Contract Services Coordinator will oversee IC inspection results for the entire contract services departments.
- A schedule of at least biannual IC inspections(s) of the Dietary Department will be established and adhered to.