FLORIDA DEPARTMENT OF CORRECTIONS

Cost-Value Analysis: Aramark Food Service Contract C1927

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EXECUTIVE SUMMARY

We conducted this analysis as part of our continuing efforts to identify "problem-opportunity" issues within the Florida Department of Corrections (Department) operational matrix and bring them to management's attention.

Aramark Contract C1927 was selected for review based on its high dollar amount ($71 million annually) and numerous irregularities brought to our attention involving its operations. When we started the review, we found that most documents related to food service performance prior to 2004 had been purged from Department files; however, during our examination of archives related to the initial 2001 Request for Proposal (RFP), we uncovered documentation that provides a baseline for performance comparisons and conclusions. By comparing that baseline to the results of the contract manager's recent reviews of Aramark's performance, we were able to identify two critical issues worthy of management's attention. They are:

1. **Feed rates have declined sharply since the contract's inception in 2001, creating a windfall for the vendor and reducing the value of the services provided without a proportionate decrease in per diem rates charged to the Department.**
2. **During the first 24 months following the contract's inception, the food service master menu was changed repeatedly, allowing the vendor to substitute less costly meat products such as ground turkey for previously required beef products. This cut the vendor's production costs with no proportionate decrease in per diem rates charged to the Department.**

These two dynamic changes in the cost/value balance of the contract suggest that the Department's needs would be better served either by modifying and re-bidding the contract to address the above issues, or by restoring food service as an in-house operation.

KEY FACTORS WHICH DEFINE THE CONTRACT PERFORMANCE BASELINE

RFP Timeline:

- The original Request for Proposal (RFP) states that the Department was seeking proposals for outsourcing its food service operations affecting 78,000 inmates in an effort "to reduce its administrative and personnel costs by consolidating food service operations with a single contractor while maintaining the current standards of quality in delivering food service…" **At that time, the Department estimated its current self-operated costs for food (not including salaries) at $1.60 per inmate per day (per diem).**

- The original RFP was mailed out 1/26/01 requesting proposals for food service operations at DC facilities in Region IV
- The RFP was amended in March 2001 to include food service operations at most correctional institutions and satellite facilities statewide.
- Proposals were opened in April 2001.
- Aramark Correctional Services Inc. (Aramark) was awarded the contract for statewide food service operations for the period July 1, 2001, through June 30, 2006.
- The contract was subsequently extended by one year, to June 30, 2007.

Significant Contract Requirements:

- The Contractor was given 90 days from the implementation date of the contract to phase in complete food service operations at most Department operated institutions and satellite facilities.
- **All meals were to be prepared in accordance with the Department's Master Menu.**
- Payments were to be based on a contract-specified per diem rate multiplied by the midnight count of inmates at each facility served by the contractor.
- **The per diem rate was set at $2.316 in the first year** (slightly higher for aggregate populations over 68,582), and was increased incrementally each year to $2.565 during fiscal year 2005-06.
- The contractor was required to install and operate equipment to count the number of meals served at each facility. This count was to be used in subsequent audits of the adequacy of the food prepared, and not used for invoicing, as payments were based on the aggregate midnight count.

Performance Baseline:

Prior to the issuance of the RFP, Department food service administrators were aware that not all inmates participated in or were served meals at Department dining facilities. While the RFP provided no estimate of the number of inmates who were not participating in meals prior to outsourcing, the question was raised by two prospective vendors who expressed interest in the contract: Aramark and Trinity Services Group Inc. (Trinity). Their questions submitted during the RFP process, along with the accompanying department responses, illustrate the significance of the difference between <u>population counts</u> (upon which invoicing was based) and the actual <u>number of meals served</u> (upon which the Department based its quarterly audits of the adequacy and sufficiency of food prepared by the vendor).

- **Question (Trinity)**: "The contractor will be audited quarterly on meals invoiced and production records. Due to the fact the contractor is billing on midnight census, yet preparing meals based on historical meal preparation, will missed meal factor be considered in quarterly auditing of monthly invoices?"
- **Answer (Department)**: "…Auditing of the production of food products will be based on the actual count of meals provided…"

- **Question (Trinity)**: "Can the Department supply meal participation factors by facility?"
- **Answer (Department)**: "Meal participation for each major institution main unit and annex is provided for the month of January 2001..."

- **Question (Aramark)**: "Please provide breakfast, lunch and dinner count sheets for all facilities …"
- **Answer (Department)**: "This information is for the month of January 2001 for all major institutions, main units and annexes..." (meal participation sheets for major facilities listed in the RFP were attached to the response)

- **Question (Aramark):** "May ground turkey be used to replace ground beef in recipes?"
- **Answer (Department)**: "No. If the recipe specifies ground beef, then ground beef must be used."

The above exchanges reflect some important considerations that the vendors found necessary in order to prepare competitive cost estimates. They show that:

- The vendor was to be audited for adequacy of food prepared based on the number of inmates actually participating in each meal, and not on the total inmate count at each facility.
- The meal participation sheets indicate that **during January 2001 the Department was feeding on average 89.76 percent of all inmates** or about 65,000 of the more than 72,000 inmates at reported facilities.
- It is likely that vendors used the meal participation sheets provided by the Department to estimate the actual number of meals they would have to prepare, and factored those numbers into their calculation of proposed per diem costs.
- Although payment was based on 100 percent of the midnight inmate count, this participation formula allowed vendors to prepare meals for only about 90 percent of the inmate population, for a food cost reduction of 10 percent less than would be needed to feed the entire inmate population at contracted sites.
- **The Department did not intend to allow the selected vendor to substitute turkey for beef, which was required on the master menu.**

This Performance Baseline establishes two significant performance expectations:

1. **All meals were to be prepared in accordance with the Department's master menu, and**

2. **Interested vendors were aware that they would be required to feed about 90% of the inmate population for which they were being paid.**

Had these two conditions remained consistent during the life of the contract, one could argue that the Department was receiving what it expected (although one could also voice concern over the fact that the vendor was to be paid a per diem rate of $2.316 vs. the $1.60 cost for food under Department-run food service – a 45% premium for some non-food costs). However, these factors did not remain static. In fact, they changed significantly in favor of the vendor, as indicated below.

ISSUES

Issue #1: Feed rates have declined sharply since 2001, creating a windfall for the vendor and reducing the value of the service provided to the Department with no proportionate decrease in per diem rates.

We obtained copies of the original Bureau of Support Services meal participation count sheets for January 2001. By comparing the number of meals fed to the January 2001 populations, we calculated the January 2001 feed rate to be 89.76%.

We then obtained Bureau of Support Services quarterly audits for facilities fed by Aramark during May 2006 and, by comparing those numbers with the corresponding populations, **we found the feed rate for all Aramark-fed Department facilities to be 81.72%.**

This represents an 8% decline in the percentage of the inmate population fed over the five-year life of the original contract. During FY 2005-06, the Department paid $71,122,925 for food service operations statewide. Had inmate participation remained at the 2001 pre-contract level of 89.76%, in May 2006 Aramark would have fed an average of 67,549 inmates a day. However, the declining participation reduced the actual number fed to just 61,498. **This represents approximately 6,051 inmates or 18,000 meals that were not served due to declining participation rates.**

In monetary terms, last fiscal year the Department paid more than $71 million for services in which meal participation rates had fallen from 89.76% in 2001 to 81.72% in 2006, with no corresponding decrease in per diem rate paid to the vendor. **At the FY 2005-06 per diem rate of $2.565, our calculations show the value of this lost service in FY 2005-06 totaled more than $5.6 million.**

A final consideration relating to this issue is the cause of the declining feed rates. Our review of Bureau of Support Services documentation suggests that the reason for the decline is due, at least in part, to menu changes and substitutions of less-costly and less-palatable products by the vendor. This issue is explored further in the next issue.

Issue #2: During the first 24 months following the contract's inception, the Master Menu was changed, allowing the vendor to substitute less costly meat products such as ground turkey for previously required beef products. This reduced the vendor's production costs with no proportionate decrease in per diem rates paid by the Department.

On October 2, 2006, the Bureau of Support Services prepared a memo outlining "the methodical move that has virtually eliminated ground beef from the" (Master Menu). The memo noted that four **menu changes made between September 2001 and April 2003 removed ground beef from all recipes except meat loaf, which was altered to allow a 49-51 ratio of turkey to beef. Recipes calling for turkey breast were modified to substitute "turkey ends and pieces."**

The Bureau of Support Services calculated that with a cost difference of 57 cents a pound for ground turkey vs. a $1.50 a pound for ground beef, **Aramark is realizing an annual cost savings of $4.9 million, with no corresponding cost savings to the Department.** It is likely that the substitution of less costly and less palatable food products is at least partially responsible for decreasing inmate meal participation rates.

CONCLUSION

The outsourcing of Food Service operations has not met its stated objectives. Either the contract should be modified to pass savings from reduced vendor performance on to the Department, or the Department should consider restoring food service operations to an in-house function.

The original RFP stated the primary intent of outsourcing the food service function was to "reduce its administrative and personnel costs" while "maintaining the current standards of quality in delivering food service." We can find little evidence of either objective being met. Service levels have deteriorated both in relative quantity and in quality, and windfall savings from this declining service have not been passed on to the Department.

Prior to implementation of the Aramark contract in 2001, in-house operations provided a reliable, economical and quality level of food service. In 2006, the Bureau of Support Services prepared an estimate of the cost for returning in-house food service operations to the Department. Those figures show the additional personnel and food products needed to feed 87% of the population at Aramark locations (5% more than is currently served by Aramark) would cost the Department $63,857,587 or about $7 million less than it paid Aramark in FY 2005-06. The proposal would save the state $7 million annually, while at the same time feeding more inmates.

We recommend that the Department consider the following:

The Aramark contract is due to expire June 30, 2007. Before choosing to continue outsourcing its food service operations, the Department should conduct a cost-benefit analysis that weighs any potential savings against the lessons learned from the Aramark experience.

If the Department chooses to continue outsourcing food service operations, the contract should be modified and re-bid, so that the Department either shares in the savings from reductions in food service quality and quantity, or requires the vendor to restore service to pre-contract levels.

Even if Aramark's original cost proposal was based on a break-even operating margin, FY 2005-06 compensation of $71 million was an excessive amount to pay for the reduced quality and percentage quantity of meals that the Department received. Under the current contractual relationship, Aramark has no incentive to improve the quality of food served or increase the number of inmates fed.

If the Department wants to restore food service to pre-2001 quality levels, then a return to Department-operated food service may be the better alternative.

This cost-value analysis was conducted by Bob Macmaster, Management Review Specialist.
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