

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: April 8, 2010
To: Committee on Finance and Audit
From: Jerome J. Heer, Director of Audits
Subject: Security Privatization (File No. 10-145)

Background

On March 18, 2010, the Milwaukee County Board of Supervisors adopted a resolution to receive and place on file a report from the Interim Director, Department of Transportation and Public Works (DTPW) related to the privatization of security for several County facilities. The resolution also called for a report back on costs associated with day-to-day operations for Wackenhut staff, Sheriff's Office staff and County security staff. The Department of Audit issued a memo to report those costs on April 1, 2010 (previously distributed).

Subsequent to the issuance of that memo, the Sheriff's Office provided the Department of Audit with revised figures for the cost of increased Deputy Sheriffs' presence at the Courthouse to ensure public safety during the transition from County security staff to a private security firm.

Analysis of Transition Costs

As stated in the April 1 memo, first year savings of \$81,753 anticipated from the privatization was based on transition costs from Wackenhut (expected to be \$41,679) and the Sheriff's Office (initially reported by the Sheriff's Office to be \$72,568). The revised figure supplied by the Sheriff's Office, which is based on actual overtime wages and Social Security contributions for 644.5 hours and no associated overhead costs, is \$29,037. Thus, the anticipated first year savings from the privatization of security is revised to \$125,284.

This report is for informational purposes unless directed otherwise by the Committee.

Jerome J. Heer

JJH/cah

cc: Chairman Lee Holloway, Milwaukee County Board of Supervisors
Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
David Clarke, Jr., Milwaukee County Sheriff
Kevin Carr, Inspector, Sheriff's Office
Cynthia Archer, Director, Department of Administrative Services
Steve Kreklow, Fiscal & Budget Administrator, DAS
Terrence Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal & Budget Analyst, County Board Staff
Delores Hervey, Chief Committee Clerk, County Board Staff
Jack Takerian, Interim Director, Department of Transportation and Public Works
Anita Gulotta-Connelly, Managing Director, DTPW-Transit System

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: April 1, 2010

To: Committee on Finance and Audit

From: Jerome J. Heer, Director of Audits

Subject: Security Privatization (File No. 10-145)

Background

On March 18, 2010, the Milwaukee County Board of Supervisors adopted a resolution to receive and place on file a report from the Interim Director, Department of Transportation and Public Works (DTPW) related to the privatization of security for several County facilities. The resolution also called for a report back on costs associated with day-to-day operations for Wackenhut staff, Sheriff 's Office staff and County security staff.

Long-term projections of cost savings from the privatization of security were the subject of reports by the Fiscal and Budget Administrator and the Director of Audits (see March 5, 2010 and March 10, 2010 memos attached). However, during discussion of these reports, questions were raised about the cost of security during the period of transition from security services using County staff to services being provided by the private –sector vendor (Wackenhut). Specifically, it was noted by the Interim DTPW Director that a \$45,000 not-to-exceed contract was awarded to Wackenhut for security coverage during the two-week transition period. Wackenhut was selected for the transition contract and a one-year contract based on the results of an August 2009 solicitation. According to the Interim Director, the decision to enter into a two-week contract was based on the outcome of privatizing housekeeping during 2009 and experience with staff absenteeism during the transition period between the lay-off of County staff and the start of new contracts with private firms. In addition, a representative of the Sheriff's Office stated the additional Deputy Sheriffs were deployed to Courthouse security at the request of the County Executive to ensure the safety of Courthouse visitors and employees during the two-week shift to privatized security. Several supervisors expressed concern that the number of Courthouse security employees from Wackenhut, the Sheriff's Office and DTPW appeared excessive and costly.

During consideration of the administration's decision to award a contract to Wackenhut, questions were also raised about the diversity of the Wackenhut staff assigned to both general County facilities and those providing transit system security to the Milwaukee County Transit System (MCTS). Those questions have also been incorporated into this report.

Analysis of Transition Costs

We have reviewed information provided by DTPW and the Sheriff's Office that details the cost of Courthouse security provided by all sources for the period of transition. The Sheriff's Office noted that 644.5 hours were expended for providing security services to DTPW. The cost was \$72,568. While the invoice from Wackenhut for the transition period has not yet been submitted, we have been informed that the charge will be slightly below the \$45,000 not-to-exceed amount in the contract. It is anticipated to be \$41,679 (approximately 1,302 hours at \$32 per hour). The combination of Sheriff's Office costs and less than anticipated Wackenhut transition reduces the first year savings of the privatization from \$151,000 to \$81,753. The reduction in savings would be a one-time offset unless any future transition from one vendor to another would again trigger the need for the Sheriff to deploy deputies.

Questions were also raised about the visibly high number of Wackenhut employees assigned to the Courthouse during the two-week period. According to the Interim DTPW Director, the contract provides for the following level of staffing from Wackenhut. (The staffing is staggered and overlapping so, for example, staffing at the Courthouse Complex for noon on a Tuesday would be 30 officers.)

Courthouse Complex:

- Twelve (12) security officers to work Monday thru Friday from 7:15 a.m. to 3:45 p.m.;
- Two (2) security officers to work Sunday thru Thursday from 7:15 a.m. to 3:45 p.m.;
- Two (2) security officers to work Tuesday thru Saturday from 7:15 a.m. to 3.45 p.m.;
- Two (2) security officers to work Monday thru Friday from 6:20 a.m. to 2:50 p.m.;
- One (1) security officer to work Monday thru Friday from 7:00 a.m. to 3:30 p.m.;
- Seven (7) security officers to work Monday thru Friday from 8:40 a.m. to 5:10 p.m.;
- Four (4) security officers to work Monday thru Friday from 9:40 a.m. to 6:10 p.m.

City Campus:

- One (1) security officer to work Monday thru Friday from 7:15 a.m. to 3:45 p.m.; and
- One (1) security officer to work Monday thru Friday from 9:30 a.m. to 6:00 p.m.

Vel Phillips Juvenile Justice Center:

- One (1) security officer to work Monday thru Friday from 7:30 a.m. to 4:30 p.m.;
- Two (2) security officers to work Monday thru Friday from 8:00 a.m. to 5:00 p.m.;
- One (1) security officer to work Monday thru Friday from 10:00 a.m. to 7:00 p.m.;
- One (1) security officer to work Monday thru Wednesday 8:00 a.m. to 1:00 p.m. - Saturday from 8:00 a.m. to 12:00 p.m. and from 5:00 p.m. to 7:00 p.m., and Sunday from 12:00 p.m. to 2:30 p.m. and from 5:00 p.m. to 7:00 p.m.

The Interim Director further noted that Wackenhut's contract is for \$ 95,559 per month (\$1,146,704 annualized 2010 cost) and that Wackenhut must provide a minimum of staffing per the RFP. If Wackenhut provides more security than required and Milwaukee County has not asked for additional staff (which DTPW has not) then the additional staff costs are Wackenhut's responsibility.

Analysis of Diversity

There are 43 Wackenhut employees assigned to Milwaukee County facilities as of March 17, 2010. Of these, 20 (46.5%) are African American, two (4.7%) are Hispanic and one (2.3%) is Asian. Therefore, a total of 53.5% of Wackenhut staff assigned to Milwaukee County facilities are employees of color. Of

this 43, there are 11 Females (25.5%). This number includes supervisors. Three of the four supervisory staff are Caucasian Males and one is a Caucasian Female.

Wackenhut has hired Nisha Milwaukee Rangers as their DBE subcontractor with a minimum goal of 25% of the total contract.

MCTS contracts with Wackenhut for transit system security. Data provided by Wackenhut on February 21, 2010 shows that 24 employees are assigned to MCTS. Of those 24, there are four (16.6%) African American, one (4.2%) Asian and one (4.2%) Hispanic, meaning 25% of the workforce is of color. In addition, four (17%) staff are Female. This number includes the 4 management and supervisory staff who are all Caucasian Males.

MCTS did not have a disadvantaged business goal in its present security contract but the current active solicitation has a 17% participation goal.

This report is for informational purposes unless directed otherwise by the Committee.

Jerome J. Heer

JJH/cah

Attachment

cc: Chairman Lee Holloway, Milwaukee County Board of Supervisors
Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Cynthia Archer, Director, Department of Administrative Services
Steve Kreklow, Fiscal & Budget Administrator, DAS
Terrence Cooley, Chief of Staff, County Board Staff
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Jack Takerian, Interim Director, Department of Transportation and Public Works
Anita Gulotta-Connelly, Managing Director, DTPW-Transit System

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: March 10, 2010
To: Lee Holloway, Chairman, Milwaukee County Board of Supervisors
From: Jerome J. Heer, Director of Audits
Subject: Cost Savings from Privatization of Security Services

Background

On February 26, 2010, the County Executive announced plans to lay off 76 Milwaukee County employees as part of an effort to bring 2010 operating expenses into alignment with the adopted budget. The affected positions are all assigned to either the Parks Department or the Transportation and Public Works Department. The single largest group of employees to be laid off is the TPW Facilities Management Security Workers. In addition to the layoffs, the administration also issued a notice of an emergency procurement to retain private security services as a bridge to the eventual privatization of services provided by the 31 security positions (27 of the positions are currently filled).

As required under the County's agreement with AFSCME District Council 48, the administration has provided an analysis of the cost savings to be achieved as a result of the layoffs and privatization (see attached). The Chairman of the County Board of Supervisors called for an independent analysis of those savings by the Department of Audit.

Analysis

We met with the Department of Administrative Services to review a draft of the attached analysis. In summary, their conclusions are:

- First year savings from the privatization initiative are approximately \$151,000.
- Savings for future years would be approximately \$436,000 in 2011 and \$471,000 in 2012.
- If the privatization did not occur and alternative savings were achieved with 22 furlough days, the 2010 savings would be \$72,300 (rather than \$151,000) but there would be no additional savings in future years.
- If the privatization did not occur and alternative savings were achieved with the wage and benefit provisions of the 2010 adopted budget the 2010 savings would be \$62,600 (instead of the \$151,000 savings from privatization) and these savings would continue annually, increasing slightly in future years.

In addition to these conclusions by DAS, we offer the following observations:

- The 2% wage assumption that DAS used for Security Workers for 2011 and 2012 is reasonable but not absolute. It is conceivable that negotiations could result in a wage freeze. One large factor in the cost savings of the privatization is that the County security workforce has an average wage of over \$14 per hour and the private security vendor states in its proposal that it pays \$10 for officers and \$12 for site supervisors. It is also conceivable that the labor negotiations process could result in a wage increase greater than 2%. On a related point, the DAS analysis also assumes step increases that may be the subject of labor negotiations.

- The analysis of alternative savings of \$62,600 from the adoption of the 2010 Wage and Benefit Modifications does not include the use of furlough days. However, the additional savings of about \$42,400 would be offset by some overtime costs.
- A 2% cost increase was used for the vendor pricing. While the agreement is for only one year, our work on the security contract at Milwaukee County Transport Services, Inc indicates that this is a reasonable assumption. If the vendor seeks a larger increase, the County could re-solicit for the services. There were four proposals in response to the August 2009 Request for Proposals.
- Unemployment compensation is assumed for five employees for 26 weeks. While DAS is using historical information for this assumption, it is difficult to determine whether the current condition of the economy, the recent extension of UC benefit eligibility and the specific job opportunities make this estimate unreasonably low. We note, however, that this assumption would likely primarily affect only the first year savings conclusions.
- DAS notes that the first year savings from privatization are potentially offset by up to \$45,000 for emergency services in the event that County employees do not show up for work. While it appears that the full \$45,000 will not be needed, there may be additional costs from having sworn Sheriff's Deputies assigned to Courthouse security duties during the transition period.
- The question was also raised about a savings offset based on the impact of accumulated sick leave payouts for security workers who are laid off. As an enterprise fund operation, those costs are already accounted for. In addition, the payout is only available for employees who separate from service via retirement.

Conclusions

It appears that the initial cost savings that could be generated from the outsourcing of security services could be approximately \$151,000 for 2010. This savings amount could grow to \$436,000 in 2011 and \$471,000 in 2012. The assumptions that were used in the calculation of these savings are reasonable but will only be borne out by actual experience.



Jerome J. Heer

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Cynthia Archer, Director, Department of Administrative Services
Steven Kreklow, Fiscal & Budget Administrator, Department of Administrative Services
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Delores Hervey, Chief Committee Clerk, County Board Staff



COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Department of Administrative Services
Cynthia Archer, Director

DATE: March 5, 2010

TO: Supervisor Lee Holloway, Chair, County Board of Supervisors
Supervisor Elizabeth Coggs, Chair, Committee on Finance and Audit

FROM: Steven Kreklow, Fiscal and Budget Administrator

SUBJECT: Fiscal Analysis of Security Privatization Initiative

This past week Milwaukee County began the implementation of a new contract for security services in DTPW Facilities Management. In this memo, the Department of Administrative Services (DAS) – Fiscal Affairs reports the budgetary savings associated with the new privatization initiative. This information was provided to DC48 on Thursday, March 4, 2010, in compliance with contractual requirements.

The privatization initiative eliminates 30 full time equivalent Facilities Security Worker positions and 1 hourly Facilities Security Worker position for a total savings in wage and active fringe benefits of \$1,147,355 for the remainder of 2010. The resulting contract with Wackenhut, Inc., awarded through a competitive bidding process and effective in mid March, for security operations will cost Milwaukee County a total of \$907,811. In total, **the estimated 2010 savings is \$239,544.** The security contract will provide an annualized budgetary savings of **\$436,026 in 2011.**

The 2010 Budget savings will be reduced by several one-time expenses related to this initiative. Based on the percentage of employees placed in other county jobs and hired by the private vendor for similar initiatives during 2009 and 2010, DAS Fiscal anticipates that 5 individuals will be eligible to collect unemployment benefits. Assuming these individuals remain unemployed for 26 weeks, the current statewide average, the cost is estimated to be \$43,560¹. Additionally, in order to insure a smooth transition during the two-week period after lay-off notices were sent out, an emergency contract was executed with Wackenhut, Inc. for a not-to-exceed amount of \$45,000. The total actual cost will depend on the number of posts Wackenhut ultimately must staff during this period. Initial indications are that the full amount will not be necessary.

Figures have also provided for several alternative savings opportunities related to this service. If we maintained county security workers and applied 22 furlough days, as per

¹ Represents the average amount of unemployment compensation used. Individuals may be eligible for greater longer periods of time.

County Board adopted policy, the savings would be \$72,292. This does not take into account potential increased overtime. Alternatively, if the wage and benefit modifications included in the Adopted Budget were applied to these employees, the savings would be \$62,645 in 2010 and \$70,117 in 2011.

Detailed figures and assumptions are provided below.

Ongoing Budget Savings				
1 FTE Facilities Security Worker Hrlly 30 FTE Facilities Security Workers	Year 1 Savings (Cost)	Year 2 Savings (Cost)	Year 3 Savings (Cost)	Assumption
Wages	\$745,109	\$940,967	\$959,786	Wage Table, 2% Incr
Step Increases	\$4,100	\$12,000	\$12,240	Wage Table, 2% Incr
Social	\$57,315	\$72,902	\$74,360	7.65% of salaries
Health	\$307,230	\$454,054	\$490,378	19 pay periods; 8% increase
Overtime	\$33,600	\$42,000	\$42,000	2009 Actuals - \$1,600 per pay period
Pension		\$83,746	\$85,421	8.9% of salary
TOTAL SAVINGS	\$1,147,355	\$1,605,668	\$1,664,185	
Security Contract Costs (9.5 Months in 2010)	\$907,811	\$1,169,642	\$1,193,035	2% Annual Increase
Estimated Budget Savings	\$239,544	\$436,026	\$471,150	

One-time Costs				
Unemployment Comp	(\$43,560)	\$0	\$0	5 Eligible @ 26 Weeks
Contract Start-Up	(\$45,000)	\$0	\$0	

Alternative Savings Opportunities				
Furlough Day Savings	\$72,292	\$0	\$0	Time & Att Balances
1972 Wage and Benefit Mod.	\$62,645	\$70,117	\$73,375	

We have reviewed this analysis with staff from the County Board and the Department of Audit. If you have any questions or would like to discuss this analysis further I would be happy to meet with you at your convenience.