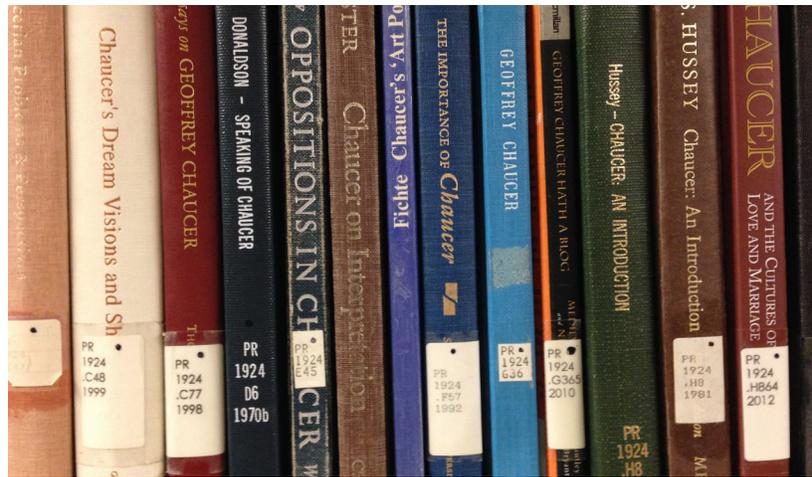


CUTTING CORNERS

How Government Contractors Harm the Public in Pursuit of Profit



APRIL 2016

ITPI | IN THE PUBLIC INTEREST

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Executive Summary

For decades, federal, state, and local governments across America have contracted with corporations to provide public services. Too often, these companies make business decisions that pad their bottom line, but harm users of the services as well as broader communities.

Many companies win contracts by claiming that they will manage the service in ways that are more “efficient” than the government. Some companies also claim that they can reduce costs to taxpayers. However, in an effort to provide the service with fewer resources while also maximizing profits, companies cut corners, which can have significant and detrimental impacts.

Our analysis of 22 case studies of government contracting in a variety of sectors shows that companies cut corners in ways that harm four key groups: users and recipients of the service, the companies’ employees, the broader public, and the environment. Specifically, we found that companies:

- Reduce the quality and accessibility of the service for its users and recipients.
- Reduce the number of workers, eliminate staff trainings, lower employee compensation, and neglect worker safety. These profit-making measures not only harm employees, but also can impact the service itself:
 - Companies that are short-staffed cannot adequately manage all aspects of the service.
 - Companies that lower wages hire workers underqualified to provide the service.
 - Companies that cut trainings do not give their employees the knowledge and support to provide quality service.
- Remove or fail to implement protections for the general public.
- Remove or fail to implement protections for the environment.

When government contractors cut corners, the impacts have drastic consequences for all four groups. For example:

- In St. Louis, Missouri, First Student Inc. awarded managers payouts for every dollar he or she withheld from school bus maintenance. Consequently, the buses were ill-maintained and jeopardized student safety.
- California Virtual Academies, a network of charter schools that provide online K-12 education, employed one administrator for every ten administrators employed by school districts of similar size. As a result, one in four teachers spent 80 percent of their time on clerical work, which severely limited the time they spent teaching students.

- In Lynn Massachusetts, Aqua Alliance ceased treating the sewage with potassium permanganate, an odor-nullifying chemical, to save \$64,000 annually. The strong smell of effluent that began emanating from the facility drew public outrage.
- In North Carolina, private electric utility Duke Energy saved \$20,000, a pittance compared to the company's multibillion dollar profits, by neglecting to inspect four old drainage pipes with a robotic camera. When one of the pipes that the company failed to inspect collapsed, it spilled 82,000 tons of coal ash across 70 miles of the Dan River.

To protect the public and environment, government contracting offices should adopt the following strategy:

- Ensure that proposed cost savings in contract proposals result from increased efficiencies instead of cuts to (1) service quality and accessibility, (2) worker compensation, training, and safety, (3) protections for the broader public, or (4) safeguards for the environment.
- Require contractors to comply with all public interest, occupational, and environmental laws.
- Award contracts to companies only if they have track records of providing topflight service and abiding by all rules and regulations.
- Monitor contractors and ensure they comply with all contract terms and the law.
- Create clear penalties for contract violations.
- Include provisions in contracts that grant the contracting office maximum flexibility in canceling the contract.

This report discusses case studies that illustrate how government contractors cut corners in an effort to maximize profits. The report is divided into four sections — each which explores how cutting corners specifically impacts a specific group listed above.*

*Some case studies cover contractors that cut corners in ways that impact multiple groups. These case studies are placed in the section with the group most impacted by the cuts.

Introduction

In the aftermath of the Great Recession, cash-strapped municipal and state governments as well as federal agencies have had difficulty collecting revenue to pay for public services. Many companies have capitalized on these budget shortfalls by offering to provide the services at lower costs, and many decision makers have taken advantage of the offers.

Unfortunately, Americans across the country have learned firsthand that government contractors cut costs in ways that have real impacts. Whether the buses their kids take to school no longer have safe brakes, their community's private utility cut their job maintaining public infrastructure, or their local library slashed in half the hours of operation, many Americans have experienced the impacts of public service privatization firsthand.

These instances match observations made by scholars and academics on how companies perform in government contracting. These thought leaders have theorized that when a company assumes management of a public service, the company often bolsters its bottom line by reducing the resources spent operating the service. Since many contractors promise the government cost savings, public agencies often allocate fewer funds to the contracted service than they would if the public agency maintained management. In effort to earn a profit while also delivering on the promised cost savings, government contractors lower the quality and accessibility of the service, neglect investments in workers, and/or implement fewer protections for the environment and broader public.

Specifically, academics and scholars have claimed the following:

- Ellen Dannin, Penn State Dickinson School of Law: "When a public service is privatized, you have to subtract the investors' profit from the money available to provide the service... How can a private company pay a profit and still provide the same level of service and at less cost than the public sector? The answer is that most often it isn't happening. Either it will provide a different service or it will provide the service in a way that makes us uncomfortable..."¹
- Sharon Dolovich, UCLA School of Law: "There is good reason to think that, where both the state and the contractor seek financial advantage, the challenge private prison contractors face — of running the prisons for less money than the state would otherwise pay without also bringing about a drop in the quality of prison conditions — cannot be met."²
- Daphne Greenwood, University of Colorado: In regard to the impacts of contracting out, "private corporations' profit imperative does not always lead to efficiency or quality... Cuts to workers' wages and benefits deliver short-term profits to shareholders but... Reduced staffing levels and lower pay often lead to higher turnover, lower quality of services, and potential health and safety issues."³

By providing an array of case studies from across the country, this report shows that Americans' negative firsthand experiences of government contractors cutting corners are a systemic and widespread result of privatization. This pattern is pervasive in America because, as academics and scholars have concluded, cutting corners is a result of government contractors' cost-cutting and profit-seeking goals. By understanding the intrinsic connection between government contractors' financial interests and detrimental reductions in the resources spent managing and operating services, decision makers can better protect the public from contractors' attempts to cut corners. The following pages explore this connection.

How the Public Is Better Protected When Government Agencies, Instead of Contractors, Cuts Corners

This report provides case studies that show how private companies cut corners on public service provision. Local, state, and federal governments also — often notoriously — cut corners on services, which leads to the question, is the public better off when private companies cut corners or when government bodies cut corners? The tragedy in Flint, Michigan is a case in point. Underinvestment in the city's aging water infrastructure and a governing economic philosophy that regarded public services as costly and unnecessary, as if a clean, healthy, and safe community is not an essential right of every citizen, put lives at stake. These decisions were made by public officials.

While this report does not compare directly the cuts by private companies and government agencies, the factors below indicate that the public is better protected if the government remains in control of services when they are cut.

- **Real accountability.** Often times, budget shortfalls and a governing philosophy that puts austerity before essential public goods causes governments to implement cost cuts, knowing that the cuts will reduce the availability and effectiveness of the service and threaten public health and economic growth. When governments fail to invest in essential public services, the public, which bears the brunt of the cuts, can and should hold the decision makers accountable and implore them to raise new funds or redirect existing funds if necessary. However, when a government contractor cuts costs to the detriment of the public, the public can neither hold the company directly accountable nor directly advocate for change since the company is only accountable to fulfilling the stipulations of the contract.
- **Less money leaves the system.** Company executives are incentivized to cut corners so the company has more money at its disposal for salaries, bonuses, and other benefits. Public agencies have to pay salaries and benefits, but not multi-million dollar executive compensation.
- **No profit margin.** When private companies cut corners, while certain parts of the public pay the price, the companies' shareholders benefit. When a government body cuts corners, certain parts of the public still pay the price but public funds, even if inadequate, are still used for public services, not returns on private investment.

CUTTING CORNERS: How Government Contractors Harm Recipients and Users of Public Services

Private companies that assume management of public services often cut corners on service provision. In order to cut costs and increase profits, these companies provide lower quality services to recipients, provide the services less often to recipients, and/or provide the services to fewer recipients. When a government contractor cuts corners in these ways, the outcomes can impact the entire population that uses the service, especially people who are already vulnerable and marginalized, such as foster kids and special needs students.

The following case studies provide specific examples of how government contractors harm the recipients and users of the public services by cutting corners.



ST. LOUIS, MO: First Student Inc. Cuts School Bus Maintenance

In the 2013-2014 school year, 18 St. Louis school districts contracted with First Student Inc. to provide transportation services for their 80,000 students.⁴ To minimize costs, First Student instituted a program called “Beat Your Budget, Build Your Rewards,” which incentivized managers to neglect school bus repairs and upkeep. Under the program, for every dollar a manager saved on bus maintenance, he or she would receive a cash payout.⁵

Under the “Beat Your Budget, Build Your Rewards” program, the buses experienced a number of alarming problems due to underinvestment and lack of maintenance, such as broken heaters, faulty brakes, excessive rust, doors falling off hinges, and tires falling off axels.⁶

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The ill-maintained equipment jeopardized students’ lives. In January 2014, when a semi-truck crossed lanes and side-swiped a bus with students on the freeway, the broken bus horn prevented the driver from honking a warning to the truck. The driver could not then call for help because the radio’s microphone was also broken.⁷

The First Student bus driver who blew the whistle on “Beat Your Budget, Build Your Rewards” laid blame for the lack of maintenance on the program itself. The employee told a local news station, “we are putting unsafe product on the road.”⁸



INDIANA:

IBM and ACS Cut Resources to Enroll Recipients of Public Benefits

In November 2006, Indiana signed a 10-year, \$1.16 billion contract for IBM, Affiliated Computer Services (ACS), and other tech companies to manage enrollment for Medicaid, food stamps, and cash assistance programs.⁹ The state estimated that privatization would save almost \$500 million.¹⁰

To cut costs, ACS and IBM rolled out a “remote eligibility” system to enroll people in the programs. Instead of applying in-person, applicants would apply online, via fax, and over the phone.¹¹

Unfortunately, the companies did not invest resources to overcome the challenges inherent in a virtual system. People applying for benefits waited on hold for such extended periods of time that they drained their cellphone minutes, losing the opportunity to enroll. The processing center in Marion perpetually lost copies of applicants’ driver’s licenses, social security cards, and other faxed enrollment materials. When one page of the application was over-shaded, incorrectly indexed, or blotched during transmission, IBM and ACS would deny the entire application.¹²

People who were not computer literate or did not have Internet access at home were especially hard hit by ACS and IBM’s decisions to cut corners. The American Community Survey did not release data on lower income households with Internet access until 2013. By then, only 57 percent of households in Indiana that earned less than \$20,000 had home Internet.¹³ When IBM and ACS rolled out the remote eligibility system, the companies did not invest resources to enroll people without Internet access. Consequently, the majority of applicants relied on libraries, nursing homes, and other community centers for Internet connections, as well as staff at these facilities to provide assistance.¹⁴ In Muncie, the largest city in the pilot area, the director of the public library reported “lines of desperate people waiting for help.”¹⁵ The large number of applicants needing the library’s Internet and the librarians’ assistance overwhelmed the staff on hand.¹⁶

In addition to neglecting to invest in resources for applicants without Internet access, IBM and ACS also cut corners on resources for handicapped applicants. The companies failed to translate application materials into Braille for the blind, provide non-telephone interview options for the deaf, and allow for extended ring times when calling people in wheelchairs.¹⁷

ACS and IBM’s cuts to resources erroneously took away public benefits from thousands of beneficiaries, leaving people without the means to cover their basic needs.¹⁸ “There’s a myriad of problems,” said Secretary of the Family and Social Services Administration, Anne Murphy. “Error rates are too high. We’re not processing claims within federal guidelines.”¹⁹

Reports from across the state show how the failure of welfare privatization harmed vulnerable residents’ lives. In the Evansville area, for example, ACS and IBM failed to approve 360 babies eligible for Medicaid until they were six months old.²⁰ In Muncie, a diabetic working mother, who erroneously lost her Medicaid and could not afford insulin for seven months, spent two days in the intensive care unit at the hospital because she did not have access to the medication.²¹

In October 2009, Indiana canceled the contract with IBM and ACS.²² Governor Mitch Daniels, an initial proponent of the deal, admitted that privatization was a failure, calling it a “flawed concept.”²³



MUSKEGON HEIGHTS, MI:

Mosaica Education Cuts Programming for Special Needs Students

In 2012, the Muskegon Heights school board, after losing \$18,000 each school day for a year, relinquished control of the school system to an emergency manager to avoid bankruptcy. The manager in turn hired the for-profit charter company, Mosaica Education, to run the school system, which reduced costs by cutting students' education opportunities.²⁴

One significant way the company cut corners was by failing to adequately provide for disabled students. Mosaica did not provide language, occupational, and physical therapy to special needs kids.²⁵ Mosaica did not provide assistance to teachers with students who had visual, hearing, and physical impairments and autism.²⁶ Mosaica also did not provide social workers to a number of students who required their assistance to attend and participate in school, a violation of education standards. In one special education classroom, students with severe emotional issues, who required help from social workers, lashed out violently in absence of the support.²⁷

Mosaica did not provide language, occupational, and physical therapy to special needs kids.

Adding to these problems, the emergency manager laid off all the public teachers, but Mosaica did not invest in hiring new teachers that were qualified.²⁸ Many of the teachers hired by Mosaica were inexperienced, and 10 percent did not have teaching certificates, a violation of state law.²⁹ While Mosaica rehired some of the staff who were initially laid off, the company cut their salaries. For example, one veteran elementary school teacher's new salary was less than \$30,000.³⁰ Attrition was high, as more than half of the teachers that were rehired or newly hired quit, were fired, or took medical leave before the end of the first school year.³¹

Additionally, Mosaica did not maintain the schools' equipment, such as computers, and failed to keep the schools supplied with basic necessities, such as toilet paper.³²

In 2014, the school board ended its contract with Mosaica, three years before the contract's end date. Despite the cuts to teacher salaries and special education resources, Mosaica was unable to generate a profit, which was cited by the emergency manager as the reason for the contract's cancellation.³³



CAMDEN, NJ:

United Water Cuts Maintenance for Water and Sewer Infrastructure

In 1999, the city of Camden, New Jersey, signed a 20-year contract with United Water worth roughly \$164 million for water and wastewater services.³⁴

Throughout the life of the contract, United Water cut corners by neglecting critical maintenance of the water system. According to a 2009 audit by the New Jersey Comptroller, the company failed to maintain storage tanks, wells, fire hydrants, and meters:

- The water tanks inspected by the auditors were corroded and had paint issues. One tank was leaking and another tank had a hole in its roof.

- The auditors found well casings with broken vents and well heads in need of repairs, which can allow contaminants to enter the water supply.
- The city's engineer estimated that 20 percent of the 1,310 fire hydrants needed to be replaced, a threat to public safety in the event of a fire.
- Out of the 30 meters inspected during the audit, United Water had not calibrated a single meter within the previous five years as required by its contract.³⁵

The lack of maintenance allowed water to leak out of the system. Between 2004 and 2008, for every gallon (128 ounces) supplied by United Water, the company lost an additional 100 ounces due to leaks, storage overflows, faulty meters, and other issues.³⁶ This loss was far greater than what was allowed in the contract, which specified that United Water could lose at most 14 ounces for every gallon delivered.³⁷ The audit reported that a loss of 100 ounces per gallon delivered is comparable to the performance of utilities in developing countries.³⁸

United Water's neglect of maintenance may have been due to its cuts to workers. Before the utility was privatized, it was staffed by 69 workers. When United Water assumed control, the city allowed United Water to cut staffing to 49 workers. However, the audit found that United Water had further cut staff to 39 workers — a 20 percent reduction from the required level and a 43 percent reduction from the level before privatization.³⁹

After the audit, Camden ceased payments to United Water and demanded \$28.9 million from the company for contract violations, unauthorized charges, and other errors.⁴⁰ In response, United Water sued Camden for \$12.5 million. The city and United Water settled in 2011.⁴¹



JACKSON COUNTY, OR:

Library System and Services, LLC Cuts Library Hours

In 2007, Jackson County, Oregon, facing a \$23 million budget shortfall, decided to reduce spending by outsourcing management of its public libraries.⁴² While the labor union that represented the public library employees placed a bid to continue running library services, the County awarded the contract to Library Systems & Services, LLC (LSSI), which said it could provide the services at a lower cost.⁴³ The contract, which lasted five years, paid LSSI \$3 million annually and reserved an additional \$1.3 million for maintenance costs, cutting Jackson County's library expenditures in almost half.⁴⁴

LSSI cut the normal operating times in half and closed the branches on Sundays.

LSSI cut corners by reducing the hours of operation. Whereas most libraries before privatization were open more than 40 hours per week, LSSI cut the normal operating times in half and closed the branches on Sundays, leaving most libraries open for only 24 hours per week.⁴⁵

LSSI also cut benefits for the staff, which were no longer unionized, by reducing medical coverage and replacing the pension with a 401(K) retirement plan.⁴⁶

**FLORIDA:****Aramark Cuts Food Quality and Healthiness in Prisons**

From July 2001 to January 2009, Aramark held the food service contract for most of Florida's correctional facilities.⁴⁷ The Florida Department of Corrections' (DOC) stated goal in signing the contract was "to reduce its administrative and personnel costs by consolidating food service operations with a single contractor."⁴⁸

Aramark lowered costs and profited by cutting corners on the quality and healthiness of the food. The company reduced spices and fillers. The water in which vegetables were cooked and grease from meat were considered part of the servings.⁴⁹ A 2007 audit by the DOC concluded that "service levels [had] deteriorated both in relative quantity and in quality."⁵⁰

Aramark also replaced turkey breast with "turkey ends and pieces" and removed beef almost entirely from the menu, often cooking the turkey instead.⁵¹ The DOC audit found that replacing beef (which costs \$1.50 per pound) with turkey (which costs \$0.57 per pound) reduced Aramark's operating costs by \$4.9 million annually.

The water in which vegetables were cooked and grease from meat were considered part of the servings.

Some of this "less palatable food," according to the DOC audit, directly violated the agreed-upon menu when the contract was signed. During the request for proposal phase, Aramark explicitly asked, "may ground turkey be used to replace ground beef in recipes," to which the Department of Corrections responded, "No. If the recipe specifies ground beef, then ground beef must be used."⁵²

The decline in food quality accompanied a drop in the number of prisoners eating meals. From January 2001 to May 2006, the percent of prisoners attending each meal fell from 90 percent to 82 percent on average. The DOC audit found that, "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."⁵³

The drop in meal attendance and the replacement of beef with turkey had a significant impact on padding the company's bottom line. These cut corners allowed Aramark to save \$10.5 million in operating costs during fiscal year 2005-06.⁵⁴

The Profits and Executive Salaries of Government Contractors

As government contractors cut corners to the detriment of the public and environment, many reap large profits and provide their executives with lavish compensation packages. The table below lists the profits and CEO compensations for a sample of the companies studied in this report.

Company	Annual Profits (millions)	CEO Salary (millions)	CEO Total Compensation (millions)
Aramark ⁵⁵	\$237	\$1.6	\$21.1
Corrections Corporation of America ⁵⁶	\$195	\$0.8	\$3.7
Duke Energy ⁵⁷	\$1,889	\$1.2	\$8.3
Waste Management ⁵⁸	\$1,338	\$1.2	\$10.8



LOS ANGELES, CA:

United Care Cuts Standards for Foster Parents

In 2010, United Care held a contract with Los Angeles County to coordinate the care of over 200 foster children in almost 100 different homes.⁵⁹ Under state law, United Care received approximately \$1,870 per month for each child it placed in a foster home, with about \$750 earmarked for the foster family.⁶⁰

In the county at the time, the number of kids entering the foster care system often outstripped the supply of beds in available homes.⁶¹ To capitalize on this business opportunity, United Care sought to onboard more foster parents, but cut corners by lowering the selection standards. In 2010, for example, United Care's executive director admitted that as many as half of the company's foster parents had a criminal record, which usually would bar them from fostering children.⁶² United Care also raffled a cruise to Ensenada to its current foster parents for recommending new foster parents.⁶³

United Care's low standards for foster parents had dire consequences. Most notably, the company fostered many children with Kiana Barker and her boyfriend, who both had criminal records. Barker also had three complaints lodged against her on the county's child abuse hotline, including one instance of severe neglect. Yet these warning signals did not stop United Care from fostering children with Barker. In March 2010, Barker, in a drunken fit, beat to death a two-year old foster girl in her care named Viola.⁶⁴ In the aftermath of Viola's death, the Los Angeles County supervisors voted unanimously to cancel its contract with United Care.⁶⁵

Cutting Corners: How Government Contractors Harm Employees

Another way that government contractors that provide public services cut corners is on personnel. In order to cut operating costs and increase profits, private companies reduce the number of workers, eliminate staff trainings, lower employee compensation, and neglect worker safety.

These measures not only harm employees, but also impact the service itself. Companies that are short-staffed cannot adequately manage all aspects of the service. Companies that lower wages hire workers underqualified to provide the service. Companies that cut trainings do not give their employees the knowledge and support to provide quality service.

The following case studies provide specific examples of how government contractors cut corners on personnel, which harms the employees as well as the recipients and users of the services.



CHICAGO, IL:

Aramark and SodexoMagic Cut Janitors at Schools

In February 2014, the Chicago School Board signed three-year contracts with Aramark and SodexoMagic, for \$260 million and \$80 million respectively, to clean the city's schools.⁶⁶ By privatizing janitorial services, the district hoped to save up to \$40 million over the contract period.⁶⁷

Aramark and SodexoMagic reduced costs by cutting corners on staffing. In October 2014, shortly after the start of the school year, Aramark laid off 290 janitors.⁶⁸ According to a survey of 230 principals, 87 percent reported losing at least one janitor.⁶⁹

The schools became plagued with problems stemming from the lay-offs, including filthy classrooms, spilled milk left uncleaned, and overflowing garbage cans sometimes not emptied for weeks.⁷⁰ Cockroaches, mice, and bugs, which were attracted to the trash, overran the buildings, and a number of schools called exterminators.⁷¹ To alleviate the problems, some schools hired extra cleaning help out of their own budgets.⁷² In other schools, teachers assumed the janitors' responsibilities and began cleaning the classrooms and bathrooms themselves.⁷³

Compounding the understaffing problems, the janitors who kept their jobs were limited to spending no more than four minutes cleaning each classroom.⁷⁴ Aramark instructed the janitors to cease mopping and rinsing the floors, and instead swab the floors with a microfiber pad, a process that saved time, but left the floors dirty according to the janitors.⁷⁵

The school district is likely to fall short of the \$40 million in estimated cost savings or lose money from the deal. Within the first 11 months of the three-year contract, Aramark billed the district an unforeseen \$22 million, partially because the company – after complaints about school cleanliness – retained some janitors that it intended to lay off.⁷⁶



IDAHO:

Corrections Corporation of America Cuts Correctional Officers

In 1997, the Idaho Department of Correction (IDOC) finished construction of the Idaho Correctional Center — a new 2,080-person prison south of Boise — and granted management to Corrections Corporation of America (CCA).⁷⁷

CCA lowered its operating costs and increased its profits by cutting corners on staffing, hiring fewer correctional officers than needed for a prison of that size. Investigations in the past few years have uncovered a history of staff shortages, with important security posts left continually unfilled. In 2013, CCA admitted to falsifying records that hid 4,800 hours of uncovered shifts during a seven-month period in the previous year — equivalent to the time that would have been worked by four full-time correctional officers.⁷⁸ According to an IDOC audit, CCA understaffed the facility by as many as 26,000 hours in 2012 — equivalent to the time that would have been worked by 13 full-time correctional officers.⁷⁹ A federal judge found CCA in contempt of court for hiding information on the falsified hours.⁸⁰

One night time guard was expected to oversee 250-300 prisoners, which jeopardized the correctional officers' safety.

A lawsuit filed in 2012 on behalf of Idaho Correctional Center's prisoners contends that, in order to hire fewer correctional officers and reduce spending, CCA relinquished control of the facility to prison gangs, leading to violence and serious prisoner injuries.⁸¹ Another lawsuit filed on behalf of prisoners in 2010 contends that understaffing contributed to high levels of violence, which earned the prison the nickname "gladiator school."⁸²

CCA's understaffing decisions also put the correctional officers who were working at the facility at risk. According to Sargent Leonard King, a former CCA employee who is suing the company, one night time guard was expected to oversee 250-300 prisoners, which jeopardized the correctional officers' safety. King was assaulted five times before leaving the company. In addition, CCA supplied their correctional officers with empty cans of pepper spray and broken radios and told them "to just fake it" when needed.⁸³

In February 2014, CCA paid \$1 million in penalties for understaffing the prison.⁸⁴ Five months later, the Department of Corrections ended its contract with CCA and assumed management of the facility.⁸⁵



NATIONWIDE:

National Mentor Holdings Cuts Caseworkers for Foster Children

National Mentor Holdings is a company that contracts with states and counties across the country to provide foster care-related services to 3,800 children.⁸⁶ Former employees have reported that the company has a history of cutting corners on staffing and service quality to increase profits. An analysis by BuzzFeed found that Mentor has achieved high profit margins — 44 percent in Ohio and 31 percent in Alabama.⁸⁷

To maintain these high profit margins, the company cut corners by providing an insufficient number of staff to monitor and support the foster kids. Whereas the industry standard for therapeutic foster care is 10 children per caseworker, Mentor often assigns 15 children to caseworkers, potentially preventing the children from receiving the care they need.⁸⁸

Mentor also has neglected screening, training, and supervising its foster parents. For example, in 2004, after a 15-year-old foster care boy in Maryland reported receiving oral sex from his foster father, Mentor removed the child, but continued to send other kids to the home for years. Only after multiple allegations and indications of sexual abuse did police – not Mentor – rescue all kids from the home.⁸⁹ Additionally, when Mentor first approved parents to foster children at the home, the company ignored warnings from health inspectors that the building, in general disrepair with poorly-lit stairs and peeling paint, was unfit for small children.⁹⁰

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Mentor cut corners and failed to protect children, perhaps most severely, in Texas. According to a BuzzFeed study from February 2015, state regulators documented more than 100 serious problems in Mentor's foster homes in the two years prior, including instances of children being hit and beaten with belts.⁹¹ In one instance, after Texas Early Children Intervention Services found a foster mother unfit to provide care, Mentor placed a 14-month-old girl with her.⁹² Six months later, the foster mother, in an unexplainable fit, murdered the girl by swinging her into the ground like an axe.⁹³ In total, at least six healthy children have died in Mentor's care since 2005.⁹⁴



CALIFORNIA:

CA Virtual Academies Cuts Investments in School Administrative Staff

California Virtual Academies (CAVA) is the state's largest network of charter schools that provide virtual education, in which students in kindergarten through 12th grade attend classes entirely online.⁹⁵ During the 2013-2014 school year, 14,497 students were enrolled in 11 CAVA schools across California.⁹⁶

CAVA cut costs by neglecting to hire administrative staff. During the 2012-2013 school year, CAVA reported eight total clerical employees for the CAVA system, a ratio of students to clerical staff of 1,812 to one.⁹⁷ Similarly-sized districts reported a student-to-clerical staff ratio of 164 to one, providing 13 times more staff members per student.⁹⁸

The shortage of clerical staff caused teachers to perform administrative work that cut into their time with students. According to a survey of CAVA teachers performed by In the Public Interest, the majority of teachers described being asked to take on excessive non-instructional duties performed at most schools by front office administrators.⁹⁹ 28 percent of teachers reported to spend, on average, 80 percent of their time on clerical work, which severely limited the time they spent teaching students.¹⁰⁰ One teacher reported teaching only one hour per week due to her clerical duties.¹⁰¹

CAVA failed to provide life skills programming, such as how to maintain hygiene, to students with severe intellectual disabilities.

In addition to underinvesting in clerical staff, CAVA also underinvested in resources to overcome Internet connectivity issues, even though its web platform is the only way students can attend class. According to

In the Public Interest's survey, teachers and students frequently were unable sign into the virtual school, were unable to access their courses or live sessions, or were logged out once in class.¹⁰²

CAVA further underinvested in education for students with special needs. According to In the Public Interest's survey, special needs teachers had caseloads that exceeded 35 students, 25 percent higher than California's 28 student limit for special education teachers in traditional public schools.¹⁰³ Teachers reported that CAVA failed to provide life skills programming, such as how to maintain hygiene, to students with severe intellectual disabilities.¹⁰⁴ One teacher also reported instances in which CAVA placed special needs students who read at kindergarten levels into high school classes.¹⁰⁵

CAVA's failure to adequately invest in clerical staff, online infrastructure, and special needs programming correlated with poor student performance. From 2010 to 2013, CAVA's overall graduation rate was 36 percent, less than half of the statewide graduation rate of 78 percent.¹⁰⁶ CAVA's dropout rate was 47 percent, more than three times the statewide dropout rate of 14 percent.¹⁰⁷



IDAHO: Corizon Cuts Psychiatrists at Prison

Corizon Correctional Healthcare provides for the medical care of prisoners at the Idaho State Correctional Institution (ISCI), a 1,688-bed facility for long-term sentences south of Boise.¹⁰⁸ Amid allegations of medical malfeasance in 2011, a judge ordered an assessment of the prison's health care.¹⁰⁹ The report, conducted in late 2011 and early 2012, reprimanded Corizon for its business practices, declaring the medical treatment of its prisoners as "cruel and unusual" and unconstitutional.¹¹⁰

The report found that Corizon did not hire sufficient psychiatric staff to meet the prisoners' mental health needs. Corizon employed the equivalent of one full-time psychiatrist and one part-time psychiatrist (working 10 hours per week) to provide care for 474 prisoners on psychotropic medication.¹¹¹ According to the American Psychiatric Association's standards for prisons, Corizon should have employed at least three to six full time psychiatrists.¹¹²

Corizon did not hire sufficient psychiatric staff to meet the prisoners' mental health needs.

As a result of cutting corners on hiring psychiatrists, Corizon also cut corners on the provision of mental health care. Corizon prescribed psychotropic drugs to prisoners with conditions that should have been treated with therapy instead. Corizon provided an insufficient number of weekly sessions to prisoners attending group therapy. Corizon also failed to keep up-to-date mental health records for the prisoners.¹¹³

The court's report concluded that "the psychiatrist cannot be expected to have enough time to safely evaluate and treat patients."¹¹⁴ In one instance, the court's doctors found that a prisoner, admitted to the infirmary for a harmful reaction to antipsychotic medication, had not been evaluated by a psychiatrist in the 14 days since his admittance. As a result, Corizon's inaction forced the prisoner to suffer the two weeks in a catatonic state. The court's report also uncovered that Corizon used mentally ill prisoners instead of staff to monitor other sick prisoners at risk of suicide.¹¹⁵



ATLANTA, GA:

United Water Cuts Water Utility Workers

In 1998, Atlanta signed a 20-year, \$428 million contract with United Water for water and wastewater services.¹¹⁶ The privatization contract with United Water was expected to save the city nearly \$20 million annually.¹¹⁷

United Water cut costs by reducing the workforce from 700 employees to 300 employees, far below the level needed to maintain the infrastructure.¹¹⁸ Additionally, United Water cut worker trainings to levels below the contract's requirements for the remaining workers.¹¹⁹

United Water cut costs by reducing the workforce from 700 employees to 300 employees, far below the level needed to maintain the infrastructure.

As the smaller and less trained workforce scrambled to address a growing backlog of work orders and maintenance requests, the company fell behind on fixing water mains, installing meters, repairing hydrants, and maintaining the facilities and vehicles.¹²⁰ United Water installed an average of 750 water meters per year, equivalent to the number of meters the city installed on a monthly basis before privatization.¹²¹ The company would take up to two months to repair broken water lines. In total, only half of maintenance projects were ever completed.¹²²

A city-commissioned report from 2002 cited United Water for poor maintenance and found the company in violation of federal drinking water standards, including chlorine levels six times higher than levels allowed by the contract.¹²³ The report also found United Water allowed bill collection rates to fall 4 percent, causing the city to lose millions of dollars in revenue.¹²⁴

In 2003, Atlanta's mayor forced United Water to exit the contract.¹²⁵



WASHINGTON, DC:

IAP Worldwide Services Cuts Groundskeeping Staff at Veterans Hospital

In January 2006, the Army executed a contract with IAP Worldwide Services for maintenance and facility management services at Walter Reed Hospital in Washington D.C.¹²⁶ Between January 2006 and early February 2007 when IAP assumed management, most of the approximately 300 custodial employees quit out of fear IAP would lay them off.¹²⁷ Consequently, the hospital grounds grew dirty, unsanitary, and ill-maintained.

When IAP took over facility management, the company laid off the remaining 60 government employees. Instead of fully re-staffing the hospital to recover from the dearth of maintenance, IAP cut corners by further reducing employee numbers. According to Congressman Henry Waxman, who led an investigation into the treatment of veterans at the hospital, IAP brought on only 50 employees — a mere 20 percent of the workforce before privatization.¹²⁸

With a severe shortage of staff, the hospital's sanitation problems persisted.¹²⁹ In February and March, 2007, Walter Reed and IAP became the sources of national outrage when journalists uncovered decrepit living conditions at the hospital, including rooms infested with rodents and walls covered in mold.¹³⁰ According to Walter Reed's commander, Major General George Weightman, privatization "absolutely" contributed to the problems at the hospital.¹³¹



NATIONWIDE:

Waste Management Inc. Cuts Garbage Truck Safety Repairs

Waste Management Inc. is the largest trash collection and disposal company in the United States, with approximately 39,800 staff.¹³² The company's track record of cutting corners on truck maintenance across the country routinely jeopardizes employee safety.

According to a national survey released by the Teamsters Union and the University of Illinois in 2008, Waste Management mechanics and drivers reported pressure from managers to rush or outright ignore necessary repairs, forcing them to put unsafe trucks on the road. Mechanics also reported pressure to "pass" trucks in need of repair during inspections.¹³³

The trucks have been plagued with problems stemming from a lack of maintenance. From 2005 to 2007, Waste Management's trucks inspected by state police failed three out of ten times, forcing Waste Management to take those trucks out of service.¹³⁴ According to the Teamsters' survey, 27 percent of Waste Management's employees reported trucks with brake problems, and 59 percent rated truck maintenance as "fair," "poor," or a "failure."¹³⁵



LONG BEACH, CA:

Community Education Centers Cuts Qualifications for Staff at Halfway House

In 2010, Community Education Centers (CEC) operated a residential reentry center, or "halfway house," in Long Beach for the California Department of Corrections and Rehabilitation (CDCR). According to Richard Ortega, the facility's director at the time, CEC cut corners by employing unqualified staff. For example, the center's clinical director lacked a college degree, which was inadequate to manage the treatment of the more than 100 residents.¹³⁶ CEC also compensated the clinical director roughly \$13 to \$14 per hour, approximately 64 percent less than the wages of similar jobs in California.¹³⁷

An audit conducted by CDCR in December 2010 cited CEC for a litany of problems stemming from a lack of supervision, many that prevented residents' rehabilitation. At night, residents would scale the fences, travel to liquor stores, and buy drugs. During the day, residents would then fail drug tests, but CEC officials would discourage the facility staff from evicting them. "It was a mess," according to Ortega.¹³⁸ However, the lack of trained staff prevented Ortega from fixing the problems uncovered by the state's auditors.¹³⁹

Audits conducted by HealthRight, the nonprofit that oversaw CEC's facility on behalf of the state, also reported problems that prevented rehabilitation, including drug use, alcohol consumption, violence, inadequate mental health services, and poor record keeping. In 2012, HealthRight did not renew CEC's contract for the facility.¹⁴⁰

**FLORIDA:****JPMorgan Chase Cuts Domestic Call Centers for Food Stamp Assistance Hotline**

In 1996, the Florida Department of Children & Families (DCF) contracted with Citicorp Electronic Financial Services to replace paper food stamps with electronic benefit transfer (EBT) cards and manage the new system.¹⁴¹ Citicorp cut costs for the state by \$4 million annually.¹⁴²

One way Citicorp reduced expenses was by moving its call centers overseas in 2000. While Citicorp's savings are unknown, companies that outsource to India generally reduce operating costs by 25 to 30 percent after taking into account lower employee wages and higher infrastructure expenses.¹⁴³ Despite these likely savings, Citicorp did not lower costs to Florida taxpayers. Instead, between 1996 and 2003, Citicorp increased charges to the state from \$1.81 to \$2.19 per food stamp account.¹⁴⁴

Citicorp reduced expenses... by moving its call centers overseas.

In 2004, JPMorgan Chase purchased Citicorp, assumed management of the contract with DCF, and continued using call centers in India and Bangladesh.¹⁴⁵ During the Great Recession, unemployment in Florida reached 9.7 percent, and JPMorgan Chase drew ire from the public and state officials for using government funds to offshore jobs instead of hiring American workers.¹⁴⁶ As a result of the public outcry, JPMorgan Chase moved all calls back to the United States.¹⁴⁷

Cutting Corners: How Government Contractors Harm the Broader Public

Pivate companies that assume management of public services often cut corners in ways that harm the public. When government contractors take action to lower costs and increase profits, the ramifications can extend far beyond the impacts to the people who use the service and the companies' employees.

The following case studies provide specific examples of how government contractors cut corners to the detriment of the broader public.



NATIONWIDE:

U.S. Investigation Services Cuts Safety Standards for Background Checks

Up until 2014, U.S. Investigations Services (USIS) received contracts from the United States Office of Personnel Management to conduct background checks for federal agencies.¹⁴⁸

When Providence Equity Partners bought the company in 2007, USIS began cutting corners to increase profits. Since USIS was paid per completed security clearance, the company instituted monthly quotas to boost revenue. Near the end of a month, USIS managers would order open investigations to be “flushed,” in which staff quickly approved investigations without necessarily completing the reviews.¹⁴⁹

The implementation of USIS’ “flushing” policy corresponded with a decrease in the time staff spent investigating cases. From 2005 to 2013, the average number of days in which investigations were closed decreased from 145 to 36.¹⁵⁰ In the rush to close cases, USIS employees falsified applicants’ information. According to the Justice Department, between 2008 and 2012, 40 percent of USIS’ cases were fraudulent.¹⁵¹

USIS’ shoddy investigations gave security clearance to dangerous people putting the public’s safety at risk. In 2007, USIS cleared Aaron Alexis, the now-infamous military contractor who later shot and killed 12 people at Washington DC’s Navy Yard. During Alexis’ clearance check, USIS uncovered that he had been arrested three years earlier, yet relied on Alexis’ account that the arrest was for deflating a construction worker’s tires. Had USIS conducted a more thorough investigation, such as reviewing police records, USIS would have learned that Alexis actually shot the car tires in, according to his account to the police, an “anger-fueled blackout.”¹⁵²

The Office of Personnel Management allowed its contract with USIS to expire in September 2014.¹⁵³



LYNN, MA:

Aqua Alliance Cuts Odor-Nullifying Chemicals at Sewage Plant

In 2004, Aqua Alliance, a subsidiary of Veolia Water, held a contract with Lynn, Massachusetts to manage the city’s sewer system.¹⁵⁴ In an effort to cut costs, Aqua Alliance ceased using potassium permanganate at the city’s sewage treatment plant, according to the executive director of Lynn Water and Sewer Commission.¹⁵⁵

Potassium permanganate is a chemical that oxidizes hydrogen sulfide, more commonly called “manure gas,” neutralizing the rotten egg smell associated with sewage.¹⁵⁶ When Aqua Alliance stopped treating the sewage with potassium permanganate, the smell of effluent emanated from the facility, sparking complaints from residents.¹⁵⁷ When the odor reached especially pungent levels, Aqua Alliance would close the plant’s overhead door in an attempt to contain the smell, trapping the workers in hard-to-breathe conditions.¹⁵⁸

According to an internal memo obtained by the local newspaper, the treatment plant required at least 100 pounds of potassium permanganate per day and up to 500 pounds on days of heavy use such as July 4th.¹⁵⁹ Aqua Alliance was slated to save approximately \$60,000 to \$70,000 per year by eliminating its use of the chemical.¹⁶⁰

Cutting Corners: How Government Contractors Harm the Environment

Another way that private companies that assume management of public services cut corners is by circumventing environmental protections. In order to lower costs and increase profits, companies break environmental law and ignore the necessary investments to safeguard air, land, water, and wildlife.

The following case studies provide specific examples of how government contractors harm the environment by cutting corners.



NORTH CAROLINA:

Duke Energy Cuts Coal Ash Pipeline Maintenance

In 2012, engineers working for Duke Energy, a publicly-traded utility that collects billions of dollars in profits by providing electricity to more than 7 million homes and businesses, requested \$20,000 from the company's headquarters to inspect four old drainage pipes with a robotic camera in North Carolina.¹⁶¹ When Duke Energy denied the request, a manager of one of Duke's power plants sent a follow up request pleading for the funds, but the company denied the second request as well.¹⁶²

By cutting corners on pipeline maintenance, Duke Energy wreaked havoc on the surrounding environment. In 2014, one of the pipes that the company failed to inspect collapsed, spewing coal ash, the byproduct created from burning coal, into the Dan River.¹⁶³ When coal ash mixes with water, it creates a gray sludge that buries animals, clogs their gills, and suffocates them.¹⁶⁴ The ash also contains toxics, such as arsenic, lead, mercury, and selenium, which progress up the food chain and can cause cancer, kidney disease, and reproductive problems.¹⁶⁵ In total, the broken pipe spilled 82,000 tons of coal ash, equivalent to the capacity of 4,100 dump trucks, and covered 70 miles of the Dan River.¹⁶⁶

In 2015, Duke Energy was found guilty of nine criminal violations of the Clean Water Act – four for the coal ash spill and five for other instances of pollution discovered during the coal ash investigation. In total, a federal court fined Duke \$102 million – \$68 million for criminal reparations and \$34 million to rehabilitate the polluted river and wetlands.¹⁶⁷



ALABAMA:

Alabama Power Cuts Pollution Control Equipment at Power Plants

In the 1990s, Alabama Power, which provides electricity to 1.4 million residences and companies in the southern two-thirds of Alabama, modified its coal-fired power plants to increase their daily operational hours.¹⁶⁸ Alabama Power then cut costs by ignoring Clean Air Act standards that require utilities to install pollution control equipment when modifying plants in ways that increase emissions.¹⁶⁹ In doing so, Alabama Power subjected residents to increased levels of sulfur dioxide, nitrogen oxides, and particulate matter, which cause a host of serious health and environmental problems.¹⁷⁰

The Environmental Protection Agency filed a lawsuit against Alabama Power in 1999 to compel the company to install pollution controls.¹⁷¹ At the end of the dispute, which lasted until June 2015, Alabama Power agreed to shut down three coal-fired units and convert four to natural gas.¹⁷² Alabama Power also agreed to meet emission standards at other units, pay a \$100,000 fine, and invest \$1.5 million in charging infrastructure for electric vehicles.¹⁷³

Alabama Power’s total cost savings from ignoring the Clean Air Act are difficult to estimate, but the company likely saved well over \$150 million in 1999 from failing to install sulfur dioxide controls on the seven units it later was forced retire or convert to natural gas.¹⁷⁴



MIAMI, FL:

Great Lakes Dredge and Dock Cuts Protections for Corals

In November 2013, Great Lakes Dredge and Dock Company (GLDD) began dredging the Port of Miami under a contract with the Army Corps of Engineers. As part of a project to open the Port of Miami to the larger barges traveling through the expanded Panama Canal, GLDD was tasked with widening and deepening the channel.¹⁷⁵

Great Lakes Dredge and Dock cut corners by failing to invest the resources necessary to protect the environment. By May 2015, the Environmental Protection Agency had cited the Army Corps of Engineers for 125 violations – mostly for actions taken by GLDD.¹⁷⁶ For example, GLDD failed to seal leaks in its transport ships, allowing sediment from the dredged rocks and dirt to seep down to the ocean floor and smother the coral reef. (See images.) In addition to asphyxiating the corals, the sediment destroys the reef and leaves Miami Beach’s coast susceptible to storm surges, endangers local fish populations, and harms the tourism industry. Even after the EPA issued a notice to stop the leakage, GLDD continued to spill sediment.¹⁷⁷

GLDD failed to seal leaks in its transport ships, allowing sediment from the dredged rocks and dirt to seep down to the ocean floor and smother the coral reef.

After months of resisting, in October 2014, the Army Corps of Engineers agreed to allow the National Oceanic and Atmospheric Administration (NOAA) to send divers to the reef to relocate several hundred staghorn corals, which are an endangered species.¹⁷⁸ When the divers arrived, GLDD and the Corps refused to pause the dredging operations and move the ship, which was anchored directly atop the reef, preventing NOAA from conducting the rescue. The Corps justified its decision by claiming that moving the ship would increase costs. In the end, the divers were able to rescue a fraction of the corals when the ship eventually left the reef for repairs, but did not have time to save the entire population.¹⁷⁹



Great Lakes Dredge and Dock spills sediment into the Port of Miami.¹⁸⁰



Great Lakes Dredge and Dock buries staghorn coral with sediment.¹⁸¹

Recommendations: Public Officials Should Prevent Government Contractors from Cutting Corners

As these examples demonstrate, many private companies that assume management of public services cut corners in ways that harm four key groups: users and recipients of the service, the companies' employees, the general public, and the environment. To protect these groups, government contracting offices should adopt the following strategy:

- Ensure that proposed cost savings in contract proposals result from increased efficiencies instead of cuts to (1) service quality and accessibility, (2) worker compensation, training, and safety, (3) protections for the broader public, or (4) safeguards for the environment.
- Require contractors to comply with all public interest, occupational, and environmental laws at the local, state, and federal levels, including those that would apply to the contracting agency if it provided the service in-house.
- Assess contractors' track records in other states and localities when vetting contracts, and only award contracts to companies that have proven histories of providing topflight service and abiding by all rules and regulations.
- Monitor contractors and ensure they comply with all contract terms and the law. For more information about how government entities can ensure robust contract oversight, see In the Public Interest's report, "Standing Guard: How Unaccountable Contracting Fails Governments and Taxpayers."
- Create clear penalties in contracts that are sufficient to both deter companies from violating the contract as well as repair the damage caused if a company commits a violation.
- Include provisions in contracts that grant the contracting office maximum flexibility in canceling the contract.

By implementing the above strategy public officials can better protect the public from companies that seek to increase profits and lower costs by cutting corners.

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¹⁶⁶ 82,000 tons: "Officials: Unsafe Levels of Arsenic from Duke Energy Coal Ash Dump Pouring into River," *CBS News (AP)*, 18 February 2014. 70 miles: see note 163. 4,100 dump trucks derived from the assumption that one dump truck carries 20 tons of coal ash: Clarke Morrison, "What Do You Do with 100 Million Tons of Coal Ash?," *Citizen-Times*, 10 July 2014.

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¹⁶⁹ Failing to install pollution control equipment: see note 172. Required by the Clean Air Act: Environmental Protection Agency, "FACT SHEET: New Source Review (NSR)," downloaded from www3.epa.gov/air/tribal/pdfs/NSRBasicsFactSheet103106.pdf, 23 October 2015.

¹⁷⁰ Southern Environmental Law Center, "The Case Against Alabama Power," downloaded from www.southernenvironment.org/cases-and-projects/fact-sheets/the-case-against-alabama-power, 23 October 2015.

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¹⁸¹ *Ibid.*

