



Moravia Central School District Cafeteria Operations

Report of Examination

Period Covered:

July 1, 2014 – October 15, 2015

2016M-4



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Moravia Central School District, entitled Cafeteria Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Moravia School District (District) is located in the Towns of Moravia, Locke, Niles, Sempronius, Summerhill and Venice in Cayuga; the Town of Skaneateles in Onondaga County and the Town of Lansing in Tompkins County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates two cafeterias, which are located in the high school and elementary school buildings. Each cafeteria has two cashiers and two registers. The cafeterias offer breakfast, lunch and à la carte foods to approximately 925 students and 180 employees. The cafeteria has a total of 14 staff, including a School Lunch Manager who manages cafeteria operations. The District's budgeted school lunch appropriations for the 2015-16 fiscal year were \$588,000, which were funded primarily with federal and State aid and revenue from the sales to students and employees.

Objective

The objective of our audit was to determine if cafeteria operations were properly managed. Our audit addressed the following related question:

- Did District officials effectively manage cafeteria operations?

Scope and Methodology

We examined the District's cafeteria operations for the period July 1, 2014 through October 15, 2015. We interviewed District officials and cafeteria staff and reviewed financial information to determine cafeteria operations were effectively managed. We extended our scope back to July 1, 2010 for various costs and financial analysis.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Cafeteria Operations

District officials including the Board, Superintendent, Business Administrator and the School Lunch Manager are responsible for effectively managing cafeteria operations. This includes ensuring that the school lunch fund is self-sufficient. To ensure that the school lunch fund is self-sufficient, District officials should analyze operations to identify efficiencies such as comparing cost per meal to the meal price in order to set appropriate prices. Although a District may subsidize its school lunch fund, in order to limit the financial impact on the general fund, District officials should develop a reasonable plan in which subsidies are limited or not required to operate the school lunch fund. Additionally, the School Lunch Manager should maintain accurate food production records that include the number of meals prepared and the number of meals sold. These production records should be used to produce more accurate levels of meals in the future in order to reduce costs and waste. Effective management of cafeteria operations also includes ensuring that they receive, account for and deposit the proper amount of revenue from cafeteria sales. This can be accomplished by implementing policies and procedures for collecting, verifying and depositing cash receipts along with adequately segregating these duties.

District officials did not effectively manage cafeteria operations. District officials did not perform a cost-per-meal analysis and did not always consider past productions when planning future meals, which contributed to the cost of producing a meal exceeding the price charged. As a result, the general fund is subsidizing the school lunch fund on average \$66,000 annually. District cafeteria staff do not produce the meals in a productive manner. The District's productivity level for meals per labor hour (MPLH)¹ is not within the industry averages. Although the industry averages may not always be achievable given certain District conditions, District officials can use the industry averages to monitor operations and work towards increasing productivity, when necessary. District officials should actively monitor the MPLH to improve the operational productivity. Further, District officials did not adequately segregate duties over the collection, accounting and depositing of money or implement adequate mitigating controls, which increases the risk of recording and depositing errors or irregularities.

¹ Meals per labor hour is an industry-accepted standard used to determine the adequacy of staffing levels in a school food service operation.

Meal Costs – The District served approximately 830 meal equivalents² (ME) daily during the 2014-15 school year at a cost of approximately \$596,000. District officials take the necessary steps to enroll all eligible students in the free and reduced-price lunch program either through direct certification³ or the application process.

Although the full-price rates charged to students and staff met the minimum price guidelines established by State and federal agencies, the average cost to produce a meal well exceeded the prices charged. For the fiscal years 2010-11 through 2014-15, the average cost to produce a meal was \$3.73, while the average revenue⁴ per meal was \$3.17, resulting in an average 56 cent loss per ME.

	2010-11	2011-12	2012-13	2013-14	2014-15	Average
Revenue per ME	\$2.96	\$3.01	\$3.22	\$3.27	\$3.40	\$3.17
Cost of Food and Materials per ME	\$1.31	\$1.26	\$1.31	\$1.25	\$1.48	\$1.32
Cost of Labor and Benefits per ME	\$2.14	\$2.37	\$2.56	\$2.49	\$2.51	\$2.41
Total Cost per ME	\$3.45	\$3.63	\$3.87	\$3.74	\$3.99	\$3.73
Profit/(Loss) per ME	(\$0.49)	(\$0.62)	(\$0.65)	(\$0.47)	(\$0.59)	(\$0.56)

District officials did not perform a cost-per-meal analysis that would have allowed them to identify the loss per ME and identify potential areas where they could cut costs or enhance revenues. For example, 65 percent of the cost-per-meal is attributable to personnel and benefit costs. However, we were provided with the Business Administrator’s MPLH analysis at the exit conference. This analysis was done for the period of September 1 to November 30, 2014 for each cafeteria. This analysis showed that both cafeterias were just under the industry standards. We calculated the District’s MPLH on a District basis for the entire 2014-15 year at almost 14 meals per labor hour, which was considerably lower than industry standards.⁵

When MPLH falls below the industry standards, adjustments to a multitude of factors can assist the operation in becoming more efficient.

² An ME includes the conversion of the number of breakfast and à la carte revenues into an equivalent number of lunches. A single lunch is the standard by which any measures are calculated.

³ Direct certification is a process to certify all eligible students for free school meals without any application process if they reside in a household that receives supplemental nutrition assistance or Medicaid. Any school age child in the household is eligible for meals at no charge.

⁴ This amount includes aid.

⁵ MPLH standards for a conventional system, which is what the District uses, with daily MEs of 801 to 900, range from a low of 18 and a high of 20.

Such changes could include adjustments to the number and skill level of staff, the number of serving lines, the production methods and the complexity of menu items, or efforts to increase student participation. The two largest factors impacting MPLH are MEs and labor hours. If just looking at improving the District’s MPLH by adjusting labor costs, we determined District officials would need to reduce total annual labor hours by 23 percent, or by 14 hours per day, which could affect the District’s ability to serve quality, nutritious food. By just increasing MEs, the District would need to significantly increase the number of students and staff using the cafeterias to generate an additional 244 to 363 daily MEs. Because it is not possible or practical for the District to achieve the industry standards by adjusting just one factor – reducing staff or increasing sales – by the amounts needed to reach the industry standards, it must consider adjusting multiple factors in order to move towards the MPLH industry standards.

Food and material purchases also contributed to the higher cost per meal. For example, while the School Lunch Manager informed us that they review and consider past production records, we reviewed production records from September through November 2015 for the elementary school and found a 16, 9 and 7 percent overproduction of pasta, hamburger and chicken tender lunches, respectively.⁶ The School Lunch Manager informed us that the elementary school uses pre-orders for all lunches. Therefore, we would expect a narrower margin of overproduction.

Figure 2: Elementary School Lunch Production

Time Period	Entrée	Meals Prepared	Meals Sold	Extra Meals	Percent Unsold
09/09/15-11/05/15	Pasta	609	511	98	16%
09/11/15-11/02/15	Hamburger	657	597	60	9%
09/08/15-11/12/15	Chicken Tenders	813	754	59	7%

Due to the losses per ME, the general fund is subsidizing the school lunch fund on average \$66,000 annually. By overproducing meals and not considering past production records, the District is purchasing and preparing more food and materials than necessary.

Segregation of Duties – Two cashiers in each of the school buildings operate point-of-sale registers. One of the elementary cashiers collects, records and deposits all of the money into the bank for both cafeterias. She also records the deposits on a spreadsheet that is

⁶ Cafeteria employees recognized and reduced the overproduction of the chicken tender lunches during this three-month period.

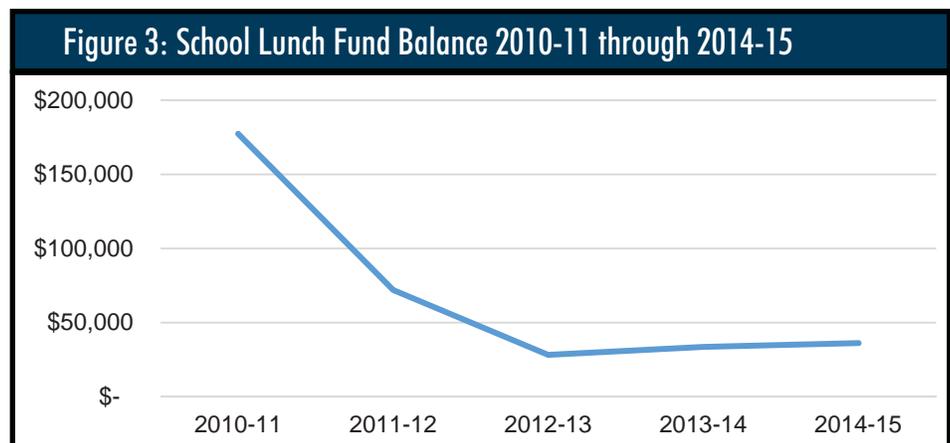
used by the Treasurer to record the sales in the financial accounting software. While the Treasurer maintains the bank statements and compares them to this spreadsheet received from the School Lunch Manager, she does not follow-up on differences. In addition, no one is comparing the deposits to the sales report from the point-of-sale software system. For example, we reviewed 32 daily sales reports and found two instances where more money was deposited than was recorded in the system. Furthermore, all voided sales are made directly by the cashiers without any approval or review.

The District has two vending machines in the high school. For September and October 2015, \$780 was collected from the vending machines. The School Lunch Manager fills the vending machine. The accounts payable clerk collects and deposits vending machine moneys and obtains the read out of the vending sales. However, no one compares the amount of money collected from the machine to the read out and to the amount deposited.

These weaknesses occurred because the cashiers and School Lunch Manager performed their duties with little to no oversight. Further, the Board has not adopted policies, nor have District officials implemented procedures, that adequately segregated the duties or implemented any mitigating controls.

Due to these weaknesses, we compared bank statements to cafeteria sales and vending machine reports and reviewed daily cash reports for overages, shortages and voided transactions.⁷ While we did not find any material discrepancies, the failure to adequately provide oversight increases the risk that errors and irregularities could go undetected and uncorrected.

Even with the general fund subsidies, the school lunch fund had total deficits of almost \$126,000 over the past five years and the fund balance has declined by 80 percent.



⁷ See Appendix B for sample selection and testing.

If the need for the operational subsidies were reduced or eliminated, those resources could be used for other District purposes. The failure to provide oversight of cash receipts increases the risk that receipts will not be properly recorded and deposited.

Recommendations

The Board should:

1. Adopt policies to ensure cash receipts are accounted for, including adequately segregating the duties or implementing compensating controls.

District officials should:

2. Analyze school lunch fund operations by completing a cost-per-meal analysis and exploring methods for increasing revenues and potentially decreasing expenditures to a level that allows the fund to be self-sustaining, including monitoring the MPLH and using existing production records.
3. Establish procedures to ensure cash receipts are accounted for, including adequately segregating the duties or implementing compensating controls such as having someone not involved in the day-to-day operations:
 - Reconcile the daily cash register receipts to the amount deposited and investigate any overages or shortages.
 - Reconcile the amount of items sold in the vending machine to the amount received and deposited and investigate any overages or shortages.
 - Authorize voids and adjustments to accounts to ensure they are accurate and supported.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

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April 21, 2016

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PSU-CAP Submission
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To Whom It May Concern:

On behalf of the Board of Education and District Administration, I'd like to thank the field staff of the Comptroller's Office for their feedback on our food service program. Please accept this letter as the corrective action plan and official response to your audit for the period of July 1, 2014 through October 15, 2015. We agree that there are opportunities for improving operations and tightening internal controls within our food service program, and have already instituted measures to address recommendations found therein.

It is the goal of the Moravia Central School District school food service to support student achievement by providing nutritious meals. In reviewing the comptroller's audit, we believe it's important to recognize the realities of operating a school food service. Current nutritional guidelines have raised the bar on standards for student nutrition but, as schools throughout New York State and across the country can attest, maintaining high standards while balancing income and expenditures is quite challenging. We continue to monitor revenue and expenditure trends and continue to look for ways to improve operations.

The Report of Examinations made the following recommendations:

The Board should:

1. *Adopt policies to ensure cash receipts are accounted for, including adequately segregating the duties or implementing compensating controls.*

The district participates in a policy update service and has initiated the process of developing a suitable policy.

District officials should:

2. *Analyze school lunch fund operations by completing a cost-per-meal analysis and exploring methods for increasing revenues and potentially decreasing expenditures to a level that allows the fund to be self-sustaining, including monitoring the MPLH and using existing production records.*

The business official and food service manager will work together to complete a cost-per-meal analysis annually. The district has been using the Lunch Price Equity Tool provided by the Child Nutrition Agency on an annual basis to review our meal prices and adjust them upward. However, given the level of poverty in our community and the current nutritional requirements, it will be difficult for us to raise the price per meal to match the cost. We will continue to monitor MPLH and look for ways to increase participation rate.

3. *Establish procedures to ensure cash receipts are accounted for, including adequately segregating the duties or implementing compensating controls such as having someone not involved in the day-to-day operations:*

- *Reconcile the daily cash register receipts to the amount deposited and investigate any overages or shortages.*
 - The size and configuration of our staff makes complete segregation of duties impractical. However, as a compensating control, the food service manager will print a Sales and Meals Counts Report and a District Wide Cash Journal Report from the food service point-of-sale system on a monthly basis and will reconcile these with the total deposits. She will review overages and shortages and investigate any discrepancies. When reconciled, she will sign and submit a copy of the matched reports to the business official.
- *Reconcile the amount of items sold in the vending machine to the amount received and deposited and investigate any overages or shortages*
 - In our existing procedure, the food service manager orders product and stocks the vending machines. A district office staff member is responsible to pull cash from the machines and prepare the deposit. This staff member also prepares a report that compares changes in inventory to the machine sales report. As a compensating control, the food service manager will begin reviewing these reports on a monthly basis to verify a match between the machine's sales readings, the amount collected, and quantity sold and investigate any discrepancies. When completed, she will sign and submit a copy to the business official.
- *Authorize voids and adjustments to accounts to ensure they are accurate and supported.*
 - While the size and configuration of our food service staff makes it impractical to require authorization for every void, the food service manager will begin running a transaction report weekly, reviews all voided entries, and look for questionable patterns as a compensating control.

Again, we appreciate the guidance provided by your office to assist us in our efforts to improve the operations and efficiency of our food service program.

Sincerely,

Michelle L. Brantner

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and employees and observed school lunch operations to gain an understanding of the processes and controls.
- We reviewed the prices that students and staff paid for school lunches to determine if the District was charging the appropriate prices based on the USDA and SED guidance.
- We calculated the MEs for the last five fiscal years from 2010-11 through 2014-15. See the Institute of Child Nutrition's *Financial Management Information System (FMIS)* at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf> pages 59 through 61 for the calculation steps to determine MEs. We used this figure to determine the average daily participation for fiscal years 2010-11 through 2014-15 assuming a 180-day school year. We analyzed the trend in participation rates and MEs.
- We calculated the expenditures and revenues of the school lunch operations for the last five completed fiscal years and analyzed results for trends in the per ME revenues and costs to determine if the increases in costs and revenues followed similar trends.
- We calculated the District's MPLH to determine if productivity levels were within the accepted school food service industry standards. See the FMIS at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf> pages 70 to 72 for the MPLH calculation. Also see, the National Food Service Management Institute's *Foundations for Effective Leadership in Child Nutrition Programs, Lesson Three, Foundation: the Business of Child Nutrition Programs* at <http://www.nfsmi.org/Foundations/lesson3/FoundationsL3Pop.pdf> page 35 for the staffing guidelines for on-site production. We also calculated the necessary changes in labor hours and MEs the District would need to achieve to meet the industry standards.
- We reviewed the production records from September 2015 through November 2015, selected judgmentally based on our professional judgment, for three entrees that were routinely prepared: hamburgers, chicken tenders and pasta. We compared the amounts produced to those sold and determined if the quantity produced considered past historical trends during those months.
- We calculated the results of operations over the last five fiscal years for the school lunch fund by comparing the actual revenues, including interfund transfers when applicable, and expenditures. We also calculated the trend in the school lunch fund's fund balance over this same period.
- We traced cash receipts from daily cash sheets for the week of December 8, 2014, selected based on our professional judgment, to deposit reports from the cafeteria software, deposit slips and bank statements to ensure that the amounts were being deposited in a timely manner and intact. For April 2014, we traced the bank deposits from the bank statement to the monthly revenue report from the cafeteria software to ensure that all deposits agreed with what was recorded.

- We compared the vending machine revenue report for September and October 2015 to the vending machine deposit spreadsheet. We also reviewed the support for filling the vending machine to determine if money received from the machine was accounted for on the bank statements and in the District's system and to determine if money received from the machine was reasonable.
- We reviewed the sale and meal count report for fiscal year 2014-15 to determine if there were significant cash overages or shortages within the cafeteria operations.
- We reviewed voided transactions for September and October 2015 to verify that all voids had correcting transactions immediately after the void.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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