

REPORT TO THE AUDIT COMMITTEE

ENTITY NAME	Niskayuna Central School District
REPORT DATE	November 26, 2013
PROCESS REVIEWED	Lunch Program's Inventory Controls
PERSONNEL INTERVIEWED	<ol style="list-style-type: none"> 1. Suzanne Wixom – Food Service Director 2. Matt Bourgeois, Assistant Superintendent for Business 3. Darla Gullota – Deputy Purchasing Agent/Accounts Payable Clerk 4. Kim Scheuer – District Treasurer 5. John Tamburello – Deputy Treasurer/Accounting Supervisor
SCOPE OF WORK	<p>We reviewed the district's lunch program policies and procedures with district personnel and obtained an understanding of the processes used by the district to account for inventories from the lunch program:</p> <ul style="list-style-type: none"> • Reviewed and tested the lunch program's system of inventory purchases and required documentation, such as receiving reports and invoices. We selected a sample of 26 disbursements from a population of 133 from July 2012 – June 2013. • Reconciliation of the inventory as of October 30, 2013. From a sample of 11 items, our testing applied the September 30, 2013 month-end itemized inventory; added in all purchases and subtracted reported usage for the month; then compared the calculated information by item to the October 30, 2013 physical inventory; • Reviewed and analyzed key ratios on the lunch program profit and loss statement from fiscal year 2012/13 and from July 2013 – November 2013 by location. • Performed an analysis of student participation from three separate periods. We selected a consistent period of time during the school year from three consecutive years surrounding the change of the National School Lunch Program requirements. • Visited each lunch program kitchen in the district and performed walkthrough of each dry and cold storage area scanning for old or stale inventory items and noting that all dry and cool storage areas are equipped with locks.
SCOPE RESTRICTIONS	No scope restrictions were noted
AUDIT OBJECTIVES	<ul style="list-style-type: none"> • Evaluate the lunch program inventory and the applicable internal controls to ensure they are operating effectively and efficiently; and • Ensure lunch program inventory and records are properly maintained and safeguarded.
KEY PROGRAM CONTROLS	<ul style="list-style-type: none"> • The district performed a competitive bidding process for food service inventory. The selection of vendors was based on the lowest bid price for each item. • Food Service operates a de-centralized inventory program. Each school orders, stores, and accounts for their own inventory to meet monthly menus. The business office prepared Excel spreadsheets, based on the awarded bid documents, for each school's food service to account for inventory, which is updated each month. The cook managers at each school perform their own monthly physical inventories. Additionally, the food service director will periodically rotate cook managers to do the physical inventories at another school. • The food service director maintains continuous oversight over production

	<p>and inventory usage and purchases. In addition, the food service director performs periodic surprise inventory counts at each location throughout the year.</p> <ul style="list-style-type: none"> • The food service director compares monthly revenues to expenses ensuring the percentages are consistent from month to month. • When ordering inventory, each cook manager prepares a vendor order form which is compared to receiving report. • The food service director and cook managers hold monthly meetings where operation issues are discussed. They discuss the monthly menu and how that impacts inventory. The cook managers are encouraged to share inventory before ordering through a vendor. The food service director set up a buddy system. For example, if Glenclyff Elementary needs inventory they should contact Craig Elementary first to see if they have inventory available that could be sent to Glenclyff. The goal is to prevent schools from purchasing more inventory when there is existing inventory on hand. • Each lunch program maintains storage area(s) for lunch program inventory that is locked during non-school hours. • The district prepares a monthly Profit & Loss report that is presented and reviewed by the Board of Education.
<p>ADDITIONAL PROGRAM INFORMATION</p>	<p>The district opted out of the Federal Nutrition Requirement for lunch effective at the end of January 2013, which was approved by the Board of Education and NY State Education Department. The applicable students will continue to receive free/reduced meals through the normal application process. However, the district will not receive federal and state aid for free/reduced lunches and will not receive federal commodities inventory.</p> <p>The student's lunch program participation analysis identified the following information:</p> <ul style="list-style-type: none"> • From September 2011 – January 2012 prior to federal requirement changes: <ul style="list-style-type: none"> ○ Overall, all schools combined, showed a 37.51% participation rate; ○ The elementary schools averaged 43%; ○ The middle schools averaged 45%; and ○ The high school was 25.21%. • From September 2012 – January 2013 while the district followed the federal requirements: <ul style="list-style-type: none"> ○ Overall, all school combined, averaged a 21.37% participation rate; ○ The elementary schools averaged 30%; ○ The middle schools averaged 22%; and ○ The high school was 10.07%. • From September 2013 – December 2013 the district opted out of federal requirements: <ul style="list-style-type: none"> ○ Overall, all school combined, averaged a 27.37% participation rate; ○ The elementary schools averaged 35%; ○ The middle schools averaged 31%; and ○ The high school was 15.35%. <p>As evident from the analysis, the participation decreased significantly when the district followed the federal requirements but once the district opted out of the federal requirements, the participation increased but not to the level experienced prior to the federal change. In addition, the business office</p>

	<p>indicated that there was an increase in lunch pricing to help cover the increased food costs in order to meet the federal requirements. However, the district did not decrease lunch pricing when the district opted out of the federal requirements, which may be the reason why participation is still lower.</p> <p>We noted from a study issued by School Food Focus – School Food 101 that the average school lunch service cost breakdown reported 46% of the cost goes toward inventory.</p>
<p>AUDIT COMMENTS</p>	<p>During our review of key profit & loss ratios for the year ended June 30, 2013, we noted the average rate of cost of food sold compared to the total revenues for all locations was 43%. However, one school reported a rate of 57% of cost of food sold but was identified by the district as a concern which was investigated and a corrective action was taken. We then reviewed the key profit & loss ratios for the five months of FY 2013/4 ending November 30, 2013, we noted the average rate of cost of food sold compared to total revenues for all locations was 50%. However, industry best practice standard indicates that the cost of food sold should not exceed 46%.</p>
<p>OBSERVATIONS AND RECOMMENDATIONS</p>	<p><u>Observation 1:</u> The food service program does not maintain a perpetual inventory program. In addition, does not have a program currently in place that would allow for a perpetual program. From our testing of 11 items, we noted the month ending inventory amount for each item did not match the expected amount. Some items indicated that food service had more inventory while other item amounts were less than expected. As a result, we were unable to confirm the actual inventory level in relation to the period's purchases and usage or to identify irregularities that could possibly lead to misappropriations.</p> <p><i>Recommendation: The district should consider establishing a perpetual inventory program. The district currently performs monthly physical inventory from which they update an excel spreadsheet that provides accountability from a specific point in time. However, the current process does not keep day-to-day inventory usage and purchases. The Nutrikid program can be used to account for inventory items that are specifically identified on the register. The district may consider training all cashiers on using the specific sale key for each product or consider standardizing sales by price instead of separate sales key for each product. The district can account for the usage of other inventory used for prepping meals, by requiring staff to record on a daily usage report or on the daily production records. Once a perpetual inventory is established, the district can review the inventory irregularities and investigate for potential issues.</i></p> <p><u>Observation 2:</u> During our review of the lunch program's disbursement process, we identified the following:</p> <ul style="list-style-type: none"> • Claim forms were used in lieu of issuing a purchase order; • No bid was obtained for one vendor that exceeded the \$20,000 requirement for bid amount. No bid was obtained because the district did not expect to exceed the \$20,000 in disbursements to this vendor. <p><i>Recommendation: The district should ensure purchase orders are used as required by the purchasing policy 6700.</i></p> <p><u>Observation 3:</u> We noted there is no formal written inventory transfer form when items are transferred to other locations. Each school has inventory storage for food services. However, one school (Hillside) has extra storage</p>

	<p>available and is utilized to store items for the other schools.</p> <p><i>Recommendation: The school lunch program should consider creating an inventory transfer form to be utilized for inventory transfers from one location to another. Transfer sheets should be forwarded with month end inventory sheets to the business office so transfers can be recorded in the month end profit and loss financials.</i></p> <p><u>Corrective Action Plan:</u> The district is currently working on formalizing the process and creating an inventory transfer form to be utilized for inventory transfers between locations.</p>
SUBMITTED BY:	Anton Mirtshev, Internal Auditor Ken Ziobrowski, Internal Auditor
DATED:	November 26, 2013

DRAFT

NISKAYUNA CENTRAL SCHOOLS

FINANCIALS
July 8, 2014

SCHOOL LUNCH FUND 7/1/13-5/31/14

	BIRCHWOOD	CRAIG	GLENCLIFF	HILLSIDE	ROSENDALE	IROQUOIS	VA	HIGH SCHOOL	TOTAL
Revenues:									
Breakfast	489.25	1,887.15	1,630.10	1,638.80	1,977.25	6,400.45	4,734.25	81,143.99	99,901.24
Select Type A Lunch	38,935.25	52,493.50	39,911.75	41,944.00	58,985.25	51,778.50	48,801.00	91,184.75	424,034.00
Cafeteria Sales	12,012.35	16,347.79	15,349.45	14,323.00	22,946.33	54,092.06	28,471.30	203,105.86	366,648.14
State and Federal Aid	427.65	1,698.48	2,696.82	1,297.36	1,010.66	4,777.67	4,904.44	7,727.74	24,540.81
Interest Income	2.44	2.44	2.44	2.44	2.44	2.44	2.44	2.47	19.55
Miscellaneous/Canteen Commissions (HS)	1,000.00	-	-	-	-	-	-	4,784.93	5,784.93
Total Revenues	52,866.94	72,429.36	59,590.56	59,205.60	84,921.93	117,051.12	86,913.43	387,949.74	920,928.67
Operating Expenses:									
Value of Food Sold:									
Opening Food Inventory - 7/1/13	1,538.00	2,583.84	810.06	2,687.84	2,413.78	2,597.40	922.22	1,490.09	15,043.23
Food Purchases	21,842.04	30,901.48	26,186.42	29,707.84	37,594.65	55,879.29	45,333.61	182,473.56	429,918.89
Surplus Food	(1,468.55)	(1,586.94)	(1,411.86)	(2,234.15)	(4,495.32)	(3,011.88)	(2,037.44)	(1,332.42)	(17,578.56)
Less: Ending Inventory - 5/31/14	21,911.49	31,898.38	25,584.62	30,161.53	35,513.11	55,464.81	44,218.39	182,631.23	427,383.56
Total Value of Food Sold									46.47
Other Operating Expenses:									
Salaries	28,886.20	36,121.83	28,079.15	38,156.31	39,204.08	44,067.94	50,162.14	112,464.59	377,142.24
ERS Expense	5,488.38	6,863.15	5,335.04	8,394.39	6,664.69	5,728.83	7,022.70	19,118.98	64,616.16
Health Insurance	5,468.87	5,468.87	5,468.87	5,468.87	5,468.87	5,468.87	5,468.87	5,468.87	38,282.09
FICA	2,041.87	2,481.47	2,000.16	2,539.64	2,713.59	3,178.15	3,663.50	8,358.99	26,977.37
Materials and Supplies	413.47	703.43	711.05	1,361.54	527.74	671.99	974.08	3,071.10	8,434.40
Contractual/Repair Expense	707.50	707.50	707.50	707.50	707.50	772.50	772.50	2,857.37	7,939.87
Equipment									
Workers' Compensation Insurance	193.54	242.02	188.13	255.65	262.67	295.26	336.09	753.51	2,526.87
Disability Insurance	89.55	111.98	87.05	118.28	121.53	136.61	155.50	348.64	1,169.14
Total Other Operating Expenses	43,289.38	52,700.25	42,576.95	57,002.18	55,670.67	60,320.15	68,555.38	146,973.18	527,088.14
Total Expenses	65,200.87	84,598.63	68,161.57	87,163.71	91,183.78	115,784.96	112,773.77	329,604.41	954,471.70
Excess Revenues (Expenditures)	(12,333.93)	(12,169.26)	(8,571.01)	(27,958.11)	(6,261.85)	1,266.16	(25,860.34)	58,345.33	(33,543.03)
Change in Fund Balance:									
Fund Equity (Deficit) - Beginning of School Year - 7/1/13	(238,170.13)	(118,296.68)	(36,990.48)	(65,246.01)	(4,178.66)	(7,553.05)	(43,899.25)	561,023.67	46,689.42
Excess Revenues (Expenditures)	(12,333.93)	(12,169.26)	(8,571.01)	(27,958.11)	(6,261.85)	1,266.16	(25,860.34)	58,345.33	(33,543.03)
Fund Equity (Deficit) - 5/31/14	(250,504.06)	(130,465.94)	(45,561.49)	(93,204.12)	(10,440.51)	(6,286.90)	(69,759.59)	619,369.00	13,146.39
Prepaid Balances	2,285.94	3,622.26	2,812.29	2,716.79	4,952.59	6,056.20	4,904.40	10,766.07	38,116.54