



Michael T. Wolff, CIA
Michael Wolff Advisory Services

South Colonie Central School District
Attn: Board of Education/Audit Committee
102 Loralee Drive
Albany, New York 12205

May 8, 2020

Re: 2019-20 Food Services Operations (Inventory)

The 2019-20 review of Food Service Operations—Inventory focused on tracking, purchasing, maintaining, securing, and reporting on the department inventory. Also included was a review of procedures and analytics used by the department to measure activity.

In performing our review we interviewed the staff at all locations to inquire about the use, storage, and recordkeeping associated with maintaining inventory. We also selected a sample of transactions to determine that the acquisition of inventory follows the purchasing policies and procedures of the district. We visited each storage location and verified how the inventory is secured as well as tested a sample of inventoried items to test the accuracy of the accounting process. We inquired about policies and procedures used for the use of inventory and any analytics used to measure the use of inventory.

Audit Summary: The staff located in all locations, including the district office, all have the experience and working knowledge for the maintenance and security of inventory. Each location maintains its inventory and is relatively secure. The overall risk of a material loss from mismanaging inventory is relatively low. However, the risks that are relevant, could be reduced with more consistent and timely procedures, improved security in some locations, and the use of metrics to better monitor the use of inventory, waste, and profitability.

Tracking and Reporting: Inventory is maintained and reported on a consistent basis, however, we found that the process is very manually intensive, and that can cause the inventory data at the district office to be dated. We also noted inconsistency in the procedures used for counting inventory between the various locations. We also noted the storage procedures being used in the various locations are not consistent in each location to ensure inventory is used in a “first-in, first-out” method, which ensures food is used before expiration dates.

Securing and Safeguarding: During our review, we noted the inventory maintained at each location is relatively secure, however, there were some consistencies that may present a risk of unauthorized use or access. The majority of these risks were during business hours when people are around, or after business hours but after a primary boundary of security had been breached. The risks of external theft are minimal and due to the districts building security and kitchen security. In most locations the amount of food storage in any one location is minimal. We made some recommendations in this area but in general, food is secure.

Purchasing: Our testing of purchasing specific to Food Services noted that in general food is purchases in an economical manner. However, some of the vendors need to have updated contracts or bids, to ensure these vendors or prices are still valid and economical. Additionally, by going out to bid, it creates competition among vendors to potentially reduce prices.

Analytics: As part of the monitoring of operations it is recommended that statistics and data are used to present measure operations. Besides very basic analytics, such as profit and loss, the use of analytics to measure overall performance and operations is not used. Some of the recommended analytics include labor costs, inventory

costs and per meal statistics. We recognize that this requires accurate and timely data and the current environment may need to develop procedures for gathering this information. We recommend evaluating what metrics would be most beneficial to measure operations and develop methods and schedules for collecting and reporting this data.

The period of the review for inventory maintenance occurred during January and February 2020. The period sampled for the review of purchases was July 1, 2018, through January 31, 2020.

The details of these reviews are documented in the following report. Included in the report are recommendations for management which may reduce the exposure of risk to the District.

It was a pleasure working with the staff of the South Colonie Central School District and if there are any questions concerning this report, the review, or if we can be of assistance in the future please feel free to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Wolff", written in a cursive style.

Michael T. Wolff, CIA
Internal Control Specialist
Michael Wolff Advisory Services

Food Services Operations—Inventory

The maintenance and usage of inventory is only one primary area of managing the Food Services group. The additional primary areas that must be monitored and managed include cash and student account management, management of the free and reduced meal programs, and complying with all the nutritional and health guidelines required for serving food to students and staff.

The risks associated with inventory include financial loss due to the mismanagement of inventory levels resulting in waste from too much product, or increased costs for expediated shipping for too little product. Additionally, with any tangible asset of the district, there is always the potential for theft or unauthorized use.

The inventory maintained by the district includes frozen and fresh foods, dry goods, paper goods, and government commodities that may be in any of these forms. The acquisition of food service products is obtained through the use of bids, state contracts, and cooperative purchase agreements. On occasion, a local store may also need to be used for smaller quantities of items not delivered by the bulk dealers. These small quantity purchases are usually to address specific dietary needs of a student or small number of students.

The district's food service inventory is maintained at the eight instructional buildings, with the high school maintaining two kitchens with inventory storage areas. The Sand Creek Middle School maintains a large freezer for holding quantities of frozen food that is distributed to the other schools as needed. Forest Park Elementary maintains a large dry storage area for government commodities that is used for distributing to the other schools. Forest Park also acts as the main distribution point to supply the other four elementary schools.

Inventory Maintenance, and Reporting

Tracking and reporting

For our review, we visited each location to observe inventory storage and we selected a sample of items to trace back to the inventory listing. We also interviewed personnel at the various locations to determine their methods for using inventory and recording inventory.

1. A review of the inventory sheets as well as interviewing staff we noted a number of inconsistencies. For example, when reporting some schools report full cases and do not report partials, other report half cases and others will break inventory down as small as quarter cases. The other inconsistency noted was in the volume or quantities reported. For example, two different schools may both report cases of water, with one case being 24 bottles and others having 40 bottles. Based on the inventory sheets, it would be difficult to get an exact count of inventory. Additional inconsistencies some schools reported the number of service trays they have while others just report when they are getting low on inventory.
2. Inventory is very manually intensive with each school completes a written inventory sheet on a monthly basis. The elementary schools also send a 3*page report to Forest Park each week as part of the ordering process. These sheets are used to assemble a monthly inventory for all of the elementary schools on a monthly basis that is sent to the District Office. The remaining schools also send their inventory reports to the District Office for manual input to the inventory system maintained within Nutrikids. At the time of our review, the data entry was one month behind in the Nutrikids system making the data used when ordering food and supplies outdated and unreliable. Although the data in the Nutrikids system is dated, the Food Services manager has a general idea of inventory or speaks directly with kitchen managers to coordinate inventory and purchases.
3. In a number of locations, there are large quantities of food that are segregated from the main working areas and are not accessed as often as common storage areas. For example, the basement commodities storage at Forest Park, basement cage at Sand Creek MS and the large freezers located in

- the High School and Sand Creek MS. Based on discussions, these areas are manually counted each month. This appears to be time-consuming for an inventory that does not change that much as a percentage of the inventory. These locations do not use a perpetual inventory system.
4. When inspecting the various locations we noted two specific items that may need to be addressed.
 - a. In the commodities storage at Forest Park, there are very large quantities of food. e.g. 121 cases of green beans, 171 cases of pears, and 20 cases of canned tuna fish. The date of receipt is written on the outside of the cases. We noted one case of beans that was within the date of expiration, however, the receipt date was 12/2018 meaning it had been in the basement for over a year. It appears that on occasion, the case that is taken for use may not be the oldest. Commonly referred to as the “first-in, first-out”, (FIFO) inventory method.
 - b. During the sampling of inventory, we found in two walk-in freezer locations, cases of the same food were scattered in different locations within the freezer making it difficult to take an accurate inventory or determine which case is the oldest and should be used first. Although this inventory is held by the Food Services department, the maintenance/custodial staff assisting in deliveries and may not be aware of or following the inventory stacking and usage procedures.
 5. Each kitchen uses production sheets that keep track of the food that is served, inventory used, and items that are leftover. A review of these sheets noted the disposition of the leftover items is not indicated. There is no indication of an item(s) being thrown away, or used the following day as an a la carte item.

Recommendations

1. The process of taking inventory should be universal for all locations with each using the same inventory sheets that list the items that may be inventory. For similar items, the inventory sheet should identify the actual item. i.e. 24 bottle case vs 40 bottle case. All schools should use consistent standards for counting inventory. i.e. 1/4, 1/2, 3/4 cases, etc.
2. The district may want to evaluate options to collect inventory in a manner to reduce the amount of manual entries and paper. Some possibilities would be for kitchens to have access to the Nutrikids inventory module to enter data themselves, use shared Google Sheets or Excel file, or maintain a perpetual inventory system so the inventory does not need to be counted except periodically to verify accuracy. The perpetual inventory system would carry forward the food balances each day by adding in any shipments and subtracting out food used in food prep or shipped between schools.
3. For the areas that are out of the general working area and not entered very often, we would recommend using a perpetual inventory system for the areas maintained in these areas. For example, a clipboard could be kept at the door to the cage in the basement of Sand Creek MS, and anytime product goes through the door, either in or out, an entry is made on the clipboard. This will reduce the amount of time required to take inventory each month.
4. For all locations, a standard should be established for maintaining, storing, and using inventory. We recommend similar items are stacked together and any staff that is involved in receiving or using inventory, are aware of the methods for using inventory. i.e. First-in, First-out.
5. The production sheets that indicate unused food at the end of the date should indicate the disposition of left-over food. i.e. trash, resale, returned to inventory, etc. These figures should be monitored to ensure the amount that is going to the trash as waste is monitored.

Inventory Securing and Safeguarding

Food service inventory represents a substantial amount of assets to the district. These items include equipment, frozen/refrigerated foods, dry goods, paper goods, and government commodities. The inventory must be protected during and after food service hours to ensure it is safe from theft, unauthorized access, or contamination. As part of our review, we visited all food service locations and observed the areas of inventory use and storage. For after-hours storage, we interviewed each kitchen manager.

In general, the areas of property and inventory maintained by the Food Services department is secure

both during and after school hours. However, there were a small number of areas that present some risk that should be remediated or evaluation

1. Some interior coolers (reach-ins) do not have keys or are not locked after business hours, however, they are held within a kitchen that is locked. Although this reduces the risk of unauthorized access, if the kitchen is unlocked for some time or the building is used on the after school hours, unauthorized access to the food may be at risk.
2. Building level Security Observations:
 - Veeder Elementary
 - There is a food closet in the hallway outside the kitchen area that is unlocked during food service. Although the risk is small for unauthorized access, someone could enter this area without being seen by the kitchen staff.
 - A custodial cart has been stored in a food service area that has dry goods and paper goods. The Food Services staff indicated that it shouldn't be stored there but has continued to be placed in the storage room. This increases the chance for contamination should the cleaning supplies spill on the food service inventory.
 - Forest Park Elementary
 - The walk-in cooler/freezer does not have a lock/key lock to secure it after hours. The freezer is in a kitchen that is locked after hours, however, the risk of entry is present if the kitchen is accidentally unlocked or groups are approved to use the building in that area.
 - Shaker Road Elementary
 - The office that maintains a small inventory of dry goods and paper goods has two doors for access. One facing the cash registers and open to the kitchen, the other opens to the hallway. On the day of our visit, this door was open. Although the risk is low, someone could enter the office and remove inventory without the staff in the kitchen knowing.
 - Roessleville Elementary School
 - The storage area for dry goods and paper goods is located in a closet, within the kitchen. This closet does not have a locking door, therefore if the kitchen can be accessed after school hours, this area could be accessed.
 - Lisha Kill Middles School
 - There is an unlocked storage closet in the dining area, that is not in view of the food service staff during business lunch service hours. Although the risk is small the closet could be accessed.
 - Sand Creek Middle School
 - The storage area in the basement ("cage") does not have a lock. (Note: before ending our review we noted maintenance beginning to install a lock but we did not go back for a reinspection.

Purchasing

Purchases of food, supplies, and equipment represent a significant amount of expense for the Food Services budget. Purchasing of food inventories follows the same purchasing requirements of all other materials for the school district. The majority of food items are obtained by winning bids, or on state contract. The purchasing process is tested as part of the annual risk assessment, however, for this audit, we tested a small sample (20 items) of purchases that pertained only to the cafeteria fund. Included in the review was compliance with purchasing policies, i.e. bids, contracts, receipts of goods, and the exclusion of sales tax. The following was the results:

- There were four vendors in which we could not verify a bid.
- One invoice contained items that had a price that was higher than the State bid price. The amount was not material.
- One vendor's most recent contract on file was from 2016.

Recommendations: Food Services management should identify the major classes of items that are purchased and take an inventory of what method is used to secure the most economical price and when was the last time a contract or bid was obtained. If the pricing method needs to be updated, Food Services should work with the Purchasing agent to update contracts.

Financial Analysis and Analytics

Monitoring food service activities through the use of data and various metrics provides valuable information on the business areas to identify trends and evaluate progress throughout the year. Currently, the district monitors some items such as daily sales, meals served (breakfast, lunch, ala carte, etc.), and the number of free and reduced meals. Through the business office, the cost of payroll and employee benefits expense, as well as operating expenses, can be viewed when needed. The budget to actual and overall profitability can be viewed through the business software.

Although these numbers are available, there are several other metrics that can be used to measure the operations of the foodservice program. Suggested metrics in addition to the current items reviewed are per meal cost, meals per labor hour, food costs as a percent of sales, and personnel costs as a percent of sales. Revenue per meal equivalent is a common metric recommended by the NYS Comptroller's office. Additional metrics could include inventory on hand as well as the percent of waste from unsold meals, that need to be thrown out.

Using data to monitor the operations of food service will assist in management being able to make more informed decisions. For example, when there was a change in the nutritional guidelines, costs went up that year. However, by having clear and accurate data the district may be able to determine what percentage of that increase was an actual change in milk or bread expense, versus an increase in healthcare benefits.

Recommendation: The Food Service department and administration should identify which metrics are most valuable to monitor operations and be able to make more informed decisions. This data should provide timely and accurate information that will help with future planning and budgeting, equipment needs, personnel, and inventory. The source of the data, frequency of the data/reports, and the audience for these reports should be identified. We feel that this will create a more informed operations environment that would allow the district to be more proactive to changes in the food service environment.

Procedures

During our review, we evaluated the policies and procedures used for managing and operating the food service areas. During our review, we noted that most areas did not have any written procedures or policies. Although everyone we met with, appeared to be very experienced and have a good working knowledge of operations, we noted inconsistencies from building to building.

Recommendations:

Food Services management, along with the staff should create written procedures for handling the inventory side of food service operations. Areas that should be included are the areas within this report; using and counting inventory, storing inventory, maintaining written and electronic files and developing metrics for measuring the activities of the Food Services department.

Conclusions: The staff located in all locations, including the district office, all have the experience and working knowledge for the maintenance and security of inventory. The risks associated with the areas covered in this report, which existent appear to be adequately controlled to prevent a material loss. The

most improvement can be obtained through creating consistent procedures for all buildings in maintaining the inventory, streamlining the inventory process to be efficient and timely, evaluating security and analytics to better serve the Food Services group.

It was a pleasure working with the staff of the South Colonie Central School District and everyone we worked with was very cooperative and helpful.

If there are any questions concerning this report, the review, or if we can be of assistance in the future please feel free to contact us.

Rose Giglio
PRESIDENT, BOARD OF EDUCATION

APPROVED BY
BOARD OF EDUCATION

8-25-20