



Cooperstown Central School District School Lunch Fund Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – January 14, 2016

2016M-86



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Cooperstown Central School District, entitled School Lunch Fund Financial Condition. 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 Cooperstown Central School District (District) is located in the Village of Cooperstown and the Towns of Burlington, Hartwick, Middlefield, New Lisbon and Otsego in Otsego 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 day-to-day management of the District under the Board's direction. The District contracts with Milford Central School District to manage its school lunch operations. Under this arrangement, a Milford employee serves as the café manager and Cooperstown uses Milford's school lunch software.

The District operates two cafeterias, which are located in the junior/senior high school and the elementary school. The cafeterias offer breakfast, lunch and à la carte food to approximately 885 students and 255 employees. There are a total of eight cafeteria staff and a shared Food Service Manager who manages school lunch operations. The District's budgeted appropriations for the school lunch fund for the 2015-16 fiscal year are \$422,000, funded primarily with federal and State aid and revenues from the sale of food to students and employees.

Objective

The objective of our audit was to determine whether District officials managed the school lunch fund's financial condition. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's school lunch fund's financial condition?

Scope and Methodology

We examined the District's school lunch fund's financial condition for the period July 1, 2014 through January 14, 2016. We extended our scope period back to July 1, 2012 for 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 C 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 generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

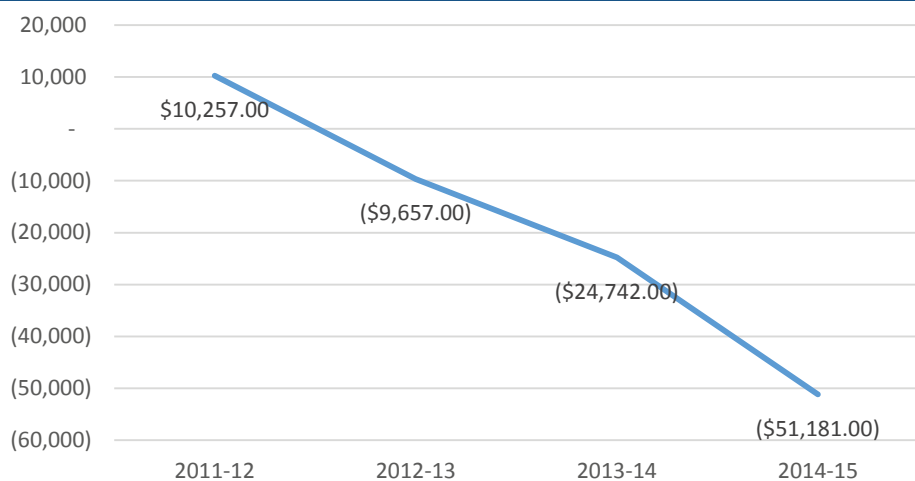
The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings 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.

School Lunch Fund Financial Condition

District officials including the Board, Superintendent, Business Administrator and the Food Service Manager are responsible for effectively managing the school lunch fund's financial condition. This includes having a reasonable plan for their school lunch operations where subsidies are not required to sustain the fund. To assist the school lunch fund in being self-sufficient, District officials should analyze operations to identify production inefficiencies and to determine if the pricing structure meets their current cost needs. For example, the production of meals over a specified period of time is a measure of the efficiency of the school lunch operation. The number of meals produced coupled with the staffing hours to produce those meals, also known as the meals per labor hour (MPLH), provides the District with a measurable figure to gauge these aspects of its operation. In addition, performing a cost-per-meal analysis can be beneficial for setting meal prices.

The Board and District officials could improve their management of the school lunch fund's financial condition. Over the last three fiscal years, fund balance decreased over \$61,000 as a result of operational deficits averaging approximately \$20,000 per year. At the end of 2014-15, the school lunch fund owed the general fund \$131,000 and the District has reported negative total fund balance since 2012-13.

Table 1: School Lunch Fund – Fund Balance



The majority of the school lunch fund's expenditures are for employee salaries, benefits and food purchases. While participation rates were steady, production was slightly below industry standards, and the average cost to produce a meal well exceeded the revenue earned. We calculated the MPLH for the 2014-15 fiscal year to be 19, which is slightly less than the industry standard of 20. In addition, for 2012-

13 and 2013-14, District's MPLH was 18. Moreover, the average cost to produce a meal was \$3.14,¹ while the revenue received per meal was \$2.96² for 2014-15. This resulted in an average loss of 19 cents per meal. 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.

Figure 2: Revenue and Cost Per Meal Equivalent (ME)			
	2012-13	2013-14	2014-15
Revenue	\$3.01	\$3.12	\$2.96
Cost of Food and Materials	\$1.43	\$1.52	\$1.42
Cost of Contracted Services	\$0.35	\$0.36	\$0.33
Cost of Labor and Benefits	\$1.37	\$1.31	\$1.40
Total Cost	\$3.15	\$3.19	\$3.14
Profit/(Loss)	(\$0.14)	(\$0.07)	(\$0.19)

District officials informed us that they were aware that their costs were outpacing their revenues. However, because of workload, they have not performed a cost-per-meal analysis or an analysis of their MPLH that would have allowed them to identify the loss per ME, and identify potential areas where they could cut costs or enhance revenues.

When established prices and reimbursement rates do not generate sufficient revenue to cover the District's costs, the school lunch fund is not able to sustain its operations without the assistance of the general fund. If District officials want to keep costs at the current level, prices for students who pay full price³ would need to increase by 19 percent, or 59 cents per meal. Alternatively, if they want to keep prices steady, their costs would have to decrease by 19 percent, or \$83,000 a year. If the need for the operational subsidies were reduced or eliminated, those resources could be used for other District purposes.

Recommendations

District officials should:

1. Complete a cost-per-meal analysis and explore methods for increasing revenues and decreasing expenditures to a level that allows the fund to be self-sustaining.
2. Monitor the MPLH.

¹ This amount includes aid.

² Based on the average price charged to students plus the reimbursement from the federal government

³ District officials do not have control over the free and reduced lunch reimbursement rates. Therefore, they would have to increase the full-pay price rates to generate enough revenue to meet their costs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



COOPERSTOWN CENTRAL SCHOOL DISTRICT

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July 13, 2016

Office of the State Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

To Whom It May Concern:

The Cooperstown Central School District Board of Education understands the findings and recommendations of the Report of Examination of School Lunch Fund Financial Condition for the period of July 1, 2014 through January 14, 2016. Please accept this as the district's response and corrective action plan.

The district is cognizant of its responsibility to effectively manage the school lunch fund's financial condition and operate a self-sufficient program. However, federally established nutritional guidelines and regulations as well as contractual obligations impede the district's ability to annually generate sufficient revenue to cover costs. Prior to the school lunch fund audit the district examined multiple ways to reduce costs and implemented staffing changes to lessen labor costs.

See Note 1 Page 8

Cooperstown Central School District will take corrective action and specifically monitor operational costs by completing a cost-per-meal analysis and monitoring the MPLH. Additionally, it will continue to explore methods for increasing revenues and decreasing expenditures to a level that allows the fund to be self-sustaining.

Respectfully submitted.

Dr. Theresa Russo
Board of Education President

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We recognize these outside factors affect what cafeterias can do to balance revenues and expenditures. However, focusing efforts on factors under the District's control (i.e., certain cafeteria costs and employee scheduling) could further improve the condition of the cafeteria.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of school lunch fund operations.
- We analyzed the lunch fund balance, results of operations and interfund loans to determine the stability of the fund and if it could repay its interfund loan.
- We calculated the MEs for the last three fiscal years from 2012-13 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 2012-13 through 2014-15 assuming a 180-day school year. We analyzed the trend in participation rates and MEs.
- 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 analyzed daily participation rate trends from 2012-13 to 2014-15 to determine if the participation rates contributed to the operating deficits.
- We determined the full-pay price the District would need to charge to sustain its current costs. Also, we determined the decrease in costs necessary to sustain the District's current price for full-pay students.

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.

APPENDIX D

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