



Hamilton Central School District

School Lunch Fund Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – February 25, 2016

2016M-136



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 Hamilton 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 Hamilton Central School District (District) is located in the Village of Hamilton and the Towns of Brookfield, Eaton, Hamilton, Lebanon and Madison, in Madison County. The District is governed by the Board of Education (Board), which is composed of five 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 operates one cafeteria which offers breakfast, lunch and à la carte food to 535 students and 111 employees. Five cafeteria staff and a cook manage school lunch operations. The District's budgeted appropriations for the school lunch fund for the 2015-16 fiscal year were \$269,000, 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 examine the school lunch fund's financial condition. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the 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 February 25, 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 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 findings and indicated they planned to take 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.

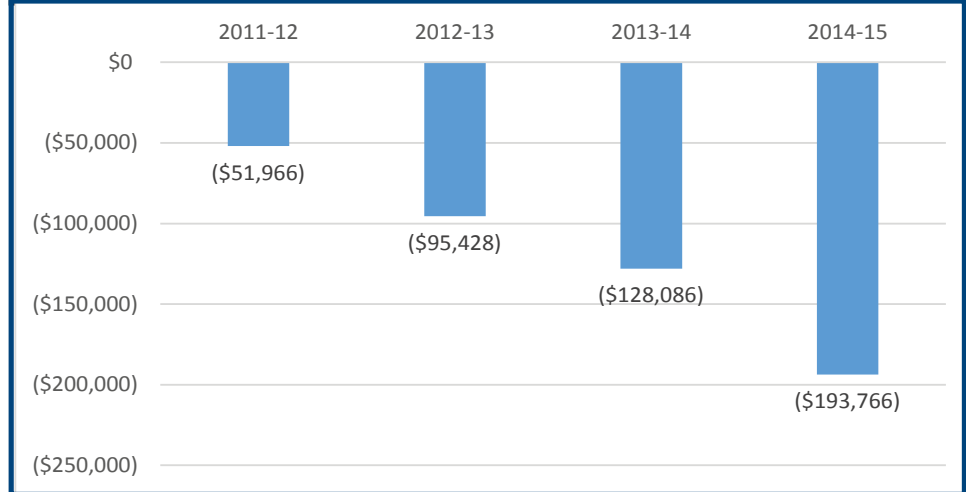
School Lunch Fund Financial Condition

District officials, including the Board, Superintendent, Business Administrator and Food Service Director, 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 current cost needs. The number of meals produced divided by 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. MPLH standards for a conventional system¹ with daily meal equivalents (ME) over 301 range from 14 to 16. 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. The school has reported a negative fund balance since 2006-07. Over the last three fiscal years, fund balance decreased by over \$141,000 as a result of operating deficits averaging approximately \$47,000² per year. Operating deficits include subsidies from the general fund, which averaged \$23,000 over the past three years. Without these subsidies, the fund's operating deficits would average about \$70,000 a year. Furthermore, at the end of 2014-15, the school lunch fund owed the general fund \$168,000. We project another operating deficit in 2015-16 that will reduce the fund balance of the school lunch fund by an additional \$72,000.

¹ A conventional system is one in which food is purchased in various processed stages from raw ingredients to some preprocessed foods, which will require additional processing before use. In contrast, a convenience system uses food items that have been preprocessed and may or may not require additional preparation before service.

² The District does not include New York State and Local Retirement System (NYSLRS) expenditures (contributions on behalf of employees) in its school lunch fund. Average NYSLRS expenditures over the past three years totaled \$14,000.

Figure 1: Fund Balance - School Lunch Fund

Production is significantly below industry standards, and the average cost to produce a meal exceeded the revenue earned. The District's MPLH for the 2014-15 school year was 8, significantly lower than industry standards. The cafeteria's current production levels are at 312 MEs a day. Our MPLH analysis shows that the employees working their current hours should be producing an additional 235 meal equivalents a day. Although the industry averages may not always be achievable, District officials can use the industry averages to monitor operations and work toward increasing productivity.

We also calculated the cost to produce a meal was \$4.99 while the revenue received per meal was \$3.29³ for 2014-15. This resulted in a loss of \$1.70 per meal, or \$95,000 for the year. Costs to produce a meal are increasing at a faster pace than the corresponding revenues. From 2012-13 through 2014-15, the District's revenues increased \$0.11 per meal while costs per meal increased \$0.91 (Figure 2).

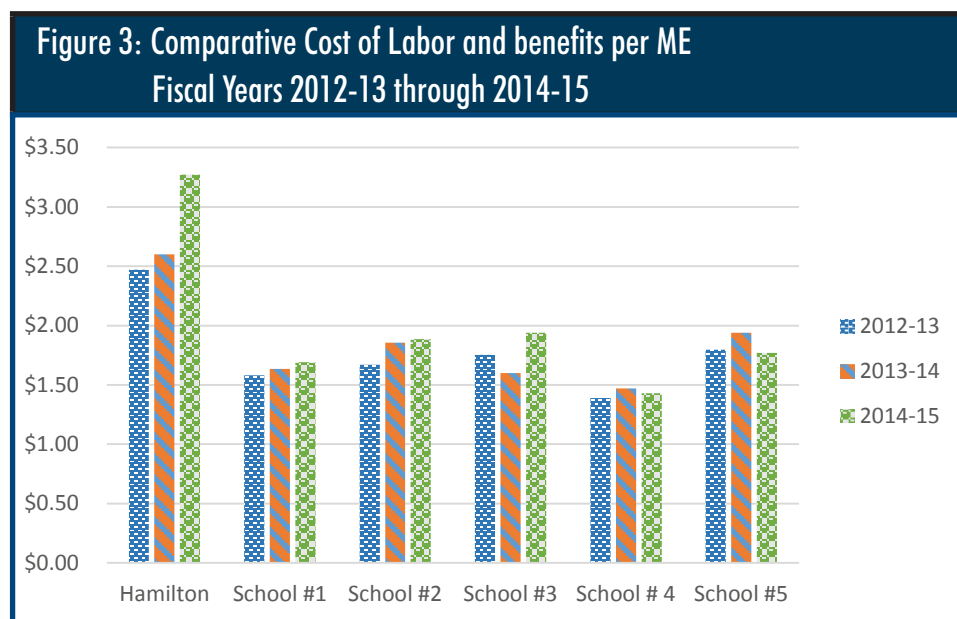
Figure 2: Revenue vs. Cost Per ME

	2012-13	2013-14	2014-15
Revenue	\$ 3.18	\$3.16	\$3.29
Cost of Food and Materials	\$1.61	\$1.63	\$1.72
Cost of Labor and Benefits	\$2.47	\$2.60	\$3.27
Total Cost	\$4.08	\$4.23	\$4.99
Shortfall	(\$0.90)	(\$1.07)	(\$1.70)

District officials told us they were aware that their costs exceeded revenues. However, they did not perform a cost-per-meal analysis or an MPLH analysis. Such analyses would have allowed them to identify the loss per ME and potential areas where they could cut costs or enhance revenues.

³ Based on the average price charged to students plus the reimbursement from the federal government

We compared the District's costs per ME with those of five other school districts in Madison County that included all school lunch benefits as expenditures in the cafeteria fund.⁴ On average, the District's costs of food and materials were comparable to the other districts. However, labor and benefits costs were significantly higher (Figure 3).



Additionally, in the last completed fiscal year, the District's total cost per ME fell short of revenue by \$1.70, compared to an average shortfall of \$0.21 among the other five districts (Figure 4).

Figure 4: Comparative Revenue and Total Costs per ME for Fiscal Year 2-14-15

	Hamilton CSD	Average of Five School Districts	Difference: Hamilton vs. Average
Revenue	\$3.29	\$3.09	\$0.20
Cost of Food and Materials	\$1.72	\$1.55	\$0.17
Cost of Labor and Benefits	\$3.27	\$1.74	\$1.53
Total Cost	\$4.99	\$3.30	\$1.69
Variance – Revenue Less Cost	(\$1.70)	(\$0.21)	

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. To meet industry standards for MPLH, District officials would have to reduce the total hours that lunch employees work by 15 hours a day, which would equate to an annual cost reduction of about \$39,000. Because it may not be possible or practical for the District to achieve the industry standards by adjusting just one factor, such as reducing staff or increasing sales, District officials could consider adjusting multiple factors. In addition, we found the

⁴ These calculations are based on reported data from the other five school districts: the Oneida City School District and the Brookfield, Canastota, Chittenango and Stockbridge Central School Districts.

2014-15 operating deficit⁵ of the school lunch fund to be \$95,000; therefore, District officials would have to identify other cost-cutting measures to better align with the revenues received. If the need for the operational subsidies from the general fund were reduced or eliminated, those resources could be used for other District purposes.

Recommendations

District officials should:

1. Take action to bring the MPLH closer to industry standards.
2. 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.

⁵ This amount excludes the interfund transfer from the general fund.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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June 29, 2016

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Please accept this letter as notification that the Hamilton Central School District has received and reviewed the draft report of the New York State Comptroller's Office review of the district's school lunch fund financial condition.

Despite new nutritional standards, declining participation, and increasing expenditures, the district has been committed to providing a variety of healthy, affordable food offerings through the school lunch program.

District officials recognize that our meals per labor hour (MPLH) measure is below industry standards. The district is in the process of examining staffing levels and seeking ways of improving efficiency. Details of corrective action will follow at a later date.

The Hamilton Central School District thanks the examiners for their professionalism shown throughout the audit process. District officials will continue to review our practices to maintain appropriate controls and accountability over all district operations.

Sincerely,

Anael Alston, Ed.D.
Superintendent of Schools

Aim High!

APPENDIX B

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 daily MEs from 2012-13 through 2014-15. See The University of Mississippi's Institute of Child Nutrition's (NFSMI) *ICN Financial Management Information System* at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf> (pp. 59-61) for the calculation steps to determine MEs.
- We determined the MPLH by calculating the average hours worked per day from 2012-13 through 2014-15 and dividing it by the daily MEs. We then compared the MPLH to industry standards. See the NFSMI's *ICN Financial Management Information System* at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf> (pp. 70-72) for the MPLH calculation. Also see the NFSMI'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> (p. 35) for the Staffing Guidelines for On-Site Production.
- We performed a cost per meal and revenue per meal analysis to determine if the lunch fund was receiving enough revenue per meal to cover the cost per meal. We also compared the cost per meal to federal and State reimbursement rates and the price of full price meals to determine if the amounts received covered the cost per meal.
- We projected 2015-16 fund balance by taking total revenues and expenditures as of February 25, 2016, dividing them by the number of days the school served food, multiplying that number by 180 days (total number of days the school serves meals) and subtracting the revenue and expenditures totals to obtain results of operations. We then used the 2014-15 ending lunch fund balance and added the results of operations to project the 2015-16 lunch fund balance.
- We calculated the number of hours the District would need to reduce to meet industry MPLH standards by dividing the District's daily ME by the industry standard low of 14 MPLH.
- We calculated the number of additional MEs the District would need to produce to meet the industry MPLH standard by first multiplying the 14 MPLH industry standard by the District's number of average daily labor hours, then subtracting the District's actual daily ME from that number.
- We reviewed annual reports filed with our office and New York State Education Department data from five other school districts within Madison County which recorded all appropriate

school lunch benefits in the cafeteria fund. We calculated the District's costs and revenues per ME to the other five districts to determine how Hamilton compared to similar schools in the County.

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 C

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