



Rockville Centre Union Free School District

School Lunch Fund Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – April 30, 2016

2016M-139



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 Rockville Centre Union Free 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 Rockville Centre Union Free School District (District) is located in the Village of Rockville Centre and includes parts of the Town and Village of Hempstead in Nassau County. The District is governed by a five-member Board of Education (Board) 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 cafeterias in each of its seven school buildings offering lunch and à la carte foods to approximately 3,550 students and 930 employees. They also offer breakfast in the high and middle school cafeterias. The Food Service Coordinator manages cafeteria operations and oversees the 22 cafeteria employees. The District's budgeted school lunch fund appropriations for the 2015-16 fiscal year were approximately \$1.1 million, which were funded primarily with federal and State aid and revenues from the sales to students and employees.

Objective

The objective of our audit was to analyze 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 April 30, 2016. We interviewed District officials and cafeteria staff and reviewed financial information to determine if District officials were effectively managing the school lunch fund's financial condition. We extended our scope back to July 1, 2012 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 C of this report.

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. Except as indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate corrective

action. Appendix B includes our comments on issues District officials raised in their response.

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

The Board and District officials¹ are responsible for effectively managing the school lunch fund's financial condition. District officials should ensure the fund generates enough revenues, including collecting all eligible aid, to cover expenditures. District officials should analyze operations to identify efficiencies, such as comparing cost per meal to the meal price, to set appropriate prices. The production of meals over a specified period of time is a measure of the school lunch operation's efficiency. The number of meals produced divided by the staffing hours to produce those meals, also known as the meals per labor hour (MPLH),² provides the District with a measurable figure to gauge these aspects of its operation. Districts can use MPLH to make adjustments to operations to ensure staff are preparing foods in the most productive manner possible. When meal costs and employee productivity are properly controlled and monitored, school lunch operations should function without subsidies from other District funds.

The Board and District officials could improve their management of the school lunch fund's financial condition. Although the school lunch fund had surpluses in 2012-13 and 2013-14 totaling almost \$25,000, the fund realized a deficit of more than \$26,000 in 2014-15, resulting in a 75 percent decrease in fund balance. Furthermore, the District paid health insurance and retirement system costs for cafeteria employees, averaging \$41,500 annually, out of the general fund.³ Had the District paid these costs from the school lunch fund, this fund would have had deficits in each of the last three fiscal years totaling more than \$126,000. Additionally, the school lunch fund owes the general fund more than \$212,000, which is unlikely to be paid back because it would cause the fund's cash balance to decline significantly. Finally, District officials did not perform a cost-per-meal analysis and the District's productivity level for MPLH is below the industry average.

Meal Costs – The District served 1,396 meal equivalents⁴ (ME) daily during the 2014-15 school year at a cost of approximately \$825,000. During our audit period, District officials took the necessary steps to

¹ District officials responsible include the Superintendent, Assistant Superintendent of Business and Personnel and the Food Service Coordinator.

² Meals per labor hour is an industry-accepted standard used to determine the adequacy of staffing levels in a school food service operation.

³ Salaries and Social Security benefits were paid out of the school lunch fund.

⁴ An ME includes the conversion of the number of breakfasts and à la carte revenues into an equivalent number of lunches. A single lunch is the standard by which any measures are calculated.

enroll all eligible students in the free and reduced-price lunch program and received the appropriate amount of available federal and State aid for the school lunch fund.

While the full-price rates charged to students and staff for the last three years met the minimum pricing guidelines established by State and federal agencies, costs to produce a meal are increasing at a faster pace than the corresponding revenues. For example, the District netted a profit per ME of \$.05 in 2012-13 and \$.04 in 2013-14 but had a loss of \$.11 per ME in 2014-15. Further, when the costs of benefits paid out of the general fund are considered, the District operated at a loss in each of the three years (see Figure 1).

Figure 1: Revenue and Cost-Per-ME

	2012-13	2013-14	2014-15
Revenue per ME	\$3.04	\$3.13	\$3.18
Cost of Food and Materials per ME	\$1.28	\$1.35	\$1.40
Cost of Labor and Benefits per ME	\$1.71	\$1.74	\$1.89
Total Cost per ME	\$2.99	\$3.09	\$3.29
Profit/(Loss) per ME	\$.05	\$.04	(\$.11)
Adjusted Cost of Labor and Benefits per ME ^a	\$1.84	\$1.90	\$2.06
Adjusted Total Costs per ME	\$3.12	\$3.25	\$3.46
Adjusted Loss per ME	(\$.08)	(\$.12)	(\$.28)

^a Adjusted to include the cost of the health insurance and retirement system costs for the cafeteria employees paid out of the general fund.

In addition, the average daily participation for breakfast and lunch decreased 5 percent over the last three years. While the number of MEs served has declined,⁵ the cost to produce an ME has increased. Although the District uses a cooperative bid to purchase food and materials, uncontrollable factors often result in cost increases for food. For example, the cost of food for any consumer, including the District, increases annually because of factors like weather disturbances or animal and crop diseases.

Over the last three years, the cost per ME for food and materials increased 9 percent or \$.12 per ME. Additionally, the cost of labor and Social Security benefits has remained steady at approximately 57 percent of the total ME costs. When the cost of benefits paid out of the general fund are included, this increases to approximately 59 percent of the total ME costs. Therefore, the majority of the costs of producing an ME are driven by the cost of labor and benefits.

Cafeteria operations would break even at a volume of about 259,500 MEs per year (a 3 percent increase) given the current revenue per

⁵ The number of daily MEs has decreased from 1,532 to 1,396 (9 percent) over the same three year period.

ME of \$3.18 and food and materials cost of \$1.40 per ME because the labor and benefits cost would be reduced to \$1.78 per ME.⁶ If the District had included the employee benefits paid out of the general fund, the District would break even at a volume of about 273,410 MEs per year (a 9 percent increase) with the current revenue per ME.

Productivity – Industry standards for MPLH consider many factors, including the type of service being provided, production system, amount of convenience foods used, skill levels of employees and complexity of the menu. The District’s cafeterias use a conventional system for food preparation. MPLH standards for a conventional system with daily MEs over 901 range from a low of 19 and a high of 21. The District’s MPLH for the 2014-15 school year was 11.4, which is significantly lower than industry standards.

When MPLH falls below the industry standards, adjustments to a multitude of factors can assist the operation in becoming more efficient. Such changes could include adjustments to the number and skill level of staff, number of serving lines, production methods and complexity of menu items, or efforts to increase student participation. The two largest factors impacting MPLH are MEs and labor hours.

By 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 40 percent or 48 hours per day, which could affect the District’s ability to serve quality, nutritious food. This is further complicated by the fact the District has seven school buildings, five of which require a minimum of two employees for daily cafeteria operations.

Conversely, by just increasing MEs, the District would need to significantly increase the number of students and staff using the cafeterias to generate an additional 913 to 1,156 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 industry standards, it must consider adjusting multiple factors to move towards the MPLH industry standards.

District officials raised the lunch prices, which had not been raised for approximately seven years, for the 2015-16 school year and introduced different à la carte items to increase revenues. However, even with these changes, sales revenues from July 1, 2015 through

⁶ As the volume of MEs increases, total cost per meal decreases, assuming the cafeteria staff has additional capacity to sell more MEs at the District’s current staffing levels. This is likely, given the below-standard MPLH discussed in the Productivity section.

April 30, 2016 decreased 2 percent when compared to the same time period in 2014-15. Positively, expenditures for this same period have decreased 3 percent due to personnel changes.

However, the general fund continues to subsidize the school lunch fund by paying its health insurance and retirement contributions. Therefore, District officials should continue to look for ways to increase revenues and efficiencies and reduce costs. Had District officials been performing a cost-per-meal analysis and been mindful of MPLH, it is possible deficits and subsidies could have been avoided altogether.

Recommendations

The Board and District officials should:

1. Complete a cost-per-meal analysis and, where possible, explore methods for increasing revenues and decreasing expenditures to a level that allows the fund to be self-sustaining.
2. Monitor the MPLH and consider taking measures to move toward the industry standards for MPLH.
3. Pay for the associated benefits of the cafeteria employees out of the school lunch fund and develop a plan to pay back the loans from the general fund.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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WILLIAM H. JOHNSON, Ed.D.
Superintendent of Schools

June 9, 2016

Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany, New York 12236

Dear Office of the State Comptroller:

The Board of Education and Administration of the Rockville Centre Union Free School District would like to take this opportunity to thank the field staff of the Comptroller's Office for their courtesy in conducting their audit and in working with District staff. Feedback and recommendations for improvement are always welcomed by the District as we strive to continue to provide a better school lunch program, both nutritionally and financially.

Please consider this letter the District's response to the Report of Examination of the School Lunch Fund Financial Condition for the period July 1, 2014 through March 1, 2016.

The District is continually looking for ways to improve our management of the school lunch fund's financial condition. The Board of Education receives monthly status updates of the revenues and expenditures of the school lunch program. In addition, the school lunch fund is always a part of the annual external audit and financial statements which are also reviewed by the Board of Education. The District understands that the General Fund is subsidizing a portion of the school lunch fund expenditures for employee costs. The District business office routinely reviews the revenues and expenditures of the school lunch program and has made recommendations to increase school lunch pricing and to purchase food supplies through cooperative bidding. There are ever increasing nutritional regulations being placed on the foods we serve and how they are prepared that our staff must meet. These regulations have required us to increase our costs for food supplies and have turned some student consumers away from the school lunch options. The District has found it increasingly difficult to compete with local merchants as our students have an open campus and can leave for lunch and, unfortunately, opt for more fast food choices.

In specific response to the audit recommendations:

1. *Complete a cost-per-meal analysis and, where possible, explore methods for increasing revenues and decreasing expenditures to a level that allows the fund to be self-sustaining.*

The District has explored methods for increasing revenues, including offering a wider variety of menu options, creating an after school service line and serving more a la carte items. We also continue to look for alternative food items at a lower cost and participate in cooperative bidding. Meal equivalents, or a cost per meal analysis, do not necessarily provide answers to how to increase revenues or decrease expenses, especially when we cannot reduce staff, but have a declining enrollment of consumers who may purchase lunch items.

See
Note 1
Page 11

2. *Monitor the MPLH and consider taking measures to move toward the industry standards for MPLH.*

This audit recommends moving toward “industry standards” for meals per labor hour (MPLH). The reference data for these standards do not include information on where this data was gathered from, if it was from one county or state or across a few states. In addition, it only looks like there were 34 districts included in the survey which is a very small sample of school districts nation-wide. Further, it is from a book written in 1999 and the only reference information of its kind for MPLH that could be found through a variety of reference checks and internet searches. This measure does not indicate if it takes into account the unique circumstances of the school lunch operations in the Rockville Centre Schools where we serve satellite programs in five elementary schools with different numbers of students. Student counts range from 176 students in one elementary school to 450 students in another elementary school. School Lunch staffing is the same in each elementary school, only two school lunch staff members per building. The District will monitor the MPLH but does not believe it is an accurate measure of the productivity of our program.

See
Note 2
Page 11

3. *Pay for the associated benefits of the cafeteria employees out of the school lunch fund and develop a plan to pay back the loans from the general fund.*

The District does not have a self-sustaining school lunch program and school lunch items may become overpriced if we attempted to raise the prices too much. That would defeat the program and push students and staff to bring in their own lunches or push more people to seek local merchants for their school lunch options. The District will allocate a line in future budgets showing a transfer to the school lunch fund so that the Board and public are fully aware that the general fund is subsidizing the school lunch program.

Again, thank you for your work and recommendations to improve the school lunch program in the Rockville Centre UFSD. The Board and District Administration are committed to finding new ways of improving the school lunch options and the financial condition of the School Lunch Fund.

Respectfully,

William H. Johnson, Ed. D.
Superintendent of Schools

Cc: Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

While a cost-per-meal analysis does not provide answers on how to increase revenues or decrease expenditures, it does provide a method for District officials to track whether revenues are equal to or exceed expenditures on a per-meal equivalent basis.

Note 2

Because District officials have not established any standards to measure their own production efficiency, we used the guidelines referenced by the University of Mississippi's Institute of Child Nutrition. These guidelines are used across the United States as a measure of the efficiency of cafeteria production. Additionally, these standards were re-published in the 6th edition of the book, *School Food and Nutrition Service Management*, in 2014. This book is considered the go-to reference book for those working in the field of school nutrition. However, District officials can develop their own staffing guidelines to meet the District's specific needs. Establishing guidelines and calculating and monitoring the MPLH allows the District to better control labor costs and promote increased productivity.

APPENDIX C

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 operations.
- We calculated the results of operations from 2012-13 through 2014-15 for the school lunch fund by comparing the actual revenues and expenditures. We also calculated the trend in the school lunch fund's fund balance over this same period.
- We calculated the employee benefits costs (health insurance and retirement benefits) for cafeteria employees paid out of the general fund for 2012-13 through 2014-15.
- We documented the interfund loan balances for the school lunch fund for 2012-13 through 2014-15 and determined, based on the account details, if the balances were being carried forward. We also determined the likelihood of the 2014-15 balance owed to other funds being paid back by comparing it to the cash balance.
- 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 United States Department of Agriculture and SED guidance.
- We calculated the total reimbursement the District should have received for 2014-15 using the claimable meals recorded in the software system and the federal and State reimbursement rates. We compared this amount to the amount of aid actually recorded as received to ensure the District received all eligible aid.
- We calculated the MEs for 2012-13 through 2014-15. See the University of Mississippi Institute of Child Nutrition's *Financial Management Information System, 2nd Edition* 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 2012-13 through 2014-15 assuming a 180-day school year. We analyzed the trend in participation rates and MEs.
- We calculated the costs and revenues of the school lunch operations for 2012-13 through 2014-15 and analyzed the results for trends in the per ME revenues and cost. We also calculated the per ME results of operations.
- We reviewed the District's food purchasing process to determine if officials participated in a cooperative bid process. We judgmentally selected the three largest purchases in February 2016 to verify that the purchase price matched the bid amounts.
- We calculated the District's MPLH to determine if productivity levels were within the accepted

school food service industry standards. See the University of Mississippi Institute of Child Nutrition's *Financial Management Information System, 2nd Edition* at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf> pages 70 to 72 for the MPLH calculation. See the University of Mississippi Institute of Child Nutrition'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 compared the total revenues and expenditures from July 1, 2015 through April 30, 2016 of the 2015-16 fiscal year to the same time period in the 2014-15 fiscal year to determine if those revenues and expenditures have increased or decreased in total.

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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