

Rotterdam-Mohonasen Central School District

Cafeteria Operations

AUGUST 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Rotterdam-Mohonasen Central School District

Audit Objective

Determine if District officials are effectively managing cafeteria expenditures.

Key Findings

- The District Treasurer (Treasurer) did not account for health insurance benefits provided to cafeteria employees in the cafeteria fund.
- No one at the District calculated the cost or revenue-per-meal equivalent (ME).
- Although District officials selected their cafeteria vendors after advertising for competitive bids, District officials could have saved over \$21,000 by purchasing milk through a different vendor.

Key Recommendations

- The Treasurer should account for all cafeteria expenditures in the cafeteria fund.
- District officials should calculate and monitor cost- and revenue-per-ME.
- The food service supervisor should review the New York Office of General Services (OGS) cooperative bids to ensure all cafeteria food and supplies are purchased in the most economical manner.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Rotterdam-Mohonasen Central School District (District) serves the Towns of Colonie and Guilderland in Albany County and the Town of Rotterdam in Schenectady County.

The District is governed by the seven-member Board of Education (Board). The Board has overall responsibility over the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with the Assistant Superintendent of Business and other administrative staff, for the District's day-to-day management under the direction of the Board. The Treasurer is responsible for administering finances and accounting records and reports. The food service supervisor is responsible for managing the District's six cafeterias and 32 cafeteria employees.

Quick Facts

2018-19 Student Enrollment	2,861
2018-19 General Fund Appropriations	\$53 million
2018-19 School Lunch Fund Appropriations	\$1.3 million

Audit Period

July 1, 2017 through March 31, 2019.

We extended our audit period to July 1, 2015 to analyze financial trends.

Cafeteria Expenditures

How Should District Officials Account For and Monitor Cafeteria Expenditures?

District officials are responsible for managing school lunch operations. This includes ensuring there are sufficient revenues to meet current expenditures. The cafeteria fund is a special revenue fund used to account for and report transactions of school district breakfast, lunch and milk programs. All direct expenditures¹ of a district's food service program are paid from this fund. Therefore, the cost of health insurance benefits provided to cafeteria employees should be accounted for in this fund. A board can choose to subsidize cafeteria operations with a transfer from the general fund. However, in accordance with the New York State Education Department budgeting handbook, a general fund subsidy of the cafeteria fund is required to be approved by district taxpayers. Additionally, a district is not allowed to increase a taxpayer approved general fund subsidy to the cafeteria fund without voter authorization.

Officials should monitor and analyze operations to identify potential efficiencies. For example, comparing the cost-per-ME,² to the revenue-per-ME helps officials set appropriate prices. Also, officials should obtain cafeteria goods at the best possible price. Generally, New York State General Municipal Law³ requires districts to advertise for competitive bids when procurements exceed \$20,000. Alternatively, OGS makes certain contracts for the procurement of commodities such as food products and supplies available to school districts. By using OGS contracts when the prices are the most advantageous, districts can make purchases at the same prices and terms as New York State and save money. When employee productivity, meal costs, expenditures and revenues are properly controlled and monitored, cafeteria operations may be able to achieve results closer to break-even and reduce reliance on general fund subsidies.

District Officials Did Not Account For All Cafeteria Expenditures Appropriately

The District reported cafeteria related health insurance expenditures of \$43,746 in 2015-16, \$115,724 in 2016-17 and \$148,426 in 2017-18 in the general fund. This occurred because District officials were aware that the cafeteria fund would be unable to pay all its expenditures without assistance from the general fund and made a choice to charge the cafeteria fund only \$2,500 per month for expenditures for health insurance with the balance of cafeteria fund related health insurance costs to be paid by the general fund.

1 Direct expenditures include salaries, wages and fringe benefits for the cafeteria employees and the cost of food and supplies.

2 An ME includes a 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 all measures are calculated.

3 General Municipal Law, Section 103

The correct method would have been to budget for the full cost of cafeteria health insurance in the cafeteria fund and provide for a general fund transfer to subsidize the cafeteria fund in the proposed budget subject to voter approval. The Assistant Superintendent of Business stated he was unaware of the requirement for general fund subsidies to the cafeteria fund to be approved by the voters.

As a result of reporting cafeteria related costs in the general fund, the District's financial records and reports are not accurate. The misallocation of health insurance expenditures has masked the actual operating deficits in the cafeteria fund and made it appear that the cafeteria fund was not receiving an indirect transfer from the general fund. Further, if the cafeteria fund's operations were properly accounted for, the District would have depleted the cafeteria fund balance during 2016-17 and currently have a negative fund balance of \$393,551.

Figure 1: Re-Calculated Operating Surplus/(Deficit) and Fund Balance

	2015-16	2016-17	2017-18	2018-19 ^a
Restated Opening Fund Balance		\$51,319	(\$123,141)	(\$312,264)
Reported Operating Surplus/(Deficit)	(\$31,367)	(\$58,736)	(\$40,697)	\$52,772
Under-Reported Expenditures	\$43,746	\$115,724	\$148,426	\$134,059
Re-Calculated Operating Surplus/(Deficit)	(\$75,113)	(\$174,460)	(\$189,123)	(\$81,287)
Reported Ending Fund Balance	\$95,065	\$36,329	(\$4,368) ^b	\$48,404 ^b
Re-Calculated Ending Fund Balance	\$51,319	(\$123,141)	(\$312,264)	(\$393,551)
a Up to March 31, 2019				
b Excludes a transfer from the general fund of \$4,368				

District Officials Did Not Effectively Monitor Cafeteria Expenditures

The food service supervisor does not calculate cost- or revenue-per-ME. We calculated the cost and revenue-per-ME. From 2015-16 through 2017-18, the cost-per-ME increased 11 percent while the revenue increased 3 percent, excluding transfers from the general fund and including cafeteria related health insurance expenditures paid by the general fund; and the costs exceeded revenues by 50 cents per-ME as of 2017-18.

Figure 2: Profit and Loss per-ME

	2015-16	2016-17	2017-18
Food Cost-per-ME	\$1.61	\$1.61	\$1.61
Labor Cost-per-ME	\$1.78	\$2.05	\$2.16
Supply Cost-per-ME	\$0.18	\$0.19	\$0.21
Total Cost-per-ME	\$3.57	\$3.85	\$3.98
Revenue-per-ME	\$3.37	\$3.38	\$3.48
Profit/(Loss)-per-ME	(\$0.20)	(\$0.47)	(\$0.50)

The food service supervisor stated she has not calculated the cost or revenue-per-ME because she was unaware how to perform these calculations. While she does have access to both monthly profit and loss statements prepared by the Treasurer and ME reports from the cafeteria's point-of-sale system, the profit and loss reports do not include the cafeteria related health insurance expenditures paid by the general fund that are needed to accurately calculate the cost-per-ME.

Despite the fact a cost-per-ME is not calculated, District officials are aware of the cafeteria fund's operating deficits and have tried to decrease costs or increase revenues. For example, District officials have not replaced certain employees when they resigned or retired to help lower personal service costs.

Although the District has attempted to control costs by reducing staffing levels, without periodically monitoring and analyzing school lunch fund operations, the school lunch fund's current level of reliance on the aforementioned unreported general fund subsidies will continue.

District Officials Generally Purchased Cafeteria Items at the Lowest Cost

District officials selected their cafeteria vendors after advertising for competitive bids. In early May, the District sends out invitations to bid in the District's official newspaper and by mailing letters to vendors that have requested to be provided such correspondence. Once the bids are publicly opened and read, the food service supervisor reviews the bids and makes recommendations on who the Board should select as cafeteria vendors, based on lowest price or best value.

We compared the prices of seven food items purchased through competitive bid to the OGS cooperative bid in 2017-18 and 2018-19 and found the District generally obtained the best price. We also compared milk purchased through competitive bidding in 2017-18 and 2018-19 and found that District officials could have saved over \$21,000 by purchasing milk through a different vendor utilizing the OGS cooperative bid.

The food service supervisor was aware that the District could utilize contracts from OGS for cafeteria purchases. However, she explained that she discontinued looking at OGS contracts in 2014 because the District had been receiving better prices through competitive bidding. While most purchases were made in a prudent and economical manner, when District officials do not review OGS cooperative bids on a regular basis, they cannot ensure that they are actually purchasing goods in the most cost effective manner.

What Do We Recommend?

The Treasurer should:

1. Account for all cafeteria related expenditures in the cafeteria fund.

District officials should:

2. Include an appropriation to transfer money from the general fund to the cafeteria fund in the proposed budget subject to voter approval if they intend for the general fund to continue subsidizing cafeteria fund operations.
3. Periodically calculate and monitor cost- and revenue-per-ME, and explore methods to decrease expenditures and increase revenues.

The food service supervisor should:

4. Review OGS cooperative bids on a regular basis to ensure all cafeteria food and supplies are purchased in the most economical manner.

Appendix A: Response From District Officials

Mohonasen CENTRAL SCHOOL DISTRICT

August 13, 2019

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Office of the State Comptroller
Division of Local Government and School Accountability
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Albany, New York 12236

To Whom It May Concern:

This letter is an official response from the Rotterdam-Mohonasen Central School District to the Office of the State Comptroller's Draft Audit Report covering the period of July 1, 2017 through March 31, 2019. We understand that the initial assessment included evaluations of several areas, including financial condition and oversight, multi-year financial planning, control environment, cash receipts and disbursements, purchasing, claims processing, transportation operations, payroll and personal services, information technology and cafeteria operations. We also understand that the auditors found our controls to be adequate in most of these areas. The auditors made the determination to do a more in-depth audit into cafeteria operations. The District has now had the opportunity to meet with the auditors and review the results of their work.

The audit of cafeteria operations resulted in three key findings and recommendations. Each of these are listed below along with the District's response to each.

Insurance Benefits

Key Finding: The District Treasurer (Treasurer) did not account for health insurance benefits provided to cafeteria employees in the cafeteria fund.

Key Recommendation: The Treasurer should account for all cafeteria expenditures in the cafeteria fund.

District Response: The District agrees with the recommendation. The District would also like to clarify that a portion of the health insurance benefits provided to cafeteria employees were accounted for in the cafeteria fund. This will be rectified moving forward and these additional expenses will be shown as an appropriation from the general fund in future budgets.

www.mohonasen.org

Meal Equivalent (ME) Calculations

Key Finding: No one at the District calculated the cost or revenue-per-meal equivalent.

Key Recommendation: District officials should calculate and monitor cost and revenue-per-ME.

District Response: The District agrees with the recommendation. However, the District does currently comply with the provision of the Healthy, Hunger Free Kids Act law regarding Equity in School Lunch Pricing. This annual calculation requires the District to meet a minimum annual price for meals. The District also reviews meal prices each year, both District prices and the prices at other Capital District schools, to determine what appropriate pricing would be for the upcoming year. The Board of Education then adopts these prices prior to the start of the school year. With the increase in poverty in the District we are very cognizant of the impact that raising meal prices can have on our families.

Purchasing

Key Finding: Although District officials selected their cafeteria vendors after advertising for competitive bids, District officials could have saved over \$21,000 by purchasing milk through a different vendor.

Key Recommendation: The food service supervisor should review the New York Office of General Services (OGS) cooperative bids to ensure all cafeteria food and supplies are purchased in the most economical manner.

District Response: The District generally agrees with the recommendation, but have found the potential implementation problematic. After reaching out to OGS regarding the milk bid it was conveyed that the winning bidder, Byrne Dairy, declined to deliver to our District buildings. As we researched further, we found out that it has been several years since milk has gone out to bid through OGS and it has simply been extended each year. Until milk is rebid the winning bidder, in this case Byrne Dairy, has the right to not honor the OGS bid price for any new entities. So, although on paper it looks like the District could have saved \$21,000 this would not have been the case in practice and will continue as such for the foreseeable future. The District would ask the Office of the State Comptroller to advocate for changes to the bidding requirements that would allow districts to join annually regardless of if the product or service has been rebid. The District will continue to look for ways to use the OGS cooperative bids in the future, but until changes in the regulations are made we may not have the ability to access potential savings.

The information listed above will be written into a corrective action plan which will be reviewed and approved by both the Audit Committee and the Board of Education.

In addition we would like to say that the audit process was a good experience for the District. We found the auditors to be knowledgeable and helpful throughout the process. We are constantly looking for ways to be more efficient and more transparent and the audit process assists in these goals.

Thank you for your time and effort and we look forward to working with you again in the future.

Sincerely,

Shannon C. Shine
Superintendent of Schools

Lisa Gaglióti
President, Board of Education

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes to gain an understanding of cafeteria operations including accounting, cost monitoring and purchasing.
- We reviewed paycheck information from the accounting system to determine which cafeteria employees received a paycheck in 2015-16 through 2018-19. We then reviewed health insurance bills to the District to determine which of the cafeteria employees received health and/or dental insurance and documented the monthly premiums.
- We determined the under-reported medical insurance expenditure by calculating the actual yearly employer cost less the reported medical insurance expenditures and then recalculated the actual operating deficit and fund balance when adding the under-reported medical insurance expenditures to the actual results of operations from the appropriation and revenue status reports.
- We calculated MEs for 2015-16 through 2017-18. See the University Of Mississippi's Institute Of Child Nutrition's Financial Management for Director's Section Financial Management Information System (FMIS Booklet, 2nd Edition at <https://theicn.org/school-nutrition-programs/>, pages 59 through 61).
- We calculated the costs and revenues of the school lunch fund per-ME for 2015-16 through 2017-18, and analyzed the results for trends in the per-ME costs and revenues and calculated the per-ME results of operations.
- We interviewed the food service supervisor to determine which items were purchased often and in large quantities. From these interviews, we used our professional judgment to select spicy chicken patties, popcorn chicken, yogurt, frozen bagels, fruit juices (orange, grape and apple). We also used our professional judgment to select milk and fresh bread products. We compared the prices to the OGS cooperative bids to determine whether the District purchased these items at the best possible price and, if not, we calculated the amount the District could have saved.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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