



Sandy Creek Central School District Cafeteria Operations

Report of Examination

Period Covered:

July 1, 2015 – June 24, 2016

2016M-354



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Sandy Creek Central School District, entitled Cafeteria Operations. 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 Sandy Creek Central School District (District) is located in the Towns of Sandy Creek, Boylston, Orwell, Redfield, Richland and Williamstown in Oswego County; the Town of Ellisburg in Jefferson County; and the Town of Osceola in Lewis 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 District's day-to-day management under the Board's direction. The current Superintendent was appointed in September 2016.

The District operates two cafeterias with one centrally located food preparation area. The cafeterias offer breakfast, lunch and à la carte foods to approximately 800 students and 220 employees. The cafeteria has a total of 15 staff, including the cook manager who oversees operations. The District's budgeted school lunch fund appropriations for the 2016-17 fiscal year are \$513,020, which are 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 ensure cafeteria operations were financially self-sufficient?

Scope and Methodology

We examined the school lunch fund's financial condition for the period July 1, 2015 through June 24, 2016. We extended our scope back to July 1, 2010 and forward to June 30, 2016 to review various costs and to conduct a 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.

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.

Cafeteria Operations

The Board and District officials are responsible for ensuring cafeteria operations are financially self-sufficient. Accordingly, District officials should ensure the fund generates enough revenue, 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 meal equivalents¹ (ME) 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. If District officials plan to use subsidies from the general fund to sustain operations, they should be budgeted for appropriately to be transparent to District residents.

District officials did not ensure cafeteria operations were financially self-sufficient. The school lunch fund has incurred operating deficits that averaged approximately \$10,000³ annually from 2013-14 through 2015-16. Furthermore, District officials paid cafeteria employee benefits annually from the general fund for the same period. Had these expenditures, which averaged \$169,000 annually, been paid from the school lunch fund, the average annual operating deficit would have increased to almost \$179,000. Additionally, as of June 30, 2016, the school lunch fund owed the general fund \$100,000 for interfund loans, which exceeded the school lunch fund's available cash and receivable balances. Therefore, these funds are unlikely to be paid back. Further, subsidies from the general fund were not budgeted, which reduced transparency. 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 819 MEs daily during the 2015-16 school year at a cost of approximately \$484,000. During our audit

¹ 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.

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

³ This average deficit included a transfer from the general fund in 2015-16 of over \$8,000.

period, District officials took the necessary steps to 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.

The full-price rates charged to students for the 2015-16 fiscal year met the minimum pricing guidelines established by State and federal agencies. Even though the costs to produce a meal have decreased by 2 percent and the revenues per meal have increased by 6 percent, after removing the transfer from the general fund and including the cafeteria employee benefits paid by the general fund, the costs to produce an ME exceeded the revenue generated by an average of \$1.23 per ME (38 percent) for the last three years. As a result, the fund operated at a loss in each of those years.

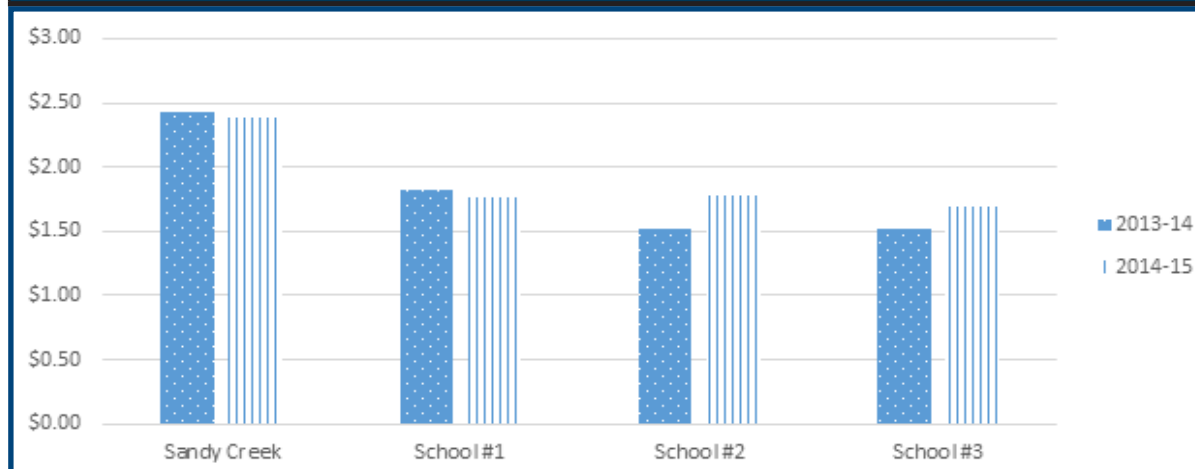
Figure 1: Revenue and Cost-Per-ME			
	2013-14	2014-15	2015-16
Revenue per ME	\$3.14	\$3.22	\$3.32
Cost of Food and Materials per ME	\$2.03	\$2.00	\$1.89
Cost of Labor and Benefits per ME	\$1.33	\$1.25	\$1.39
Total Cost Per ME	\$3.36	\$3.25	\$3.28
Profit/(Loss) per ME	(\$.22)	(\$.03)	\$.04
Adjusted Revenue per ME ^a	\$3.14	\$3.22	\$3.26
Adjusted Cost of Labor and Benefits per ME ^b	\$2.42	\$2.39	\$2.58
Adjusted Total Cost per ME	\$4.45	\$4.39	\$4.47
Adjusted Loss per ME	(\$1.31)	(\$1.17)	(\$1.21)
^a Adjusted to exclude the \$8,000 transfer in from the general fund ^b Adjusted to include the cost of the health insurance and retirement system costs for the cafeteria employees paid out of the general fund			

While the District officials raised meal prices for the 2015-16 school year, the cost to produce a meal has remained high. Additionally, the cost of labor and benefits per ME has increased by over 6 percent and represents approximately 58 percent of the total ME costs.

We compared the District's cost per ME with those of three other school districts in the surrounding counties that included cafeteria benefits as expenditures in the school lunch 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.

⁴ These calculations are based on reported data from the other three school districts: Alexandria Central School District, Lafargeville Central School District and Pulaski Central School District.

Figure 2: Comparative Cost of Labor and Benefits 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 cafeteria uses a conventional system⁵ for food preparation. MPLH standards for a conventional system with daily MEs of 801 to 900 range from a low of 18 and a high of 20. The District’s MPLH for the 2015-16 school year was slightly over 12, which is significantly lower than industry standards.

When MPLH falls below the industry standards, adjustments to several 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. In order to improve the District’s MPLH by adjusting labor hours, we determined District officials would need to reduce total annual labor hours by 32 percent or 22 hours per day to increase the MPLH to 18, which is the lower end of the District’s applicable industry standard. Conversely, by only increasing MEs, the District would need to significantly increase the number of students and staff using the cafeteria to generate an additional 394 to 529 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.

⁵ 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.

While District officials were aware the school lunch fund was not self-sufficient, they did not perform cost-per-meal and MPLH analyses that would have allowed them to identify potential areas where they could reduce costs or enhance revenues. As a result, had the employee benefit expenditures been appropriately allocated to the school lunch fund, the operating deficit would have been almost \$170,000 for 2015-16. Had District officials regularly performed a cost-per-meal analysis and review of MPLH, it is possible deficits and subsidies could have been minimized or avoided altogether. District officials should look for ways to increase revenues and efficiencies and reduce costs.

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 school lunch fund to be self-sustaining.
2. Monitor the MPLH and develop a strategy to move toward the industry standards for MPLH.
3. Ensure that the cost of the associated benefits for cafeteria employees are paid from the school lunch fund so the actual cost of operations can be used in making financial decisions.
4. Budget the appropriate subsidies from other funds, as deemed necessary, to ensure that financial decisions are transparent to District residents.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Kyle L. Faulkner
Superintendent of Schools
Shelley H. Fitzpatrick
Business Administrator

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Sandy Creek Central School District

"Comet Pride is Community-Wide!"

December 19, 2016

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

**RE: Sandy Creek Central School District
Report of Examination - Cafeteria Operations
July 1, 2016 - June 24, 2016**

Dear Office of the State Comptroller,

The Board of Education and Administration of the Sandy Creek Central 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. 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 and corrective action plan to the Report of Examination of Cafeteria Operations for the period July 1, 2015 - June 24, 2016.

The Sandy Creek School District has approximately 60% of its student body qualify for free or reduced meals and the District currently participates in breakfast, lunch and summer feed programming. The Board of Education is quite cognizant of the poverty level of the student body and has stated on several occasions that the General fund will subsidize the school lunch fund in order to feed our students healthy and nutritious meals. Despite new nutritional standards, increasing expenditures and the Governor's push to use locally grown fruits and vegetables (which is not financially prudent in rural areas), the school lunch fund is not self sustaining.

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Accordingly, the District recognizes that our meals per labor hour (MPLH) measure is below industry standards. and has been aware of this for some time now. To help alleviate some of the financial burden the District is now in an opportune time with the pending retirements of a few long term employees. The District is also joining in 2017-2018 the OCM BOCES Co-Ser for Food Service Management. This Co-Ser arrangement will provide the District with the budget creation, implementation, and monitoring necessary to obtain the actual cost of operations. These measures will allow for transparent general fund budget line items for the subsidizing of the cafeteria operations.

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

Respectfully submitted,

Kyle L. Faulkner
Superintendent of Schools

KLF/shf

Cc: Board of Education

APPENDIX B

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 reviewed the Board minutes to gain an understanding of the cafeteria operations including pricing.
- We calculated the results of operations from 2013-14 through 2015-16 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 2013-14 through 2015-16.
- We documented the interfund loan balances for the school lunch fund for 2013-14 through 2015-16 and determined the likelihood of the 2015-16 balance owed to the general fund being paid back by comparing it to the school lunch fund's cash balance.
- We reviewed the 2015-16 prices charged to students and staff for school lunches to determine if the District was charging the appropriate prices based on the United States Department of Agriculture and New York State Education Department (SED) guidance.
- We calculated the total reimbursement the District should have received for 2013-14 through 2015-16 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 reviewed 20 students that received free or reduced lunches during 2015-16 and 30 students who were entitled to participate in the free and reduced-price lunch program during 2015-16 to ensure that District officials were properly enrolling all eligible students in the free and reduced-price lunch program.
- We calculated the MEs for 2013-14 through 2015-16. 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 calculated the school lunch fund's costs and revenues per ME for 2013-14 through 2015-16 and analyzed the results for trends. We also calculated results of operations in the school lunch fund per ME for the same time period.
- 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 reviewed annual reports filed with our office and SED data from three other school districts from the surrounding counties which recorded appropriate cafeteria benefit costs in the school lunch fund. We compared the District's costs per ME to the other three districts to determine how the District's costs compared to similar schools in the surrounding counties.

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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