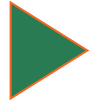


EFPR GROUP, CPAs, PLLC



280 Kenneth Drive, Suite 100 • Rochester, NY 14623 • Ph: (585) 427-8900 • Fax: (585) 427-8947
Visit us at www.efprgroup.com

Control Cycle Audit of Food Service

WASHINGTONVILLE CENTRAL SCHOOL DISTRICT



**Washingtonville Central School District
52 West Main Street
Washingtonville, NY 10992**

May 23, 2019



To the Audit Committee
Washingtonville Central School District
Washingtonville, New York

We have performed a review of the operations and internal controls of the District's Food Service Department. We obtained an understanding of the operations and internal controls by inquiry, observation and the inspection of documents and records. Our review for the Food Service function included: tests on student eligibility for free and reduced-price meals; cash handling procedures; Federal and New York State aid submissions; inventory and a review of historical financial reports.

This consulting engagement was conducted in accordance with Statements on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants Management Consulting Services Executive Committee. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described either for the purpose for which this report has been requested or for any other purpose.

Our procedures consisted of a review of financial reports and documentation as well as interviews with pertinent District personnel. We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. It should be noted that the comments herein may be critical by nature and do not include the many strengths inherent within the District.

This report is intended solely for the information and use of the Washingtonville Central School District and is not intended to be, and should not be used by anyone other than those specified parties.

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC
Rochester, New York

BACKGROUND:

The Washingtonville Central School District (District) is located in Orange County and has a total enrollment of approximately 4,100 students. The District utilizes five educational buildings. During the most recently audited school year (2017-2018), the Food Service program had revenues of approximately \$1,580,000 and had an operating profit of approximately \$29,000 before transfers it receives from the District’s General Fund to subsidize the program.

OBJECTIVE:

The objective of our audit was to evaluate the internal controls over the Food Service function at the Washingtonville Central School District.

AUDIT SCOPE, PROCEDURES AND FINDINGS:

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard the assets of the Washingtonville Central School District. The Audit Committee of the District selected to review Food Services. As a result, our testing was limited to this area.

In performing our review of the Food Service function of the Washingtonville Central School District, we reviewed daily sales summaries, monthly bank statements, annual financial statements for the lunch program, cash handling procedures, cash over/short reports, POS reporting, monthly federal and state aid submissions, and invoices for food purchases. We then selected several items for testing. We limited our scope to the period of July 1, 2018 through March 15, 2019 for transactional testing.

We also obtained historical financial reporting related to the program’s performance for the past five fiscal years. A discussion of these findings and accompanying charts are located at the end of this report.

Food Service Function

Our examination included the following procedures:

Federal and State Aid Submissions

- Ensured the District is claiming aid for its lunch and breakfast programs.
- Examined the monthly aid submissions to ensure timeliness.
- Observed the District’s procedures for obtaining, evaluating, counting, verifying and reporting the number of eligible applications for free and reduced priced lunches.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Federal and State Aid Submissions (Continued)

FINDINGS:

The controls over monthly meals reporting are operating effectively with the following exception noted:

1. The District may have an opportunity to increase its free meals utilization, and thereby increase its annual aid reimbursement. We performed an analysis of free meals claimed during 2018-19 as a percentage of the total potential free meals based on eligibility. (Refer to Appendix A) Our analysis shows that approximately 61% of the potential total of free lunches was claimed for all schools. The percentages of free breakfasts were lower, with only 15% claimed for all schools. Our analysis did not account for student absences. However, even after allowing for a percentage of students that qualify for free meals to be absent each day, it appears that the District may be able to increase its participation (and reimbursement)

RECOMMENDATIONS:

1. We recommend the District develop strategies targeted at increasing the percentage of meals claimed. This would help increase the District's aid. The increase in participation would also help to increase the District's annual entitlement funds.

MANAGEMENT'S RESPONSE:

- 1.) School district management is aware of the participation rates in the school lunch and breakfast programs. The district has subscribed to the food service management CoSer through Orange Ulster BOCES for assistance with menus and personnel management. Discussions between the Senior Food Service Workers, Cook and BOCES management has led to changes in the menus. Future items for consideration are Breakfast In the Classroom and Community Eligibility Option, if we qualify. In addition, staff attended the professional cooking classes through New York State Child Nutrition in order to enhance our school lunch program and promote participation.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Free and Reduced Lunch Procedures

- Examined the District's documentation for free and reduced price meal applicants.
- Randomly selected student files to test for eligibility concerning free and reduced meals.
- Verified the District follows the established guidelines for processing applications for free and reduced price meals and/or milk including public release, parent letter and a free and reduced price meal application.
- Reviewed the District's annual process of verifying and reporting applicants' eligibility for participation in the free and reduced meal program based on their reported income.

FINDING:

The controls over free and reduced meals applications are operating effectively with no exceptions noted.

Cash Handling Procedures

- Reviewed the procedures and internal controls related to recording sales, the use of the point-of-sale system and processing daily deposits.
- Tested the daily cash summaries for 20 randomly selected days in the scope period to determine the accuracy of daily deposits.
- Examined the Food Service bank statements to ensure deposits were made timely and agreed to reported daily sales.
- Reviewed cash over/short amounts for reasonableness.
- Examined the District's procedures for collecting money from students for meals or milk to ensure the identification of children receiving reduced price meals, free meals or free milk is prevented, but that the District is able to account for these items.
- Examined the District's procedures for collecting money from vending machines and ensured proper controls on the collection of proceeds and the accounting of revenue.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Cash Handling Procedures (Continued)

FINDINGS:

The controls over the cash handling procedures are operating effectively with the following exceptions noted:

1. Retention practices for documentation of deposits of vending income should be strengthened. The District operates several vending machines for drinks in the middle school and the high school. Food Service personnel are responsible for stocking these machines and collecting the revenue. Vending machines are equipped with control totals which represent a running total of sales recorded by the machine. Personnel take note of the control totals and submit these readings to Food Service management with the funds that were collected. Food Service management compares the readings to the control totals from the prior collection to determine if the amount of the funds collected is consistent with expected receipts. However, prior readings are not retained beyond the subsequent collection. Therefore, we were unable to perform testing to verify the accuracy of individual vending deposits due to the lack of historical sales readings from the machines. Vending revenue has been reasonably consistent over the past five years, averaging approximately \$25,700 per year.
2. During our review of reporting of voided transactions, we noted that at the end of March 2019, transactions totaling \$6,569 had been voided during the current school year. Approximately 70% of the voided transactions occurred in the high school. A significant portion of the high school amount is concentrated in a small number of large dollar transactions which represent errors for items that had been entered incorrectly. The balance of voided transactions was distributed evenly throughout the remainder of the schools. We noted that a significant amount of these transactions in some schools were concentrated in a specific cashier.

A high volume of voided transactions could indicate that cashiers may need additional training to reduce the frequency of errors. Voided transactions can also potentially indicate that sales are being misappropriated. Regular oversight of this report can enable management to identify and address these potential problems in a timely fashion. Although Food Service management is familiar with the voided transactions reporting and reviews it periodically, it appears this review is informal and may not occur regularly.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Cash Handling Procedures (Continued)

RECOMMENDATIONS:

1. We recommend that Food Service record and retain the control totals taken from the vending machines in order to establish a historical record of these readings. This will strengthen internal controls and allow for subsequent reviews and verification of deposits of vending income.
2. We recommend that Food Service management review the voided transactions report closely to identify whether cashiers require additional training to process transactions correctly and minimize the number of voids. Going forward, management should regularly review the voided transactions report to identify and address potential problems in a timely fashion.

MANAGEMENT'S RESPONSE:

- 1.) Vending machine deposit procedures have been updated and handed out to the Food Service staff. In the future, the control reports turned into the office with the deposits are to be kept on file until after the external audit has been completed each year.
- 2.) District management will review the training cashiers have received and each fall, consideration for a refresher course will be given. Documentation will be maintained to provide assurances that voids have been reviewed. A form has been created that the District Treasurer will sign to validate review of the voids. If there are any discrepancies, management will meet with the cashier and determine the proper course of action.

Inventory Procedures

- Verified food purchases are acquired in accordance with established procurement practices and the inventory is safeguarded.
- Inquired about purchasing procedures with the Food Services Director to determine whether purchases are supported by a valid purchase order, supported by a valid invoice/receipt, and there is evidence that deliveries were received at an appropriate District building. Performed testing on a sample of food and supplies purchases to verify they appear reasonable and appropriate.
- Inquired about the District's inventory procedures and whether they maintain a perpetual physical count of the inventory of food and supplies.
- Inquired about the District's practices for utilizing the annual entitlement funds for food purchases that it receives due to its participation in the National School Lunch Program.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Inventory Procedures (Continued)

FINDINGS:

The controls over inventory procedures are operating effectively with the following exceptions noted:

1. We performed an analysis of the program's food expenses as measured by the average cost of food per meal served. (Refer to Appendix B) Our analysis shows that in the past two years (during which the program has achieved an operating profit) the average food cost per meal has been stable and is lower than it was four and five years ago when the program was suffering from sizable operating losses. This metric does not capture all significant aspects of the program's operations. However, it may be a helpful tool to monitor what is happening with two of its most influential components – meals served and cost of sales.
2. During our testing of supporting documentation of food and supplies purchases, we noted that some delivery tickets lacked evidence that the product was received and in good condition.

RECOMMENDATIONS:

1. We suggest the District consider using this metric as one method to monitor the relationship between the program's food purchases and its overall financial performance throughout the year as it may be helpful in identifying anomalies or areas of concern in a timely fashion.
2. We recommend that Food Service management reinforce with its personnel the importance of properly documenting that the amount of product received is accurate and in good condition.

MANAGEMENT'S RESPONSE:

- 1.) District management will continue to monitor food purchases as well as the financial reports each month and identify areas of concern.
- 2.) Tighter controls over inventory and purchasing have been implemented by district management. Food service staff are to sign packing slips upon checking in items. Any issues are to be noted on the packing slips. The Senior Food Service worker in each kitchen will then initial all packing slips. Packing slips will be attached to invoices and the Food Service Manager will sign all invoices prior to paying. Additional approval by the Assistant Superintendent for Business prior to bills being paid will be beneficial. District management has requested that the Food Service Manager is to inspect month end inventory for accuracy on a regular basis.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Financial Reporting

- Reviewed the annual financial statements for the Food Service program for the years ending June 30, 2014 through June 30, 2018.
- Reviewed the current year monthly financial reporting for the Food Service program.

The controls over financial reporting are operating effectively with the following exception noted:

FINDING:

1. Food Service management provided us with reporting they use to track the financial performance of the program. We noted that this reporting was not current, having been most recently completed in January. We also noted that the reporting did not appear to represent a typical profit and loss analysis that provides an accurate assessment of the program's financial status.

RECOMMENDATION:

1. We suggest that the Business Office work with Food Service management to revise the format of this financial reporting so that it captures all relevant income and expenses and provides a more accurate assessment of the program's profitability. This reporting should be regularly updated throughout the year to reflect the program's current financial position.

MANAGEMENT'S RESPONSE:

- 1.) District Management has created a Profit and Loss Report and Participation Report that encompasses all relevant information. This report has been updated in the Business Office by the Treasurer and will continue to be done in the Business Office. This will enhance the segregation of duties and allow District Management to review these reports in a timely manner.

COMMENTS:

Food service operations in school districts have faced a challenging environment in recent years due to increased governmental regulations related to nutritional standards. These new regulations, passed in 2010, resulted in increased costs related to purchasing food that met the nutritional standards and decreased revenue from lower participation from students. In general, the severity of these impacts peaked around 2011-12 and 2012-13. The impacts have lessened over the last several years as vendors have developed new products that meet the nutritional requirement and are appealing to students. School districts have also worked hard to eliminate excess costs from their programs and make operations more efficient. As a result, programs have generally begun to improve their financial performance.

AUDIT SCOPE, PROCEDURES AND FINDINGS (Continued):

Financial Reporting (Continued)

We noted that the Food Service program had operational surpluses in 2016-17 and 2017-18. Although revenue in the past two years is not significantly different than it was five years ago, it appears that the program has lowered its costs of sales helping to improve its financial performance. Retirement contributions charged to the program have also declined in the past two years helping to lower expense overall.

Our analysis of the program's historical financial activity (Appendix C) included a review of Food Service revenue, cost of sales, payroll, benefits, and other expenses. Based on our review of this data, we offer the following items for the District's consideration with respect to the financial performance of the program.

1. **Revenue**: Overall revenue for the program has remained essentially flat over the past five years. Revenue reported in 2017-18 was only 1% higher than figures reported in 2013-14.
2. **Payroll**: Payroll expenses in 2017-18 were \$38,000 lower than levels reported in 2013-14. The payroll expenses related to the District's operations now represent 41% of annual sales, which is just slightly higher than the average of what we typically observe in other food service programs. The State Education Department has issued guidance related to the number of meals served per labor hour for school districts to consider in evaluating its staffing levels. We noted that Food Service does not appear to monitor this metric. We encourage the program to consider completing this analysis to determine whether there are opportunities to modify staffing levels and potentially lower labor costs.
3. **Benefits**: Benefit expenses have decreased by approximately \$34,000 since 2013-14. Benefits totaled \$207,000 in 2017-18, representing 13% of income, which is lower than the average of what we typically observe in other districts. The decrease in benefits during this timeframe is attributed to a significant reduction in retirement contributions, offset by a slight increase in healthcare expenses.
4. **Food Purchases**: Cost of sales have decreased approximately 10% over the levels reported four to five years ago. Food expenses in 2017-18 were \$56,000 lower than in 2013-14. Overall, the cost of sales represents approximately 39% of income, which is the same as the average of what we typically observe in other districts.

CLOSING COMMENTS:

We would like to thank the District and Food Service staff and management for their cooperation during the course of our review.