



VIRGINIA BEACH CITY PUBLIC SCHOOLS

CHARTING THE COURSE

MEMORANDUM

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Karen W. Woodson, CIA, CFE ^{KW}
School Board Internal Auditor, Department of Internal Audit

SUBJECT: Cafeteria Inventory Audit

DATE: October 28, 2024

BACKGROUND

As part of the Calendar Year 2024 Audit Work Plan, the Department of Internal Audit (IA) has performed a Cafeteria Inventory Audit.

The Office of Food Services (Food Services), within the Department of School Division Services, has a budget of \$47.7 million and 564 allocated staff positions (which includes all cafeteria staff) and is responsible for providing food services at 83 cafeterias. Each Cafeteria Manager (Manager) is responsible for maintaining and tracking the physical inventory at the individual school level. Each cafeteria has an Area Supervisor (Supervisor) assigned to provide oversight to the school's Manager. Food Services utilizes several modules of CyberSoft's PrimeroEdge Nutrition Software (PE). The Inventory module of PE tracks and maintains the inventory balances at each individual school location. The Meal Planning and Production modules interface with the Inventory module to update inventory counts.

The Manager places inventory orders for their school based on the student count, consumption, meals planned and current inventory. Orders from the primary food vendor are placed through PE. Sysco Hampton Roads was the primary vendor during School Year 2023-2024, while the current food vendor is Gold Star Foods. All other orders are placed directly with the vendor. When items are delivered, the Manager compares the items ordered to the items delivered. If there are any changes or adjustments based on the delivery, the Manager records this on the invoice/delivery ticket for the delivery driver to sign and agree. The Manager is required to receipt the delivery in PE the day of delivery. The receipt increases the school's inventory in PE. The Manager withdraws inventory from PE to document usage either by entering a withdrawal or by using the Meal Planning and Production modules to record usage of items for a recipe of individual items. The Manager can also reduce inventory due to spoilage or waste.

BACKGROUND, CONTINUED

Managers are responsible for reviewing inventory throughout the month to ensure that orders are accurate and any discrepancies can be resolved. Physical inventory counts must be completed each month and discrepancies should be corrected prior to ending the month. The Supervisor is responsible for reviewing the inventory, investigating any discrepancies not addressed by the Manager and completing an inventory reconciliation in PE.

AUDIT OBJECTIVES, METHODOLOGY, RESULTS, AND CONCLUSIONS

Inquiry and examination of documents and data, as well as site visits, were the methods of reviewing internal controls. The audit period was July 1, 2023, through June 30, 2024, with observations performed between October 2, 2024, and October 16, 2024. Judgmental sampling was the primary sampling technique used in this audit. Judgmental sampling allowed IA to select schools from different geographic areas, levels and sizes. The results of the audit cannot be extrapolated to the entire population. The following eight schools were selected: Holland Elementary School, Red Mill Elementary School, Shelton Park Elementary School, Windsor Woods Elementary School, Brandon Middle School, Great Neck Middle School, Salem High School and Renaissance Academy.

IA conducted this audit primarily to review the cafeteria inventory process. The audit objectives, methodology, results and conclusions are as follows:

1. Objective:

Determine if items ordered for three vendors at each school are correctly recorded in PE on the day of delivery.

Methodology:

IA traced one order from three different vendors for each school by comparing the date and amount on the vendor invoice to the date and amount recorded in PE.

Results:

The date and amount for all vendor invoices reviewed matched the date and amount recorded in PE.

Conclusion: All vendor invoices reviewed were recorded correctly in PE on the date of receipt.

2. Objective:

Determine at each of the selected schools if the inventory is adjusted in PE the day that meals are served.

Methodology:

IA reviewed the Withdrawals List Report from PE for each school to determine if the inventory used was withdrawn each day that meals were served.

Results:

Two of the eight schools had withdrawals every day in the audit period. Five schools were missing withdrawals for five or less days in the period. One school was missing withdrawals for 17 days in the period.

AUDIT OBJECTIVES, METHODOLOGY, RESULTS, AND CONCLUSIONS, CONTINUED

Conclusion:

Six out of the eight schools did not have adjustments in PE for inventory each day that meals were served.

3. Objective:

Determine if the Manager performed a physical inventory count each month during the audit period and determine if discrepancies are reviewed and reconciled by the Supervisor.

Methodology:

IA reviewed the physical inventory list from PE for each of the selected schools to determine if a physical inventory count was completed each month by the Manager and reconciled by the Supervisor. IA interviewed Supervisors for the selected schools to determine how monthly inventory is monitored and viewed examples of how discrepancies are addressed.

Results:

Each of the eight schools reviewed completed a physical count of inventory for each month that was required to be inventoried during the audit period. The Supervisors reconciled the Manager's inventory count, and the current Supervisor provided responses and documentation that align with Food Services guidance for review and monitoring inventory discrepancies.

Conclusion:

All schools reviewed had a physical inventory count completed for the required months which was reconciled by the Supervisor. The Supervisors interviewed appear to be monitoring inventory discrepancies according to Food Services' guidance for review and monitoring inventory discrepancies.

4. Objective:

Determine if Supervisors for each of the selected schools completed the inventory related sections of the Food Services Supervisor Kitchen Audit Form.

Methodology:

IA reviewed the Food Services Supervisor Kitchen Audit Forms that were completed for each school to determine if at least one was completed during the school year.

Results:

The Supervisor at each of the eight schools completed at least one Food Services Supervisor Kitchen Audit Form during the audit period.

Conclusion:

Supervisors at each of the eight schools examined completed at least one Food Services Supervisor Kitchen Audit Form.

5. Objective:

Determine if the exterior entry to the cafeteria is locked and all locations where physical inventory is stored are secured with limited access to the inventory.

AUDIT OBJECTIVES, METHODOLOGY, RESULTS, AND CONCLUSIONS, CONTINUED

Methodology:

IA entered the cafeteria from the outside exterior entry to determine if the door was locked upon arrival. IA inspected refrigerators, freezers, dry storage and pantries at each school to determine if they were locked or able to be locked. IA interviewed school cafeteria staff at each school to determine who has access to cafeteria inventory during and after school hours.

Results:

All schools visited had secure access to the cafeteria from the outside. All refrigerators, freezers, dry storage and pantries were locked or could be locked. Staff interviewed at each school provided information in alignment with Food Services' requirement to limit the access to the cafeteria's inventory.

Conclusion:

The outside cafeteria entrance was locked; the inventory was secured; and access was limited at all schools.

6. Objective:

Determine if cafeteria physical inventories are accurately reflected in the PE inventory system.

Methodology:

IA performed a physical inventory count and compared that to the Perpetual Inventory Report in PE to determine if inventory balances were accurate.

Results:

All eight schools had variances between the physical count and the perpetual inventory. The range of items that did not match was between 17 and 150 items among the schools.

Conclusion:

The cafeteria physical inventory is not accurately reflected in the PE inventory system for the eight schools examined.

AUDITING STANDARDS

We conducted this performance audit in accordance with 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings, other items noted, and conclusions based on our audit objectives.

The results of the audit were discussed with management. We thank management and staff of Food Services and others that were contacted for their cooperation throughout the audit.

cc: Jack Freeman, Chief Operations Officer, Department of School Division Services
Rachel Amato, Director, Office of Food Services

AUDIT RESULTS AND MANAGEMENT’S RESPONSES

Finding No. 1: Inventory Discrepancies

IA noted discrepancies when comparing the physical count of the inventory to the perpetual inventory. The number of items with variances ranged between 17 and 150 items among schools as follows:

School Name	Total Items Counted	Food Variances	Non-Food* Variances	Total Variances	% of Total Variances
Salem High School	313	116	34	150	48%
Great Neck Middle School	294	61	27	88	30%
Windsor Woods Elementary School	175	23	7	30	17%
Shelton Park Elementary School	244	26	12	38	16%
Holland Elementary School	223	21	10	31	14%
Red Mill Elementary School	194	15	9	24	12%
Brandon Middle School	205	15	6	21	10%
Renaissance Academy	252	11	6	17	7%
Total	1,900	288	111	399	21%

*Non-food consists of items such as serving containers, cups, napkins, foil etc.

Unexplained variances in inventory counts can lead to over/under ordering and/or loss or theft. *The Office of Food Services Operation Manual*, Monthly Physical Inventory states, “Check the Discrepancy Report found on the inventory header page. Review the Item History Report for any significant variances. Adjust the receipt or withdrawal transaction if corrections are needed.”

IA reviewed the inventory withdrawal history in PE excluding periods under a different Manager. IA noted from this review that six out of the eight schools did not withdraw items used from inventory on the day the meal was served. *The Office of Food Services Operation Manual*, Inventory/Orders states, “Usage should be withdrawn daily.” There are varying methods used by Managers to record inventory usage. Examples of these include the following:

- Withdrawing a full case when it is opened or after fully used;
- Withdrawing individual pieces as they are used;
- Withdrawing items based on the delivery schedule of the replenishment;
- Items were withdrawn by the previous Manager but were not used, or the new Manager did not add the items back into the inventory;
- Counting different flavors of items together on purpose or by accident; and
- Remaining inventory items from Sysco Hampton Roads, the previous vendor, have been taken out of PE, but are still being used or are recorded with the items from Gold Star Foods, the current vendor.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

The Office of Food Services Operation Manual does not specify a consistent methodology of how inventory usage should be recorded. When inventory is withdrawn daily using a consistent method it provides standardization to streamline inventory replenishment and reduces variances between the physical and perpetual inventory.

Recommendations:

IA recommends that Food Services perform unannounced spot checks to ensure that the system's perpetual inventory matches the physical inventory count. IA recommends that Food Services remind Managers to withdraw items used each day and request that the Supervisor monitor this in PE. Finally, IA recommends that Food Services create and implement inventory withdrawal guidelines to provide a standardized method of how items should be withdrawn from inventory.

Management's Response:

The Chief Operations Officer (COO) concurs. Food Services will develop a process by November 4, 2024, for Supervisors to perform unannounced spot checks to ensure that the system's perpetual inventory matches the physical inventory count. Food Services will remind Managers by November 8, 2024, to withdraw inventory items used each day and will provide a method for Supervisors to monitor withdrawals. Food Services will create and implement inventory withdrawal guidelines to provide a standardized method of how items should be withdrawn from inventory by November 29, 2024.

ITEMS NOTED AND MANAGEMENT'S RESPONSES

Items Noted No. 1: Items Expired or Nearing Expiration

While reviewing items on October 15, 2024, IA noted that one school had two types of shelf stable milk that were either expired (8/26/24) or close to expiration (11/24/24). The *Office of Food Services Operation Manual* states that staff should date and rotate all stock, using the first in, first out method. The Manager explained that she did not notice the expiration date but will dispose of the expired items. Regular monitoring of the expiration dates of inventory reduces over/under ordering, waste or spoilage.

Recommendations:

IA recommends that Food Services remind Managers to check expiration dates of inventory, to utilize items nearing expiration as applicable and dispose of any expired items.

Management's Response:

The COO concurs. Food Services will remind Managers by November 1, 2024, to check expiration dates of inventory, to utilize items nearing expiration as applicable and dispose of any expired items.