



*"Making a Positive Difference"*

## Office of Internal Auditing

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## 2007-2008 Food Service Procurement Review

Audit Number: 2008-009

Report date: April 16, 2008

Period covered: July 1, 2007 – February 28, 2008

Fieldwork dates: March 11, - April 15, 2008

### EXECUTIVE SUMMARY

#### *Background*

The federal nutrition program is operated by the USDA in the fifty states and U.S. Territories through the National School Lunch and Breakfast Programs. This program is governed by 7 CFR Part 210.21. The Escambia County School District's school meals program is operated by the Food Services Department. According to Food Services Accounting, the District presently serves lunch at 63 and breakfast at 50 district or charter school sites. Of the 37,200 meals/equivalents served daily, 23,426 are reimbursable lunches and 4,848 are reimbursable breakfast equivalents (which represents 9,696 breakfast meals). The current 2007/08 FY annual School Food Services budget was \$19.7 million dollars. To ensure compliance, the program is audited by the USDA/DOE on a rotational basis (approximately every 5 years). The last audit performed by the USDA/DOE was in 2008.

#### *Objectives*

The purpose of this review was to apply agreed-upon procedures. These procedures were to execute a document titled Procurement Review Instrument, perform an internal review of the food service procurement practices, assess the adequacy of documentation and ascertain compliance with 7 CFS 3016.36, and follow up on the findings noted in the Office of Internal Auditing's review from the previous year. This review was applied to the period July 1, 2007 through February 28, 2008.

#### *Scope*

There are three major departments which participate in the District's school meals program. The Food Services Department determines the food needs, Purchasing & Business Services oversees the bid process and maintains documentation for deliveries made to the District's Warehouse, and Food Services Accounting maintains documentation for deliveries made directly to the schools and processes vendor disbursements.

We interviewed personnel in the three departments to:

- obtain an understanding of the procurement process related to food services, which included the competitive bid process;

## EXECUTIVE SUMMARY (continued)

- execute the Procurement Review Instrument; and
- complete elements to comply with 7 CFR 3016.36.

We tested, on a sample basis, the essential elements required to comply with the above mentioned federal regulations. This process included testing of the competitive bid process, receipt of goods, invoices, and pricing.

### *Conclusions*

The execution of a document titled Procurement Review Instrument was completed. A copy is attached with supporting documentation contained in audit working papers.

Overall, it appears that proper competitive bid procedures were followed and required documentation exists to be in compliance with federal regulations. It also appears that the District has addressed the findings and recommendations related to procurement made in the Office of Internal Auditing prior year's review. Each prior finding and what action has been taken is detailed below:

- Once a vendor was awarded a multi-year contract, it did not appear that any further renewal of the debarment/suspension certification during the duration of the bid was required by the District.

*The District implemented procedures that included renewal of the debarment/suspension certification every year for all vendors.*

- Concerns were expressed by Purchasing & Business Services and Food Services Accounting regarding the pricing intricacies of 5-year bids.

*Meetings were held with these departments to obtain a better understanding of 5-year bids.*

During our review, we became aware of matters that represent opportunities for strengthening internal controls, increasing operating efficiencies, and assuring compliance with applicable laws, rules, regulations, policies and/or procedures.

The following noncompliance with policies and procedures was noted:

- **Produce vendor price sheets are not validated.**

The following internal control weakness was noted:

- **Vendor price sheets do not include a date.**

### *Noteworthy Accomplishments*

The District has established extensive procedures and forms that contain sufficient internal controls over food service procurement. These forms and procedures appear to have been provided to those individuals responsible for processing food service procurement. Furthermore, it appears these individuals are consistently utilizing the forms and procedures.

### *Management Action Plans*

To be determined

### *Process-improvement Recommendations*

- **Produce vendor price sheets are not validated.**

The Request for Proposal (RFP) & Proposal Acknowledgement states, "Total price is defined as the cost of the product (the cost vendor pays his supplier for the product, verifiable by vendor invoice review), plus a set distribution fee." The Bid Award Notice states, "The District will pick items at random on a bi-monthly basis and will ask vendors to provide documentation (their supplier's invoice) of pricing."

Although prices charged on produce invoices (the District's costs) are verified on a random basis against the corresponding vendor bi-weekly price sheet, it appears no verification of vendors' costs takes place. Without validation of vendor's costs, it is unsure if the District is over or underpaying the vendor.

We recommend the District implement the necessary procedures to include validation of the cost vendors pay their suppliers for products as stated in the Bid Award Notice and the RFP.

- **Vendor price sheets do not include a date.**

We noted one vendor that sends a letter with a separate updated price sheet. The letter includes "Effective Date", but the price sheet does not. In the event these two pieces get separated, there is no way of knowing an effective date for the updated price sheet.

Another vendor sends multiple price sheets. This vendor does not denote if one price sheet supersedes another. It was found that some price sheets' date range/effective dates overlap. This confusion could result in District staff not knowing if prices per the invoices are accurate.

We recommend the District require vendors to include an "Issued Date" and/or an "Effective Date" on all price sheets.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Food Services Department, Food Services Accounting, and Purchasing & Business Services were not observed to be out of compliance with any known laws and regulations applicable to the areas within the scope of the review.

## **METHODOLOGY**

The findings and responses made in the previous review of food serve procurement were reviewed. Interviews with District personnel were conducted to determine what actions had been taken to address the findings.

A random sample of awarded bids was selected. From those bids, a random sample of vendors was selected. These bids and vendors were tested for compliance with 7 CFR Part 210.21. The elements tested in this process included: competition, comparability, documentation of bid process, code of conduct, and debarment/suspension certification.

To test for compliance with the contract administration element, a random sample of purchase orders and invoices associated with the previously selected bids/vendors was selected and tested.

Additionally, Food Services Department menus for the period under review were also examined to complete the testing of the documentation element.

### **STATEMENT ON AUDITING STANDARDS**

This review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditing.



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