



*"Making a Positive Difference"*

## Office of Internal Auditing

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## 2008-09 Food Service Procurement Review

Audit Number: 2009-010

Report date: April 24, 2009

Period covered: July 1, 2008 – March 31, 2009

Fieldwork dates: April 1 - April 24, 2009

### 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 52 district or charter school sites. Of the 35,600 meals/equivalents served daily, 23,520 are reimbursable lunches and 5,033 are reimbursable breakfast equivalents (which represents 10,066 breakfast meals served). The current 2008-2009 fiscal year annual School Food Services budget was \$18.8 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, ascertain compliance with 7 CFR 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, 2008 through March 31, 2009.

#### *Scope*

There are three major departments who 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;
- execute the Procurement Review Instrument; and
- complete the 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's prior year review. Each prior finding and what action has been taken is detailed below:

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

Produce bids are the only bids that do not have a set price for products. This type of bid is the only one with the wording on the Request for Proposal (RFP) & Proposal Acknowledgement stating, "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" and the Bid Award Notice stating, "The District will pick items at random on a bi-monthly basis and will ask vendors to provide documentation of pricing."

It appeared no verification of vendors' costs took place. Without validation of vendors' costs, it was unsure if the District was over or underpaying the vendor.

*The District implemented procedures to include validation of the cost vendors pay their suppliers for products. Beginning March 2009, the Purchasing Agent is randomly selecting items from each of the two produce vendor's price sheets and requesting supporting documentation (their supplier's invoices). These costs are then compared to the District's costs. According to Purchasing & Business Services, this process has just begun and will be performed on a random basis.*

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

One vendor was sending a letter with a separate updated price sheet. The letter included an effective date, but the price sheet did not. Another vendor was sending updated price sheets without marking the most updated one as superseding the other.

*The Purchasing Agent discussed this issue with Food Service Accounting and the vendors. All vendor price sheets now include dates.*

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 internal control weaknesses were noted:

- **No timeline for validation of vendors' costs has been established.**
- **Vendor price sheets do not always agree with invoice amounts.**

*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*

See Management's Response attached

*Process-improvement Recommendations*

- **No timeline for validation of vendors' costs has been established.**

As stated above, the validation process of vendor's costs is currently performed on a random basis.

We recommend the District perform this validation of vendors' costs process at least quarterly. Establishing a set time-frame will help ensure the validation occurs.

- **Vendor price sheets do not always agree with invoice amounts.**

We tested two produce vendors. Five out of the 9 invoices tested for one specific vendor revealed price discrepancies between the invoice price paid by the District and the price to be paid per the vendor price sheet. These 5 invoices included 15 items with discrepancies; 13 of which resulted in the District paying more than the amount listed on the price sheet and 2 resulted in the District paying less. There was no evidence of credits being issued for the discrepancies. We also noted 2 of these 5 invoices were marked as "verified" by Food Service Accounting personnel.

We recommend the District inquire as to why amounts invoiced and paid by the District are different from the amounts listed on the corresponding vendor price sheets. Discrepancies should be investigated and steps should be taken to ensure credits are issued when required.

## **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 service 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.



David J. Bryant, Director  
Office of Internal Auditing

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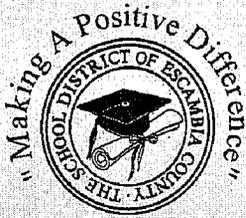
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# MEMORANDUM

Date: September 8, 2009

To: Mr. David Bryant, Director Internal Auditing

Via: Ms. Barbara Linker, Assistant Superintendent for Finance and Business Services 

From: Mr. John Dombroskie, Director of Purchasing 

Subject: Purchasing Department's Response to Office of Internal Auditing's 2008-09 Food Service Procurement Review, Audit Number 2009-010

The comments below in bold type are from the attached audit report concerning the 2008-09 Food Service Procurement Review conducted by the District's Office of Internal Auditing. The Purchasing Department's responses to those comments are provided in regular type.

**FINDING:** No timeline for validation of vendor's costs has been established.

**CORRECTIVE ACTION:** We recommend the District perform this validation of vendor's costs process at least quarterly. Establishing a set time frame will help ensure the validation occurs.

A timeline for validation of vendor's costs will be established.

**FINDING:** Vendor price sheets do not always agree with invoice amounts.

**CORRECTIVE ACTION:** We recommend the District inquire as to why amounts invoiced and paid by the District are different from the amounts listed on the corresponding vendor price sheets. Discrepancies should be investigated and steps should be taken to ensure credits are issued when required.

Per the Director of Accounting Operations, the Food Service Accounting Department spot checks price lists against invoices. The decision to spot check was made because it is very labor intensive to verify each item. Price lists change every two weeks, size and unit of measure adjustments can occur, and items may be substituted making complete reconciliation very time consuming. The decision to spot check is believed to be the most cost effective method.