



"Making a Positive Difference"

Office of Internal Auditing

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2009-2010 Food Service Procurement Review

Audit Number: 2010-001

Report date: April 22, 2010

Period covered: July 1, 2009 – March 31, 2010

Fieldwork dates: April 1 - April 22, 2010

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 60 and breakfast at 53 district or charter school sites. Of the 36,290 meals/equivalents served daily, 24,435 are reimbursable lunches and 5,527 are reimbursable breakfast equivalents (which represents 11,054 breakfast meals served). The current 2009-2010 fiscal year annual School Food Services budget was \$18.5 million dollars. The prior year's annual School Food Service 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, 2009 through March 31, 2010.

Scope

Three major departments 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 either addressed the findings and recommendations related to procurement made in the Office of Internal Auditing's prior year review or has accepted the risk associated with not implementing the recommendations. Each **prior year finding** and what action has been taken is detailed below:

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

During our fieldwork last year, the District implemented procedures to include validation of the cost vendors pay their suppliers for products. Beginning March 2009, a purchasing agent randomly selected items from each of the two produce vendor's price sheets and requested supporting documentation (their supplier's invoices). Those costs were then compared to the District's costs.

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

The District is validating vendors' costs semi-annually.

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

Our testing of invoices indicated numerous discrepancies between the invoice price paid by the District and the price to be paid per the vendor price sheet. Also, there was no evidence of credits being issued for the discrepancies and some of these invoices were marked as "verified" by Food Service Accounting personnel.

We recommended the District investigate discrepancies and ensure credits are issued when required.

Management's response stated "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 and believed to be the most cost effective method".

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 (Current Year Findings)

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

Our sample tested included two produce vendors. Eight of the 10 invoices tested contained items with price discrepancies. Twelve total discrepancies were noted:

- 6 instances resulting in the District paying more than the amount listed on the price sheet
- 6 instances resulting in the District paying less than the amount listed on the price sheet

This finding is the same as reported in the prior year's audit. We understand that Management has accepted the risk, but it is repeated here because the issue still exists and it allows Management to make additional comments (if so desired).

- **Use of the stamp "verified" by Food Service Accounting personnel on invoices could be considered misleading.**

According to Food Service Accounting personnel, "verified" marked on invoices indicates the invoice is included in a check disbursement; it does not mean the prices appearing on the invoice have been verified.

We recommend Food Service Accounting personnel indicate price verification by initialing the invoice or via other means. This process would provide evidence of the District's policy to "spot check" invoices.

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 3016.36. 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.

A handwritten signature in black ink that reads "David J. Bryant". The signature is written in a cursive style with a horizontal line extending from the end of the name.

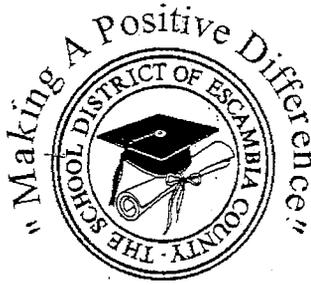
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Memorandum

To: Mr. David Bryant, Director
Office of Internal Auditing

From: Terry St. Cyr, Assistant Superintendent
Finance and Business Services

Date: February 3, 2011

Subject: Audit Report Number 2010-001

In connection with the aforementioned audit report for the period July 1, 2009 – March 31, 2010, please accept this response concerning process-improvement recommendations for food service procurement procedures:

Auditor Finding:

Vendor price sheets do not always agree with invoice amounts.

District Response:

As recommended in the prior year, the District will perform, on a quarterly basis, a validation of vendor costs for a reasonable sample of food service purchases.

Auditor Finding:

Use of the stamp "verified" by Food Service Accounting personnel on invoices could be considered misleading.

District Response:

The Food Service Accounting department will accept the recommendation to initial or similarly indicate when prices on invoices are checked. This will distinguish from the stamped word "verified" which means that the invoice is included in a check disbursement.

c: Gloria Johnson
John Dombroskie

RECEIVED

FEB 04 2011

ESCAMBIA COUNTY SCHOOL DISTRICT
INTERNAL AUDITING DEPARTMENT