



*"Making a Positive Difference"*

## Office of Internal Auditing

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### 2010-2011 Food Service Procurement Review

Audit Number: 2011-005

Report date: April 21, 2011

Period covered: July 1, 2010 – March 31, 2011

Fieldwork dates: March 28 - April 21, 2011

#### **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 59 and breakfast at 53 district or charter school sites. Of the 35,145 meals/equivalents served daily, 24,150 are reimbursable lunches and 5,822 are reimbursable breakfast equivalents (which represents 11,644 breakfast meals served). The current 2010-2011 fiscal year annual School Food Services budget was \$20 million. The prior year's annual School Food Service budget was \$18.5 million. 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, 2010 through March 31, 2011.

##### *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:

- **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.

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".*

*The District is indicating when prices on invoices are checked; however, the Food Service Accounting personnel does not always verify the prices for each item listed on the invoice selected for the "spot check." A ten dollar extended price threshold is utilized to determine which items to examine for price verification in those cases .*

- **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 recommended 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.

*Management's response stated "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".*

*The District is indicating when prices for items on invoices are checked via check or tic marks.*

*Process-improvement Recommendations (Current Year Findings)*

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

Our sample tested included two produce vendors. Three of the 20 invoices tested contained items with price discrepancies. Four total items with price discrepancies were noted:

- 2 instances resulting in the District paying more than the amount listed on the price sheet
- 2 instance 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).

- **Produce vendor costs were not validated.**

Produce bids do not have a set price for products. The Bid Award Notice states, "On a bi-weekly basis, each vendor will provide the District with their product cost for the upcoming two week period. The cost of the product will be the vendor's actual cost, plus the distribution fee. 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."

A recommendation was made in the 2008-2009 year's audit to perform the validation of vendor's costs on a quarterly basis. This recommendation was addressed by management establishing a time line of semi-annually.

It appeared no verification of vendors' costs took place during the current 2010-11 school year. Without validation of vendors' costs, the District cannot ensure the correct prices are paid for purchased items. A request was sent to Farmers Fresh and Adams Produce, cost-plus produce vendors, on June 28, 2011 for verification of invoice costs.

We recommend the District review the language currently located in the bid documents for cost-plus contracts regarding price verification. The established time line to perform the price verifications should be consistent with the language written in the bid documents. We recommend the District perform the validation of vendor's costs at least quarterly.

*Noteworthy Accomplishments*

The District has established extensive procedures and forms that contain sufficient internal controls over food service procurement. It appears the individuals responsible for processing food service procurement are consistently utilizing the forms and procedures. In addition, it appears the District's Food Service Accounting personnel have made significant improvement with regard to investigating discrepancies between vendor invoices and associated vendor price sheets.

*Management Action Plans*

See Management's Response attached

## **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.



David J. Bryant, Director  
Office of Internal Auditing

## **AUDIT TEAM**

Justin Cook, Internal Auditor - Office of Internal Auditing

## **DISTRIBUTION**

Audit Committee

Malcolm Thomas, Superintendent

Norm Ross, Deputy Superintendent

Shawn Dennis, Assistant Superintendent – Operations

Terry St. Cyr, Assistant Superintendent – Finance & Business Finance & Business Services

Glenna Taylor, Director - Food Services Department

John Dombroskie, Director - Purchasing & Business Services

Gloria Johnson, Director – Accounting Operations

### PROCUREMENT REVIEW INSTRUMENT

SFA: <u>ESCAMBIA COUNTY SCHOOL DISTRICT</u>	CONTACT: <u>MARGUERITE VAN NORSTRAUD</u> <span style="float: right; font-size: small;">Purchasing Agent</span>
AGREEMENT # 01- _____	PHONE NUMBER: _____
REVIEWER: <u>JUSTIN COOK</u>	DATE: <u>3-31-11</u>

	YES	NO	N/A	COMMENTS
1. Does the SFA have a written procurement plan or policy?	✓			School Board Rules - Website Doing Business with Escambia Cty Schools
2. Which USDA approved method is used?				
_____ A. Small Purchase Procedures (see instructions)	✓			
_____ B. Competitive Sealed Bids (Over threshold identified above)	✓			
_____ C. Competitive Negotiation	✓			
_____ D. Non-Competitive Negotiation (Sole Source)	✓			- rarely; closely monitored
NOTE: If 2A is selected, mark N/A for questions 3, 4, 7, 8, 9 and 10.				taste-test
3. What type of bid format was selected?				
_____ A. Line Item	✓			
_____ B. Bottom Line	✓			
_____ C. Reimbursable Cost Plus Fixed Fee	✓			
_____ Other (bid quotations from #2-A)				
4. For a Competitive Sealed Bid process, were bids publicly advertised? Obtain a copy. (Required when purchases exceed threshold identified in #2)	✓			
5. Does the procurement policy contain a written code of conduct and does it specify the penalties that shall apply for violations?	✓			School Board Rules 5.02 (1) ECSD Employee Code of Ethics
6. Does the procurement plan include a yearly review by an independent second party? (obtain a copy)	✓			Name of Justin Cook person: OFFICE OF INTERNAL AUDITING
7. Does the procurement policy state the requirements and time frame whereby a bidding vendor may protest the bid award or other restrictive requirements?	✓			School Board Rules 5.02 (11) Bid Document "W"
8. Is a Public Entity Crimes Act form on file for the vendor mentioned in the bid? (Bids over \$25,000)	✓			Bid Document "M"
9. Is there a Debarment and Suspension Form AD-1048 on file for vendors receiving over \$100,000 in annual business or bid awards? Obtain copies for the 2 largest bids.	✓			On all Bids (Food)
10. Do all contracts over the threshold identified in #2 contain a provision to protect the SFA from economic losses due to the non-performance or default of a vendor by one of the following two methods? (obtain a copy)	✓			Bid Document
_____ A. Liquidated damages—how much?	✓			Bid Document "K"
_____ B. Performance Bond—how much?		✓		

## INSTRUCTIONS AND COMMENTARY FOR THE CRE PROCUREMENT REVIEW INSTRUMENT

**Item 1.** THE PROCUREMENT METHOD CHECKED IN QUESTION 2 SHOULD APPEAR IN THE POLICY STATEMENT

**Item 2.** Allowable Bid Methods - Ask for the approximate dollar value for the grocery, dairy, meat, and frozen food bids.

**A.** Small Purchase Procedures— used when the bids or price quotations are less than \$25,000 per year (Public - \$25,000; Private, the lesser of \$100,000 or SFA's approved proc. policy). Fresh produce may be purchased using a faxed bid quotation from multiple vendors, due to the inability of bidders to receive long term price quotes. (regardless of yearly purchase volume).

**B.** Competitive Sealed Bids—required when threshold identified in A is exceeded; required by federal guidance to ensure SFA maximizes free and open competition. Requirements: public advertisement, accurate and reasonable product descriptions, accurate quantities of products, two or more willing and qualified vendors, pre-bid conference meetings held with the vendors, public bid opening and posting of results; participating vendors must be allowed to protest bid results within 3 days of posting.

**C.** Competitive Negotiation or Request for Proposal (RFP) normally allowed only when a competitive sealed bid has failed to acquire a qualified vendor at acceptable prices, terms and conditions.

**D.** Non-Competitive Negotiation - used only when acquiring name brand equipment, software or proprietary service contracts. Please consult with DOE for any non-competitive procurement over \$25,000. (Ref. SBE 6A-1.012 (6))

**Item 3.** Types of Bid Formats

**A.** Line Item—awarded per item, (Example, vendor A wins the bid for canned corn at \$12.00/case for six months).

**B.** Bottom Line/Lump Sum—bid is awarded for a category of items like canned goods or frozen food based on the sum total of that group.

**C.** Reimbursable Cost plus a Fixed Fee (RCFF)—this type of bid is used in many large districts and buying co-ops. The vendor charges SFA his cost for the item plus any applicable freight and a designated fee per case as stated in the bid document. An RCFF bid requires an up-front pre-award audit to be performed on the distributor's true cost basis for items.

**Item 4.** Obtain a copy of the public advertisement and attach to the Procurement Review Instrument.

**Item 5.** Procurement Code of Conduct—a written code of conduct is required to govern the conduct of procurement officials and is meant to restrict undue or improper influence which may occur during bid writing, so that competition is restricted. Gifts may not be offered or accepted to award business; and no efforts may be used to subvert an open, public process.

**Item 6.** Vendor Protest Provision—the sponsor must allow a participating vendor to protest or challenge an unfair, arbitrary or unclear bid determination during the timeframe specified in Florida Statute Chapter 120.57 (3).

**Item 7.** The Public Entity Crimes Act—this provision must appear in bids for all districts and private sponsors when the bid exceeds \$25,000 per year or per bid event. School Districts may not conduct business with a vendor who appears on the list of suspended or ineligible businesses maintained by the Florida Department of Management Services (F.S. Chapter 287).

**Item 8.** Debarment and Suspension Form AD-1048—this two-page form is required to be on file for all bids or contracts over \$100,000 per year or per bid. The form is an affidavit and the District or private SFA is not required to follow up or verify the data. This form is valid for only one year and must be received annually from any applicable vendor. (7 CFR 3017)

**Item 9.** Penalties Against Vendors for Non-Performance Each contract or bid over the threshold identified in question 2 (\$25,000) must contain language that addresses a vendor's failure to perform his duties as agreed upon in the bid or contract. This would require either a PERFORMANCE BOND: (not a bid bond) whereby the vendor provides a document issued by an insurance company agreeing to pay the sponsor for losses associated with the vendor's failure to perform; Instead of a Performance Bond, the vendor and sponsor may agree to a LIQUIDATED DAMAGES contract provision, whereby the vendor agrees in advance for the sponsor to deduct the reasonable costs associated with the vendor's failure to perform in accordance with the bid and/or contract. This money would be deducted from the funds owed to the vendor from current or previous food deliveries. As an example, if the vendor agreed to deliver a 10 lb. case of ground beef for \$20.00, but failed to do so, the sponsor may deduct the additional cost of the item and any direct expenses for loss of employee time to acquire the ordered item. (The industry standard for compliance is a 98% fill rate for items to be delivered when ordered in accordance with a typical order schedule.)

# MEMORANDUM

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

FROM: Terry St. Cyr

SUBJECT: Audit Report Number 2011-005

DATE: September 7, 2011

In connection with the aforementioned audit report for the period July 1, 2010 – March 31, 2011, 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:

Food service accounting staff receives produce price lists from vendors every two weeks. As invoices are reviewed high price items are selected for verification. The number of items selected for verification depends on the amount of time available as staff prioritizes workload. Items selected are identified on the vendor price list and checked against supporting invoices. For any price difference noted, the item is circled on the invoice and the price is changed accordingly. The final payment is based on corrected invoice totals. The food service accounting staff will continue this process on a sample basis.

Auditor Finding:

Produce vendor costs were not validated.

District Response:

\* Purchasing staff randomly selects bi-weekly price sheets for review. Certain price sheet items are highlighted and returned to vendor for verification. The vendor is required to pull their vendor invoices (what they are paying their suppliers) for each of the highlighted items for the time period and return them to the purchasing office. Purchasing staff reviews these items against the price sheet for any discrepancies. Vendors are notified if differences are unreasonable.

In addition, weekly bulletins are received from USDA on produce, indicating problems and potential sudden changes in pricing. These bulletins are reviewed for information that is applicable to the district. Relevant information is shared with food service accounting and food service program staff accordingly.

c: Gloria Johnson  
John Dombroskie

\* NOT DONE DURING 2010-2011 YEAR  
DONE AFTER FIELDWORK (JULY 2011)

DJB  
9/23/2011