



*"Making a Positive Difference"*

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### 2011-2012 Food Service Procurement Review

Audit Number: 2012-005

Report date: June 04, 2012

Period covered: July 1, 2011 – March 31, 2012

Fieldwork dates: April 9 - April 19, 2012

We have completed our Annual Food Service Procurement Review for the Escambia County School District for the 2011-2012 school year. This report contains the results and recommendations of our review.

#### **EXECUTIVE SUMMARY**

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 (the District) school meals program is operated by the Food Services Department. 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. The anticipated date of the next USDA/DOE audit is scheduled for the upcoming 2012-13 school year. The DOE requires an internal program review of the procurement process on an annual basis by an independent second party staff person whose is not associated with food service procurement.

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.

The objective of this review was to apply agreed-upon procedures. These procedures were to: 1) execute a document titled Procurement Review Instrument, 2) perform an internal review of the food service procurement practices, 3) assess the adequacy of documentation, 4) ascertain compliance with 7 CFR 3016.36, and 5) follow up on the findings noted in the Office of Internal Auditing's review from the previous year.

We interviewed personnel in the three departments to obtain an understanding of the procurement process related to food services. We tested, on a sample basis, the essential elements required to comply with the above-mentioned federal regulations. This review included testing of the competitive bid process, receipt of goods, invoices, and pricing.

**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 proper competitive bid procedures were followed and adequate documentation exists to comply with federal regulations. It also appears 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 risks associated with not implementing the recommendations.**

**During our review, we compared prices per paid invoices to prices per weekly price sheets provided by the two produce vendors in our sample. Ten invoices, five from each vendor, were tested. The ten invoices, each containing numerous product line items, totaled \$3,127.18. Two of the ten invoices, one from each vendor, contained an item with a price discrepancy. These discrepancies resulted from differences between price sheets provided by the vendor and actual amounts billed per vendor invoices. The discrepancies for the two items totaled \$21.45, and were the result of one cost-plus contract.**

This finding is the same as reported in the prior year's review. It should also be noted that the price of produce is highly volatile, oftentimes changing daily. 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).

## **DETAILED RESULTS**

### **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 57 and breakfast at 53 District or charter school sites. Of the 35,524 meals/equivalents served daily, 24,599 are reimbursable lunches and 6,017 are reimbursable breakfast equivalents (which represents 12,035 breakfast meals served). The current 2011-2012 fiscal year annual School Food Services budget is \$19.2 million. The prior year's annual School Food Service budget was \$20 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. The next USDA/DOE audit is scheduled for the upcoming 2012-13 school year. The DOE requires an internal program review of the procurement process on an annual basis by an independent second party staff person whose is not associated with food service procurement.

### **Objective**

The objective of this review was to apply agreed-upon procedures. These procedures were to: 1) execute a document titled Procurement Review Instrument, 2) perform an internal review of the food service procurement practices, 3) assess the adequacy of documentation, 4) ascertain compliance with 7 CFR 3016.36, and 5) follow up on the findings noted in the Office of Internal Auditing's review from the previous year.

### **Scope**

The scope of this review included three major departments which participate in the District's school meals program. The Food Services Department determines 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. This review covered the period of July 1, 2011 through March 31, 2012.

### **Methodology**

An interview was conducted with the purchasing agent responsible for food service procurement to complete and execute a document titled Procurement Review Instrument and to obtain an understanding of the competitive bid process.

In order to perform the required internal review, we conducted interviews with the Supervisory Dietitian in Food Services and the Senior Financial Analyst in Food Services Accounting to gain an understanding of the food service procurement practices.

Various documents were obtained by each of these departments and reviewed for adequacy. 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.

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.

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.

### **Conclusions/Results**

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

*Overall, it appears that proper competitive bid procedures were followed and adequate documentation exists to comply 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 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.

*Management's response stated, "The 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 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."*

**Follow up:** *A sample of 10 cost-plus produce invoices, each containing numerous product line items, was tested. Two of the invoices examined contained an item with a price discrepancy.*

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

It appeared no verification of vendors' costs took place during the 2010-11 school year. A request was sent to Farmers Fresh and Adams Produce, cost-plus produce vendors, on June 28, 2011 for verification of invoice costs.

We recommended 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 also recommended the District perform the validation of vendor's costs at least quarterly.

*Management's response stated, "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 invoices (what they are paying their suppliers) for each of the highlighted items for the time period and provide copies of the invoices to the Purchasing department. Purchasing staff reviews these items against the price sheet for any discrepancies. Vendors are notified if differences are unreasonable."*

**Follow up:** *The District filed an amendment to produce bid number 074303 to extend the current agreement for a fifth renewal period. The renewal also contained a modification to the clause regarding vendor pricing verifications. The bid language now states invoice reviews will be conducted on a random basis rather than bimonthly. The School Board approved this amendment on July 19, 2011.*

*The District performed a validation of vendor's costs for two cost-plus produce vendors during the month of February 2012. The purchasing agent responsible for performing the review stated no pricing discrepancies were identified for the items examined. Upon review of the vendor cost-validation documentation provided by Purchasing, it was difficult to determine the items examined by Purchasing. We were unable to verify the results of the review performed by the purchasing agent.*

*A discussion was held with the purchasing agent to gain an understanding of the process used to perform the review. A recommendation was made to the purchasing agent to document the analysis performed during these vendor cost-validation reviews to serve as evidence of the analysis performed.*

*A methodology was recommended to the purchasing agent to create a spreadsheet listing the items selected for review along with the prices per the price sheet and the prices per the supplier's invoices for each item. The results of each item reviewed should be indicated on the spreadsheet. The corresponding price sheets and supplier invoices should be included as supporting documentation to the spreadsheet.*

#### **Process-improvement Recommendations (Current Year Findings)**

*As mentioned in the previous section, the District modified the bid language regarding vendor pricing verifications. The bid language now states invoice reviews will be conducted on a random basis rather than bimonthly.*

We agree with the District's decision to conduct vendor's cost validation reviews on a random basis; however, **we recommend** the District perform the reviews no less than quarterly.

*During our review, we compared prices per paid invoices to prices per weekly price sheets provided by the two produce vendors in our sample. Ten invoices, five from each vendor, were tested. The ten invoices, each containing numerous product line items, totaled \$3,127.18. Two of the ten invoices, one from each vendor, contained an item with a price discrepancy:*

- 2 instances resulting in the District paying a total of \$21.45 more than the amount listed on the price sheet

This finding is the same as reported in the prior year's review. 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).

#### **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.

#### **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.

#### **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.

#### **Management Action Plans**

See Management's Response if provided.



David J. Bryant, Director  
Office of Internal Auditing

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