

Laurens Central School District

Cafeteria Operations and Reserves

AUGUST 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Laurens Central School District

Audit Objective

Determine whether Laurens Central School District (District) officials:

- Effectively managed cafeteria operations.
- Properly managed reserves.

Key Findings

- The school lunch fund has stabilized operating losses and reduced dependence on general fund subsidies.
- The Board of Education (Board) has not:
 - Effectively managed reserve balances.
 - Adopted policies for general fund reserves.

Key Recommendations

- District officials should perform a cost-per-meal analysis and continue to identify potential efficiencies that will help ensure the school lunch fund is self-sufficient.
- The Board should:
 - Review the reserve balances and determine if the amounts are reasonable and necessary. If not, develop a plan to reduce the balances to appropriate levels.
 - Modify the guidelines for reserves to include desired balances and plans for use that are more specific to the actual needs of the District.

District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the District's response letter.

Background

The District serves the Towns of Laurens, Hartwick, Milford, Morris, New Lisbon and Otego in Otsego County (County).

The District is governed by the Board which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development. The Superintendent of Schools is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances and accounting records and reports are largely those of the Business Office, which consists of the District Treasurer and Deputy Treasurer.

Quick Facts

2017–18 Tax Levy	\$2.7 million
2017–18 Budgeted Appropriations	\$9.7 million
2017-18 Enrollment	317

Audit Period

July 1, 2016 – April 17, 2018. We extended our scope to July 1, 2012 to analyze trends.

Cafeteria Operations

How Should Officials Manage Cafeteria Operations?

District officials are responsible for effectively managing cafeteria operations. This includes ensuring there are sufficient revenues to meet current expenditures while complying with federally established nutritional guidelines. Officials should increase average daily participation (ADP) and sales and control expenditures. Officials could also compare the cost to produce a meal with the meal price to set an appropriate price and assist in identifying ways to enhance revenues and reduce costs. It is an added benefit when officials are able to enrich student education by incorporating such topics as the environment and food waste reduction with cost saving ideas within cafeteria operations.

Officials Have Increased Cafeteria Sales

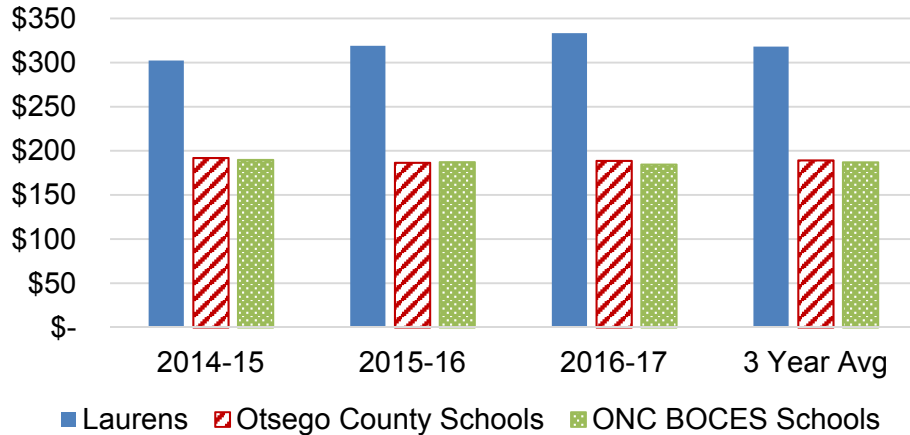
District officials increased ADP and sales by soliciting feedback from students and implementing suggestions on menu changes. For example, the cafeteria staff work with students to incorporate healthy lunch options, such as roasted Brussels sprouts instead of boiled ones. This has made the dish popular with students. Another option is meatloaf, which cafeteria staff previously had not considered as a dish that would appeal to students. They also offer a self-serve salad bar and several homemade soup options.

District officials also brought about an increase in after school meal sales, which contributed an average of over 10 percent to overall cafeteria sales. In 2015-16, cafeteria staff made hot meals available after school, which provided an important source of nutrition for students staying late for practices and games in a geographic region with few dining options.

This focus on customer service has resulted in a 16 percent increase in ADP (or nearly 49 meals per day) over the last five fiscal years, despite a slight decrease¹ in enrollment. Furthermore, overall cafeteria sales have increased. In fact, the District has the highest reported annual sales per student (\$318) of all school districts in the County and all component school districts in the Otsego Northern Catskills (ONC) BOCES,² which have average sales per student of \$189 and \$187, respectively.

¹ Enrollment decreased from 339 to 325, or 4.1 percent.

² Board of Cooperative Educational Services

FIGURE 1**Reported Average Sales per Student**

Over the audit period, the cost to produce a meal equivalent (ME)³ exceeded the price charged. Although the District operated at a slight loss of nine cents per meal in 2016-17, this was an improvement of 52 cents, or 85 percent, from 2014-15.

Figure 2: Profit/(Loss) per Meal Equivalent

	2014-15	2015-16	2016-17
Revenues per ME	\$3.12	\$ 3.18	\$3.42
Cost per ME	\$3.73	\$3.70	\$3.51
Profit/(Loss) per ME	(\$0.61)	(\$.52)	(\$.09)

District officials were unaware of this because they did not perform a cost-per-meal analysis to identify appropriate meal pricing. However, officials told us they reviewed overall results of cafeteria operations and prioritized providing nutritious and appealing meals rather than generating a profit.

Officials Have Controlled Expenditures

District officials replaced a cafeteria manager position with two co-manager positions. As a result, they reduced labor costs by \$20,300 in 2016-17. In March 2017, the District implemented recycling and composting programs that reduced annual waste collection expenditures by more than \$1,600 (or 25 percent) compared to the prior fiscal year. Through June 2017, the programs reduced the

³ An ME includes the conversion of the number of breakfasts and snacks served and à la carte revenues into an equivalent number of lunches. A single lunch is the standard by which any measures are calculated.

amount of school waste sent to landfills by 50 percentage points, from 64 percent to 14 percent. Additionally, officials use the composted waste in the school’s garden, which provides food for the cafeteria.

As a result of these efforts, officials have stabilized operating losses, thereby reducing dependence on general fund subsidies. Operating losses have decreased \$38,565 (or 84 percent) from 2014-15 to 2016-17. Over the same period, school lunch fund revenues increased by nearly \$37,000 (or 16 percent), while expenditures decreased by over \$1,600 (or 1 percent). We project an operating loss for 2017-18 of approximately \$8,400, which is similar to the deficit for the previous fiscal year of approximately \$7,300.

Figure 3: School Lunch Fund Results of Operations

	2014-15	2015-16	2016-17	2017-18
Revenues	\$ 233,802	\$ 246,966	\$ 270,743	\$ 288,142
Expenditures	\$ 279,650	\$ 287,034	\$ 278,026	\$ 296,500
Results of Operations	(\$45,848)	(\$40,068)	(\$7,283)	(\$8,358)

We commend District officials for identifying opportunities to increase revenues and decrease expenditures for cafeteria operations while simultaneously increasing participation and sales. Furthermore, officials have educated students on the importance of environmental protection and provided skills for students to adjust their own impacts on the environment.

What Do We Recommend?

1. District officials should perform a cost-per-meal analysis to ensure they are raising enough revenues to cover school lunch fund expenditures and continue to identify potential efficiencies.

Reserve Funds

How Should Officials Manage Reserves?

Prudent fiscal management includes establishing reserves to address long-term obligations or planned future expenditures. A board may establish reserves and retain portions of fund balance, which represents the cumulative residual resources from prior years, for certain future purposes (for example, workers' compensation or unemployment expenditures) in compliance with statutory requirements. While school districts are generally not limited as to how much money can be held in reserves, balances should be reasonable. The board should periodically assess the reasonableness of the amounts accumulated in each reserve and, when warranted, reduce reserve balances to a reasonable level or discontinue a reserve that is no longer needed or whose purpose has been achieved.

The Board Has Not Effectively Managed Reserve Balances

District officials have accumulated excessive balances in some of the District's reserves. As of June 30, 2017, the District had seven general fund reserves totaling more than \$2.5 million, including a workers' compensation reserve and an unemployment reserve, with balances of approximately \$150,000 and \$148,000, respectively. While the other five reserves had balances that were reasonable with respect to historical expenditures or future plans, the workers' compensation and unemployment reserves' balances were over four times and 30 times their historical expenditures, respectively. These balances have not changed significantly since our previous audit.⁴

Although the Board has increased its use of the overfunded reserves since our previous audit, the Board placed excess fund balance into these reserves to maintain their current balances. During our audit period, officials used the workers' compensation reserve twice, for a total of \$60,000, and replenished it twice, for a total of \$55,000; they also used the unemployment reserve twice, for \$11,790, and replenished it twice, for \$31,000. Furthermore, the Board has not adopted policies for general fund reserves with desired levels of reserve balances or plans for their use. Although the District has guidelines for reserves that include "potential amounts," they are not specific to any actual needs of the District, such as historical expenditures or future plans. Also, the guidelines indicate the legal purposes for the reserves, taken from the legal citations governing the specific reserves in New York State General Municipal Law or New York State Education Law. However, these purposes are vague and do not provide plans for their use that apply to the District's actual needs. As a result, District officials have continued to maintain reserve balances beyond a reasonable amount, which may result in unnecessarily high taxes.

⁴ *Laurens Central School District, Budgeting and Reserves, 2013M-135*, <http://www.osc.state.ny.us/localgov/audits/schools/2013/laurens.pdf>

What Do We Recommend?

The Board should:

2. Review the District's reserve balances and determine if the amounts are reasonable and necessary. If not, the Board should develop a plan to reduce the balances in the reserves in the manner provided for by Law for the benefit of taxpayers.
3. Modify the guidelines for reserves to include desired balances and plans for use that are more specific to the actual needs of the District.

Appendix A: Response From District Officials

LAURENS CENTRAL SCHOOL

"WHERE COMMUNITY AND SCHOOL CREATE SUCCESS."

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ROMONA N. WENCK
Superintendent

WILLIAM F. DORRITIE
Building Principal

August 3, 2018

H. Todd Eames, Chief Examiner
Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street - Suite 1702
Binghamton, NY 13901-4417

Dear Sir:

The purpose of this correspondence is to respond to the audit of the School Lunch Fund and District Reserve accounts that occurred during the 2017-2018 school year and to provide the District Corrective Action Plan. In responding to the audit, I would note the following:

I. The District found the audit team to be informational and easy to work with. The information provided to the District at the onset of the audit, such the purpose of the audit, timelines, and expectations were clearly explained. In addition, we found all of the auditors that worked in the district to be very personable, polite, flexible with regard to work space, and timely with regard to work hours. The auditors were consistent in notifying the District when they would be working in the building and made every effort to provide both advanced notification and notifications with regard to a change in their work schedule.

II. With regard to the "Key Findings" outlined in the report the District was pleased to receive a comment of commendation for our School Lunch Fund/Program. Our cafeteria staff work extremely hard to provide meals that are nutritional and appealing to our students. The cafeteria co-managers go above and beyond to provide excellent service, incorporating student and staff suggestions for meal items, making use of produce from our school garden, encouraging recycling, and providing healthy snacks/food items for those students staying after school to participate in extracurricular activities.

III. With regard to the "Key Findings" about District Reserves we were disappointed with the comments. We found the comment, "The Board of Education has not effectively managed reserve balances and has not adopted polices for general fund reserves" to be far too strong of a statement and potentially misleading. The District does have reserve polices and the Board of Education annually approves the reserves and potential amounts to be place in those specific reserves. All of this information is available to the public, and support of our school budget has been both obvious and consistent as can be seen with our budget results over many years.

See
Note 1
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In addition, the fact that the State of New York allows school districts to maintain a fund balance of only 4% places all districts in a constant position of financial weakness and vulnerability. Furthermore, school districts are faced with the task of budgeting for any number of unanticipated costs without the benefit of reserves for Special Education and Teachers Retirement Costs. As compared to other municipalities, school districts are held to a much higher level of accountability and transparency, and higher voting requirements.

IV. With regard to the recommendations presented to the District in this draft report, action on the following steps will be taken. Please consider the following information as both a response to the draft report and as the District's Corrective Action Plan.

- A. Specific to the recommendation to perform a "cost-per-meal analysis" to ensure the cafeteria is raising enough revenues to cover school lunch fund expenditure and identify potential efficiencies, the District is willing to consider this recommendation, however, not if the cost of such an analysis outweighs the benefit. It is not the District's goal to make a profit on the School Lunch Program. Rather our goal, and main priority, is to provide healthy meals to our children, the majority of whom come from families of poverty as identified by the Federal Government. Programs that encourage and educate about making healthy eating choices and recycling are of key importance as well.
- B. Specific to the recommendation to "Review the District's reserve balance and determine if the amounts are reasonable and necessary" please note the following:
 - 1. The District has reviewed all existing reserves in an effort to determine if the amounts are reasonable and necessary. District Goals for the amounts needed in each reserve are outlined in the "Multi-Year Reserve Plan."
 - 2. Given the fact that the District presently does not actually fund all of their reserves, and that the District must rely on the use of reserve funds for cash flow purposes at varying points during the school year, the District does not believe any of the reserves are overfunded. However, at the recommendation of the Auditors, the District will agree to reduce the level of funding for the Worker's Compensation Reserve as outlined in the "Multi-Year Reserve Plan." Please note however, that a prior audit from the Comptroller's office recommended that the District show "use" of the Worker's Compensation Reserve, with which the District has complied annually, not a reduction in the level of funding in that same reserve.
- C. Specific to the recommendation to "Adopt a policy for reserves setting forth the desired balances and plans for their use" please note the following:
 - 1. The District has developed a "Multi-Year Reserve Plan" which outlines the following: Reserve Title, purpose, legal citation, establishment and use, source of funds, duration, expenditure and additional information that provides an explanation for desired balance and use of funds. A copy of the plan is available for review upon request.

V. In regards to the Exit interview, we found that both of the auditors present were very knowledgeable about our particular audit, were able to thoroughly explain all aspects of the audit document and answer all questions. As was stated above, they were very polite, professional and considerate with regard to the presentation of the audit findings.

In closing, I would state that while I appreciate the work done for school districts through the Comptroller's Office, I would re-emphasize the fact that school districts are held to a higher level of accountability and transparency than most other municipalities. And, while I truly do believe that being held to that higher level is appropriate, I struggle with the fact that the legislative requirements, when followed, places school districts in a financial position that is precarious, at best.

Please do not hesitate to contact my office at 607-432-2050 should you have any further questions.

Sincerely yours,

Romona N. Wenck
Superintendent
Laurens Central School

Cc: LCS Board of Education
Kristyn DeGroat, District Treasurer

Appendix B: OSC Comment on the District's Response

Note 1

We have modified our report to clarify that the District has guidelines for reserves that include “potential amounts” and the legal purposes for the reserves. However, they are not specific to the actual needs of the District.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We analyzed the trends in the District's ADP from 2012-13 through 2016-17.
- We interviewed District officials and reviewed Board meeting minutes to gain an understanding of cafeteria operations and determine whether District officials implemented steps to enhance revenues, or reduce costs and waste.
- We calculated the cafeteria's annual sales per student and compared it to the 11 other school districts in the County and the 18 other component school districts in the ONC BOCES.
- We performed a cost-per-meal analysis for 2014-15 through 2016-17 to determine whether District officials charged amounts that would allow the school lunch fund to be self-sustaining.
- We analyzed revenue and expenditure trends and results of operations in the school lunch fund from 2014-15 through 2016-17. We projected the results of operations for 2017-18.
- We reviewed Board meeting minutes and resolutions and interviewed officials and Board members to analyze the use and funding of reserves.
- We tested the reliability of the data reported on the annual update document by comparing the data to the District's audited financial statements.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and

filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

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Contact

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