



**Mt. Vernon Community School Corporation  
Food Service Operational Analysis**

**Presented by Greg Elkins, CFO  
To MVCSC Board of Trustees  
& Dr. Jack Parker, Superintendent**

**April 19, 2021**

## Overview

As the year end financial review of all funds approached, Lisa Heitman and I created a cash flow document for the Food Service and Student Pre-Paid Meals Funds in early November, 2020. The department had never created or utilized such a tracking device. A cash flow chart records actual revenue and expense history while allowing for projections of future revenues, expenses, and anticipated balances.

The Food Service Fund had been a point of investigation as early as Fall of 2019. At that time, a collections agency was brought in to help with outstanding balances (see special section on student debt.) In conjunction with this, an evaluation of the online pay application system currently in place was conducted to determine if the system was best suited for collecting payments not just for Food Service but also student fees at the building level. There were also concerns about our current system's compatibility with Skyward, our corporation's student and financial management system. When COVID-19 hit, normal student meals distribution, sales, reimbursements, and procedures all changed. Also, the normal flow of cash for Food Service was altered greatly by hybrid schedules and distance learning students once we did return to school. However, with the continued increasing deficit, at a time when grant reimbursements were at higher than normal levels, a deeper investigation could no longer be delayed.

The Food Service ("800 Fund") had a large negative balance while the Pre-Paid Fund ("8400 Fund") seemed to have a relatively large positive balance. Because the 800 Fund trends showed the deficit increasing into the future, Lisa and I gathered historical data from 2017 through 2020 to see if we could determine a cause for the negative balance. After reviewing this historical data, I presented my findings to Dr. Parker on November 23, 2020. He instructed me to reach out to professional consultants who could audit our operational procedures and financials. Having worked with Baker-Tilly ("B-T") in late summer to do an analysis for our business office I decided to engage with them for guidance on food service. Baker-Tilly also has a K-12 finance team as well as a financial auditing team.

I had a preliminary meeting with senior partner Belvia Gray. She put me in contact with Rory Vale, a B-T associate who specializes in ops analysis. Two members from our prior business office analysis, Pete Haney and Karlee Hinrichsen, were also assigned to the team. At Belvia's suggestion, I spoke with Chase Lenon, head of the Indiana State Board of Accounts ("SBoA") to inform him that we were engaging B-T for this study.

Lisa, Doris Johnson, and I pulled together historical documentation at the request of B-T. Between December 15, 2020, and February 16, 2021 we exchanged data and met either in person or via Zoom five times. B-T interviewed our team collectively and individually as well.

I also included Amy Matthews, our school attorney, and Chandler Lawson, another cch&a associate. Amy and Chandler had assisted with legal guidance earlier in the fall with regards to other fund clean up and close outs. They agreed that an analysis was warranted. They also did further investigation into state, federal, and local policies concerning the food funds and student debt.

## **Scope of Analysis**

The purpose of the operational analysis was five-fold:

1. Track the historical accounting of both funds
2. Determine the true balance of the 800 Fund
3. Determine legally and procedurally how to handle the 8400 fund large positive balance
4. Rule out any malfeasance or misappropriation of funds
5. Analyze current systems and procedures, quality of internal controls, and document our attempts to improve these with regards to SBoA accountability

## **Explanation of Funds**

### *Food Service 800 Fund*

800 represents the SBoA required fund number. Expenses from the fund include all food service employee salaries, wages, & benefits, food supplies, equipment purchases and repairs, membership dues, and other professional services as needed.

Revenues include cash meal sales, state & federal grant reimbursements, and transfers from the 8400 fund.

### *Student Prepaid Meals Fund 8400 Fund*

8400 represents the SBoA required fund number. Families can deposit money to this account for future meal purchases. This is done by paying cashiers (change is also deposited to this fund) or making online deposits through our pay application system. Each student's balance is tracked individually. These funds do not belong to the

corporation. Once a meal is purchased, the equivalent amounts should be transferred monthly during fund reconciliation. That is currently occurring and has been with regularity since 2019 (minus some months during the Spring '20 Covid shutdown.)

### **Historical Data: Food Service Fund**

1. The 800 Fund began 2017 with a positive balance of \$386,840 and ended the year with a positive balance of \$98,973
2. February 1, 2018 is the last time the 800 Fund had a positive balance (\$82,802)
3. The 2018 deficit (the total of monthly differences) grew to a final balance of -\$1,229,501
4. The 2019 deficit increased an additional -\$92,000 while the 2020 deficit increased -\$395,000
5. The December 31, 2020 800 Fund balance was -\$1,617,567.77
6. Average monthly expenses & revenue:

	Expense/Mo	Revenue/Mo
a. 2017:	\$141,000	\$129,975
b. 2018:	\$166,300	\$63,788
c. 2019:	\$164,600	\$156,969
d. 2020:	\$139,050	\$106,132
e. 2021:	\$153,900*	\$125,914*

### **Historical Data: Prepaid Fund**

1. The 8400 Fund began 2017 with a balance of \$55,749. It ended 2017 with a zero balance. All money was transferred to the 800 Fund in December, 2017. There is no documentation explaining why this total balance was transferred out.
2. Only one monthly transfer from 8400 to 800 occurred in 2018 (\$135,344 in September.)
3. 2019 transfers from 8400 to 800 occurred regularly.
4. 2020 transfers were somewhat sporadic due to all student meals being free per federal guidelines related to COVID-19. Six monthly transfers were made during the year.
5. The 8400 Fund ended 2020 with a positive balance of \$774,180.
6. Average monthly transfers from 8400 to 800 (reflective of purchased meals) are listed below:
  - a. 2017: \$49,547.18
  - b. 2018: \$11,278.68
  - c. 2019: \$109,249.97
  - d. 2020: \$56,6754.86 (lower due to free meals during pandemic)

## Other Historical Tid-Bits

1. The SBoA 2016-18 audit found that a portion of a former district administrator's salary was incorrectly paid from 800. The amount (\$25,000) was returned from Operations to Food Service by the close of 2020.
2. Building custodians were being paid from 800 for their lunch period duties. While this is a common and completely acceptable practice, it was determined that the 800 Fund could not support this expense. All custodian wages were transferred to operations at a cost of \$25,000 annually.

## Outstanding Student Debts

The Food Service Department currently has outstanding student debt totalling \$133,853. Some of these debts go back as far as 2017. In the fall of 2019, a collections agency called Kinum was brought in to assist Food Service with this issue. Kinum was awarded contracts through various education service centers in Indiana so that schools could use their service. The collections are done on a fee per account basis. Prior to Kinum, the outstanding debts were handled by the food service department.

Kinum also assists the corporation with outstanding textbook accounts. We have had good success with improving student fees collections since Kinum was brought on board. Our current collection rate is 51% which well exceeds the national average of 35%. For food service, which is statistically shown to be much more difficult to collect on, our 19% rate of return exceeds the national average of 15%. To date, Kinum has helped secure \$32,422 in outstanding meal balances.

The negative balances are factored into the overall food service balance since the labor and supplies were already paid for with no or partial revenue received for the meals.

## Key Accounting Findings

All funds have been traced accurately and correctly though both the 800 and 8400 Funds, as corroborated by both the finance office and B-T. While not every transaction has an explanation, the funds are traceable. For example there is no explanation for emptying the prepaid fund in December of 2017 although all funds were received into the 800 Fund. A 2017 transfer of \$90,000 from Food Service to the old Capital Projects Fund is traceable, but there is no documentation as to the reason why. To be clear, *there is no evidence of misappropriation of funds as defined by the State Board of Accounts (i.e., no funds are missing, all dollars are accounted for.)*

We have determined that approximately \$15,000 of the 8400 Fund is what we refer to as abandoned funds, meaning those students are no longer enrolled and the families

did not/could not accept refunds. According to our legal guidance, these funds can be transferred to 800. As of February 28, 2021, approximately \$90,000 of the 8400 Fund belongs to active students. That leaves a balance of approximately \$661,900 in 8400 that can be transferred to 800. That amount represents meals that were purchased with no subsequent prepaid transfer having ever been made.

These transfers would leave a true balance in the 800 Fund of just over -\$990,000.

Based on B-T accounting work, we believe that further auditing by forensic accountants would not yield any new information that would increase the food service balance. With the additional substantial expense and time needed to do the forensic accounting, the best we could do is possibly trace the details of transfers and expenses historically but the overall fund balances would not change.

## Budget Years Comparisons 2017-2020

Historical Revenues breakdown:

Revenue Source	2017	2018	2019	2020
Headstart Meals	\$8,045.70	\$10,254.20	\$43,447.19	\$5,178.30
Lunch Reimbursement	\$411,868.63	\$644,196.88	\$542,695.29	\$730,835.33
Breakfast Reimbursement	\$61,160.73	\$30,044.67	\$83,865.95	\$157,958.02
School Pay Convenience Fees	\$7,721.00	\$0.00	\$11,152.05	\$11,333.40
Miscellaneous	\$69,636.79	\$176,417.18	\$601.38	\$28,234.97
Transfers In	\$1,001,263.09	-\$95,452.05* (Negative due to required corrective actions from prior audit, deposited back into prepaid)	\$1,201,749.64	\$340,043.13
<b>Totals</b>	<b>\$1,559,695.94</b>	<b>\$765,460.88</b>	<b>\$1,883,511.50</b>	<b>\$1,273,583.15</b>

## Historical Expenses Breakdown

<b>Revenue Source</b> (SBoA Expense Categories are Utilized)	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Wages and Salaries	\$561,968.29	\$696,161.05	\$757,769.83	\$704,669.37
Employee Benefits	\$208,379.23	\$277,408.07	\$304,804.52	\$196,415.85
Purchased Services	\$17,527.42	\$10,274.92	\$11,989.36	\$4,154.80
Utility Services & Equipment Repairs	\$122,073.83	\$66,975.29	\$58,127.70	\$48,666.91
Other Services	\$5,240.71	\$1,905.92	\$2,667.72	\$229.68
Supplies	\$743,198.92	\$940,145.73	\$838,353.53	\$710,292.61
Dues/Fees	\$35,090.13	\$2,091.23	\$1,561.70	\$4,130.29
<b>Totals</b>	<b>\$1,693,478.53</b>	<b>\$1,994,962.21</b>	<b>\$1,975,274.36</b>	<b>\$1,668,559.51</b>

## Recommendations

Our attorneys have been informed of the previously listed findings. In accordance with federal, state, and board policy, I am recommending we take the following actions:

1. Transfer the abandoned (\$15,000) and excess 8400 dollars \$661,900) to the 800 fund. The board may approve this as a consent agenda item at the April, 2021 regular meeting.
2. Keep the approximately \$133,000 debt accounts in collections active with our collections agency.
3. Consider at a future time (TBD) declaring a certain portion of outstanding debts unrecoverable due to the amount, age of debt, and low probability of recovery. Federal, state, and local policy allows the board to take this action.
4. Continue use of purchasing cooperatives for food supplies but examine other provider options to make sure commodity pricing is the best available to the district.

5. Utilize the professional expertise of Shannon Walls. Include Shannon in our planning, reviewing, and analysis of purchasing cooperatives effectiveness. Shannon is a great resource in the area.
6. Set meal prices at the highest allowable amount (as determined by state and federal guidelines) in an effort to increase revenue.
7. Adjust a la carte item prices for 2021-22 to generate more revenue, but not so high as to deter purchases.
8. Change online pay application provider from School Pay to E-Funds. This topic has been researched for more than a year. The technology department, building treasurers, food service, and finance are all in agreement School Pay's service quality has declined and that E-Funds compatibility with Skyward will make management of the prepaid accounts (and all other curricular and ECA fees management) more efficient.
9. Keep Baker-Tilly on standby for further operational analysis is additional cost reductions or revenue increases cannot be readily identified.
10. Consider publishing RFP's (request for proposals) from outsider food service vendors to do a cost/revenue analysis from prospective providers in comparison to our in-house operations.
11. Study potential reduction in food service staffing.

## **Next Steps**

After implementing the previously listed recommendations, the following actions will occur:

1. The Finance Department will continue to exclude any operations fund personnel, equipment, supplies, or services from food service expenses.
2. The finance office will establish monthly meetings with the CFO, Treasurer, Food Service Director and Assistant Director to update the cash flow document. Actual expenses and revenues will be reviewed, projections for expenses and revenues will be updated, and the remaining appropriations for each expense account will be reviewed for remaining balances available.
3. The food service department will be responsible for providing forecasting based on the best available data at the time of the review session. This data will be critical for determining if the 800 fund budget will stay within its appropriations and begin decreasing the annual deficits.
4. The CFO will now review for approval all food service requisitions before payments are processed through use of the Skyward electronic requisition system currently in place for all other funds and departments.



5. A per-student/per-building revenue and expense analysis has begun. While the 2020 data skews the results, as 2021 actuals are recorded, a more accurate picture of each building's kitchen & cafe operational expenses will become clearer. The intent is to see if the data identifies inefficiencies, excess costs, or a means of reallocating of resources.

## **GOALS**

1. Prevent the remaining 2021 monthly deficits from growing.
2. The impact of declining monthly deficits will begin to shrink the overall deficit
3. Identify purchasing cooperatives and commodity sources that maintain acceptable product quality but limit or decrease per student expenditures
4. Increase revenues through increased meal purchases and meal/item price adjustments
5. Deploy personnel and supplies to buildings in the most efficient manner so that each kitchen's student-cost-revenue factor is positive across the district.
6. The record level of federal reimbursements will slowly, but positively, impact the fund deficit over the course of 2021 and 2022.

Taking into consideration the enrollment growth and the number of students being served along with average monthly expenses decreasing from the high of 2018, it is possible that the increasing deficit is more a reflection of revenue. The lag time of increased reimbursement for 2020-21 could project some deficit decrease in late 2021 or 2022.

## **SUMMARY**

The food service and prepaid meals funds are in need of attention. Identifying the true balances of both funds and making the appropriate transfers are a huge first step in the right direction. Continued improvement of internal controls must remain a top priority. The added internal controls from monthly reviews, use of cash flows, and the electronic requisition system will improve our ability to forecast trends and make appropriate adjustments.

The higher expenses and relatively lower revenues from 2018 severely and adversely impacted the 800 fund to the point that it has yet to recover. There is no question that administrative decisions made in 2018 (subsequently reversed in 2019) helped to create the deficit. Continued increases in grant reimbursement revenues along with conservative expenditures and the use of purchasing cooperatives can slow the increasing deficit. Further investigation into efficiencies and distribution of assets, both

people and equipment/supplies, must be seen to its completion whether that analysis takes place internally, with external support, or both.