



**Seattle Public Schools
The Office of Internal Audit**

**Internal Audit Report
Culinary Services Advisory Engagement**

November 1, 2021- February 28, 2022

Issue Date: June 7, 2022



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

Executive Summary

Background

The US Department of Agriculture (USDA) administers the Food and Nutrition Services (FNS) National School Lunch and Breakfast Programs (NSLP), which reimburses participating schools for meals served to students. Seattle Public Schools (the District) participates in the NSLP program and meets federal nutrition standards and qualifications to receive cash subsidies from the USDA. To ensure adherence with NSLP Code of Federal Regulations 7 CFR Parts 210 and 3016, the Washington Office of Superintendent of Public Instruction (OSPI) conducts an administrative review of the District's meal programs operated by the Culinary Services Department on a tri-annual basis. The District operates in conformity with both the Revised Code of Washington (RCW) and Code of Federal Regulations (2 CFR Part 200, Uniform Guidance, Section 320) which governs food procurement and production.

Child nutrition is a critical element of the District's strategic initiatives and commitment to better student outcomes. During the 2020-2021 school year, the District Culinary Services Department served 5.69 million reimbursable meals to the 99 school sites and 13 interagency locations. A daily average of 25,000 students were served breakfast and lunch for the 2021-2022 school year. Under the American Rescue Plan, the USDA will reimburse child nutrition programs for all meals through June 2022 regardless of family income. The District was reimbursed for approximately \$16.7 million in food and food related commodities in the 2020-2021 school year and expenditures for the 2021-2022 school year to are expected to be fully reimbursed by conformance with the USDA requirements.

Three major departments participate in the District's meal programs: Culinary Services, Purchasing and the Warehouse. In response to the Covid-19 Pandemic, the District Culinary Services Department reactively adjusted procurement practices, inventory management and production operations to meet the emergent demands of flexibility necessary to maintain nutrition services to school sites amidst a national supply chain shortage.

In alignment with the District's commitment to a predictable and consistent operational system for producing and distributing meals, the Culinary Services Department requested an Internal Audit advisory engagement to identify opportunities for operational efficiencies and highlight internal control weaknesses or noncompliance concerns.

Roles and Responsibilities

This advisory engagement was initiated at the request of the District's Assistant Superintendent of Operations. The Audit and Finance Committee approved the change to the Internal Audit Work Plan at its January 11, 2021, meeting. This engagement was subsequently approved by the Committee on March 1, 2022, as a carry-over engagement included in the March 1, 2022 – February 28, 2025, Internal Audit Work Plan. District Management has the primary responsibility to establish effective processes, implement operational improvements, and monitor internal controls. Internal Audit's function is to assess current operations, provide recommendations for optimization and offer reasonable assurance on the adequacy and effectiveness of internal controls.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

Objectives

In partnership with Culinary Services the following objectives were developed for this engagement:

- Identify the different Culinary Services supply chain procurement practices.
- Assess the strengths and weaknesses of procurement practices identified.
- Evaluate the end-to-end process of purchasing, receiving, inventorying, and storing of goods.
- Highlight internal control weaknesses or noncompliance items.

Scope of the Engagement

November 1, 2021, through February 28, 2022.

Approach and Methodology

This advisory engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Internal Audit is an independent appraisal activity that is purposed with evaluating the efficiency and effectiveness of operations. The Office of Internal Audit is designed to add value and improve the District's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal controls and governance of processes. Recommendations included in this engagement are designed to improve operations and serve as the basis for informed discussions. To achieve the advisory audit objectives, the following procedures were performed:

- Planned the engagement in cooperation with central administration and operational staff from the departments of Culinary Services, Purchasing, and the Warehouse to ensure that we gained a strong understanding of the District's past, current and desired future operating procedures.
- Reviewed federal and state regulations and guidance in relation to NSLP, including an analysis of procurement and meal production regulations.
- Reviewed District policies, administrative procedures, past audits, and consulting reports.
- Interviewed department leadership from Culinary Services, Purchasing, and the Warehouse to ascertain strengths and weakness of processes and procedures.
- Interviewed central administration and central kitchen staff knowledgeable of the objective areas to substantiate and corroborate assertions of operational procedures.
- Benchmarked comparable school districts to learn best practice methodologies.
- Conducted site observations in the Central Kitchen and Warehouse to assess current operations and conduct informational interviews with personnel.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

- Analyzed data regarding expenditures related to U.S. Foods commodity purchases and open purchase order vendors.

Racial Equity Considerations

This engagement included completion of the Internal Audit Racial Equity Advancement Tool. This activity is intended to help align Internal Audit with the District's Strategic Plan and racial equity goals by increasing Internal Audit's awareness of potential racial equity issues impacting the area being reviewed. This engagement did not identify areas of racial inequities within the operational aspects of meal procurement, receiving, inventorying, storing or production.

Conclusion

This report includes recommendations that are intended to improve the overall operational efficiencies of the objective areas. Improvements to inventory management are necessary to provide reliable and consistent delivery of meals to the District's students. The District can benefit from leveraging technology to enhance internal controls concerning procurement and receiving. Collaborative participation between departments integral to meal production is essential to the efforts of implementing technology solutions and improvements to processes and procedures.

The Culinary Services Department has conducted agile and flexible business operations in order to provide meals during an unprecedented global pandemic. Optimized business operations related to procurement should be formalized and inventory receiving protocol should be assessed by management to strengthen internal controls.

We extend our appreciation to the Culinary Services, Warehouse, and Purchasing staff for their assistance and cooperation during the engagement.

Andrew Medina

Andrew Medina, CPA, CFE
Director, Office of Internal Audit



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

Observations and Recommendations

1) Procurement Process Efficiencies

Prior to the pandemic, the majority of goods procured for meal production were procured with a standard purchase order (PO) and sourced from a large national vendor and distributor. This method continues to be utilized in minimized frequency. Under this model of procurement, goods and supplies are requested by the Head Chef once menu planning has been completed. The Head Chef must adhere to USDA guidelines for meal composition and nutritional values and utilizes USDA approved software to ensure compliance. The list of items requested by the Head Chef is sent electronically to Purchasing personnel to complete the order utilizing the District's SAP inventory module and the Marketplace System for cataloging. Purchasing personnel operate as an intermediary between Culinary Services, standard PO vendors, and the Warehouse to ensure that the Warehouse is apprised of expected deliveries, and that Culinary Services is apprised of incomplete orders or quantity adjustments on arrival.

In the traditional, or standard PO vendor process, the buyer creates a placeholder purchase order that the Head Chef completes with items necessary for menu fulfillment. The Head Chef provides the buyer with the order details and the buyer will then complete the purchase order with the vendor. Vendor confirmation of the order is emailed to the buyer, who then logs the expected items into SAP. The Warehouse staff receives the items and records quantity and aisle/bay location in SAP, which automatically updates the system to indicate items are available. The buyer then updates the District's internal ordering system, Marketplace. Once items are fulfilled and available for production, Culinary Services personnel perform a walk-through of the Warehouse to verify that items have been received and update the Marketplace catalog as necessary. The Head Chef would then 'purchase' food items or supplies from the Marketplace catalog for central kitchen production. There is an additional responsibility of the Head Chef to then "rebuy" items to replenish Warehouse inventory. These administrative procedures are conducted in order to have items fulfilled by the Warehouse and delivered to the adjacent Central Kitchen for production. Although this model has clearly defined segregation of duties, it incurs substantial administrative tasks that detract from overall effectiveness and efficiencies.

In the November 17, 2021, School Board Action Report, a budget neutral request to increase procurement flexibility related to commodity foods and fresh produce contracts was presented, moved, and approved. Upon this approval, there has been a significant increase in procurement from annually selected open purchase order (OPO) vendors, and a decrease in purchases from standard PO vendors. The Culinary Services Department has found that purchasing directly from vendors approved by the annual contracting process has allowed for minimal disruption of its food supply and improved operational efficiencies related to procurement. The annual contracting process employs best practice internal controls, including continued monitoring to ensure compliance with competitive bidding requirements. Segregation of duties between Culinary Services and Purchasing is maintained with OPO vendors because Culinary Services can only purchase items from preapproved vendors. By Culinary Services managing procurement from ordering to fulfillment, there is a substantial reduction in administrative tasks, lead times and reduced reliance on Purchasing.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

Additional procurement process efficiencies have resulted from reallocating the majority of the purchasing function to be conducted by the District Head Chef. Communication between the Head Chef, Central Kitchen Supervisors, and production staff has become more direct as they operate collectively to complete meal production. Culinary Services leadership holds the expertise required for child nutrition procurement, local vendor relationships and insight into procuring quality items for menu forecasting and quantity projections. By leveraging this expertise to place direct orders with vendors, procurement has been streamlined and efficiencies have been gained.

Recommendations

Internal Audit recommends that:

- Procurement from OPO vendors (including all micro-purchasing and local vendors) continue to operate internally within the Culinary Services Department, allowing for a continuation of the flexibility granted by the School Board Action Report to purchase with discretion from available funds.
- The Purchasing Department continue to preapprove vendors and monitor OPO vendor spend to ensure adherence to policies and procedures related to competitive bidding requirements.
- Culinary Services collaborate with the Purchasing and Accounting Departments to develop internal controls to ensure that purchases from OPO vendors are made from authorized vendors and comply with state and federal procurement requirements.
- Culinary Services work in collaboration with the Purchasing Department to transition standard PO vendor orders that supply Culinary Services to be conducted within the same process, procedures, and system of operations as OPO vendors. By employing the same methods of direct purchasing as conducted by Culinary Services, this will streamline operations related to large national vendor procurement and reduce administrative tasks that detract from overall effectiveness and efficiencies. By creating one method of procurement, and one system of record, which is managed and operated by Culinary Services, substantial efficiencies can be achieved.
- Culinary Services work with the Department of Technology Services to integrate a USDA approved nutritional software system to modernize the procurement process. This will ensure compliance with a USDA requirement, and allow Culinary Services to track orders, monitor approval flow, approve invoices, and conduct reconciliations within one integrated platform.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

2) Internal Controls Over Receiving

The increased use of open purchase orders has resulted in adjustments to receiving and storage procedures. Under the receiving model for items procured with standard purchase orders, food supplies and goods are received by Warehouse personnel, and receiving information is recorded in SAP. The process for receiving items procured with standard purchase orders is controlled by both the Purchasing and Warehouse Departments. This allows for a de-centralized method with segregated duties across departments. When items are procured with an OPO, they are delivered directly to the central kitchen staff, which then records the receipt of goods by updating an excel spreadsheet. There is a potential lack of segregated duties within central kitchen staff as the process for receiving open purchase order items in the central kitchen is largely undefined with limited written guidance. The Central Kitchen receives items at an unmonitored loading dock which presents a control weakness. Some items are stored in the central kitchen and some items are stored in temporary or 'overflow' space allocated within the warehouse. These receiving practices can be unpredictable in frequency and create duplicative efforts by utilizing both the Warehouse personnel and Central Kitchen staff for receiving and locating items.

The internal control structure over receiving open purchase orders that are delivered directly to the central kitchen is a manual-intensive process that is not adequately designed to prevent, detect, or identify inaccuracies. Receiving inventory without reliance on a database or system of record results in a significant risk related to inventory and safety controls, including monitoring for expired items. The current process leaves the District vulnerable to the residual risks of unmitigated discrepancies between quantity actuals, potential vendor misstatements, potential for acceptance of expired items, or improper vendor payments. Internal Audit would like to note that there have been no known instances of noncompliance in attestation of receipt of OPO goods ordered; however, this does not diminish the necessity for strong internal controls. In addition, utilizing a system of record for receiving OPO items will not only protect District assets, but it will also protect from any perceptions of staff misappropriations.

Recommendations

We recommend that the District strengthen its internal controls over the receiving and storing of items procured with open purchase orders. Specifically, Internal Audit recommends that the District:

- Re-evaluate OPO receiving processes which delivers items directly to the central kitchen loading docks. Consistent methods of receiving are optimal for operational effectiveness.
- Implement and maintain one system of record for logging inventory.
- Leverage and integrate District technology to optimize receiving records and enhance tracing. Integration is the most effective way to utilize current software systems.
- Create a level of service agreement between the Warehouse and Central Kitchen staff to help clarify roles and responsibilities.
- Implement standardized communication between the Central Kitchen staff, Culinary Services leadership, and the Warehouse staff to keep employees apprised of upcoming deliveries. Effective communication is a key control.
- Consistently utilize Warehouse personnel to receive OPO items.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

- Increase security for receiving at the North loading docks, which access the Central Kitchen directly, by installing cameras.
- Consider the benefits of implementing automated controls, including bar code scanning for receiving in one integrated system of record.
- Establish controls, processes, and procedures regarding the receiving of expired or recalled items.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

3) Inventory Management

The District relies upon the central Purchasing and Warehouse departments to manage inventory procured from US Foods. Inventory is managed in SAP and detailed information includes the physical location, storage requirements, and quantities available. Select commodities have base levels indicated in SAP to alert Purchasing to reorder supplies.

Inventory received on an OPO is not integrated into the Warehouse system of record. An Excel worksheet is utilized by central kitchen staff and updated post-delivery for vendor account reconciliation purposes. Food and commodities are unloaded off trucks by Warehouse or Culinary Services personnel; however, the items are not inventoried or stored in accordance with best practice inventory management and food storage procedures. Central kitchen staff is notified of the OPO delivery and walk to the Warehouse receiving dock or the north loading dock to retrieve the items and bring them directly to the central kitchen for production. If the OPO items are not needed for immediate production, and central kitchen floor space is not sufficient at the time of delivery, dry good items are stored in an 'overflow area' of the warehouse. The majority of OPO deliveries are not intended to be stored for a significant length of time. Depending on supply chain issues concerning product scarcity, OPO items may be ordered preemptively to ensure that the District has the items available when needed, which can result in longer storage needs for OPO deliveries. There is insufficient physical space within the warehouse that is dedicated to the central kitchen.

Recommendations

Internal Audit recommends the following enhancements of internal controls to strengthen inventory management procedures:

- Leverage technology so that all inventory can be managed in one, integrated system of record. The software system utilized must be a USDA approved system to comply with meal composition and nutritional value requirements.
- Implement procedures so that Warehouse personnel properly inventory and store items ordered for the central kitchen regardless of the method of procurement.
- Create agreed upon written procedures of inventory management with collaborative input from both the Warehouse and Culinary Services Departments that establishes clear roles and responsibilities.
- Update Warehouse procedures and manuals with redesigned inventory controls for all food and commodity inventory.
- Increase monitoring of items stored in the overflow area.
- Implement a first-in-first-out procedure to eliminate food waste and decrease the potential of serving expired items.
- Create an observation checklist to monitor food inventory safety, including recall protocol and corrective actions for expired items.



Culinary Services Advisory Engagement November 1, 2021 - February 28, 2022

Management Response

Management appreciates the recommendations offered in the auditor's report, which are intended to improve the overall operational efficiencies in the Culinary Services Department.

Operations will continue to seek improvements to inventory management, leveraging technology, and collaborating with other departments needed to provide reliable and consistent delivery of meals to the district's students.

Management will update the corrective action plan once able to coordinate with integral departments and determine specific actions to be taken.

This will be done by:

1. **Procurement Process Efficiencies:** *Exploring one method of procurement and one system of record.*
2. **Internal Controls Over Receiving:**
 - a. *Exploring one method of receiving items, regardless of how they were procured.*
 - b. *Leveraging an inventory system to optimize receiving records and flow of goods.*
3. **Inventory Management:** *Reviewing an integrated system of record for all inventory.*
4. **Staffing Alignment:** *Culinary Services is analyzing its central office positions to help align the department with the findings of the audit, which should improve efficiency and accountability.*