



Nutrition Department's Vendor Management and Oversight (FY19-15)

Atlanta Public Schools (APS) Office of Internal Compliance

RGP Governance, Risk & Compliance (GRC) Team

June 11, 2019



Crim Open Campus High School Cafeteria, Atlanta, Georgia

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Background

Resources Global Professional (RGP) was engaged by the Internal Compliance Department of Atlanta Public Schools (APS) to assess the current state risk and controls of the Nutrition Department's Vendor Management and Oversight. RGP performed the assessment between April 9, 2019 and May 20, 2019. The Nutrition Department management team is responsible for all Breakfast, Lunch, Supper and Snack meals within the Atlanta Public Schools District.

Assessment Objective, Scope and Approach

Key activities of the assessment included:

- Planning:
 - Identify Audit Universe
 - Review Vendor Contract
 - Review Current State
 - Perform Risk Assessment
 - Determine Scope
 - Develop Audit Plan
 - Determine Sampling Criteria
- Executing
 - Request Samples and Supporting Documentation
 - Perform Audit/Review Work Program steps
 - Document test performed
 - Review Work Papers
- Reporting
 - Summarize Test Results
 - Recommend Remediation Action
 - Review Results with Stakeholders
 - Present Finding to Audit Committee

Financial auditing of any specific project was deemed out of scope.

The samples selected covered Breakfast, Lunch, & Supper-on-Site meals audits and the Food Services Management Company (FSMC) new hires' finger printing and background checks. The period tested was for the 2017/2018 School Year. RGP believes that the results of the meetings held and evidence obtained provides a reasonable basis for the findings and observations based on the assessment of objectives.

The executive summary below summarizes the observations made during the course of the review.

Executive Summary

To ensure internal compliance and control over Nutrition Department's Vendor Management and Oversight, RGP made inquiries and examined forty (40) specific sections of the Nutrition contract for SY 2018. Additionally, RGP tested controls related to these sections to ensure compliance with Federal, State regulations and Vendor contract management. RGP observed that, overall, the Nutrition Department Vendor Management and Oversight was managed based on the approved contract and using Industry, State & Federal regulatory standards. The Executive Director of Nutrition and department managers have controls in place that are effective in providing balanced meals to the students within the Atlanta District. The management team is flexible and adapts well to the complexities involved in food service. The oversight of the vendor contract requires technical expertise and industry knowledge which is very evident throughout the management team. Finally, the Nutrition Department as a whole is well versed and subject matter experts in State and Federal food service requirement, laws, and regulation.

Areas Operating Effectively

RGP observed several areas that were operating effectively.

- **Oversight & Management** – The Nutrition Department's oversight of the Vendor Contract was effective. The management team is knowledgeable and actively engaged in the day-to-day surveillance/enforcement of contractual matters.
- **Inspections & Monitoring** - The Nutrition Department's Breakfast, Lunch, Supper & Snack meal audit are thorough and pervasive. They keep the FSMC accountable by both unannounced and announced audits and inspections.
- **Tracking Performance & Record Keeping** – The Newton, Edison, Franklin and Lawson systems management is impressive. The management team provides accurate and timely data/information with the use of these systems.
- **Nutrition Vision for the District** – Providing a balance meal, to all the children in the APS District that meets State and Federal standards, at an affordable cost, in a safe and clean environment was communicated in every meeting and through each team member.

Opportunities for Improvement

Based on the evaluation of the design and operating effectiveness of existing controls, three (3) opportunities for improvement within the Nutrition Department were observed.

Detailed discussion on the observations are included below.

Observations, Recommendations and Management's Responses

1.) Verification documents, for FSMC management team qualifications, are not scrutinized or kept on file

Observation

Based on the information provided, the APS 2018 Nutrition contract ARTICLE VI Sect. 6.1 states: "The person identified as the FSMC General SFA Manager shall have been employed for at least seven years in school food service in a K-12 setting." Sect 6.2 states "Cafeteria Managers must have a Manager II level or equivalency of verified successful experience in electronic food production records, inventory systems and point of sale software."

Per RGP Audit inquiry with the Executive Director of the Nutrition Department, the FSMC Leadership Team qualification were discussed at the Vendor Entrance Conference in July of 2017. Each FSMC team member introduced themselves and gave a brief overview of their experience, background and qualifications. Beyond this meeting, there are no documents in place to verify the credentials of the FSMC employees.

Risk

Failure to validate and/or confirm FSMC team member qualifications may result in unsuccessful food operations for the district.

Recommendations

Management should request credential verification, such as a resume or a human resource validated profile for the FSMC General Manager and Cafeteria Managers.

Management's Response

The APS Nutrition Department serves as the School Food Authority (SFA) and will request the credential verification, such as a resume or a human resources validated profile for the FSMC General Manager prior to being assigned to the SFA. The provided documents will be maintained in the SFA's FSMC data repository. The SFA will request documented proof that Cafeteria Managers possess Manager II level experience or have equivalency of verified successful experience in electronic food production records, inventory systems and point of sale software.

Implementation Date:

June 3, 2019

Person Responsible for Implementation:

Executive Director of the Nutrition Department

2.) A mutually agreed upon “Budget” between the SFA and FSMC does not exist, per Nutrition Contract ARTICLE VIII Sec 8.1i

Observation

Based on the information provided, the APS 2018 Nutrition Contract ARTICLE VIII Sec 8.1i states: “SFA and the FSMC will mutually agree on the annual operating budget (the “Budget”) and determine the appropriate program financial performance annually.”

Based on inquiry and documentation provided by management, it was noted that a detailed line item budget was not available. Since there was no line item budget, RGP reviewed the numbers and dollar amounts on the KPI Food Services Survey for SY2018. Based on KPI Food Services Survey, the budget is determined by the amounts agreed upon in the Vendor Contract and the Key Performance Indicators.

Additionally, per discussion with the Nutrition Department management, a line item budget is not used as a performance indicator for this contract.

Risk

The lack of current practices not matching contract verbiage could cause confusion in the management of the Vendor Contract.

Recommendations

Management should review contract verbiage and ensure agreement with current practices.

Management’s Response

Effective May 24, 2019, the SY20 FSMC Contract was revised to include steps to clarify budgetary expectations. The actions taken can be found in the Article X Sections 10.4, 10.5, 10.6 and 10.7.

Implementation Date:

June 3, 2019

Person Responsible for Implementation:

Executive Director of the Nutrition Department

3.) Accounting: Credits for USDA donated items & Performance Guarantees totaling \$1,968,738.86 are managed by reducing invoice payments.

Observation

- A. Based on the information provided, the APS 2018 Nutrition Contract ARTICLE V Sect. 5.1.4 & 10 states “FSMC shall credit SFA for the value of all USDA-donated foods received for the use in SFA’s meal service in the school year, including both entitled and bonus foods, and including the value of USDA-donated foods contained in processed end products.”

RGP reviewed the USDA Commodities Reconciliation – SY 2018 for USDA-donated commodities during the audit period (SY 2017-2018). Based on the reconciliation, APS is entitled to a total credit of \$1,126,585.86 from FSMC. The credit was applied to an invoice reducing the actual expenditures for the period.

- B. Based on the information provided, the APS 2018 Nutrition Contract ARTICLE X Sect. 10.10b states “Aramark guarantees a Food Service Program Surplus of up to One Million Five Hundred Thousand Dollars (\$1,500,000) for the 2017-2018 contract year.”

RGP reviewed the Guaranteed Surplus School Year - 2018 report for the details related the APS Nutrition Department adjusted Profit as of June 30th, 2018. Based upon the report, the \$1.5M Performance Guarantee had not been reach and the FSMC was required to provide APS with a payment (credit) of \$777,153.01. SFA notified the FSMC concerning the adjustment credit of \$777,153.01 that was due to APS. The credit was applied to an invoice reducing the actual expenditures for the period.

- C. Based on the information provided, the APS 2018 Nutrition Contract ARTICLE X Sect. 10.11b states “Achieve 90% or higher on all safety and sanitation or local health audits, or reimburse APS \$5,000 per audit that is not at 90% or better resulting from matters solely within the FSMC’s responsibility and control, and following a reasonable cure period.”

RGP notes that the Nutrition department conducted Health & Sanitation Inspections and found the FSMC not in compliance on 13 occasions. Per the Vendor Contract a 90% pass rate is required. SFA notified the FSMC concerning the required credit of \$65,000 that was due to APS. The credit was applied to an invoice reducing the actual expenditures for the period.

Risk

The Vendor Contract provided conditions whereby the Nutrition Department should receive payments (credits) from the FSMC for USDA-Donated Foods, Performance Guarantee and failed Health/Sanitation inspections. Because credits were applied to invoice, RGP has identified the risk of a potential misstatement of APS Financial Reports.

Recommendations

The effectiveness of collecting credits from FSMC may require this method of accounting. For Financial Reporting purposes, certain year-end journal entries should be made so that Revenue and Expenditures are correctly stated. To ensure proper reporting of revenues and expenditures, Nutrition Accounting should meet with Finance to validate that accounting transactions are properly vetted and recorded.

Management's Response

Executive Director of Accounting has collaborated and agreed going forward that any actions requiring journal entries will be communicated via email to the Finance Department by the Nutrition Accounting Manager. Journal entries will indicate credits to the vendor's invoice.

Notification of vendor invoice credits will include:

- Health permit penalties
- Guarantee
- Value of USDA Donated Foods

Standard Operating Procedures (SOP) have been developed for the implementation of management's corrective actions.

Implementation Date:

June 3, 2019

Person Responsible for Implementation:

Executive Director of Accounting and Nutrition Accounting Manager

Respectfully Submitted

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