



Report on Status of Food Service Audit

To: Jeannine Durkin, Superintendent
From: Billie Jo Turner, Assistant Superintendent
RE: *Response to Motion for Food Service Audit update*
Date: September 25, 2018

Per the Motion by Gerry Nutter on 1/17/18, below you will find a brief history and a recap of the food service review process.

The Food Service Revolving fund balance is the amount remaining (profit) after expenses are paid from the revenues (reimbursements and a la carte) received. Aramark, the Food Service Management Company, provides us with a guaranteed profit amount each year during their budget process. Lowell Public Schools influences this “profit goal” through decisions to reinvest in the food program and/or equipment purchases. At the end of FY15/16, the Cash Balance was \$2,225,142. During FY16/17, extensive offsets by LPS administration were charged against the Food Service Fund balance exceeding the allowed indirect cost rate/amounts. The Cash Balance at the end of FY16/17 dropped to \$216,916. During a routine bi-yearly Client Business Review between Aramark and school administration in March of 2017, it was decided to increase the food budget by \$500k to increase student satisfaction and participation. Please see the signed (8/22/17) amendment in Exhibit 1. Since the \$500k increase to spending would result in a reduction to the guaranteed profit (cash balance) of \$1.7 million (See Exhibit 2), this approved amendment would leave the fund balance with insufficient funds to cover the offsets that the administration planned. Adjustments were made to reduce the \$500k increase to food costs. However, \$200k had already been spent.

On August 25, 2015, the District decided to participate in the Community Eligibility Provision (CEP) program which allows free breakfast and lunch for the entire district. We were approved for 97.7% free and 2.3% paid reimbursements. These are the percentages that dictate how much of the lunch reimbursement price we would receive per meal. Our reimbursement (the revenue that feeds the fund balance) would include \$3.40/meal for 97.7% of our served meals and .45 cents for the remaining 2.3% (these amounts differ for breakfast). The 97.7% rate was based on a 61.5% Identified Student Percentage (ISP) that replaced the previous Free & Reduced percentage. This ISP is based on a Direct Certification process that identifies students that receive any state assistance through a DESE program called Virtual Gateway. This program reconciles the student data provided by the school district and the data from state agencies that determine the Direct Certification eligibility. It is the school districts responsibility to review and correct the discrepancies found by matching student data with the state data to maximize the ISP percentage that increases our reimbursement.

A scheduled and mandated **Administrative Food Service Review of the FY16/17** school year was conducted by DESE in December of 2017. Attached is the Corrective Action Items cited during this review along with the district responses. The most concerning finding was the failure to maintain the documentation necessary to verify the Identified Student Percentage (See Page 7 of Exhibit 3). This impacted LPS by reducing the CEP percentage of 97.7% to 88% which directly reduced the reimbursements/revenue that builds the Food Service Fund balance. The reduced percentage was retroactively charged back to February 2017 with a financial impact of \$379,000 in lost revenue for FY17/18. In addition, this would have reduced our reimbursements by approximately \$442,000 for FY18/19. We recently succeeded in correcting the student verification with DESE and have improved to 95.1% free (4.9% Paid) with CEP. (See Exhibit 4) The attached spreadsheet (See Exhibit 5) shows the \$590,671 improvement to our reimbursement budget based on the updated CEP percentages and updated meals served number.

Based on the response and results of the Administrative Food Service Review, the DESE decided to proceed with a more thorough review called the **Resource Management Comprehensive Review**. The notice is dated March 5, 2018 (Exhibit 6). The four areas that required more detail and analysis were Maintenance of the Nonprofit School Food Account (Revolving Fund), Paid Lunch Equity, Revenue from Non-program Foods and Indirect Costs. On Exhibit 7, you will see a document from the DESE Security Portal dated 4/30/18 that shows the findings from this review along with LPS responses. Of the ten listed findings, three of the district's responses were accepted. Of the seven rejected responses/plans, we have resolved five. The two that are still being reviewed are 1) producing a reconciling crosswalk between the Munis and Aramark's Profit & Loss statements and 2) correcting the excessive charges to the Food Service balance including returning the funds (See Page 4 of Exhibit 5). We have been working on both of these issues extensively and are waiting for the final review and approval from DESE. **Please note that these Reviews and Findings were for the FY16/17 School Year. They have yet to address these same issues for the FY17/18 year.** In the meantime, the Business Office and Aramark have reviewed all of the findings and corrective actions required by DESE and are implementing new systems to ensure compliance.

I have also attached a timeline provided by Aramark along with all of the correspondence records. See Exhibit 8.