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**Newark School District
Food Services**

July 1, 1998 to June 30, 2000

**Richard L. Fair
State Auditor**

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Enclosed is our report on the audit of the City of Newark School District's Food Services for the school years 1998/1999 and 1999/2000.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor

December 27, 2000

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Newark School District Food Services

Scope

We have completed an audit of the City of Newark School District's Food Services for the school years 1998/1999 and 1999/2000. Our audit was limited to financial transactions recorded in food service accounts. Our audit included an analysis of the district prepared financial statements and reports of food service expenditures including payroll. The prime responsibility of the food service operations is to support student's academic growth by providing meals to approximately 43,000 students. During school year 1998/1999 expenditures totaled \$23 million and funding included \$8 million in district subsidies.

Objectives

The objective of our audit was to identify the cause for the district's high subsidy of their food services and recommend areas of potential savings.

This engagement was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In preparation for our testing, we studied legislation, policies of the board, and the Department of Education Comparative Spending Guide. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also reviewed financial trends and interviewed district personnel to obtain an understanding of the district's food service programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were both randomly and judgmentally selected.

We analyzed the district's food service operations and compared it to other North Jersey school districts we audited (East Orange, Irvington, Passaic, Paterson, Union City and West New York) and private food service providers. We reviewed the efficiency and effectiveness of staffing levels and total labor costs. We also interviewed personnel of the district to obtain an understanding of the staffing process and internal controls.

Conclusions

We found that high labor cost is the cause of the district's high food services costs. In comparison with other school districts and private food service providers, both the district employees' pay rates and the staffing levels at district-operated cafeterias, although contractually required, are high. In making this determination, we noted several cost saving suggestions which, if implemented, could have significant fiscal benefits for the district.

The annual per pupil food service subsidy is the highest in the state.

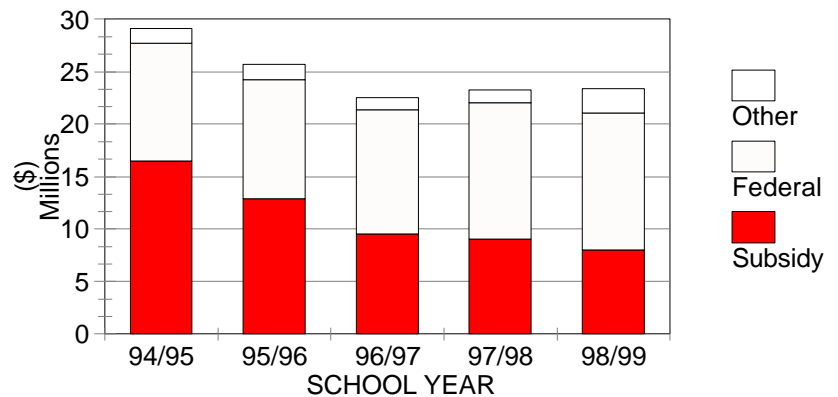
Food services in many school districts are fiscally self-sufficient. These districts are able to fund their food service operating costs with sales and the revenues they receive from the federal and state school lunch and breakfast programs. Only half of the state's 85 largest school districts subsidize their food service operations and in only 16 of these districts does the annual food service subsidy exceed \$25 per pupil.

During school year 1998/1999, in addition to the \$14 million received in federal and state aid, the Newark School District subsidized their food service fund with \$8 million from its general operating fund. The

annual per pupil food service subsidy of \$185 is the highest in the state and double that of the second highest.

This high subsidy amount was not restricted to the 1998/1999 school year. Historically, the district's food service subsidy has been the highest in the state. During school year 1994/1995 (prior to state takeover), with a beginning fund balance deficit of \$3 million and operating expenses of \$27 million, the food service subsidy was \$16 million. Although food service operating costs and the district subsidy have been reduced during the first four years of state operations and preliminary reports indicate a continued decline in subsidy for school year 1999/2000, these totals remain the highest in the state.

REVENUE SOURCES

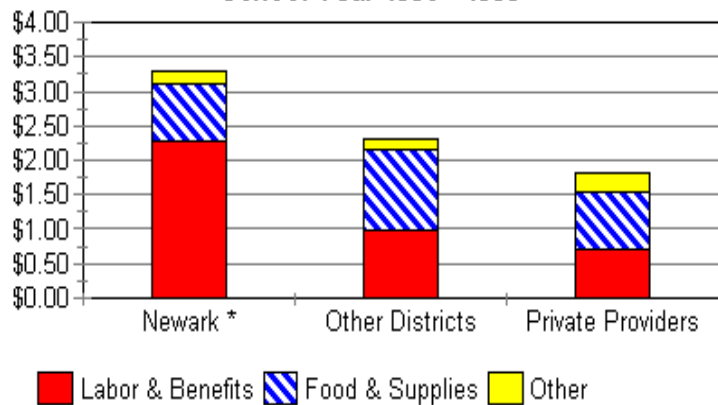


The district offers all of its students breakfast and lunch, and also serves an after school program meal at 57 of its schools. During school year 1998/1999, eight million meals were served in Newark's 82 schools at an average cost of \$2.94 per meal. This per meal cost is 25 percent higher than the average of other North Jersey school districts we audited. The major contributor and cause of the high food service cost is its labor and employee benefit component. Overall, labor and benefits contributed \$1.73 toward

the cost of a meal. These high overall costs become even greater when one considers that 20 of the Newark schools, serving two million meals, were operated by private food service providers and actually netted a small surplus for the district. That means that all of the labor costs and all of the deficit are attributed to the operations at the remaining district-run school cafeterias. Meal costs at district-run school cafeterias averaged \$3.29, of which \$2.27 represented labor costs. In comparison, meal costs at other North Jersey districts we audited averaged \$2.30, with labor costs of 98 cents. The district's private food service providers charged about \$1.70 per meal during school year 1998/1999. During school year 1999/2000 these provider per meal billings were \$1.86, with only 78 cents attributed to labor costs.

Cost Per Meal

School Year 1998 - 1999



* District-run schools only

The cause of the district's high labor cost is due to pay rates and staffing. In comparison with other districts and the private food service providers, both the district employees' pay rates and the staffing levels at district-run cafeterias are high.

The district's high labor costs are a result of high pay rates and overstaffing.

The average Newark school cafeteria worker, Cooks, Food Service Workers (FSWs), and Cashiers, earns \$19 per hour plus benefits. This hourly rate is nearly three times the rate paid to the workers of their private food service providers. When including benefits and leave time, the average Newark school cafeteria employee costs the district \$31,000 annually, an hourly rate of \$32. The current collective bargaining agreement established more modest and competitive pay rates for cooks and FSWs hired after July 1, 1998. However, there was no adjustment made to the cashier's pay rate and all existing cafeteria employees received annual pay increases of 3 percent. The conceptual savings of \$3.6 million based on all workers receiving the new contractual rate will not be realized because the new rate only applies to new hires and there have been none.

The financial burden of these high pay rates has made complete fiscal self-sufficiency of the food service operations an impossibility under current contractual obligations. However, the current collective bargaining agreement expires March 1, 2001 and necessary compromises should be sought to bring labor costs within acceptable levels. Another option open to the district is total privatization of food services, but this may not be a viable option. Our review found other areas which could have significant fiscal benefits to the district without further privatization.

Overstaffing at 21 district-run cafeterias costs the district \$1.2 million annually.

Adding to the overwhelming financial burden of labor costs is the inefficient staffing levels at many district-run cafeterias. Our analysis of staffing at the current district-run cafeterias disclosed that the number of workers at 21 of the 51 locations exceeded their need. Based on staffing levels at the privatized cafeterias and many district-run cafeterias, 42 of the 343 district cafeteria worker positions are unwarranted. The excess staffing costs the district \$1.2 million annually.

Nearly half of the overstaffing is the result of having too many serving lines at seven cafeterias. At the privatized cafeterias and at the other district-run cafeterias, the number of serving lines is kept at a minimum and each line is able to distribute up to 500 lunches per day. At these seven cafeterias, however, there are 21 serving lines averaging only 151 lunches per day. Eight serving lines, staffed by 18 workers should be eliminated at these schools.

Additional overstaffing was identified at these same seven cafeterias as well as at the other 14 overstaffed locations. We found that 18 food service worker positions could be eliminated from the payroll by postponing the washing of pots and pans until after the serving/lunch period is completed. This change may require extending the hours of some remaining food service workers, but the added payroll costs would be minimal.

In general, nearly all of the district-run high school cafeterias (5 of 6) are overstaffed. High school students are given more independence in making their meal choice, including opting for non-menu ala carte items such as snack foods. This independence, however, appears to be not without cost. Offering these optional meal choices requires additional service lines and additional meal preparation time which translates to additional staffing costs. Offering more choices, however, has not necessarily translated into more student participation in the lunch program. Average participation drastically decreases from the elementary schools' 78 percent rate and a rate of 71 percent for middle schools to only 39 percent for high schools. In addition, revenues received from ala carte items collected at any of the schools would not pay the labor cost of a single cafeteria worker. Alternative methods of distributing these items, such as more reliance on vending machines, could eliminate the need of costly staffing and make offering this optional choice more economical.

Overstaffing at the cafeterias may have been the result of the privatization. The collective bargaining agreement restricts the district from eliminating cafeteria jobs due to privatization. As a result, it was necessary to transfer staff from the newly privatized cafeterias to the remaining district-run cafeterias.

On average, ten cafeterias were privatized during the last three school years, beginning in September 1997. Although these 30 schools are staffed by 168 cafeteria workers, the reduction in the number of district cafeteria employees was less than half this amount. All staff reductions have been a result of attrition, but it has not kept pace with cafeteria privatization thereby contributing to overstaffing.

Additional staff reductions can be achieved by eliminating another costly, inefficient use of manpower. By switching to disposable trays 39 food service worker positions could be eliminated, resulting in a net annual cost saving of \$1 million.

At 25 district-run cafeterias dishwashing machines are used to clean the reusable food trays and utensils. This task requires two Food Service Workers (FSWs) during the phase of operations when staff are most needed, the food serving phase. At 22 of these locations, the only reason additional FSWs are needed is to operate the dishwashing machines during lunchtime. By eliminating this task, the need for these full-time, full-benefit FSWs would also be eliminated. Similar savings could also be achieved by keeping the dishwashing machines, but replacing the underutilized full-time workers with part-time workers during the lunch periods.

At nine cafeterias the duties of additional FSWs are needed during the meal preparation period but not during the lunch serving phase. Cashiers, on the other hand, are mainly only required during the lunch serving hours and their duties, as identified by the

Eliminating the dishwashing duties of full-time staff could save \$1 million annually.

Combining the duties of two underutilized positions into one could save \$150,000.

Department of Personnel (Civil Service), do not include any food preparation or clean up work.

Many other districts have adopted the hiring of cafeteria employees under Civil Service's "Cashier/Food Service Worker" title, allowing greater efficiency through the multi-tasking of its staff. By utilizing this combined title at the district, cashiers would be able to assist in food preparation. Since the combined salary and benefit costs of a 4 hour cashier and 5 hour FSW exceeds that of an 8 hour cafeteria worker, savings could be achieved whenever this combined title is appropriately utilized. The district can save \$150,000 annually by utilizing this combined title.

Auditee's Response

The following corrective action plan incorporates the suggested findings in the State Auditor's Report dated June 30, 2000 which indicates that the: The annual per pupil food service subsidy is the highest in the state. The districts high labor cost is a result of high pay rates and overstaffing. Overstaffing at 21 district run cafeteria cost the district \$1.2 million.

CORRECTIVE ACTION PLAN

Year of Implementation	Method of Implementation
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2001 Offer all food service employees age 55 and over with 25 years of service or more a buyout package and combine the title of two positions (FSW/Cashier). The buyout package entails the following:

- Employees in question would retire/resign by June 30, 2001.
- They would receive \$10,000 per employee as retirement/resignation compensation.

- The district would provide a financial consultant for the first two months after the retirement/resignation.
- This would affect approximately 55 employees the first year.
- The district would provide a pension and benefits seminar to all employees considering retirement/resignation, so that they are aware of all pension and benefit options.
- Positions will be eliminated through attrition.
- Increase the hours of the remaining five and six-hour food service workers.
- Eliminate the title of cashier and negotiate a new title of Cashier/FSW 7hr.

2002 Eliminate package lunch in eight schools and offer buyout.

2003 Offer all food service employees age 55 and over with 25 years of service or more a buyout package. The package entails the following:

- Employees in question would retire/resign by June 30, 2003.
- They would receive \$10,000 per employee as retirement/resignation compensation.
- The district would provide a financial consultant for the first two months after the retirement/resignation.
- This would affect approximately 25 employees.
- This district would provide a pension and benefits seminar to all employees considering

retirement/resignation, so that they are aware of all pension and benefit options.

- Positions will be eliminated through attrition.

2004 Contract out 14 schools. Offer all food service employees age 55 and over with 25 years of service or more a buyout package. The package entails the following:

- Employees in question would retire/resign by June 30, 2004.
- They would receive \$10,000 per employee as retirement/resignation compensation.
- The district would provide a financial consultant for the first two months after the retirement/resignation.
- This would affect approximately 84 employees.
- The district would provide a pension and benefits seminar to all employees considering retirement/resignation, so that they are aware of all pension and benefit options.
- Positions will be eliminated through attrition.

Total potential savings from above actions would be \$6,490,148.

