



Contracting Out School Food Services Failed to Control Costs as Promised

October 7, 2016

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A Report by the Office of the District of Columbia Auditor
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Why ODCA Did This Evaluation

The evaluation was requested by Councilmember Mary Cheh in June 2015, following the District's \$19.4 million settlement resolving a False Claims Act case brought against Compass Group USA, and its subsidiary, Chartwells, a food service management company contracted to serve school meals to District of Columbia Public School (DCPS) students from 2008 to 2016. Councilmember Cheh asked the Auditor to evaluate DCPS' privatization of food services and to assess the costs, benefits, and limitations of self-operated school food services as comparison.

What ODCA Recommends

This report makes three recommendations designed to improve the performance of DCPS' food services program and to reduce District government expenditures. ODCA recommends that DCPS:

- Effectively negotiate for succeeding years of the current privatization contracts with food service management companies, to include either lower base prices or sliding scale unit prices based on expanding participation so that vendors have clear monetary incentives to both expand participation and reduce overall costs or other alternatives that achieve the same goals.
- Develop a significantly more robust Office of Food and Nutrition Services (OFNS) operation and return to a cost-reimbursable contract for school food services in which DCPS has a greater and more effective range of control over expenditures, quality, participation and all other aspects of the school food program, or
- Transition to a self-operated food service program as has been accomplished by systems in Philadelphia, Detroit, New Haven, and other cities, so that District government employees accountable to District government leaders – DCPS leadership, the Mayor, and the D.C. Council – are empowered to pursue the policy objectives of better nutrition and greater participation while also reducing the proportion of food service expenditures that come from D.C. taxpayer dollars.

What ODCA Found

The District of Columbia Public Schools' (DCPS) provides breakfast, lunch, and supper to over 48,000 District students. Findings from ODCA's evaluation of DCPS' food services program since privatization in 2008 include:

- Promised benefits of privatization have not been realized.
- DCPS contract decisions perpetuate continuing losses.
- Other major systems have privatized food services, then successfully returned to self-operation.
- The District of Columbia pays significantly more than comparable systems for food services.
- DCPS has no clear plan to control costs and increase revenue.
- DCPS has significant capacity for self-operation but current leadership opposes that option.

For more information regarding this report, please contact Candace McCrae, Executive Assistant, at Candace.McCrae@dc.gov or 202-727-3600.

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Introduction

Each year, millions of school meals, including breakfast, lunch and supper, are served to students attending District of Columbia Public Schools (DCPS), with approximately nine million meals served in the 2015 school year.^{1 2} All of these meals were prepared and served by employees of three food service management companies (FSMCs), private firms with which DCPS held contracts. The largest of the FSMCs was Compass Group USA, working through its subsidiary Chartwells, and the other two were Revolution Foods (RF) and D.C. Central Kitchen (DCCK).

The performance of these FSMCs has been an issue of concern to D.C. Councilmembers and others. When the school system privatized food services in 2008, that action came with the promise that the annual costs to the District would be reduced, a promise that has not been kept. Explanations for that failure have included allegations of malfeasance. In June of 2015, the District reached a \$19.4 million settlement with Chartwells, as an intervenor in a whistleblower lawsuit put forth by Jeffrey Mills, former executive director of the school system's Office of Food and Nutrition Services (OFNS). Among the allegations directed at Chartwells were poor performance, inflated prices for food and non-food commodities, and fixed-prices that failed to control for costs, with the result that DCPS has paid Chartwells well beyond what was envisioned in the decision to privatize.

In 2012, the then-chief operating officer of DCPS reported that he was "investigating whether Chartwells owed the schools money," following the release of an audit of the contract commissioned by DCPS which asserted that Chartwells had charged the school system more than agreed upon, served fewer meals than agreed to in its contract with DCPS, and stocked rotting food, among other findings.³ D.C. Council Chairman Phil Mendelson asserted that he believed that DCPS had not been "aggressive enough in securing the right price." The higher than anticipated expenditures and negative media attention have prompted D.C. Councilmembers and others to suggest privatization itself may be a factor. DCPS, like many school systems across the country, has dealt with aversion to school meals on the part of students as well as rising costs. DCPS has also been subject to local and national efforts to improve the quality of meals, including new nutritional standards mandated to schools participating in the federal meals programs through the Healthy, Hunger-Free Kids Act of 2010 (HHFKA)⁴, a federal law passed in 2010. Student participation rates are a challenge nationwide. DCPS differs from most school systems in one critical way: while other school systems work to improve their fiscal and operational conditions by increasing the number of students who participate in the food programs, DCPS has lost money with each meal that is served. This is because the contracts that have been in place since the 2013 through 2016 school years were fixed-price per meal, where the fixed-prices were set at a higher rate than the reimbursements received by the federal and District governments. The recently approved contracts with SodexoMagic, with Revolution Foods as its subsidiary, and D.C. Central Kitchen are also fixed-price-per-meal agreements. With these privatized arrangements, where the food and labor costs at the per-meal level have been contracted, DCPS cannot change its food and labor costs to reduce overall costs.

¹ School years at DCPS usually start each August and end in June of the following year. This report identifies school years by the year in which they conclude. For example, school year 2014-2015 is referred to as school year 2015 throughout the report.

² The latest available meal count data while ODCA conducted its evaluation of DCPS food services was for the 2015 school year.

³ "Audit Summary Report: Contract/Requisition Number RQ770292," Federal Management Systems, 2012.

⁴ Pub.L. No. 111-296, 124 Stat. 3183 (2010). HHFKA has been amended with revised nutrition provisions. These new provisions were phased-in over the course of three school years, starting with the 2013 school year.

Request from Councilmember and Our Objectives

In June 2015, Councilmember Mary Cheh asked the District of Columbia Auditor to review the policy issues surrounding contracting out school food services and the factors that have contributed to the costs experienced by District of Columbia Public Schools (DCPS). Councilmember Cheh asked the Auditor to evaluate the current privatized model in DCPS and assess the costs, benefits and limitations of self-operated school food service models. In response to this request, the objectives of our evaluation were to:

1. Examine the history of the decision to outsource DCPS food services.
2. Identify the costs associated with providing DCPS meals, both self-operated and under contract.
3. Examine food service programs at comparable school systems in order to learn about their methods and costs.
4. Assess DCPS' current capacity to manage a self-operated food services program.

While recognizing the importance of food nutrition and quality in children's experiences with school meals, we do not address either as they are outside the scope of this evaluation.

These objectives are addressed in various sections of the report. We begin with a description of the methodology used through the course of our evaluation of DCPS' food services program. We then provide the readers with a background on the relevant laws and regulations dictating school meals, including a brief description of a management alert released by ODCA notifying Chancellor Henderson that DCPS lacked an inventory of kitchen equipment. A history of food services in DCPS follows the background section. After the history section, we turn our readers' attention to the results of our analysis: (1) Promised benefits have not been realized; (2) DCPS contract decisions perpetuate continuing losses; (3) Other major systems have privatized food services, then successfully returned to self-operation; (4) The District pays significantly more than comparable systems for food services; (5) DCPS has no clear plan to control costs and increase revenue and; (6) DCPS has significant capacity for self-operation but current leadership opposes that option. The results are followed by our recommendations to DCPS that could be adopted to meet the policy mandates of D.C. Council and improve food quality, increase student participation in school meals programs, and reduce District costs for DCPS' food services. We end the report with a brief conclusion.

Methodology

We conducted this evaluation by assessing factors that continue to impact the school system's Office of Food and Nutrition Services' (OFNS) costs and its ability to provide meals to District of Columbia Public Schools (DCPS) students.

- Food and labor costs were determined through review and analysis of food service management company (FSMC) contracts, OFNS revenue and expense sheets, interviews with officials from OFNS and the Office of the Chief Financial Officer (OCFO), and information directly obtained from FSMC representatives.
- Data for student participation rates across multiple school years was directly obtained through the meal count database, WebSMART.
- Labor structure, and equipment and infrastructure capacity were assessed through interviews with OFNS officials, FSMC food service workers and managers serving DCPS; first-hand observations of different meal services at eight DCPS-schools in all eight District wards and inspection of their kitchens and cafeterias; interviews with food service directors of school systems across the country, and other documentary evidence.

Background

The U.S. Department of Agriculture's Food and Nutrition Services (USDA-FNS) administers the school meal programs at the federal level and provides most of the funding through reimbursements for meals served that meet federal nutritional standards.⁵ In addition, the federal government provides in-kind assistance in the form of USDA commodity foods.⁶ At the local level, the District's Office of the State Superintendent of Education (OSSE) approves and oversees the compliance of nutrition programs managed by School Food Authorities (SFA)⁷ which include DCPS and public charter schools. District funding is provided in two ways: through a reimbursement based on meeting District statutory nutrition and other standards,⁸ and an overall appropriation that has historically made up the difference between the federal funding and the program's total cost.



Fruits offered during lunch at Cardozo Education Campus.

Federal Government Assistance

Federal law does not mandate that school systems participate in the federal school meals program though virtually all states and school systems do choose to participate.⁹ Federal assistance is given through the following programs:

- National School Lunch Program (NSLP)
- School Breakfast Program (SBP)
- Child and Adult Care Food Program (CACFP)
- Summer Food Service Program (SFSP)
- Special Milk Program (SMP)
- Food Distribution Program (FDP)¹⁰

⁵ Richard B. Russell National School Lunch Act, Pub.L.No.79-396, 60 Stat. 230 (1946). Codified at, 42 U.S.C. 1751 et seq. This law has been amended several times.

⁶ Also referred to as USDA Foods or Food Distribution Program, the federal government through USDA provides food commodities including cheese, chicken, eggs, fruits, vegetables, etc. Value for the commodity is set on a per lunch and supper basis and is revised annually. Since DCPS does not have the storage facilities to hold these commodities, the school system has opted for a cash value amount with which the contractors obtain USDA commodities. The overall commodity balance is monitored by a review of the invoices submitted by the contractors. See 7 CFR § 210.4(b)(2)-(4); 7 CFR § 210.5(b).

⁷ See 7 C.F.R § 210.2 defining "School food authority" as "...the governing body which is responsible for the administration of one or more schools; and has the legal authority to operate the Program therein or be otherwise approved by FNS to operate the Program."

⁸ D.C. Code §38-821.02.

⁹ 7 CFR § 210.9(a) explaining "An official of a school food authority shall make written application to the State agency for any school in which it *desires* (emphasis added) to operate the Program."

¹⁰ See generally 42 U.S.C Chapters 13 and 13A.

School systems that comply with the nutrition guidelines required by law receive reimbursements at one of three payment levels for each meal/snack that is served: free, reduced, or paid. Reimbursement rates and income thresholds for meals/snacks are set annually in July.¹¹

Whether a child qualifies for free or reduced-price meals is determined by income-eligibility information collected through free and reduced meal applications¹², or by household income information collected from household participation in other means tested programs.^{13 14} School systems receive the smallest federal reimbursements for paid meals, and larger amounts for reduced-price and free meals.

District Government Assistance

In addition to the federal funds, DCPS also receives dedicated school lunch funding from the District government.¹⁵ The District's Healthy Schools Act of 2010 (HSA) works in a manner similar to the federal programs, offering per meal reimbursements if certain requirements are met. The District does not require public schools and public charter schools to participate in federal lunch and breakfast programs. However, in order to receive this local funding, DCPS must meet or exceed the nutritional standards set by federal law, as well as additional nutritional guidelines set by HSA. Under the local law, schools receive ten cents for each lunch and breakfast meal that is served and meets the nutritional standards provided in the law, and an additional five cents for each lunch meal where one component of the meal is comprised entirely of locally grown and unprocessed foods. School systems also receive 40 cents in local funds for each lunch meal that is served to a reduced-price qualifying student. The local law prohibits public schools and public charter schools from charging students for meals if the students qualify for reduced-price meals.¹⁶

Local Appropriation

In addition to the significant federal funding and the HSA-based reimbursements, DCPS has received a local appropriation every year under privatization just as it did prior to privatization in 2008. Since then, D.C. Council has allocated as much as \$15 million annually out of the general fund to make up the shortfall between what is provided by USDA and the HSA-related reimbursements and what expenses under the food service contracts have actually been.

Community Eligibility Provision (CEP)

Under long-standing requirements of the federal school meal programs, households must submit Free and Reduced-Meal applications (FARM) early in the school year to demonstrate eligibility for free and reduced-price meals.¹⁷ SFAs must then keep track of the number of free, reduced price, and paid meals served to children in order to file for and claim the proper reimbursement.¹⁸

¹¹ 42 U.S.C. § 1758 (b)(1)(A); 7 CFR § 210.4(b)(iii).

¹² 42 U.S.C. § 1758(b)(3)(B)(i).

¹³ E.g. Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), etc.

¹⁴ 42 U.S.C. 1758(b)(3)(F).

¹⁵ D.C. Code §38-821.02.

¹⁶ See the Healthy Schools Act of 2010, as amended at D.C. Code Title 38, Chapter 8A.

¹⁷ 42 U.S.C. § 1758(b).

¹⁸ 7 CFR § 210.8(a)(2)-(3).

Starting in 2011, the federal government gave school systems the option to participate in the Community Eligibility Provision (CEP), included as part of the program reauthorization passed by Congress in 2010¹⁹. Under this option, participating schools are no longer required to collect FARM applications from households.²⁰ Instead, if a school system can demonstrate that a designated school or groups of schools had at least 40 percent of their students living in a household that participated in other needs-tested government assistance programs²¹ in the prior school year, then they may be eligible for CEP designation. Students that qualify for needs-based government assistance are known as identified students. All students at schools found to be CEP-eligible receive meals free of charge.

Under CEP, only the total number of breakfasts and lunches served are counted daily, and meals are not counted by type (free, reduced, or paid). Meal reimbursements are determined by multiplying the percentage of identified students by a statutory multiplier of 1.6, which yields the percentage of meals that will be reimbursed at the free rate and the remainder are reimbursed at the paid rate.²² No meals are reimbursed at the reduced-price rate. Example: for a school of 400 children, with 50 percent identified as receiving government assistance, multiplying .50 by 1.6 yields a percentage of 80 percent so reimbursement would be 80 percent at the free rate, and 20 percent at the paid rate.

For the 2016 school year, all students in 84 CEP-designated DCPS schools, out of a total of 111 schools²³ received free meals, and DCPS could claim the federal, free reimbursement rate for 98.5 percent of the meals served in the CEP-designated schools. The remaining 1.5 percent of the meals were reimbursable at the federal paid rate. As a school system with a high percentage of students raised in lower-income households²⁴, DCPS' decision to implement CEP across 84 of its schools was a policy decision based on a stated interest in equity. At the same time, however, DCPS officials have cited this decision as one that limits revenue, explaining that families within CEP schools that could afford to pay for school meals are not paying because the program precludes charging them. Most school systems experience CEP as a positive source of revenue, because providing free meals often leads to increased student participation and this, in turn, leads to increased federal reimbursements, since the reimbursement rate for the majority of CEP schools is set at the higher, free rate. This is not the case for DCPS because of the structure of the FSMC contracts in which greater participation means greater cost rather than securing economies of scale from serving more meals.

¹⁹ CEP was phased-in over a period of three years, and became available nationally beginning July 1, 2014. DCPS has participated since the 2013 school year. See 42 U.S.C § 1759a.

²⁰ Ibid.

²¹ Examples of such programs include: Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF).

²² 42 U.S.C. § 1759(a)(1)(F)(iii)-(iv).

²³ During the 2016 school year, only one DCPS-school, Columbia Heights Education Campus, was designated as a Provision 2 school. Like CEP, Provision 2 reduces the administrative burden of collecting FARM applications for schools participating in NSLP and/or SBP and students receive free meals. Unlike CEP, this administrative burden is only alleviated during the second, third, and fourth year of its four-year cycle. During the first, base-year, schools are still required to collect FARM applications and make eligibility determinations for participating students and keep daily meal count by type (free, reduced, and paid). The free and reduced percentage from the base year is then applied for all four years for reimbursement claiming purposes. See 42 U.S.C § 1759a.

²⁴ During the 2015 school year, the latest data available, 76 percent of DCPS students qualified for free and reduced price meals. See: <http://dcps.dc.gov/node/966292>.

ODCA Management Alert

To obtain an understanding of DCPS' current equipment and infrastructure capacity, we asked for an inventory of DCPS kitchen equipment and appliances. On February 12, 2016, ODCA issued a Management Alert notifying Chancellor Kaya Henderson that DCPS lacked an "accurate and comprehensive inventory of kitchen equipment," which raised risks for DCPS such as "inefficient spending on food services, failure to anticipate maintenance and scheduled purchasing needs, and possible duplication of services." DCPS responded on February 26, 2016, and said that although DCPS had intended to conduct a comprehensive inventory at the close of the contracts, they would accelerate that process and accommodate our request. A complete inventory, organized by school, was provided on April 11, 2016. The alert and the DCPS response are included as Appendix C on page 42.

History of Food Services at DCPS

Prior to the 2009 school year, the District of Columbia Public Schools (DCPS) provided school meals through a combination of self-operated and contractor-operated food services program. Pre-plated meals, delivered by a contractor, were served at all elementary schools, while secondary school students were served meals prepared by District employees in full-service kitchens. In 2008, DCPS officials presented a case for the privatization of food services to then-Chancellor Michelle Rhee. At the time, DCPS itself described its food services as operationally “inefficient,” resulting in “high level of losses which must be paid through local subsidies.” DCPS expected to serve approximately 7.6 million meals to an estimated 47,744 students and anticipated that \$14.6 million from the District general fund would be needed to cover costs greater than the reimbursements expected from the federal government. The school system further asserted that “the current food and nutrition service could be significantly improved” through the procurement of a “year-round” food service management company (FSMC) to “provide nutritional meals, increase participation among DCPS students, and minimize losses that must be paid for by local funds.” Satisfied with the findings presented by DCPS, the Chancellor, Mayor, and Council approved the complete privatization of DCPS’ food services program, and a cost-reimbursable contract with Chartwells was executed in June 2008.

As early as August of 2008, DCPS began to experience complaints about mismanagement: late food deliveries, low quality of food, facilities that were not ready to serve food, and insufficient number of staff assigned to kitchens. By 2010, Chartwells had received demands from DCPS management to fix issues related to the overspending and underperformance on revenue, lack of adequate staffing, misuse of point-of-sale machines resulting in under-counting or non-recording of revenues, non-compliance with Department of Health (DOH) standards and codes, lack of transparency or nondisclosure of capital investment costs, rebate discount and credits, and unserviceable and spoiled meals. Convinced that it was possible to provide quality meals for a lower cost, OFNS management piloted two alternative models by securing fixed-price contracts with D.C. Central Kitchen (DCK) and Revolution Foods (RF) in 2010. DCK and RF were assigned seven schools each, while Chartwells continued to manage the remaining 107. Despite experiencing continued losses and operational shortcomings with the food services program, DCPS renewed all three FSMC contracts in 2012. This time, however, all three of the contracts were fixed-price, or price-per-meal contracts, meaning that the FSMCs were paid an agreed upon price for each meal they served with no incentive to reduce unit costs. During the 2016 school year, 48,439 DCPS students in all 111 DCPS schools received meals served by Chartwells, RF, and DCK.

In December 2015, DCPS released a Request for Proposals (RFP), seeking to find one or more new FSMCs to take over food services under a new contract(s) to take effect during the summer of 2016, leading into the 2017 school year. The RFP anticipated hiring up to ten FSMCs, with the resultant contract(s) to be fixed-price-per meal. In May 2016, DCPS announced that it had chosen DCK and SodexoMagic (Sodexo), with RF as a subcontractor, to prepare and serve meals to students, with the majority of DCPS schools to be served through the Sodexo and RF partnership. The two contracts were approved by D.C. Council in July 2016.

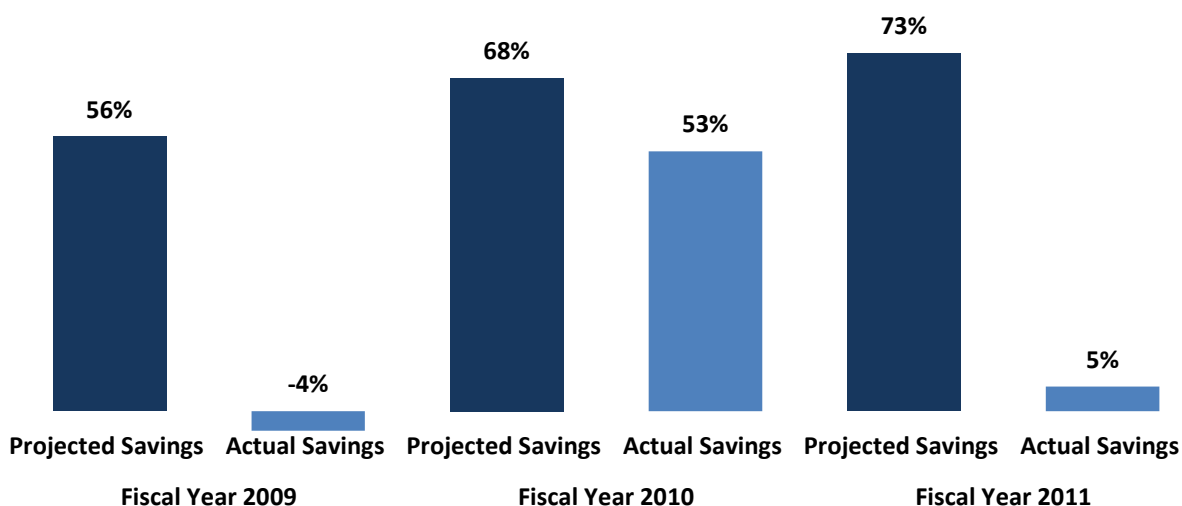
Results of the Auditor's Analysis

I. Promised Benefits of Privatization Have Not Been Realized

The case for privatization made by the District of Columbia Public Schools (DCPS) in 2008 relied on two major promises made in the Determination and Findings for a Privatization Contract (D&F) presented to D.C. Council. The first promise was that privatization of DCPS food services would meet the D.C. Code requirement to provide savings of at least five percent over the duration of the contract compared to the cost of operating the program with District employees.²⁵ It is important to note that these “savings” simply involved a lower projected local appropriation each year. Even under the privatization, DCPS was still projecting substantial annual local appropriation, albeit approximately \$4 million, much less than the projected \$14 million or more anticipated if food services were to remain self-operated.

We reviewed Office of Food and Nutrition Services’ (OFNS) revenues and expenses for the years 2009 through 2011²⁶ against the projections DCPS provided to Council in 2008 and determined that DCPS consistently failed to realize the projected savings. During their first year under contract, DCPS’ actual savings were well under their projection of 56 percent. While DCPS was able to meet the five percent savings threshold during their second and third year under contract, the percentages were still well below their original projections. See Figure 1.

Figure 1: Projected vs. Actual Savings (2009 – 2011)

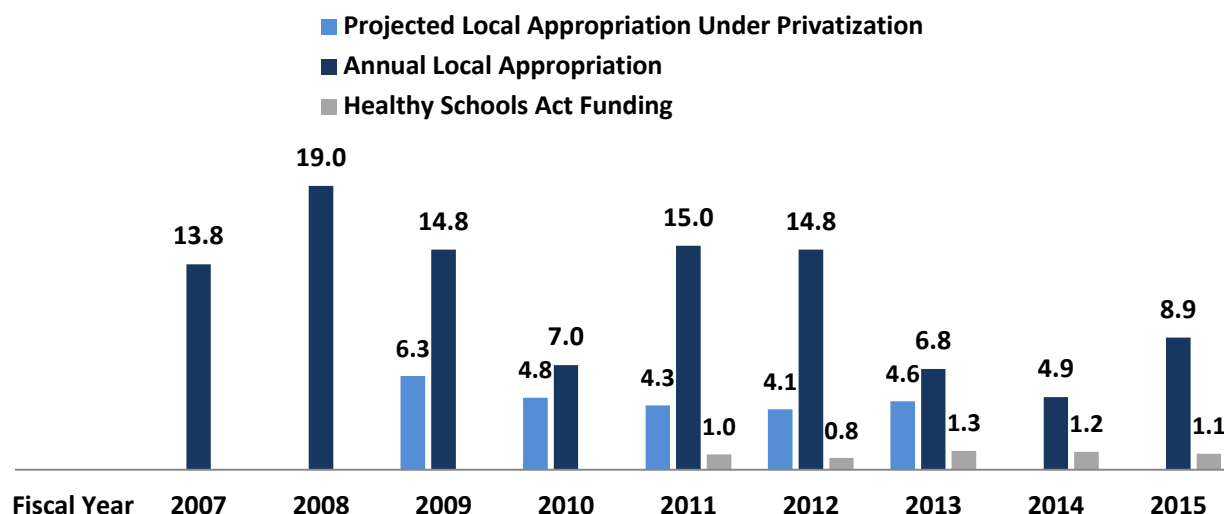


²⁵ D.C. Code § 2-352.05(c)(2) requiring “Before awarding a privatization contract, and prior to modifying a contract, the Mayor... shall transmit to the Council a determinations and findings that demonstrates that the privatization contract will provide savings of at least 5% over the duration of the contract in terms of total cost or the unit cost of providing the goods or services.”

²⁶ We limited our analysis from 2009 through 2011 since DCPS presented its case for privatization in anticipation of having a number of its schools approved for operation under Provision 2, and DCPS did in fact operate many of its schools according to this provision from 2009 through 2011. However, by 2012, many DCPS schools transitioned to CEP-designation.

In fact, DCPS has continued to require significant local appropriations every year since privatizing food services, even though beginning in 2010, DCPS was the recipient of additional dedicated local funding pursuant to the District’s Healthy Schools Act (HSA). Figure 2 shows both the projected appropriations and the actual appropriations for the years 2007 through 2015.

Figure 2: Projected vs. Actual Appropriations (millions of dollars)



DCPS anticipated that the reduction in local funding under a cost-reimbursable contract would be achieved in part by meeting the second promise: a dramatic increase in student participation – from approximately 51 percent to 71.6 percent – within the first year of the contract. Higher participation rates generally mean increased revenue in the form of reimbursements per meal served. It was assumed that the expense of serving additional meals would not exceed the increased revenue.

We reviewed DCPS’ meal count database and determined that the predicted dramatic increase in participation rates was not achieved. During the 2009 school year, the breakfast participation rate was approximately 34 percent, lunch participation rate was approximately 67 percent, and the total number of meals served that year amounted to approximately 6.2 million – less than half of what had been promised by Chartwells and DCPS. In the Determination and Findings presented to D.C. Council, DCPS admitted that even though Chartwells had “achieved similar participation level in other jurisdictions it has been serving” those “increases happened over multiple years.” In the event that Chartwells was unable to achieve these goals, resulting in large losses for DCPS, the school system promised that it “could request termination of the contract because of low participation levels” and that it had a “number of options to choose from: seek another food service management company (FSMC) to resume food and nutrition services, provide food and nutrition services by fully taking over the operation of these services or renegotiate with the existing FSMC the terms of the agreement.”

II. DCPS Contract Decisions Perpetuate Continuing Losses

The terms of service outlined in each of the food service management contracts signed in 2012 with Chartwells, Revolution Foods (RF), and D.C. Central Kitchen (DCK) were relatively the same, with the main difference being the number of schools assigned to each contractor and the negotiated fixed-price-per-meal for each type of meal. During the 2016 school year, Chartwells was responsible for the management of 109 schools; DCK was responsible for eight schools, and RF managed four schools. Figure 3 shows selected prices organized by FSMC and type of meal for the 2016 school year.

Figure 3: Cost per Meal

Meal	Chartwells	RF	DCK
Breakfast in the Classroom	\$2.54	\$2.46	\$3.98
Cafeteria Lunch	\$4.24	\$4.21	\$4.16
Afterschool Supper	\$4.24	\$3.22	\$4.26
Afterschool Snack	\$1.02	\$0.85	\$1.37 ²⁷

As a participant in USDA's National School Lunch Program, DCPS receives reimbursements from the federal government for each meal served. Since 84 out of 111 DCPS schools operate under Community Eligibility Provision (CEP), DCPS receives most reimbursements at the higher, free reimbursement rate, with 98.5 percent of meals served at all CEP-designated schools reimbursed exclusively at the free reimbursement rate. A selection of the reimbursements received by DCPS at the free rate is presented in Figure 4.

Figure 4: USDA Reimbursements Received by DCPS for Free Meals

Meal	Reimbursement Received
Breakfast	\$1.99
Lunch	\$3.15
Afterschool supper	\$3.07
Afterschool snack	\$0.84

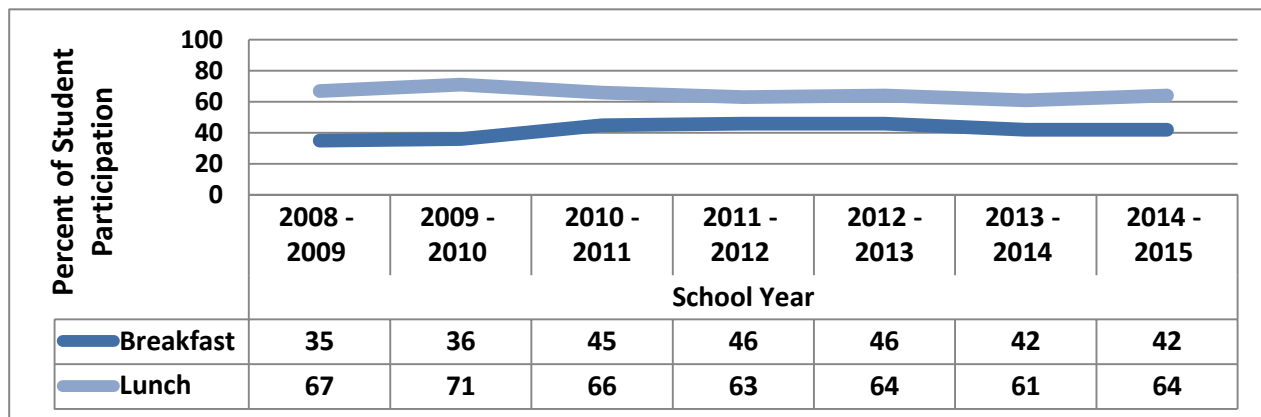
As shown in Figure 4, the federal reimbursement is not enough to cover what the school system is paying the FSMCs. In some cases, DCPS is paying \$2 more per meal than it receives in revenue. DCPS' second major source of funding, incentive payments based on the District's Healthy Schools Act (HAS), has provided roughly \$1-1.2 million a year since 2011. During fiscal year (FY) 2015, DCPS' revenue for food services totaled \$27.2 million while it incurred \$36 million in expenses. In addition, because the food services contracts are structured as fixed-price-per meal, the amount of additional funds required only increases as more meals are served.

²⁷ DCK did not serve any schools that offered after school snacks in the 2016 school year.

Participation Rate

During discussions with DCPS officials about challenges they have experienced in operating the food services program, they noted that encouraging more students to eat school meals remains a challenge. We retrieved and reviewed DCPS participation data for breakfast and lunch served during the previous seven years and note that the total percentage of students participating in lunch at DCPS has generally remained steady, in the low 60s during recent years, while the total percentage of students participating in breakfast has also remained steady, in the low 40s.

Figure 5: School Meal Participation Rates by Year



Agency officials offer several explanations for why participation rates are not higher. According to DCPS' former chief operating officer, many DCPS students are growing up in homes with food insecurity. Parents struggling to make ends meet must often buy the most affordable food, which is not always the most nutritious food. "Kids then get used to that kind of food. When they come to school and find things like carrots in their lunches, they may not be ready to eat them," he said. The director of OFNS concurred, noting that kids do not like healthy food, and "getting kids to like food without salt is difficult. They like Five Guys, pizza, and french fries." One of the more widely known surveys released by the School Nutrition Association supports this sentiment with food service directors contending that the federal nutrition standards have been harmful to the financial health of their food service program.²⁸ Others, including the Food Research Action Center, point to USDA data to explain that the decline in participation is largely attributable to paid students.²⁹ There has been, in fact, an overall increase in participation around the country among students eligible for free meals.³⁰

²⁸ "The School Nutrition Trends Report 2015: Summary," School Nutrition Association, 2016.

https://schoolnutrition.org/uploadedFiles/Resources_and_Research/Research/SNA2015TrendsSummary.pdf.

²⁹ In 2010, the total number of children participating in the NSLP was at an all-time high of 31.8 million, the same year that Healthy Hunger-Free Kids Act (HHFKA) went into effect. The total number began to decline in 2012, the year that the HHFKA nutritional requirements went into effect, with the dramatic declines attributable to fewer paid students participating. The number of free-students participating in NSLP has continued to rise from 17.6 million in 2010 to 19.8 million in 2015 (2015 USDA data is preliminary). USDA, FNS, National School Lunch Program: Participation and Lunches Served, Data as of March 4, 2016.

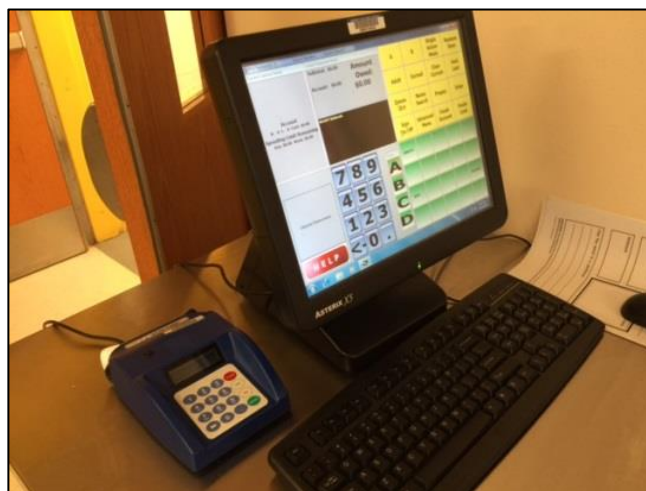
³⁰ "National School Lunch Program: Trends and Factors Affecting Student Participation" Food Research and Action Center, January 2015. http://frac.org/pdf/national_school_lunch_report_2015.pdf.

The disparity reflected by the rates at which DCPS' paying students participate in breakfast and lunch as compared to participation by its non-paying students reflects the national experience. We analyzed the latest data available and found that DCPS students who received free meals at CEP-designated schools participated in both lunch and breakfast at a much higher rate than students who participated in non-CEP designated schools. Figure 6, below, illustrates this difference. Also, notable is that the participation rate among students who received free meals in CEP-designated schools during the 2015 school year was dramatically higher than DCPS' overall participation rate, suggesting that students will participate when meals are accessible/offered for free. Moreover, our assessment of this data suggests that while the nutritional standards may make it a challenge to get students excited about healthier school meals, other factors also contribute to DCPS' participation trends.

Figure 6: Participation Rate Among CEP vs. Non-CEP Schools in DCPS

CEP vs. Non-CEP Participation Rates 2014 – 2015		
Meal Type	CEP Schools	Non-CEP Schools
Breakfast	54%	11%
Lunch	78%	29%

One factor that can affect lunch participation rates is the time required by students to stand in line, obtain a meal in the cafeteria, and then sit and eat the meal. Currently there is no national standard, but the District's standard, as mandated by HSA, requires that students be given a minimum of 30 minutes to eat lunch.³¹ School system officials surveyed by the U.S. Government Accountability Office (GAO) cited the time allotted for lunch periods as a factor affecting participation rate. The GAO reports that if the lunch lines are too long, or if the allotted time to eat lunch is too short, students are likely to find food from somewhere else or not eat at all.³² We observed a very low school lunch participation rate when we visited the Adams campus of the Oyster-Adams Bilingual School, where the annual participation rate is about 29 percent. That the majority of students at the Adams campus do not participate in lunch may be explained in part by the fact that the time allotted for lunch is only 25 minutes. At Kelly Miller Middle School, although the time allotted for lunch was approximately 45 minutes, we observed that not all students had even 30 minutes to eat their lunch due to late arrival and delays in line formation. The bell schedule at the schools, including the schedule for breakfast, lunch, and supper is set by the school's staff and not by OFNS. Factors such as enrollment and academic time required are considered when determining the schedule. When we asked officials from the



Point of sale machine used to count meals served daily. Students either swipe ID cards or punch in numbers.

³¹ D.C. Code § 38-822.03(b)(5).

³² "Implementing Nutrition Changes Was Challenging and Clarification of Oversight Requirements Is Needed," United States Government Accountability Office, January 2014. <http://www.gao.gov/assets/670/660427.pdf>.

Adams campus, Kelly Miller Middle School, and Takoma Education Campus if they were aware of the District's 30-minute mandate and if OFNS had made efforts to raise awareness, the officials said that they were not aware and did not recall OFNS seeking to make them aware of the requirement.

Another factor that may be impacting DCPS' participation rate is the lack of an efficient system of accountability for keeping count of meals served to students participating in the alternative breakfast program, Breakfast in the Classroom (BIC).³³ With national trends indicating a rise in breakfast participation, GAO has credited BIC, among other factors, as a reason for the increased participation, claiming that USDA has found that the probability of participation increases when breakfast is served in the classroom. While many officials from school systems we spoke with agree with this sentiment, others from the Food and Nutrition office at Baltimore City Public Schools believe that BIC leads to artificially high participation rates. Accountability for BIC, they claim, is unreliable because the responsibility to keep count of the meals rests with teachers. Our interviews with an FSMC food service worker, FSMC representative, and school staff indicate that DCPS' breakfast participation rates may suffer from inaccuracy based on data collected by teachers who do not view this as their job, and from an overall breakdown of communication between FSMC staff and school staff regarding the policies and procedures of the BIC program.



Insulated bags used to transport breakfast as part of the Breakfast in the Classroom program. The bags include paper rosters that are used by classroom teachers to note the number of breakfast meals.

When labor and food costs are controlled effectively and operational efficiency is maintained, an increase in student participation in the school meal program should yield positive revenue for school systems, particularly for school systems with student demographics that warrant the highest reimbursement rate from USDA.

³³ Breakfast in the Classroom is an alternative breakfast program offered at all DCPS elementary schools. Breakfast is packed in insulated bags that are delivered in classrooms. Students eat breakfast together in class after the bell rings at the start of the day.

III. Other Major Systems Have Privatized Food Services, Then Successfully Returned to Self-Operation

To understand more about methods and strategies used to manage food services programs, we spoke to food services officials from the following six school systems: The School District of Philadelphia, New York City Public Schools, Detroit Public Schools, Fairfax County Public Schools, New Haven Public Schools, and Baltimore City Public Schools. We attempted to find school systems similar to the District of Columbia Public Schools (DCPS) using factors such as location, total enrollment, number of schools, free and reduced meal percentages, and participation in the Community Eligibility Provision (CEP).

Our interviews included topics such as strategies for reducing costs and increasing revenue, labor structure, infrastructure capacity, menu planning, programs or special services offered, and best practices generally. Although all of the school systems we interviewed currently operate their own food services programs, the majority have a history of contracting out their services to food service management companies (FSMCs). The School District of Philadelphia, Baltimore City Public Schools, Detroit Public Schools, and New Haven Public Schools were previously served by Aramark before transitioning to self-operation. Sodexo has also held a presence in other jurisdictions. In 2010, Sodexo reached a \$20 million settlement with New York State over the claim that Sodexo overcharged 21 New York school systems as well as the State University of New York System (SUNY).

As mentioned earlier, school systems are not required to participate in the school lunch program, nor does every state impose a mandate on its school systems to participate. However, states that use federal funds to reimburse their school systems for participating in the federal lunch program, National School Lunch Program (NSLP), are required to contribute matching funds in the amount of 30 percent of the federal funds the state received in the school year beginning July 1, 1980 without adjusting for inflation. As such, the state contributions are usually relatively low. Some states, like the District, have opted to provide reimbursements or funding to promote better nutrition or participation or other purposes.

All of the school systems we interviewed participate in the national school lunch program, receive the required state match, and may receive additional funding or reimbursements separate from the match. See Figure 7 on the next page. The following profiles provide a short summary of our discussions with these school systems.

Figure 7: Summary of School Systems

Jurisdiction	State-Mandated Funding
Pennsylvania	<p>Ten cents are given by the state for each breakfast and lunch that is served.</p> <p>Schools that participate in the federal breakfast and lunch program and meet other state-mandated requirements are given an additional two to four cents per meal served.³⁴</p>
New York	<p>Schools receive additional state reimbursements for all free, reduced, and paid lunches and breakfasts served.³⁵</p>
Michigan	<p>School systems that participate in National School Lunch Program receive payment at the rate of six percent of the necessary costs of providing lunch.³⁶</p> <p>School systems that participate in the federal breakfast program receive additional reimbursement for the cost of providing breakfast. The reimbursement is at a per meal rate equal to the “lesser of the district’s actual cost or 100 percent of the statewide average cost of a breakfast served, less federal reimbursement, participant payments and other state reimbursement.” The statewide average cost is determined by using costs as reported for the preceding school year.³⁷</p>
Virginia	<p>Under an incentive program to improve student participation in school breakfast programs, the state provides \$.022 reimbursement for each breakfast that is served, in FY 2015, above the participation baseline that was established during the 2004 school year.³⁸</p> <p>An additional \$.05 reimbursement is given for each breakfast meal served that qualifies as “breakfast after the bell,” such as breakfast in the classroom, grab and go breakfast, and second chance breakfast.³⁹</p>
Maryland	<p>Schools that qualify for and participate in the Maryland Meals for Achievement In-Classroom Breakfast Program receive reimbursements, as determined annually by a set formula, for every breakfast served.⁴⁰</p>
Connecticut	<p>The state provides an annual grant of \$3,000 and up to ten cents per breakfast served in all “severe-needs” qualifying schools.⁴¹</p> <p>An additional ten cents per meal are given per lunch served in the preceding school year to schools districts that meet Connecticut’s nutritional standards.⁴²</p>

³⁴ 24 Pa. Stat. Ann.S. §13-1337.1.

³⁵ “State School Meal Mandates and Reimbursements: School Year 2015-2016,” School Nutrition Association, page 5. https://schoolnutrition.org/uploadedFiles/Legislation_and_Policy/State_and_Local_Legislation_and_Regulations/2015-16StateSchoolMealMandatesAndReimbursements.pdf.

³⁶ Mich. Pub. Act No. 85 (2015), §31d. https://www.michigan.gov/documents/wda/Section_107_State_School_Aid_Act_503133_7.pdf

³⁷ Mich. Comp. Laws Serv. § 388.1631f.

³⁸ Superintendent Memo: “School Breakfast Program – Fiscal Year 2016 State Funding Incentive Payment for Increased Student Participation in 2015.” http://www.doe.virginia.gov/administrators/superintendents_memos/2016/028-16.shtml.

³⁹ Superintendent Memo: “Application for 2015-2016 State Funding for Alternative School Breakfast Service Models.” http://www.doe.virginia.gov/administrators/superintendents_memos/2015/172-15.shtml.

⁴⁰ Md. Educ. Code Ann. § 7-704.

⁴¹ Conn. Gen. Stat. § 10-266w.

⁴² Conn. Gen. Stat. § 10-215b.

School System Profiles

A Successful Transition from Privatization to Self-Operation: The School District of Philadelphia

In 2005, to avoid continued annual losses by its Food Services Division, The School District of Philadelphia (Philadelphia) partially outsourced the provision of school meals to the food service management company, Aramark. Aramark assumed operational responsibility for all full-service cafeteria operations while Philadelphia's satellite meal operations remained in-house. However, two years into their contract with Aramark, the Food Services Division continued to incur annual losses nearing \$16 million and also suffered from low participation rates, leading Philadelphia to return all of its 124 full-service locations to a self-operated program by the 2008 school year. Today, Philadelphia's Food Services Division reports breaking-even, meaning that the expenses the division incurs are equivalent to its federal and state revenues.

The Transition Plan

In preparing to bring food services back in-house, the food services team developed a three-year transition plan. Projecting losses during the first two years of their transition, Philadelphia's plan called for the division to receive an interdepartmental loan, to be paid back in five years. Once operations were back in-house, Philadelphia expanded their satellite kitchen operations. An analysis commissioned by Philadelphia's Food Services Division determined that their satellite kitchens had consistently operated at a surplus since 1986, while the full-service kitchens, at least prior to privatization, lost money. Satellite meal contracts were renegotiated, and many more full-service kitchens were converted to the satellite meal delivery system. Philadelphia's aggressive use of satellite kitchens allowed them to decrease their labor costs. Each year during the three-year transition, Philadelphia reduced its food services workforce through attrition by approximately 75 field employees. The goal, according to Philadelphia, was to stabilize their finances through pre-plated meals that required fewer labor hours, before re-introducing meal service through full-service kitchens. Moreover, while the fieldwork staff was reduced, Philadelphia increased their internal staff support by adding more positions to their central office, specifically filling in managerial roles previously carried out by Aramark. Field-based supervisors were an important addition to their staff. These supervisors, according to Philadelphia officials, served as the "face of the division," working with marketing and merchandising, managing kitchen/cafeteria staff, and cutting down waste at the school level.

Current Operations

Today, Philadelphia operates a hybrid model of full-service and satellite kitchens, staffed with unionized food service workers. Philadelphia officials credit this hybrid model as the reason their Food Services Division is able to break even. The financial advantage to the satellite meal delivery system, according to Philadelphia, is that food is assembled by cheaper non-union, off-site labor. While Philadelphia maintains its focus on controlling labor costs, it is no longer aiming to reduce the workforce. Instead, Philadelphia has negotiated a union contract in which staffing at the school level is based on the business needs of the school system. Factors such as meal volume, average daily participation, number and longevity of lunch periods, and physical characteristics of buildings, among others, determine staffing. Like other school systems, Philadelphia has adopted the Community Eligibility Provision (CEP) district-wide as a means to increase revenue, and the "offer versus serve" (OVS)⁴³ model as a way to control food waste. When asked how the revised federal standards have had an impact on their costs, Philadelphia officials responded that they were not sure "exactly how" it affected their costs. Because Philadelphia had integrated many of the nutrition requirements well before the mandated federal changes, Philadelphia officials believe that the school system's cost per meal did not rise as high as the costs per meal reported nationally. Moreover, Philadelphia officials said that any increased expenses were being absorbed by their move to CEP designation.

⁴³ "Offer versus Serve" refers to the manner in which food is presented to students. In a "serve only" model, students are given all components of a meal whether they want them or not. In the OVS model, students are "offered" all components but can reject some of them. Students are still required to choose either one-half cup of fruit or one-half cup of vegetable. See 42 U.S.C. § 1758(a)(3); 42 U.S.C. § 1773(e)(1)(A); 7 CFR § 210.10(e); 7 CFR § 220.8(e).

Providing a Standardized Service: New York City Public Schools

With over one million students, New York City Public Schools (New York) is the largest school system in the country. The school system's food services division is also unique in the type of support it receives from the City of New York – fringe benefits for food service workers are paid for by the city government. At the same time, New York is expected to implement programs or initiatives endorsed by the city, which often add to overall cost. For example, a job-placement program for the city's homeless recently tasked New York with the responsibility of hiring 50 people in 2015. In other instances, New York had to make back payments on food service worker salaries newly revised and negotiated by the city. The outcome of adopting external efforts endorsed by the city is that the school system's food services program lost money as a whole in 2015. However, New York officials also emphasized that, if one discounts the requirements imposed by the city, the school system planned for and did, in fact, make a profit.

While New York may not have complete control over their labor costs, since the salaries, wages, and work arrangements of the unionized food service workers are negotiated by the city, the school system is strategic in how it both plans and delivers meals to its students, thereby keeping their overall food costs low.

New York employs creative menu planning and strategic use of USDA food commodities. When planning a menu for the coming year, factors such as the popularity of certain food items and the impact of those food items on participation rates are considered. A comparison is done of how much the USDA commodity program would charge for each item versus what it would cost the team to purchase the items commercially. Items that are cheaper to purchase commercially are considered value negative items by the team, while those obtained through the commodity program are regarded as value positive items. New York maximizes its commodity allotment on items that are value positive before making any food purchases from the commercial market. A New York official said: "So we don't just take a list that comes from the federal government and go 'what thing would you like to buy this year?' We don't go 'some of this and some of that' and then try to make our menus – that's flying by the seat of our pants."

Once the menu has been planned for the year, the school system-employed chefs are tasked with developing an acceptable flavor profile for various items on the menu. Students taste test samples and officials ensure nutrition standards. The recipe is then shopped to various vendors who are asked to replicate the recipe in mass amounts. New York reports that most vendors agree to reproduce the recipe, while others offer their own product for comparison.

The school system's meal service and delivery system has also taken its infrastructure into account. New York lacks a central warehouse and does not have any central kitchens, and of the nearly 1,700 facilities and/or schools at which meals are served, approximately 300 do not have any kitchen or facility setup. With the exception of salad bars, New York does not employ cooking from scratch, favoring consistency and standardization instead. The executive director is not a proponent of individuals cooking meals in the kitchen and cafeteria facilities, partly because he said he believes this would result in 1,700 different ways to prepare the same meal.

Expanding the School Food Authority: Detroit Public Schools

Detroit Public Schools (Detroit) made its transition from privatization to self-operation in 2008. Detroit's Office of Food and Nutrition Services has developed menus that are both cost-effective and healthy, and has sought ways to increase revenue and reduce costs. The division recorded a profit in 2015.

As a means to increase participation or their number of meals served and, therefore, increase revenue, Detroit functions as a school food authority for other schools in the city including charter schools and Catholic schools. Detroit schools are only 91 out of the 141 facilities where the food and nutrition program serves meals to students. "In order to stay profitable, I have to go out and get business...I operate these other schools under something called the alternate agreement," according to the executive director of Detroit's Office of Food and Nutrition Services. Under the alternate SFA agreement, legal and financial authority for the meals program is transferred from these other schools to Detroit.⁴⁴

In 2009, Detroit became the first school system in the country to offer free breakfast to all students, regardless of income. Detroit's current food service model is heat and serve – raw food is not allowed in the cafeterias due to food safety concerns. Most of Detroit's USDA commodities come in the form of fruits and vegetables. The school system purchases produce from local farmers in order to obtain fruits and vegetables that are not grown in its own school gardens, and it has been reported that the school system plans to expand its food services operations by developing an urban farm and food business complex, about 27 acres in size, in Detroit's east side. The garden will serve both students and members of the community.

Benefitting from Community Eligibility Provision (CEP): Baltimore City Public Schools and New Haven Public Schools

For Baltimore City Public Schools (Baltimore) and New Haven Public Schools (New Haven) – two school systems currently operating with small deficits– their district-wide CEP designation shows promise and is their strategy for reducing these shortfalls.

The food services director at New Haven explains that the division's latest shortfall is a decrease from those experienced in previous years, and she hopes to eliminate it entirely over the next three years. Two years into New Haven's CEP-designation, the division has experienced an increase in participation rates and is working to reduce its food costs down to 38 to 40 percent of total costs. One way New Haven is planning to do this is through training food service staff to better inventory and order food, with the goal of having not more than one week's supply of groceries on the shelf. Another strategy used by New Haven to reduce costs is opting for direct delivery of commodity food to the school system's warehouse instead of deliveries to multiple schools in the system.

Baltimore is also benefitting from the school system's CEP designation. During our discussions with Baltimore's Food and Nutrition Services team, Baltimore staff stated that their decision to seek CEP has resulted in rising meal counts and an increase in revenue from USDA. In addition, through careful monitoring of labor hours, they have been able to produce these additional meals without a matching increase in labor hours. Since they have been able to hold costs steady, their bottom line has improved.

⁴⁴ USDA Policy Memo #50-98, "Prototype Contracts for Alternate SFA Arrangements," July 9, 1998.

Innovative Programs as a Catalyst for Change: Fairfax County Public Schools

The director of Food and Nutrition Services at Fairfax County Public Schools (Fairfax) has said that school systems fail to innovate when they treat school foods like entitlement programs and not businesses. Known as an expert in farm-to-school salad programs, Fairfax's food services director established the first Farmer's Market Salad Bar in 1997 at the Santa Monica-Malibu Unified School District with much success. In 2002, he took this same strategy to the Riverside Unified School District, a school system serving a large percentage of students from low income families, and raised student participation in the school lunch program from 47 percent to approximately 65 percent. When he arrived at Fairfax in September 2015, its food services program was losing money. Only 27 percent of Fairfax's student body qualifies for free and reduced meals, and the meal program only attracts student participation at the average rate of 45 percent. We spoke to the food services director about his strategy for improvement, and he emphasized two factors as integral to program success: the willingness to invest in good, smart management and a commitment to teaching children to be lifelong good eaters.

Fairfax's food services director adheres to the industry standard that suggests that total food and labor costs never exceed a total of 85 percent, if breaking-even is a goal. To control for labor costs, the director aims to raise Fairfax's current average of serving 20 meals per labor hour to 30 meals per labor hour. He believes that a food services program operating under a heat and serve model should be able to produce meals at higher rates. The director aims to reduce food costs to \$1.20 per meal. For immediate results and savings, measures such as switching from shelf stable juice to frozen juice, for instance, were taken – yielding a savings of nearly 11 cents per meal. Fairfax's Office of Food and Nutrition Services has plans to pilot multiple food initiatives such as meatless Mondays, outdoor barbeques, and the installation of rotisserie ovens. Recently Fairfax announced the launch of the first ever salad bar at an elementary school, in collaboration with Real Food for Kids, a Virginia-based non-profit that works with its partners to increase the accessibility of healthful foods in school systems, and plans to expand the salad bar to 141 elementary schools.

The key, according to the Fairfax food services director, is to mimic what students see in the marketplace so that their school lunch experience is similar to what they would see in the food court; they should see their food as it is being made, and be able to order it the way they like.

IV. The District of Columbia Pays Significantly More Than Comparable Systems for Food Services

To learn about the operations of school food programs in other school systems, we gathered information about the size of their programs, both financially and in terms of the number of student meals served, to see how the District of Columbia Public Schools (DCPS) would compare and what similarities or differences we might identify.

Most school systems that we examined received local appropriations each year in addition to the dedicated federal and state funds for providing lunch and breakfast. The amount of this local appropriation varied, but typically ranged from one to seven percent of total expenses. Operating with no local appropriation requires a great deal of effort to maximize revenue and to carefully monitor and control expenses. Figure 8 shows revenue and expense data from the six other school systems we researched. DCPS figures are also presented to provide a comparison.

Figure 8: Food Services Finances Across Different Schools Systems (FY 2015)
(in thousands of dollars)

	DCPS	New York City	Detroit	Baltimore	New Haven	Fairfax	Philadelphia
Total Expenses	36,033	458,760	42,631	41,700	13,939	75,776	NA ⁴⁵
Federal and State Revenue	27,158	452,591	45,604	39,701	12,560	74,335	86,000
Difference	(8,874)	(6,168)	2,973	(1,999)	(1,379)	(1,440)	NA ⁴⁶
As a percent of total expenses	-25%	-1.3%	7%	-1.3%	-7%	-4.8%	NA

Because of the difference in enrollment at the various school systems, it can be useful to view this same information presented per meal. This allows for more direct comparison between school systems that may be different in size. In addition, where known, we can further break down this information to get a picture of how much is spent on labor and food, by far the two biggest costs in the food service program.

⁴⁵ Philadelphia declined to share information about their costs with us.

⁴⁶ Philadelphia school food services management informed us that they break even every year and do not require a local appropriation. We were unable to confirm this.

Figure 9: Costs per Meal Across Different School Systems (FY 2015)⁴⁷

	DCPS	New York City	Detroit	Baltimore	New Haven	Fairfax	Philadelphia
Food cost/meal	NA ⁴⁸	\$1.23	\$1.74	\$1.35	\$1.38	\$1.41	\$1.64
Labor cost/meal	NA	\$1.43	\$0.97	\$1.50	\$1.25	\$1.59	\$1.07
Other costs/meal	NA	\$0.31	\$0.36	\$0.10	\$0.47	\$0.62	\$0.10
Total cost/meal	\$3.90	\$2.98	\$3.07	\$2.95	\$3.10	\$3.62	\$2.81
Meals Served⁴⁹	9,231,649	154,131,869	13,897,079	14,135,294	4,500,000	18,408,600	NA ⁵⁰

DCPS' cost per meal served is notably higher than the other school systems, all of which are self-operating and, therefore, do not pay a markup or profit to FSMCs. In looking at OFNS' approved FY 2016 budget, we noted that OFNS budgeted \$34.5 million for food service contracts. Using the FY 2015 meals-served figure, we divided this projected cost by 9.2 million meals to arrive at \$3.74 per meal. Adding in expenses for OFNS's administrative operations brings the total to an estimated \$4.11 per meal. The District's estimated local appropriation for FY 2016 is \$9 million, almost 24 percent of total expenses.

⁴⁷ Some of these figures were provided to us by the school system, some we calculated. We calculated figures for Detroit, Baltimore, and New Haven. To calculate, we used the total expenses in the category divided by the total meals served.

⁴⁸ We sought information from DCPS and its three FSMCs about their costs by category. Revolution Foods and D.C. Central Kitchen responded, but Chartwells did not. Since Chartwells is, by far, the largest contractor, we are unable to calculate per meal costs for these categories. Total cost per meal was calculated by dividing DCPS' total food service expenses by the total meals served.

⁴⁹ Includes multiple meal types: breakfast, lunch, snack, and supper.

⁵⁰ Philadelphia declined to share information about their costs with us.

V. DCPS Has No Clear Plan to Control Costs and Increase Revenue



Lunch prepared by D.C. Central Kitchen served at Kelly Miller Middle School.

We met with the District of Columbia Public Schools (DCPS) and Office of Food and Nutrition Services (OFNS) officials to not only discuss factors contributing to DCPS' expenditures for food services, but ways that DCPS addressed these costs in the past and might in the future. They cited various efforts to increase the number of meals served: engagement of parents through surveys and Parent Nights, engagement of students through the Students Ambassadors Program⁵¹ and through International Food Stations set up in cafeterias to mimic fast, casual restaurants. We asked DCPS officials how these efforts led to a reduction in costs or

increased revenue. The DCPS deputy chief of School Operations and Program Division said that OFNS staff had considered ways to reduce costs, but admitted "...reducing the cost is difficult. We keep enrolling more kids, and it is hard to reduce the cost if you have to serve more meals to more kids." As explained earlier, cost reductions are difficult to achieve under the current fixed-price contract arrangements – the high cost per meal has the negative effect of yielding a loss every time a student is served a meal.

DCPS hopes to accomplish both cost-reduction measures and increase in revenue primarily with the execution of new fixed-price contracts starting in the summer of 2016, which were approved by D.C. Council in July 2016. SodexoMagic with Revolution Foods (RF) as its subcontractor will serve the majority of its schools, with D.C. Central Kitchen (DCCK) serving the remainder. Contract summaries of the two contracts indicate that ten out of the 100 points in the RFP evaluation "assess the Contractor's ability to reduce the overall cost of the DCPS Food Services Program." The performance standards and the expected outcomes for the contract, included in the summary, however, are silent on how the cost savings are to be achieved. The performance criteria do include that "the Contractor shall improve breakfast, lunch, and summer meal participation over the previous year."

Our review of the RFP, contract summaries, and meetings with DCPS officials reveal the following planned measures for the reduction of costs and increase in revenue.

Measures to Reduce Cost

- **Eliminate the fiscal gap assumed by the District** - Recognizing that the fixed prices set in the current contracts are higher than the total reimbursements received from the federal and District governments, the RFP called on the potential food service management company to reduce food and labor costs, thereby reducing the unit price of the meal, by operating "...in a

⁵¹ The Student Ambassadors Program gives DCPS' elementary through high school students the opportunity to provide feedback on meals served. There are two student ambassadors from each school. The program was launched in the fall of 2014.

manner that will eliminate the fiscal gap assumed by the District, which is the difference between the firm fixed price and the rate of reimbursement per meal provided by the USDA.” The procurement process included several rounds of questions from prospective bidders regarding the elimination of the fiscal gap. In response to these queries, DCPS expressed “DCPS seeks immediate results in closing the gap between reimbursements per meal and the firm-fixed-unit-price...The points...will be assigned on the strength of the Contractor(s) ability to close this gap quickly.” Responding to another question: “It is up to the Contractor(s) to determine its own methods of closing the fiscal gap as stated in the solicitation and must be reflected in the proposal.” And finally, from DCPS: “The financial goal and expectation for this solicitation is the elimination of the gap between the firm fixed-unit-price and the reimbursement value per meal.” There is no information provided, however, on how or when this goal will be met.

- **Introduce Offer Versus Serve (OVS)** – “Offer versus Serve” refers to the manner in which food is presented to students. In a “serve only” model, students are “served” all components of a meal whether they want them or not. In the OVS model, students are “offered” all components but can reject some of them. In recent years, DCPS has used the “serve only” model at the elementary school level. DCPS’ RFP required vendors to use OVS at all grade levels. It is assumed that OVS may reduce food waste and increase student satisfaction which can then lead to improved financial performance resulting from increased student participation though, as noted, more meals under the DCPS contract means greater cost. Other school systems we interviewed also operate using the OVS model, but as self-operating food service programs where the staff at these school systems are involved in the menu-planning process where they have direct control over their food cost.

Measures to Increase Revenue

- **Offer a la carte meals** – A la carte meals, a form of competitive food, give students the option to purchase food items individually as opposed to as part of complete meals. Food items offered a la carte are not federally reimbursed,⁵² and historically were not required to meet federally-endorsed nutrition standards. However, as of the 2015 school year, all food sold in schools, including food sold a la carte, must meet nutrition guidelines as set by USDA under the requirements of the Healthy, Hunger-Free Kids Act (HHFKA).⁵³ Contractor(s), according to the current RFP, will be required to provide a la carte options at all middle and high schools, a la carte milk at all elementary schools and education campuses, and a la carte salad bar options, where appropriate. This is seen as one way to boost revenue, as students must pay at the time of purchase for these items.

⁵² 7 CFR § 210.11(a)(2).

⁵³ 42 U.S.C. § 1779.

Best Practices for Reducing Costs and Increasing Revenue

There are other actions that DCPS could take that might help to improve its financial performance in providing school meals. Through interviews with food service directors from around the country, we learned of other cost-cutting and revenue-garnering practices that they employ.

- **Balancing the labor-versus-food-costs ratio** – The director of Fairfax County Public Schools told us that the cost of food and labor combined should not exceed 85 percent of the total food services budget. He explained that this was an industry standard benchmark, set by the Institute of Child Nutrition.⁵⁴ Anything above this percentage, he claimed, would make it difficult for any school food services program to break-even. DCPS should seek to monitor and require contractors to manage these costs in order to improve the bottom line.
- **Planning a cost-effective menu** – Food service officials from New York City Public Schools emphasized the need for smart menu planning by taking into account the market value of offered USDA commodities, selecting the most expensive and desirable commodities while saving dollars for other, less costly items to be bought in the marketplace. Tracking student preferences and meal selection patterns, generally, were also considered.
- **Consolidate delivery of food items** – Direct delivery of food items from distributors to a central warehouse, as opposed to delivery to each individual school, is an effective way to reduce costs.
- **Inventory and maintain kitchen equipment and appliances** – Fairfax, Baltimore, Detroit, and New York all cited the adequate inventorying and maintenance of kitchen equipment as a way to properly manage costs. New York officials claim that they complete an inventory of their equipment each year.
- **Innovate to add new sources of revenue** – As discussed, many food service directors we spoke to believe that school food service programs should be run like businesses, with management developing new and innovative ways to add revenue. For example, in addition to meals offered to children, Fairfax is developing meals aimed specifically at adults, typically, teachers and administrative personnel at the schools. Participation by teachers and staff provide an additional source of revenue while also having a positive impact on students' and their families' perception of school meals.
- **Raise the price of meals for paid students** – DCPS officials have indicated that a price increase has been discussed and will likely happen in the near future. Just how much revenue DCPS might be able to gain through paid meal sales is discussed in Appendix A.

⁵⁴ According to the Institute of Child Nutrition, there is no research-based industry standard, but “generally accepted guidelines suggest that no more than 80-85 percent of the school nutrition program revenue should be spent on food and labor.” See “Financial Management: A Course for School Nutrition Directors” Institute of Child Nutrition, 2nd Edition. <http://www.nfsmi.org/documentlibraryfiles/PDF/20151012043220.pdf>.

VI. DCPS Has Significant Capacity for Self-Operation But Current Leadership Opposes That Option

In analyzing program costs, members of D.C. Council have raised self-operation as an alternative to the current privatized service. To assess the District of Columbia Public Schools' (DCPS) capacity to manage a self-operated program, we considered several factors:

- Equipment and Infrastructure Capacity,
- Labor Capacity, and
- Transition strategies previously supported by DCPS.

DCPS' Equipment and Infrastructure Capacity

DCPS currently prepares meals in 109 schools. Seventy-two schools have on-site kitchens, with six operating as hubs⁵⁵, and 31 schools have satellite⁵⁶ kitchens. We visited eight DCPS-schools in all District wards, serviced by different FSMCs during lunch, breakfast, and supper. We also interviewed various cafeteria managers and food service workers about their working conditions and the equipment we saw in use.



Unused industrial size dishwasher at Cardozo Education Campus.

Through the course of this evaluation we observed several inefficiencies. For example:

- **Cardozo Education Campus** – ODCA observed that an industrial-size dishwasher was not in use.
- **Takoma Education Campus** – ODCA observed an inoperable steaming table and combi oven, one of two, and a broken stovetop.
- **Malcolm X Elementary School at Green** – ODCA observed an unused, broken oven.
- **Luke C. Moore** – ODCA observed a leaking steaming table, ovens with broken timers and temperature dials, a tilt skillet with a broken temperature dial, and a broken garbage disposal.
- **Tyler Elementary School** – ODCA was informed the school has a two compartment sink with a garbage disposal that does not work, and a freezer that had been broken for years and was recently fixed, but not needed.
- **Oyster-Adams Bilingual School – Adams Campus** – ODCA observed that the temperature dials have worn off the oven that is used to prepare meals.
- **Kelly Miller Middle School** – ODCA observed a leaking food station, an inoperable steamer, a flat top for which the temperature could not be controlled, and sink station that could only be drained one tub at a time.
- **Browne Education Campus** – ODCA observed insufficient cold storage space.

⁵⁵ Hub kitchens act as a redistribution point.

⁵⁶ Satellite kitchens receive from hubs and do not have storage space.



Image of oven with numbers on temperature dials worn off at the Adams campus of the Oyster-Adams Bilingual School.

In some cases, it was reported that repair requests had been left unresolved for more than a year. Food service workers stated that they had to come up with workarounds to ensure service in a timely and efficient manner. For example, a leaking steam table at the Takoma Education Campus forced workers to fill and carry tubs of water to the table instead of using the faucet attached to the table. In addition to affecting the workday and potentially the timeliness of service, the disrepair of critical appliances like ovens, which are routinely used in kitchens preparing meals under the heat and serve model may impact the preparation of meals.

These infrastructure and equipment issues are not unique to DCPS. We shared our observations of DCPS' kitchen and cafeteria facilities with other food services directors and learned that school systems such as New York also face similar structural problems and workarounds. New York claims that issues like this arise at every school system and DCPS is not unique in this experience. There are currently 300 New York schools that do not have kitchens, and meals are served on tables in multipurpose rooms. Still, the New York system takes an inventory of their facilities each year and is able to manage their structural disadvantages. Detroit's food services director elaborated on the importance of proper facilities management: "...so when you go to those schools you have to say, 'can we move some of that equipment around and based on the enrollment of the school is that too much equipment? Can we use the equipment somewhere else? When was the last time was (sic) the equipment repaired?'" To properly address these inquiries, a tracking system along with an inventory of all equipment and appliances is necessary. DCPS has been served by three different food service management companies (FSMCs) with distinct service models – Chartwell's heat and serve meals, Revolution Food's (RF) prepackaged meals, and D.C. Central Kitchen's (DCKK) scratch meals. Having a complete and accurate inventory is even more necessary to ensure that the appropriate kitchens and cafeterias are matched with the appropriate service models. Through conversations with a food service worker at DCPS and FSMC representative, we learned that while staff was advised to log equipment repair issues in a database called Quickbase, they were not aware of any recent equipment inventory.



Tilt skillet with broken temperature dials at Luke C. Moore.



Heat and serve meals by Chartwells.

for many years to the menus prescribed.” Asked about the type of appliances necessary to run an efficient kitchen, the OFNS director stated that school kitchens needed convection ovens and steamers, and anything beyond those two appliances was simply “nice to have.” This assessment of appliance needs makes sense if DCPS continues to use the heat and serve model.

Whether DCPS has the equipment and infrastructure capabilities to carry out self-operation is an assessment that DCPS’ OFNS will ultimately have to make, with the inventorying of its facilities as a starting point. In comparison, Philadelphia and New York both described their self-operated food services as having managed to provide meals to students despite the prevalence of satellite kitchens and need for additional production kitchens. They have accomplished this through strategic menu planning and effective deployment of labor, as discussed earlier.

We met with DCPS’ Office of Food and Nutrition Services (OFNS) director to discuss DCPS’ capacity and asked how he ascertained the infrastructure and equipment needs of different schools. The OFNS director was able to recite the needs of various schools but did not share how he came to be aware of this information. When asked whether he was aware of workarounds that staff may be employing in the absence of specific equipment or appliances, the OFNS director responded that he was not aware of any workarounds and that, “Food has been able to be prepared in the schools that they are currently operating food service programs



Prepackaged meal by Revolution Foods. Photo provided by Councilmember Grosso.

DCPS' Labor Capacity



Cold storage at Browne Education Campus.

Personnel organization in the kitchens and cafeterias is determined largely by the FSMCs. We observed that schools serviced by Chartwells included a cafeteria manager, responsible for the entire kitchen and cafeteria, a cook, and food service workers, whose number is based on the enrollment in the school and the operational capability of the kitchen- a satellite kitchen, a hub, or one that prepares meals on-site.⁵⁸ D.C. Central Kitchen was organized similarly, whereas schools receiving meals from RF included server supervisors and servers.

Transition to Self-Operation for DCPS

Although Philadelphia and Detroit stand out as success stories, others like Baltimore and New Haven also shared experiences similar to DCPS, leading to their decision to self-operate. In 2012, the former OFNS director presented a, "Proposal for Improving Performance," (Proposal) to Councilmember Cheh to transition to a self-operated system, outlining steps that DCPS could take to move toward a self-operating program and included a discussion of what additional hires might be necessary.⁵⁹ Based on an analysis of best management practices, the proposal concluded that 18 additional staff would need to be added to OFNS' existing 12 positions. Chancellor

As of September 2015, OFNS consisted of 10 filled positions, including a director, program coordinator, three regional managers, a manager leading the Nutrition Programs and Compliance team, and a budget analyst overseeing a budget assistant and tech support. All three regional managers oversee performance of the different FSMCs. OFNS is responsible for overseeing FSMC performance, ensuring the resolution of audit findings, and managing the Free and Reduced-Meal (FARM) application process, as well as the U.S. Department of Agriculture (USDA) food commodities and reimbursement claims.⁵⁷



Sink with broken garbage disposal at Luke C. Moore.

⁵⁷ 7 CFR § 210.16.

⁵⁸ E.g. School Without Walls High School's kitchen employs one food service worker. The kitchen at School Without Walls is described as "half of a Dunkin Donuts" by OFNS director. Of the approximately 600 students enrolled at the school, at most 100 students participate in school meals.

⁵⁹ See Appendix B for DCPS' Proposal to Bring Food Services In-House.

Henderson of DCPS disavowed this transition proposal in a subsequent submission of information to the Councilmember a few days later.⁶⁰

The 2012 proposal called for a three-year plan in which DCPS could pilot self-operated food services in a subset of schools starting in 2013. School years 2013 and 2014 would bring an expansion of self-operated schools, with DCPS assuming full responsibility by 2015. Similar to Philadelphia's transition, in this plan, OFNS would make heavy use of their satellite kitchens; schools not operated by DCPS during these transition years would be operated by FSMCs, largely run by satellite kitchens. The 2012 proposal also called for the creation of new positions within OFNS, with key positions being three regional managers. Much like the field director positions described by Philadelphia, the role given to the regional managers by OFNS, according to the Proposal, was one where they would "oversee all operations, cafeteria staff ...and respond to emergencies in the field." Finally, the Proposal anticipated negotiating a new union contract for the purpose of increasing "...control over school based staff and streamline their impact on DCPS overall mission," but did not provide further detail on how this would be achieved.

Contrary to the experiences shared by leaders in other school systems that have successfully returned to self-operation, DCPS leadership has been unwilling to consider such a transition. In a February 21, 2016, letter to Councilmember Cheh, Chancellor Henderson wrote, "simply put, food service (like facilities maintenance and construction) is not a core competence of ours." In its September 26, 2016, response to this report in draft form, Interim Chief Operating Officer Carla Watson wrote regarding a return to a self-operated program, "There are many immediate risks that inform our decision to not move forward with such an initiative at this time."

According to DCPS' former chief operating officer, "Our challenge has been this: we had a hugely broken school system. We concentrated on getting academics right. We were not willing to do what it took at the time to get food services right." The former chief operating officer further contended, "Our fear of bringing it back in-house is that it would become all-encompassing. We would have to negotiate a new union contract. We would have to get a new warehouse. We would have to figure out a food distribution system." The experiences of the New Haven school system indicate that the acquisition of a warehouse⁶¹ and implementation of an efficient food distribution system will lend to more cost-savings, while food service officials from New York City Public Schools asserted that the necessity of a central warehouse is something that needs to be frequently reevaluated. In New York City Public School's experience, commercial distributors "...will generally distribute things cheaper than you can do it yourself. Because of the unions, the labor, and all that type of stuff. So, a lot has to do with what menu do they have? How much does it cost and how much labor is required for the menu."

In addition, according to officials from Philadelphia, a central office should include a director, an individual to manage finance, a manager of operations who oversees field supervisors serving as the face of the office, and an individual managing the school meals programs in charge of menu planning. While OFNS' current organization appears similar to the structure described by officials in Philadelphia, the key difference is that under a self-operating service, OFNS will be responsible for its own performance, menu planning, etc., and have direct supervisory authority over its kitchen and cafeteria staff.

⁶⁰ We were informed that another former chief operating officer had performed his own separate analysis in 2013 of bringing food services back in-house. DCPS did not provide a copy of this analysis upon request.

⁶¹ According to Mills, DCPS owned a storage facility prior to privatization. DCPS does not own a warehouse at this time.

Recommendations

To meet the policy mandates of the D.C. Council that District of Columbia Public Schools (DCPS) improve the quality of meals served in school and expand participation in feeding programs, and to reduce District government expenditures so they are more closely in line with sums invested by comparable school systems, we recommend that DCPS make a stronger commitment to the management and oversight of the school food program through:

- Effective negotiation for succeeding years of the current privatization contracts with SodexoMagic and D.C. Central Kitchen, to include either lower base prices or sliding scale unit prices based on expanding participation so that vendors have clear monetary incentives to both expand participation and reduce overall costs or other alternatives that achieve the same goals.
- Significantly more robust Office of Food and Nutrition Services (OFNS) operations and a return to a cost-reimbursable contract for school food services in which DCPS has a greater and more effective range of control over expenditures, quality, participation and all other aspects of the school food program, or
- A transition to a self-operated food service program as has been accomplished by systems in Philadelphia, Detroit, New Haven, and other cities, so that District government employees accountable to District government leaders – DCPS leadership, the Mayor, and the D.C. Council – are empowered to pursue the policy objectives of better nutrition and greater participation while also reducing the proportion of food service expenditures that come from D.C. taxpayer dollars.

Agency Comments

On August 31, 2016, we sent a draft copy of this report to District of Columbia Public Schools (DCPS) for review and written comment. DCPS provided its written comments on September 26, 2016, which are included in their entirety, with this report.



DISTRICT OF COLUMBIA
PUBLIC SCHOOLS

Office of the Chief Operating Officer

September 26, 2016

Kathleen Patterson
District of Columbia Auditor
Council of the District of Columbia
717 14th Street, N.W.
Suite 900
Washington, DC 20005

Dear Ms. Patterson,

We are in receipt of the Office of the District of Columbia Auditor's (ODCA) draft report entitled *Contracting Out Food Services Failed to Control Costs as Promised (the Report)*, dated August 31, 2016. Thank you for providing this feedback regarding how District of Columbia Public Schools (DCPS) can improve its oversight of the DCPS Food & Nutrition program (FNS). Our meal programs are a very important component of the overall educational climate at DCPS, as our students rely on these meals to provide them with energy to focus, learn and achieve throughout the day.

We have carefully reviewed and considered the recommendations contained in the Report and have provided our specific responses below.

Recommendation Number 1:

"Effective negotiation for succeeding base years of the current privatization contracts with SodexoMagic and D.C. Central Kitchen, to include either lower base prices or sliding scale unit prices based on expanding participation so that vendors have clear monetary incentives to both expand participation and reduce overall costs."

DCPS Response:

DCPS partially agrees with the recommendation. One of our goals for the new food service contracts is to continue to identify, leverage and implement efficiencies which lead to cost savings for DCPS, some of which were noted on page 28 of the Report in the section titled "Best Practices for Reducing Costs and Increasing Revenue."

For example, the new food service contracts have allowed DCPS to more effectively control staffing requirements for each school, which will lead to labor cost savings. DCPS will also evaluate how investments in technology and equipment can yield more efficient staffing models. In some instances, an additional oven or other piece of cooking equipment can reduce downtime in rotating high volumes of food being prepared for students and reduce the number of staff required to ensure meals are cooked on time.



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DCPS also has an opportunity to reduce costs in the new food service contracts by creating additional revenue streams for the DCPS FNS program managed by our vendors. For example, we are exploring implementation of a DCPS Catering Program that would provide meal services for school events during non-school hours. This program could become another source of revenue, thereby reducing the overall cost of running the DCPS food services program. SodexoMajic has expressed an interest in these types of programs.

Additionally, an A La Carte program, which was discontinued in 2011, will be re-implemented in School Year 2016-2017 to provide an additional revenue stream through the sale of healthy snacks and beverages that extend beyond the daily meals served through the food service program.

These are just a few of the ideas we are either implementing or looking to implement to lower the overall cost of the food service program. We are further encouraged by the willingness of our food service vendors to work with us to seek new and innovative ways to reduce costs and increase revenue. We anticipate beginning conversations with our food service contract vendors regarding identifying additional revenue streams in early April 2017.

Although we understand the benefit of negotiating new pricing terms that will lower food service contract costs, District procurement laws prevent DCPS from making any contract changes that would be considered a material change to the requirements included in the DCPS FNS program solicitation that led to our current contracts. DCPS can certainly endeavor to negotiate better pricing terms as it continues to engage its food service vendors and identify cost efficiencies in the food service program, including those discussed above. However, converting to a sliding scale pricing model under these contracts would be considered a material change to the terms of the contracts. While we are free to consider other pricing models in future solicitations and contract awards, we are interested to see how contractor performance under the most recently signed contracts will inform our decision making on future pricing models.

Recommendation Number 2:

"Significantly more robust Office of Food and Nutrition Services (OFNS) operations and a return to a cost-reimbursable contract for school food services in which DCPS has a greater and more effective range of control over expenditures, quality, participation and all other aspects of the school food program."

DCPS Response:

DCPS partially agrees with this recommendation. DCPS concurs that a more robust FNS operation will benefit oversight of the existing food service contracts. As a result, DCPS is adding food service positions in School Year 2016-2017¹ to ensure that the department achieves a greater and more effective range of control over expenditures, quality, participation and all other aspects of the school food program, as recommended. We are also restructuring the department to better align our strategic departmental goals.

¹ The new FNS department is currently being designed. Funding for three (3) new positions in the FNS department has been allocated for FY17. FNS will be adding two (2) operational oversight positions and (1) fiscal and strategic oversight position.



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It is important to acknowledge however, that the transition to a firm-fixed-price model was implemented because the cost-reimbursable model implemented in previous DCPS food service contracts failed to effectively control the overall efficiency and quality of the program. In fact, the cost-reimbursable model implemented in the 2008 contract continued to follow the trend of DCPS Food & Nutrition budget overruns, which totaled more than 13 million dollars through FY 2012 in addition to the operational and administrative instability experienced. Paragraph 2, page 9 of the Report details the very issues DCPS sought to resolve by switching to a more stable firm-fixed-price model. As a result, in 2012 the food service program issued a solicitation for the contract which incorporated the learned best practices of the firm-fixed-price model into all of its food service management company contracts.

Recommendation Number 3:

"A transition to a self-operated food service program as has been accomplished by systems in Philadelphia, Detroit, New Haven, and other cities, so that District government employees accountable to District government leaders – DCPS leadership, the Mayor, and the D.C. Council – are empowered to pursue the policy objectives of better nutrition and greater participation while also reducing the proportion of food service expenditures that come from D.C. taxpayer dollars."

DCPS Response:

DCPS disagrees with this recommendation. The information in the Report regarding self-operated food service program initiatives implemented by other school districts is informative. DCPS recognizes the importance of having District employees and leaders be held accountable to government leaders, such as the Mayor and Council, and are empowered to pursue the policy objectives of better nutrition and greater participation which has been reflected in our current FNS contract awards and monitoring structure. For example, our current FNS contract requires that our vendors develop and implement annual student satisfaction plans upon DCPS approval, which includes a focus on the nutrition standards that meet and sometimes exceed national and DC Healthy Schools Act standards. These plans will lead to innovative programs that integrate student feedback and engagement for the sole purpose of increasing participation. The plans are also required to maintain focus on community partnerships such as those with FRESHFARM Markets' FoodPrints program and DC Greens, among others, to educate students about the food they are eating. We remain optimistic that DCPS will achieve the full value of these initiatives; however, good intentions must be balanced with holding our vendors accountable for these intended results. While we expect that our vendors will operate at the highest of standards mandated by the contracts, poor performance is met with equalizing penalties. Depending on the severity, operational, contractual or other deficiencies that are identified, penalties lead up to and include withholding of payment for a partial or full month of service if necessary.

DCPS has carefully considered implementing a self-operated food service program for our students; however, we concede that it is possible DCPS may experience some benefit from a self-operated program in the long term, there are many immediate risks that inform our decision to not move forward with such an initiative at this time. For example, DCPS would experience an immediate budget strain because the existing food service workers would need to be absorbed, which will require a significant investment into the DCPS FNS program management team. As the Report suggests, the effort required to properly implement the necessary competencies of DCPS' nutritional, financial, operations and other



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administrative support staff would create, at a minimum, an additional \$1,000,000² pressure on the FNS budget alone. DCPS would also need to negotiate multiple contracts with various parties, which may lead to significantly increased costs for labor, raw materials, equipment, etc. This would necessarily include a new collective bargaining agreement with the Teamsters Union if DCPS takes on responsibility for managing the human resources needs of over 500 employees, as well as multiple contracts for suppliers of produce, groceries, paper goods, cleaning products, services and other needs. Additionally, DCPS will have to make investments in training, warehouse space, office space, uniforms, graphic design and marketing services, inventory and ordering programs, and other hidden administrative costs.

An effort of this magnitude can take between four (4) and seven (7) years to be fully implemented. Further, the food service contracts for the currently privatized function would have to continue as the self-operated program is created, thereby increasing the cost of our existing, stable program. During this transition time, DCPS can likely establish target costs for fundamental operations; however, the risk of failing to achieve financial goals would create a cost overrun which District taxpayers will be required to absorb. Likewise, the additional pressure of achieving stable operations will likely have an impact on food service quality, which would potentially be compromised as DCPS works over the course of the several years required to re-engineer its meals program to become a self-operated model.

DCPS' new food service contracts are in their infancy and operations have been under way for only a matter of weeks. We have confidence in our existing contracts, which require the highest levels of nutrition, food quality, customer service, innovation and community partnership, as reflected in the community input we solicited prior to publishing the solicitation for the current contract. DCPS will continue to monitor and improve the food service program and ensure that the input of the ODCA in this process is implemented to the greatest extent possible.

Thank you again for conducting this audit and assisting DCPS in improving the efficiency and effectiveness of the DCPS Food & Nutrition Program.

Sincerely,

Carla D. Watson
Interim Chief Operating Officer

² The \$1,000,000 projection is based on DCPS adding 12 additional employees in FNS to fulfill the recommendations suggested in the Report based on the current FNS salary schedule.

Auditor's Response to Agency Comments and Conclusion

The D.C. Auditor thanks the District of Columbia Public Schools (DCPS) for their comments on the August 31, 2016 draft of this report. We appreciate the commitment DCPS has made to strengthen the Office of Food and Nutrition Services in order to improve oversight of the existing food service contracts including ensuring that nutritional standards are met or exceeded, and student satisfaction improves.

With regard to the goal of reducing overall program costs, however, the DCPS response fails to address the commitment contained in the Request for Proposals. As we note, in responding to prospective bidders DCPS repeated that “the financial goal and expectation for this solicitation is the elimination of the gap between the firm fixed-unit-price and the reimbursement value per meal.” In their response on Recommendation Number 1, DCPS states that they expect to “more effectively control staffing requirements for each school, which will lead to labor cost savings.” Reducing labor costs could reduce District costs if this were a cost-reimbursable contract. With a fixed unit price contract, reducing labor costs will simply improve the profit margin for the contracting firms. Also in response to the first recommendation, DCPS notes that they are encouraged by vendors’ willingness to “seek new and innovative ways to reduce costs and increase revenue.” Again, revenue for whom? As long as District taxpayers are paying the same fixed price for every additional meal served, any savings accrues to the vendor, not to the District of Columbia.

DCPS states that “converting to a sliding scale pricing model” would be a “material” change to the contract. We disagree. As noted, the solicitation called explicitly for vendors to “eliminate the fiscal gap” between the federal reimbursement and the fixed unit price so any such adjustment would be fully within the stated parameters of the contract. We note the possibility that DCPS could devise alternatives to our recommendations to encourage better participation and pricing, and in response to the DCPS comments, added to our recommendation the phrase “or other alternatives that achieve the same goals.”

In their response to Recommendation Number 3, to return to a self-operated food service program, DCPS outlines all of the considerable challenges that must be addressed before the school system can take on this important task. They allege that “a task of this magnitude can take between four and seven years to be fully implemented.” This may prove to be correct; our profiles of other school systems that have brought their services back in-house outline the steps to be taken over a period of several years. The plan presented to Councilmember Cheh in 2012 for in-sourcing food services (included at Appendix B) envisioned a transition to take place over more than a single year.

Our profiles of other school systems make clear that such transitions can be successfully accomplished but there has to be a commitment at the outset on the part of public sector leadership which would include the Mayor and the D.C. Council. The current food service management contracts are in place for a base year – essentially School Year 2017 – and can be renewed with Council approval for four additional years. Should policymakers determine to begin the transition to a self-operated system for all of the accountability and cost reasons cited in this report, such a transition could begin in concert with a reduction in the number of schools served by the vendors over the course of the next four years.

We thank the staff at the DCPS for their assistance in our evaluation, and appreciate the partial concurrence with two of our three recommendations. The Office of the D.C. Auditor stands by our recommendations in full.

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Appendix A: Projection of 2017 Revenue and Expenses for OFNS as a Self-Operated Service

Appendix A: Projection of 2017 Revenue and Expenses for OFNS as a Self-Operated Service

In order to provide information that may be useful to the Council, the District of Columbia Public Schools (DCPS) management, the public, and other stakeholders, we developed an estimate of what Office of Food and Nutrition Services (OFNS) may expect to receive in revenue for the 2017 school year from self-operated food services, relying solely on dedicated funds, both those made available through local legislation and from the U.S. Department of Agriculture (USDA). Our research of the school systems we examined indicates that their transition from the privatized model to self-operation has been largely successful. Part of any school system's decision-making process would involve a careful examination of whether operations can be more effectively managed using a privatized model or by providing services themselves. Having accurate information about projected revenues is an important part of that process.

Projected Revenue

Figure 1: Projected Revenue

Projected Revenue	
USDA Reimbursements plus cash received for paid lunches	\$28,133,235
Fresh Fruit and Vegetables Program	\$1,258,188
D.C. Health Schools Act (est.)	\$1,250,000
USDA Commodity (.2375 / lunch & supper)	\$1,554,186
TOTAL REVENUE	\$32,195,608

To calculate OFNS' major source of revenue, federal funding, we looked at the projected meals served for the 2017 school year, broken down by meal type and by school. This information was provided to us by DCPS. We also obtained federal reimbursement rates for all meal types from the USDA. Again, these rates are reset each July and may increase in the coming school year. Consequently, our estimate may be somewhat low. Multiplying the money available per meal from the USDA by the number of meals served produces a total revenue figure – in this case \$28,133,235.

To this figure, we added an estimate of local funds made available to DCPS through D.C.'s Healthy Schools Act (HSA). Since we did not have data on how many meals meet this standard, we simply estimated based on recent trends. For example, in FY 2015, DCPS received \$1,075,000 in HSA funds. Our estimate for FY 2017, which largely corresponds with the 2017 school year, is \$1,250,000.

DCPS also receives assistance through the USDA's Food Distribution Program. Commodity food values are reset annually. For the 2016 school year, the commodity value was 23.75 cents per lunch and supper served. According to our calculations, this could result in an additional \$1.5 million available to DCPS during the 2017 school year.

Finally, we also included additional federal funding made available to schools to implement the Fresh Fruit and Vegetable Program (FFVP), a USDA program created to provide additional opportunities during the school day for children to eat fresh fruits and vegetables. An annual sum is allocated to schools and ranges from between \$50 to \$75 per student. This money is to be used only for the purchase of fruits

and vegetables to be served outside the breakfast or lunch periods. Not all DCPS schools participate but those that do are already known. We calculated the amount available under this program to be approximately \$1.3 million for the 2017 school year.

In total, our estimate of available funds coming from these already dedicated sources for the 2017 school year is \$32.2 million. Since our estimate is based on information available to us including projections made by DCPS for the number of meals they will serve next year, the actual amount of revenue received could be somewhat different if these projections are not met or are exceeded. Figure 1 shows our estimates.

Expenses

Zero Subsidy Budgeting

In order to avoid any local appropriation that would be in addition to the HSA allocation, DCPS would have to develop a budget for OFNS that does not exceed their projected revenue of \$32.2 million. We have made an effort to develop such a budget. Recognizing our limits in this effort, our budget includes only three expense items: labor, overhead, and food.

Labor Costs

As part of their RFP process, DCPS also made publicly available several other documents that provide useful information for understanding the financial scope of food service operations. Two of these documents provided information about the number and type food service workers assigned to each school. Each school typically has a “lead,” a “cook,” and one or more “food service worker.” All food service workers must be paid at least \$13.85 an hour, per the D.C. Living Wage Act, but many make more. Currently, food service workers are employees of the food service management companies (FSMCs) on contract with DCPS. If DCPS were to choose to transition to self-operation, this listing of current staffing levels provides a good estimate of how many employees DCPS would have to add to their payroll.

Using hourly wage information obtained from DCPS, we constructed a model of what the agency might expect in increased labor costs should they bring food services in-house. Figure 2, below, shows our estimate for the 2017 school year.

Figure 2: Annual Labor Costs

Category	Amount
Hourly employees	\$11,887,578
Fringe benefits for hourly employees	\$2,734,143
OFNS Salaried employees (includes fringe)	\$2,028,598
TOTAL LABOR	\$16,650,319

Labor Cost Assumptions

Hourly Employees

We calculated a daily labor rate for food service operations based on total hours worked for each type of employee and hourly rate information obtained from DCPS. This rate was \$56,608 for approximately 510 hourly employees. We then multiplied this daily labor rate by 181 school days plus 29 days operating in the summer to arrive at a total of \$11,887,578 for the entire school year.

Fringe Benefits for Hourly Employees

We chose a fringe benefit rate of 23 percent based on an average of rates calculated or obtained from other school systems, OFNS contractors, and OFNS itself. The hourly wages total was multiplied by .23 to arrive at the total for fringe benefits.

OFNS Salaried employees

OFNS currently has 10 full-time equivalent employees who work in the central office. If the agency were to bring food services back in-house, additional management would be required. Based on information obtained from OFNS' own Proposal for self-operation, as described earlier, and the transition plan shared by Philadelphia schools, we estimate that DCPS would need to add 18 employees to perform management functions now performed by contract staff. Together with the salaries of existing headquarters staff, this brings the total estimate for OFNS salaried employees to \$2 million.

Overhead

We decided that overhead costs would likely be approximately 10 percent of total expenses, because this is roughly an average of what other school systems spend on similar expenses.

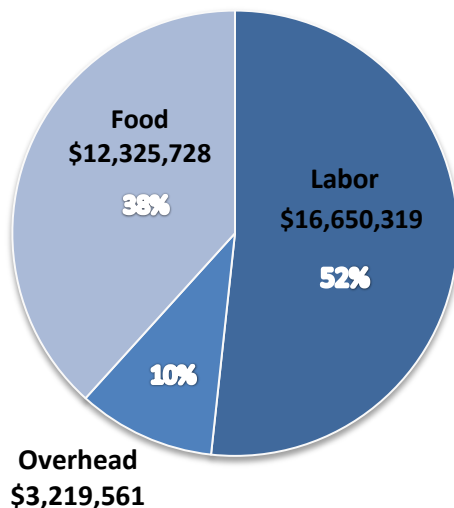
Food Costs

After budgeting for labor and for overhead, what remained from our estimate of OFNS' revenue was assigned to food. This amounts to \$12.3 million, or \$1.45 per meal based on a projected 8,520,948 meals equivalents served.⁶² This rate per meal is higher than some other school systems we examined while lower than others. It also compared favorably with per equivalent meal costs as some of DCPS' current FSMCs.

⁶² Meal equivalents are used to recognize the fact that some meals do not use as much food or labor as other meals. A lunch meal is the standard by which other meals are compared. For example, a breakfast may be considered only .5 of a lunch meal because, on average, it only uses half as much food and labor to produce and serve. For the purposes of our analysis, we used the following equivalency factors: lunch and supper: 1; breakfast: .5; snack: .33.

Below are the final expense amounts:

Figure 3: Expense Amounts



When looking at this allocation of expenses in comparison to the other school systems, we notice that the percent of total expenses spent on labor appears somewhat high. Food service directors in other school systems that we spoke with mentioned that they sought to keep both labor and food costs each between 40-45 percent of total expenditures in order to ensure a balanced budget. Figure 4, below, shows how much the other school systems we studied spent in these categories during the 2015 school year, with both the dollar total and the percent of total expenses shown.

Figure 4: Expense Amounts Across Different School Systems

	DCPS Self-Operating Projections	New York City	Detroit	Baltimore	New Haven	Philadelphia
Labor	16,650,319	220,408,573	13,529,815	21,155,152	5,607,068	29,269,674
As a percent	52%	48%	32%	51%	40%	39%
Food	12,325,728	189,582,199	24,214,840	19,066,705	6,219,675	25,956,126
As a percent	38%	41%	57%	46%	45%	34%
Supplies and Other	3,219,561	47,780,879	2,058,246	1,898,148	2,112,528	11,413,332
As a percent	10%	10%	5%	5%	15%	15%
TOTAL EXPENSE	32,195,608	458,759,577	42,631,367	41,699,846	13,939,271	75,775,565

Additional Options to Improve Food Service Operations

We discussed in previous sections that raising the participation rates and increasing the price for paid meals are operational strategies that DCPS' OFNS can employ and has considered as means to improve its financial picture. Of course, to render an increase in student participation as financially meaningful, DCPS would also have to simultaneously reduce its food and labor costs. We have demonstrated DCPS' potential ability to accomplish these cost reductions under a self-operating model and have discussed DCPS' aspirations to do so through the new FSMC contract(s) it has executed for the coming school year. Moreover, DCPS officials also expressed their desire to raise the price of meals charged to paid students.⁶³ We increased both the student participation rates and paid prices in order to project how much additional funds DCPS could gain.

Projected Revenue from Increased Participation

While increasing student participation would increase costs, it would also increase revenue. Since the Community Eligibility Provision (CEP)-designated schools experience a higher participation rate, we instead considered how much DCPS could make in revenue from its non-CEP schools. Moreover, since the labor is already there at the non-CEP schools, it is likely that costs would not go up as much as revenue for each additional meal served.

Our model increased the participation rate of non-CEP schools by 10 percentage points. Using DCPS' own projection of meals served in the 2017 school year, we added an additional ten percentage points to each schools' projected participation rate and computed revenue based on the higher participation rate. We did this for all 26 DCPS schools where at least some of the students pay full price. By increasing the participation rate, we therefore increased the number of meals served. This ten percent increase in participation rate resulted in an increase of approximately \$3 million in revenue, primarily from the increased reimbursements received from USDA.⁶⁴ Due to the complexity of the task, we did not attempt to calculate increased costs such as labor associated with serving these additional meals.

Projected Revenue from Increased Paid Meals

We estimated how much additional revenue DCPS' OFNS could anticipate if it were to raise the price of lunch⁶⁵ by ten cents, to \$2.20 for elementary students, \$2.70 for middle and high school students, and \$4.10 for adults.⁶⁶ Currently, DCPS charges \$2.10 for lunch at elementary schools and \$2.60 at middle and high schools. Partly because DCPS has chosen to provide free lunches to every student at most of its schools, this potential increase in paid lunch prices is projected to bring in only \$46,000 in additional revenue. This analysis was based on the existing projections for meals served. If DCPS was to raise lunch prices and also was able to increase participation rates at those schools where some students pay full price, as discussed, then the amount of additional revenue would be higher.

⁶³ According to the Paid Lunch Equity regulation, school food authorities participating in National School Lunch Program must ensure that they are providing enough funds to the nonprofit school food service account for meals that are served to paid students. School food authorities (SFAs) can meet this requirement through prices for meals charged to these paid students. SFAs on a weighted average that charge less than \$2.78 for paid lunches during the 2016 school year are required to adjust their weighted average lunch price or add non-federal funds to the nonprofit school food service account.

⁶⁴ We estimated additional revenue from increases in meals served for the following meal programs: breakfast, lunch, family style lunch, supper, and snack. We did not forecast increases for summer meals or for adult meals. We did not calculate the value of additional commodity food that would be made available as a result of serving additional meals.

⁶⁵ DCPS offers free breakfast to students at all schools.

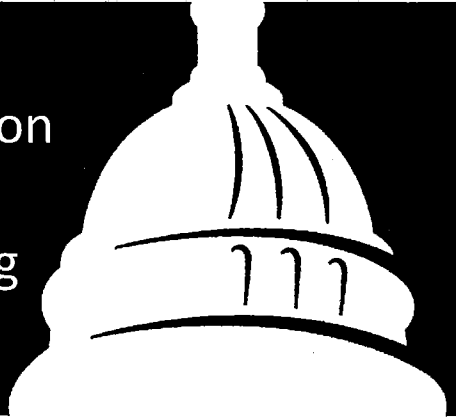
⁶⁶ We also factored in a ten-cent increase to the price of adult breakfasts, to \$3.10.

Appendix B: DCPS' Office of Food & Nutrition Services 2012 Proposal to Bring Food Services In House



DISTRICT OF COLUMBIA
PUBLIC SCHOOLS

Office of Food & Nutrition Services- Proposal for Improving Performance



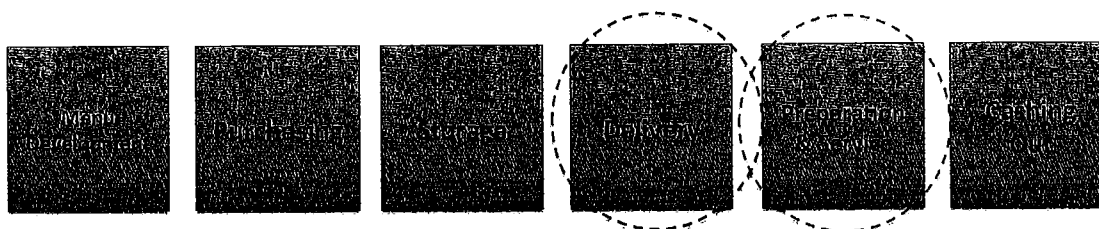
District of Columbia Public Schools | 1200 First Street, NE | Washington, DC 20002 | T 202.442.5885 | F 202.442.5026 | www.k12.dc.us

Agenda

- **Food Service 101 and OFNS History**
 - **Evaluating Our Performance**
 - **Theory of Change**
 - **OFNS Proposal**
 - **What it will take?**
-

Food Service 101 – How DCPS Food Services work

Steps that occur to get food from the manufacturer to a student's plate



Food Services 101-Delivery

	DC Central Kitchen (DCCK)	Chartwells	Revolution Foods
# of Schools	7	106	7
	<ul style="list-style-type: none"> - Distributors deliver food, milk produce & bread to DCCK warehouse or directly to schools - DCCK transports meals from a school with a large kitchen to schools with smaller kitchens 	<ul style="list-style-type: none"> -Distributors (PFG, H&S Bakery, Keany, Cloverland Dairy) deliver all food, bread, produce & milk directly to ~65% of schools - Chartwells transports meals from schools with large kitchens to schools with smaller kitchens 	<ul style="list-style-type: none"> - Distributors deliver food to Revolution Foods' warehouse - Revolution Foods drivers deliver prepared meals to schools

Food Services 101- Preparation & Serving

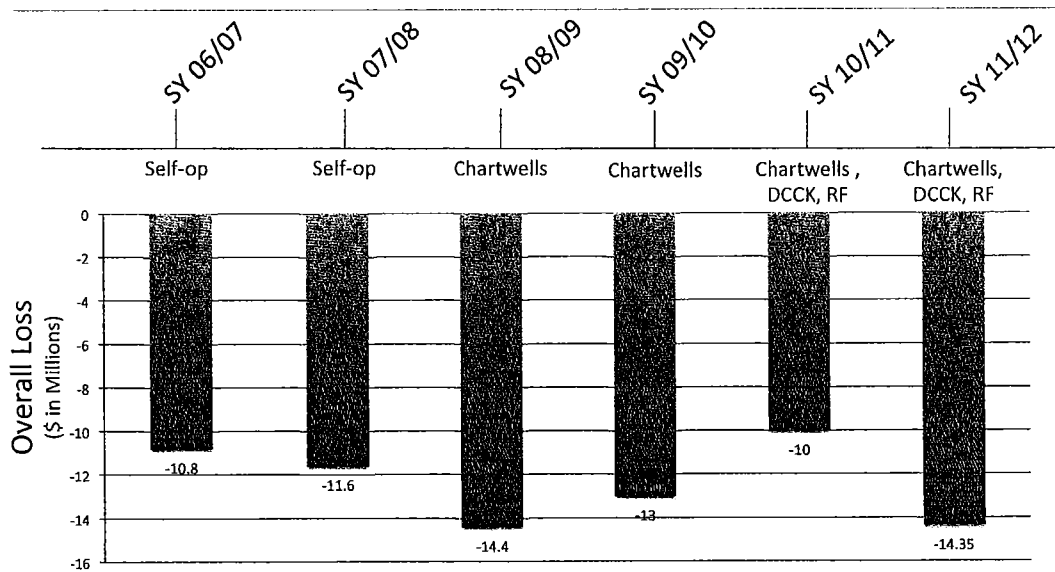
	DC Central Kitchen (DCK)	Chartwells	Revolution Foods
# of Schools	7	106	7
	- 2 schools cook meals from scratch in their own kitchens (From Scratch Kitchen) - 1 school cooks meals from scratch for their own school and other schools (Production Kitchen) - 4 schools receive meals cooked from scratch from another school's kitchen (Satellite Kitchen)	- 62 schools cook meals from scratch (From Scratch Kitchen) - 5 schools cook meals from scratch for their own school and nearby schools (Production Kitchen) - 39 schools receive from scratch meals from another school's kitchen (Satellite Kitchen)	- All 7 schools receive meals daily that are cooked from scratch at a central kitchen in Maryland

History of Food Services

- **SY 07/08, Overall loss: \$11.6 million (147 schools)**
 - Final year of self-operated food services
 - Preferred Meals were used in Elementary Schools, self-op in secondary schools
- **SY 08/09, Overall loss: \$14.4 million (125 schools)**
 - DCPS outsources food services and awards cost reimbursable contract to Chartwells-Thompson
 - Intent to reduce overall loss attributed to food services, tap experts in the field and improve the quality of food
 - Chartwells-Thompson services all DCPS schools
 - Preferred meals were used in Elementary Schools
- **SY 09/10, Overall loss: \$13 million (123 schools)**
 - Chartwells-Thompson services all DCPS schools
 - Preferred meals were phased out in Elementary School
- **SY 10/11, Overall loss: \$10 million (123 schools)**
 - DC Central Kitchen and Revolution Foods were both awarded a cost-per-meal Contract to service 7 schools
 - Intent to show that high quality meals can be provided at a lower cost
 - Chartwells continues to serve the remaining sites (107)
- **SY 11/12, Projected Overall loss: \$14.39 million* (122 schools)**
 - DC Central Kitchen and Revolution Foods maintain control of 7 schools each
 - Chartwells continues to serve the the remaining sites (106)

*Labor cost increase due to Chartwells coming into compliance with The Living Wage Act and pricing increase from DCK account for increase in overall loss in SY 11/12

History of Food Services- Overall Loss



Understanding the Cost Centers

- Food:
 - Cost of meals in relation to reimbursements and paid meal pricing
 - Fidelity of entering meals into the Point of Sale (POS)
 - Certifying students for free/reduced meals
 - Labor
 - Fees & Markups
 - Management/administrative fees & other fees associated with contracts
 - Rebates
 - Revenue generating programs
-

Understanding the Cost Centers -- Meal Reimbursements and Pricing

- Federal and local reimbursements

Breakfast			Lunch			Supper		
Free	**Red.	Paid	Free	**Red.	Paid	Free	**Red	Paid
\$1.80	\$1.80	\$0.27	\$2.79	\$2.79	\$0.28	\$2.99	\$2.99	\$2.99
**Reimbursements include additional H.S.A funding provided for "reduced" students								

- Prices charged for paid student/adult

	Breakfast	Lunch	Supper
Paid Elementary Student	\$0.00	\$1.35	\$0.00
Paid Secondary Student	\$0.00	\$1.60	\$0.00
Adult Meal	\$3.00	\$4.00	N/A

Understanding the Cost Centers -- Reimbursements and Point of Sale

- Maximize reimbursements by:
 - Collecting all FARM applications and increasing DCPS overall free & reduced rate
 - Ensuring all meals are accounted for at the point of sale
 - Maintaining the WEBSMARTT database to collect & record all meals
-

Understanding the Cost Centers – Labor

	DCPS	Fairfax County
Average Hourly Salary	\$17	\$12
# Paid Days Vacation	30	6

School-based Positions	Quantity	Hourly Pay Range/Average
Food Service Lead*	103	\$12.87 - \$34.87/\$21.75
Cooks	30	\$14.71 - \$25.57/\$19.32
Food Service Worker**	320	\$12.50 - \$33.43/\$14.44
Driver	10	\$12.50 - \$27.22/\$18.85

*Fairfax County Cafeteria Manager - \$13.29 - \$39.85/\$16.00

** Fairfax County Cafeteria Worker - \$8.24 - \$17.79/\$12.00

Understanding the Cost Centers – Fees and Revenue

▪ Fees and Rebates

- Presently there are several management fees associated with Chartwells contracts. Because of the cost reimbursable nature of the contract there are not the necessarily incentives in place to eliminate these fees.
- We have concerns that we are not capturing all of the rebates due the operating model.

▪ Revenue

- **Supper** is a money maker for OFNS. This is dependent on afterschool programming
 - **Breakfast in the classroom** has more favorable margins because food and staffing costs are lower
 - **Healthy Vending** – several districts and vendors are having success through vending. We are incorporating expanded healthy vending in our schools next year.
 - **Salad bars** are driving up participation and helps food service delivery through more points of sale. This is especially true at schools that only offer one lunch or have small cafeterias.
-

Agenda

- Food Service 101 and OFNS History
- Evaluating Our Performance — *focus on the school lunch program*
- Theory of Change
- OFNS Proposal
- What it will take?

Projected Annual Loss Attributed to Lunch- *Chartwells

Cost of labor (per meal)		\$1.75	
Cost of food (per meal)		\$1.28	
Cost of fees for food (per meal)		\$0.22	
Cost of management fees (per meal)		\$0.92	
Projected total cost per meal:		\$4.17	
Free/Reduced Student		Paid Student	
	Amount (\$)		Amount (\$)
Reimbursement:	\$2.79	Reimbursement:	\$0.28
		Cost of meal to student:	\$1.35
Loss per meal:	\$1.38	Loss per meal:	\$2.54
Projected total number of lunches (annual):	2,917,643	Total number of meals:	1,804,406
Total loss (annual):	\$4,026,347.34	Total loss:	\$4,583,191.24
Cost attributed to fees**:	\$3,326,113.02	Cost attributed to fees**	\$2,057,022.84
Projected overall cost attributed to fees**:		\$5,383,135.86	
Projected overall annual loss attributed to serving lunch:		\$8,609,538.58	
Average Annual Loss per School		(\$81,222)	
Projected overall annual loss for food services:		\$14,350,000	

** Fees include management, administrative and product markups

* Unionized labor force

Projected Annual Loss Attributed to Lunch- *DCCK

DC Central Kitchen			
Cost per meal: \$3.30 (SY 11-12 cost)**			
Free/Reduced Student		Paid Student	
	Amount (\$)		Amount (\$)
Reimbursement:	\$2.79	Reimbursement:	\$0.28
		Cost of meal to student:	\$1.35
Loss per meal:	(\$0.51)	Loss per meal:	(\$1.67)
Projected total number of lunches (annual):	212,040	Total number of meals:	112,680
Total loss (annual):	(\$108,140.40)	Total loss:	(\$188,175.60)
Projected overall annual loss:			(\$296,316.00)
Average Annual Loss per School			(\$42,330)

** Per contract prices will increase annually

* Non-unionized labor force

Projected Annual Loss Attributed to Lunch- *Revolution Foods

Revolution Foods			
Cost per meal: \$2.95 (SY 11-12 cost)			
Free/Reduced Student		Paid Student	
	Amount (\$)		Amount (\$)
Reimbursement:	\$2.79	Reimbursement:	\$0.28
		Cost of meal to student:	\$1.35
Loss per meal:	(\$0.16)	Loss per meal:	(\$1.32)
Projected total number of lunches (annual):	16,250	Total number of meals:	100,080
Total loss (annual):	(\$2,600.00)	Total loss:	(\$132,105.60)
Projected overall annual loss:			(\$134,705.60)
Average Annual Loss per School			(\$19,243)

** Per contract prices will increase annually

* Non-unionized labor force

Food Services in Other School Districts

Category	DCPS	National Data
Fund Balance	-50% of overall revenue	4.5% of overall revenue
Cost of food	50% of overall revenue	34.4% of overall revenue
Cost of labor	47% of overall revenue	49.4% of overall revenue
Paid student meal cost	\$1.35/\$1.60	\$2.25/\$2.75 (Regional Average)
Outsourcing	Outsources all meal & labor services	Only 8 of the 136 largest school districts outsource
Nutrition indicators	Institute of Medicine Standards	USDA general school meal standards

Agenda

- Food Service 101 and OFNS History
 - Evaluating Our Performance
 - Theory of Change
 - OFNS Proposal
 - What it will take?
-

Where do we go from here?

- DCPS has lost an average of \$12.9 million every year the past four years
 - Members of council, DCPS staff, community members and parents have all shared feedback about the negative implications of the operational structure
-
-

OCOO Bold Goal #2

Improve student satisfaction and nutritional value of food served at schools while becoming revenue neutral.

Major Strategy or Initiative #2A: Decrease deficit by eliminating unfavorable food services contracts, piloting self-operations, engaging in other more favorable procurement practices and investing time in strategies that will produce long term cost reductions

Major Measure of Success:

Measure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Reduce annual budget deficit to \$0.00	\$14.2 million	\$6.6 million	\$5.1 million	\$4.1 million	\$1.5 million	\$0.00

Theory of Change

- Eliminate the Chartwells-Thompson contract by not exercising the 4th option year (year 5) saving approximately \$4.4 million in management and administrative fees
 - Divide up our schools into 3 or 4 manageable cohorts by –
 - Modifying and expanding DCCK and Revolution Foods contracts and leveraging what they do best
 - Piloting self-operated food services in a subset of schools starting in SY 12/13, and
 - if necessary, solicit the services of an additional vendor
 - Monitor the performance of the 3 to 4 cohorts during SY12-13 and SY13-14 and transition more schools over time to the most effective model. Based on our current modeling, and the execution of other school districts, successfully implementing self-operated food currently offers the best opportunity for becoming cost neutral
 - Negotiate a new favorable contract/terms with labor that brings cost and benefits in alignment with similar regional labor.
 - Optimize cash out by improve training, systems, and oversight of cafeteria staff
 - Ensure that all eligible students that qualify for free and reduced meals are in the system in order to maximize reimbursements
-

Agenda

- **Food Service 101 and OFNS History**
 - **Evaluating Our Performance**
 - **Theory of Change**
 - **OFNS 2012/2013 Proposal - *with focus on SY12-13***
 - **What it will take**
-

Method of Change- SY 12/13*

Entity		Method of Change	
DCPS		On-site cooking	41
DC Central Kitchen (DCCK)		On-site cooking	29
Revolution Foods (RF)		Satellite meals	50
Entity	Description	Method of Change	Quantity
DCPS	DCPS provides meals & labor	On-site cooking	41
DCCK	DCCK provides meals & labor	On-site cooking	7
DCCK	DCCK provides meals, DCPS provides labor	Satellite meals	22
RF	RF provides meals & labor	Satellite meals	8
RF	RF provides meals, DCPS provides labor	Satellite meals	42

Projected Annual Loss SY 12/13- \$6,621,319.28

* See Appendix A for projected SY 12/13 P&L for proposed model

Method of Change- SY 12/13* plan B

Entity		Method of Change	
DCPS		On-site cooking	31
DC Central Kitchen (DCCK)		On-site cooking	29
Revolution Foods (RF)		Satellite meals	35
Vendor 3		On-site cooking	35
Entity	Description	Method of Change	Quantity
DCPS	DCPS provides meals & labor	On-site cooking	31
DCCK	DCCK provides meals & labor	On-site cooking	7
DCCK	DCCK provides meals, DCPS provides labor	Satellite meals	22
RF	RF provides meals & labor	Satellite meals	8
RF	RF provides meals, DCPS provides labor	Satellite meals	35
V3	V3 provides meals and labor	On-site cooking	35

Projected Annual Loss SY 12/13- \$8,522,167.32

* See Appendix A for projected SY 12/13 P&L for proposed model

Method of Change- SY 13/14*

Provider	Total Number of Sites
DCPS	71
DC Central Kitchen (DCCK)	18
Revolution Foods (RF)	21

Provider	Description	Meal Preparation	Number of Meals
DCPS	DCPS provides meals & labor	On-site cooking	71
DCCK	DCCK provides meals & labor	On-site cooking	7
DCCK	DCCK provides meals, DCPS provides labor	Satellite meals	11
RF	RF provides meals, DCPS provides labor	Satellite meals	21

Projected Annual Loss SY 13/14- \$5,129,921.68

* See Appendix B for projected SY 13/14 P&L for proposed model

** Assumes 110 DCPS Sites

Method of Change- SY 14/15*

Provider	Total Number of Sites
DCPS	110
DC Central Kitchen (DCCK)	0
Revolution Foods (RF)	0

Provider	Description	Meal Preparation	Number of Meals
DCPS	DCPS provides meals & labor	On-site cooking	41
DCPS	DCPS provides meals & labor	Satellite meals	32

Projected Annual Loss SY 14/15- \$4,066,178.64

* See Appendix C for projected SY 14/15 P&L for proposed model

Agenda

- Food Service 101 and OFNS History
 - Evaluating Our Performance
 - Theory of Change
 - OFNS Proposal
 - What it will take?
-
-

Reorganization of Food Services Responsibilities

Responsibilities that will change:	Previous Owner	New Owner
Placing orders for food and milk*	DCCK, REV, CW	DCCK, REV, DCPS
Delivering meals to satellite schools	DCCK, REV, CW	DCCK, REV, DCPS**
Oversight of cafeteria staff	DCCK, REV, CW	DCCK, REV, DCPS, 3 rd Vendor

*Food and milk will be delivered by the same distributors (Cloverland, PFG and Kean produce)

**DCPS will not deliver meals to satellite schools until SY '14-'15

Establishing New Terms with Labor and Staff Training

- Renegotiating with the union will:
 - Reduce labor costs and number of vacation days
 - Reduce costs associated with salary & insurance fringe bring DCPS costs in alignment with similar local districts
 - Improve accountability of union members
 - Allow DCPS to renegotiate an unfavorable union contract

- To ensure cafeteria staff are all high quality workers OFNS will:
 - Hire a Human Resources Manager
 - Create a proper professional development plan
 - Develop a staff engagement plan

NEW MODEL SALARIED STAFF		
Position	Salary	Employer
Director of Food Services	\$127,000.00	DCPS
Manager, Food Services	\$75,976.00	DCPS
Food Service Area Supervisor	\$73,429.00	DCPS
Manager, Quality Control	\$71,656.00	DCPS
HR Manager [14]	\$71,654.50	DCPS
Operations Manager [14]	\$71,654.50	DCPS
Culinary Manager [14]	\$71,654.50	DCPS
Program Analyst	\$67,946.00	DCPS
Manager, Compliance & Nutrition	\$67,333.00	DCPS
Manager, Food Services	\$67,333.00	DCPS
Management and Program Analyst	\$62,463.00	DCPS
Procurement analyst [13]	\$60,950.50	DCPS
Lead field Coordinator- 2 [13]	\$60,950.50	DCPS
Lead field Coordinator- 2 [13]	\$60,950.50	DCPS
Accounting Analyst [12]	\$50,996.50	DCPS
Equipment Analyst [12]*	\$50,996.50	DCPS
Dietetics Coordinator [12]	\$50,996.50	DCPS
Marketing Coordinator [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Field coordinator- 6 [12]	\$50,996.50	DCPS
Coordinator, Food Services	\$49,462.00	DCPS
Coordinator, Food Services	\$49,462.00	DCPS
Accounting Assistant [10]	\$38,728.00	DCPS
Program Assistant [10]	\$38,728.00	DCPS
Program Assistant	\$36,549.00	DCPS
N/A	\$-	
N/A	\$-	
N/A	\$-	
N/A	\$-	
N/A	\$-	
N/A	\$-	
TOTAL SALARIED	\$1,733,845.00	
SALARIED FRINGE	\$294,753.65	
TOTAL COST	\$2,028,598.65	

CURRENT MODEL SALARIED STAFF		
Position	Salary	Employer
Regional Director	\$117,588.41	Chartwells
Director of Operations	\$81,500.89	Chartwells
District Manager	\$78,348.50	Chartwells
District Manager	\$75,000.00	Chartwells
Purchasing Manager	\$70,000.00	Chartwells
Resident Dietitian	\$70,000.00	Chartwells
Controller	\$63,772.45	Chartwells
Executive Chef	\$61,800.00	Chartwells
DDS III	\$60,487.40	Chartwells
Production Manager	\$60,000.00	Chartwells
Marketing Manager	\$58,195.00	Chartwells
Safety & Compliance Manager	\$58,053.75	Chartwells
HR Generalist Sr	\$52,000.00	Chartwells
DDS III	\$50,000.00	Chartwells
DDS III	\$49,440.00	Chartwells
DDS III	\$48,724.00	Chartwells
DDS III	\$48,585.99	Chartwells
DDS III	\$48,346.05	Chartwells
DDS III	\$47,986.16	Chartwells
DDS III	\$47,986.16	Chartwells
Dietitian Specialist	\$46,350.00	Chartwells
POS/IT specialist	\$43,933.99	Chartwells
Administrative Asst	\$35,984.00	Chartwells
Director of Food Services	\$127,000.00	DCPS
Manager, Food Services	\$75,976.00	DCPS
Food Service Area Supervisor	\$73,429.00	DCPS
Manager, Quality Control	\$71,656.00	DCPS
Program Analyst	\$67,946.00	DCPS
Manager, Compliance & Nutrition	\$67,333.00	DCPS
Manager, Food Services	\$67,333.00	DCPS
Management and Program Analyst	\$62,463.00	DCPS
Coordinator, Food Services	\$49,462.00	DCPS
Coordinator, Food Services	\$49,462.00	DCPS
Program Assistant	\$36,549.00	DCPS
TOTAL SALARIED	\$2,122,691.75	
SALARIED FRINGE	\$566,970.01	
TOTAL COST	\$2,689,661.76	
SAVING		
\$661,063.11		

Recommendations

- Do not exercise the final option year of the current contract with Chartwells
 - Avoid engaging in a lengthy RFP process to initiate a large contract with another food service vendor
- Divide up food services into 3 to 4 parts
 - Expand and invest in our two smaller vendors to provide meals for our schools while OFNS adjusts to self-operated food services
 - Manage a large enough set of kitchens in-house to achieve financial benefits, explore methods of decreasing costs and test our own skills/progress in managing food services
 - If necessary, service any schools that cannot be covered by DCPS, DCK or Revolution Foods with one additional small vendor
- Renegotiate union contract in order to increase control over school based staff and streamline their impact with DCPS overall mission
- Invest organization time in optimizing free and reduce meal eligibility and POS procedures and accountability

Timeline- Major Milestones

Action	Date
Receive decision from Management Team	1/24/12
Initiate favorable contracts with food, milk, produce, bread vendors	2/12
Craft and implement labor strategy	2/12 thru 5/12
Begin hiring additional staff for self-op	2/12
Develop plan for summer feeding	2/12
Initiate small RFP (if necessary) to cover any remaining schools	2/6/12
Redistribute schools to fit Management Team decision/vendor capabilities	2/27/12
Develop DCPS professional development and engagement plan for cafeteria staff & provide training	3/26/12
Work with School Operations, HR and other departments to prepare for school opening 2012	2/12 thru 9/12

Appendix C: ODCA's Management Alert: District of Columbia Public Schools Lack Important Information Needed to Efficiently Operate Food Services



Management Alert

District of Columbia Public Schools Lack Important Information Needed to Efficiently Operate Food Services

February 12, 2016

A Management Alert from the Office of the District of Columbia Auditor
Kathleen Patterson, District of Columbia Auditor

007:16:JS:MH:cm:LP:KP

Kaya Henderson
Chancellor
D.C. Public Schools
1200 First Street, N.W.
Washington, D.C. 20002

Dear Chancellor Henderson:

The Office of the D.C. Auditor has been conducting a review of food services operations at D.C. Public Schools (DCPS) since August 2015. I write this Management Alert Letter today, and prior to the completion of our review, in order to inform you of an issue that we feel deserves your immediate attention: the lack of an accurate and comprehensive inventory of kitchen equipment.

In the conduct of our review, we have visited cafeterias at several schools in the District of Columbia and witnessed various meals being prepared and served. We interviewed cafeteria managers and staff workers. We toured the cafeterias and asked questions about the equipment we saw being used. We witnessed inefficiencies and waste including equipment that we were told had been broken for a year or longer. For example:

- At Luke C. Moore, the timers and temperature controls on both ovens do not work properly.
- We saw equipment not being used because it was not needed.
- The Cardozo Education Campus has an industrial-sized dishwasher that is not being used because, we were told, they do not have enough dishes to warrant using it.
- We saw equipment being used in ways for which it was not designed, such as at Malcolm X Elementary School at Green, where staff are using a broken oven to store spices and utensils.
- In more than one school, we saw kitchens and cafeterias that appeared to be built to serve many more students than actually attend the school.

In the conduct of our ongoing review of food services at DCPS, we learned that DCPS does not have a current inventory of the appliances and other equipment in its school kitchens. We made inquiries for such an inventory and have been told that it does not exist. A failure to maintain a complete and accurate inventory of kitchen equipment raises several important risks for your agency, including inefficient spending on food services, failure to anticipate maintenance and scheduled purchasing needs, and possible duplication of resources. Our visits to the schools confirm that these inefficiencies are indeed occurring, as indicated above.

Background

As you know, DCPS's Office of Food and Nutrition Services (OFNS) provides food services to over 40,000 children at 111 schools in the District of Columbia. Operating through three contract partners, OFNS

offers numerous meals every school day, including breakfast, lunch, and supper. In the 2014 school year, more than 9,000,000 meals were served.

OFNS has hired three vendors to provide these meals.¹ Vendor employees cook, assemble, and serve the meals to schoolchildren using kitchen facilities located at the schools and, in some cases, off-site. The vendors use equipment in school kitchens that are the property of DCPS. Some of this equipment was present before the vendors were selected, while some of it has been purchased since the decision to contract out. Each contract signed by each of the three providers required them to conduct an initial survey of the equipment and conditions of the kitchens in the schools where they would be responsible for serving meals.² This survey was to be provided to DCPS. In addition, all three contracts require the vendor to make equipment purchases on behalf of the agency, informing DCPS of all equipment purchased and tagging the equipment as DCPS property. It appears that these contract requirements have not been met.

Control Environment Weakness

OFNS's primary objective is to ensure that DCPS students receive nutritious meals. As with all government (and non-government) operations, OFNS, once having identified their objective, should put into place a control environment that will ensure that they are able to achieve this objective in an effective and efficient manner while at the same time minimizing any risks associated with the various activities required. The control environment includes policies and procedures as well as information systems to ensure that the organization stewards its resources in a prudent manner. In the case of food services, information required by managers could include number of students served, cost of food, number of employees required, and the kind and condition of equipment available for use by food service personnel to meet their primary objective. Without this information, OFNS managers cannot operate effectively, including minimizing costs while keeping risks low.

As indicated, the District's food service vendors are required to provide a list of kitchen equipment located at each school. The contracts also required DCPS to provide to the vendors a list of kitchen equipment existing in each school prior to the start of the contract. Requests to DCPS for these documents have not been answered.

The District of Columbia Office of the Chief Financial Officer requires all agencies to properly account for capital assets purchased by the agency, including equipment such as kitchen appliances. A listing of assets must be maintained, including information about location, cost, date acquired, etc. After numerous requests, we received a partial list of capital and inventory equipment associated with the Office of Food and Nutrition Services, but the list was missing key information, most notably where the equipment was located. In addition, it only included equipment purchases made between 2007 and 2015, and not information about already existing equipment.

¹ The vendors are Chartwells, Revolution Foods, and D.C. Central Kitchen.

² The contract numbers are GAGA-2012-C-0057A, GAGA-2012-C-0057B, and GAGA-2012-C-0057C.

In response to our request for an inventory of kitchen equipment at DCPS schools the Chief Operating Officer (COO) said, "there are not documents associated with the requests (sic)." The director of OFNS asserted that the information requested is "very technical" and not "easily translatable without expertise and understanding the full spectrum." Both officials declined to provide documentation. As mentioned, we did receive a partial list from the agency's accounting officer, one that does not contain the information that food service managers need for effective and efficient operations.

The fact that DCPS apparently does not have an inventory of kitchen equipment in its schools has several negative implications. First, OFNS managers cannot make informed decisions about how to allocate budget dollars. Without knowing what equipment is installed where, and what operating condition it is in, it is difficult to make plans or otherwise efficiently manage the provision of food services. Menus cannot be properly designed or implemented if managers do not know what equipment is available to prepare or serve the food. Staff cannot be efficiently allocated. Meaningful purchasing and scheduled maintenance budgets cannot be created.

Recommendation:

I recommend that DCPS immediately undertake a comprehensive inventory of the appliances and other kitchen equipment in its schools, including information about the number, kind, and condition of the equipment. This information should be analyzed and used to ensure that each school has the equipment it needs, old and damaged equipment is replaced in an orderly and efficient manner, and that the labor allocation at each school matches the equipment that is present.

Please provide your comments to this Management Alert by **February 26, 2016** at which time we will put this information and your response on the public record. Your response should include: 1) actions taken or planned; 2) dates for completion of planned actions; and 3) reasons for any disagreement with the issue and recommendations presented.

Thank you for your consideration of this information and recommendation and I am happy to answer any questions about this information.

Sincerely yours,

Kathleen Patterson
District of Columbia Auditor

cc: The Hon. David Grosso, Chairperson, Council Committee on Education
Jennifer Niles, Deputy Mayor for Education
Betsy Cavendish, General Counsel, EOM



February 26, 2016

Kathleen Patterson
District of Columbia Auditor
717 14th Street, N.W.
Suite 900
Washington, DC 20005

RE: Management Alert Regarding DCPS Food Services

Dear Ms. Patterson:

The District of Columbia Public Schools (DCPS) is in receipt of your February 12, 2016 Management Alert entitled "District of Columbia Public Schools Lack Important Information Needed to Efficiently Operate Food Services." Your Management Alert contains numerous observations and a recommendation. DCPS appreciates the feedback and welcomes the opportunity to provide additional information that enhances the transparency of our food service operations with the goal of improving the efficiency and effectiveness of those operations on behalf of the DCPS students.

Your Management Alert recommends that: "DCPS immediately undertake a comprehensive inventory of the appliances and other kitchen equipment in its schools, including information about the number, kind, and condition of the equipment." You further state that "[t]his information should be analyzed and used to ensure that each school has the equipment it needs, old and damaged equipment is replaced in an orderly and efficient manner, and that the labor allocation at each school matches the equipment that is present."

DCPS acknowledges your observations and has already taken steps to implement your recommendation. DCPS last conducted a full inventory of our kitchen equipment at the commencement of the most recent contract terms in 2012. During the course of your review, your staff requested a current equipment inventory. Although DCPS intended to conduct a comprehensive inventory at the close of the current contracts which expire in the summer of 2016, we have accelerated that process to accommodate your request. We anticipate having the inventory completed and results provided to you by March 18, 2016.

We acknowledge your observation that there may be some instances where equipment in schools is not being fully utilized. We are working to minimize unused equipment and, where our regular monitoring process does identify excess equipment, we have a process for disposing of such equipment as surplus. Since June 2013, the Office of Contracts and Procurement (OCP) has sold \$93,121.83 worth of excess equipment. The associated funds are deposited in the District's general fund.

We also recognize that you identified certain instances of inoperable kitchen equipment. DCPS regularly monitors its kitchen equipment for operability and, while we may not have identified all instances of inoperable equipment in every school, we do conduct regular equipment checks (e.g. all of our cooking equipment and refrigeration is on a preventive maintenance schedule and repair plan and 100% of our



equipment is checked and serviced each year to ensure that all items are in their proper operating condition). These efforts further reduce costs to the District as the useful life of the equipment we rely on each day to produce the millions of meals served throughout DCPS is extended.

Thank you again for allowing us the opportunity to provide additional information that supports our continual efforts to improve food service operations at DCPS. We look forward to your final report and the associated recommendations.

Sincerely,

Nathaniel Beers, MD, MPA, FAAP
Chief Operating Officer

cc: The Hon. David Grosso, Chairperson, Council Committee on Education
Jennifer Niles, Deputy Mayor for Education
Betsy Cavendish, General Counsel, EOM