

Testimony of

The Hon. Kathy Patterson

D.C. Auditor

Before the

Council of the District of Columbia
Committee on Education

Public Hearing on

*B22-313, Healthy Students Amendment Act of 2017
B22-456, Universal Free Lunch for All Amendment Act of 2017 and
The State of School Food Services*

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11 a.m.

Room 412
The John A. Wilson Building
1350 Pennsylvania Avenue NW
Washington DC 20004

Good morning Councilmember Grosso and members of the D.C. Council Committee on Education. I am Kathy Patterson, the D.C. Auditor, and I am here today to share the findings from a report we released a year ago on school food services, and additional information developed in the interim.

2016 D.C. Auditor Report

The title of our report, *Contracting Our School Food Services Failed to Control Costs as Promised*, summarizes our major conclusion. District law, as you know, requires that whenever privatization of a government function is considered, the government must demonstrate that the contracting out will save the District at least 5 percent. In the case of the decision in 2009 to contract out school food services, the requirement to save the District taxpayer funds was not met.

In addition to reviewing the contracting decisions and results, we surveyed a half-dozen other school districts including several that had, like the District, chosen to contract out their school meal programs and then, based on generally poor results, opted to bring the service back in house. Based both on the experience of D.C. Public Schools (DCPS) and the experiences we identified elsewhere, we made three recommendations in our report:

- 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 programs, *or*
- A transition to a self-operated food service program as has been accomplished by systems in Philadelphia, Detroit, New Haven, and other cities, Doing so in the District would make District government employees accountable to District government leader—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.

In their September 26, 2016, response to the report by the Office of the D.C. Auditor (ODCA), DCPS made a series of commitments to program improvement. Many of these relate to the cost savings and additional revenue that were outlined in the Request for Proposals but do not seem to be incorporated into the contract itself.

DCPS wrote, “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.” When school system leaders testify today, I recommend that you ask them to provide information on what efficiencies have been implemented and what cost savings have resulted.

They also stated that “the new food service contracts have allowed DCPS to more effectively control staffing requirements for each school.” Please ask DCPS how they have controlled staffing requirements and what the impact has been. How has staffing become more effective and how has DCPS benefited financially from more efficient staffing, given that the contract is a unit price contract? They stated that DCPS “will also evaluate how investments in technology and equipment can yield more efficient staffing models.” Again, please ask DCPS to explain whether this has occurred, and how it has benefited the bottom line.

DCPS also committed to exploring additional revenue including “exploring the implementation of a DCPS Catering Program that would provide meal services for school events during non-school hours.” They noted that SodexoMagic was interested in operating such programs. Please ask school system officials for the status of providing such additional services. Has that occurred? To whom does the additional revenue accrue? Is DCPS providing such services, or is the contractor?

DCPS stated, “We anticipate beginning conversations with our food service contract vendors regarding identifying additional revenue streams in early April 2017.” Please ask DCPS representatives what other additional revenue streams have been identified—and how have the new revenue streams benefited DCPS and taxpayers?

DCPS Food Services Today

The literature on public school food programs includes many reports of poor performance by the Food Service Management Companies (FSMC) including some instances when the companies have been sued by school districts, as was the case here with the previous management company. There have also been many instances of poor performance by school systems themselves, once they make the choice to privatize. A USDA report issued in 2002 found as follows:

School Food Authorities (SFAs) turned over most aspects of their programs, including meal accountability, to the management companies. There was little or no SFA oversight. In all 16 of the 24 SFAs we visited did not have adequate controls in place to ensure accurate meal claims or to prevent management companies from being reimbursed for non-program costs.

Through the Council’s oversight of school food services, DCPS has been required to include performance measures in its food service management contracts. These requirements are in addition to requirements by the USDA Food and Nutrition Services that apply to the School Food Authorities (such as DCPS) and the Food Service Management Companies, such as SodexoMagic. Among the expectations of the federal agency—which pays the majority of the costs for school feeding programs—is that a school system will ensure through contract language and ongoing review that the school system has oversight of, and can benefit from, the management company’s purchasing power. This would be not just the economies of scale in making purchases within a local market, but the ability to leverage a corporation’s experience and expertise in its staff of dieticians, equipment operators, and the like.

Given the ongoing responsibility that DCPS has to oversee its food service contractors based on federal law, District law, and the contract itself, here are a few of the questions that I hope the Committee will consider when receiving testimony from DCPS officials:

The federal rules require—as noted in the DCPS contract with SodexoMagic—that the contractor create “an advisory board composed of students, teachers, parents and administrative staff to assist in menu

planning, taste testing, surveys, enhancement of the eating environment, school meal program promotion, and related student-community support activities.” In addition, according to the contract, DCPS is “responsible for scheduling periodic meetings with the advisory board.”

Have you or your staff attended, or received written reports from, meetings of the advisory board? If not you might want to ask for written reports from such meetings.

The survey requirements are spelled out more fully in the contract’s performance standards. I hope you will walk the DCPS representatives through the 10 standards outlined on page six of the Council Contract Summary that was shared with the Council in July when you approved the Option Year One contract. For example:

- Have you received a copy of the annual plan that was due 60 days prior to the start of the school year?
- Have you received a copy of the student satisfaction surveys that are to be administered quarterly? Have any actions been taken by DCPS and the contractors as a result of the quarterly surveys?
 - Have you seen the quarterly waste surveys the contractor is required to produce? Have any actions been taken by DCPS or the contractor based on those surveys?
 - Have you reviewed the satisfaction plan initiatives and the deliverables associated with the initiatives?
 - Has the contractor demonstrated that participation in breakfast, lunch, and supper have increased over the previous school year? Have barriers to participation been identified and addressed?

Bringing Food Services In-House

There is no question that operating school food services is an enormous challenge but, as noted, it is a step that other districts have taken and experience elsewhere can be useful in constructing a successful in-sourcing plan in the District of Columbia. Our report included an appendix that was a plan for returning to self-operation presented several years ago by the then-director of school food services. That outline envisioned a three-year transition plan.

ODCA contacted officials from Detroit and Philadelphia for an update on the performance of their respective food services programs. All three districts prepare meals in-house and have either broken even or have made a profit during FY2017. That means they have operated their school food programs – breakfast, lunch, snack and dinner – on the reimbursements from the federal government with only a modest contribution from their respective states.

Betti Wiggins, the former DCPS food services director who has received national and international awards for her leadership of the food program for Detroit Public Schools – and was recently recruited by the school system in Houston – cautioned that Washington D.C. may not be able to avoid an ongoing subsidy from the District treasury. She noted that DC would have to contend with relatively high labor costs. She also – as she did when we interviewed for the audit a year ago – described the status of Detroit’s school food service operation as the school food authority for other schools in that city, including charter schools. Becoming the provider of meals for other systems has enabled Detroit to increase participation and bring in additional revenue.

Officials we interviewed in Philadelphia about their experiences bringing services back in-house outlined the importance of determining the cost of hiring labor, developing a sound business plan that reflects that a successful turnaround would realistically take two to three years and, at least initially seek support or guidance from individuals in the school food services industry who have experience bringing a program back in-house.

Both Detroit and Philadelphia representatives questioned the value of moving toward a new central kitchen, as called for in Bill 22-313, given both costs and ongoing challenges of delivering food from a single central location and the District's traffic challenges. But we did not explore that issue in any depth and the Committee might want to follow up with officials in those communities if you want more information on those views.

The ability of other systems to operate their own programs at a break-even rate or make a profit derives from what they pay for meals versus what they receive from the federal government. The per-free-lunch federal reimbursement rate in the last school year was \$3.39. In comparison, Fairfax County schools paid an average of \$3.25 for each middle and high school lunch and \$3 for elementary lunches. Philadelphia schools in the last school year operated at a meal cost of \$2.95 per lunch. While the District, like the others, receives \$3.39 per lunch from the federal government, the District paid SodexoMagic nearly a dollar more per lunch, \$4.33 in the last school year.

If the Council chooses to direct the school system to explore and pursue self-operation, the legislation before you offers an opportunity to do so. Councilmember Cheh's Bill 22-313, the Healthy Students Amendment Act of 2017, includes a provision that directs the Office of the State Superintendent of Education (OSSE) to report on best practices for developing a central kitchen, and directs that within three years "the mayor shall establish a central kitchen facility." You may wish to mirror the provision requiring a report on how to develop a central kitchen and then establishing one, with something similar with regard to returning to a self-operated meals program. That is, you can direct the OSSE, or deputy mayor, or chancellor, to provide a report to the Council outlining what school leaders determine to be the best course for re-establishing a self-operated food program, using the experiences of districts that have successfully made this change, and then mandate that within a time certain of completion of that required written plan, the school system implement that plan.

The DCPS response to our audit report, as mentioned, outlines the challenges that must be met in order to have an in-house food services program, including the potential for additional funding. You may want to provide funding for the explicit purpose of hiring a consultant to create an insourcing plan as some districts have done.

Mr. Chairman, I appreciate the opportunity to share results of our study of the decision to contract out school food services, and look forward to the continuing oversight of the issues by this Committee. I am happy to answer any questions you and members of the committee might have.