

**SEATTLE CITY LIGHT
SKAGIT COOKHOUSE AUDIT**

FEBRUARY 26, 2001

February 26, 2001

The Honorable Paul Schell
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104

Dear Mayor Schell and City Councilmembers:

Attached is our report regarding Seattle City Light's Skagit Cookhouse Audit. The purpose of the audit was to review the cost-effectiveness of the Skagit cookhouse's staffing and operations. Our conclusion was that the Skagit cookhouse's annual operating costs exceeded its operating revenues by approximately 50 percent, and were not consistent with private industry averages. In addition, Skagit cookhouse's current management systems were ineffective in monitoring food operations and expenses. Seattle City Light and Skagit Project management initiated numerous improvements to the cost and management control issues, which included staffing reductions, scheduling efficiencies, and better menu planning.

We appreciate the excellent cooperation received from Seattle City Light and Skagit Project management and staff during the audit process. Seattle City Light's formal comments on the audit are incorporated into the report (please see Appendix 4).

If you have any questions regarding this report or would like additional information, please contact me at 233-1093, or Susan Baugh at 669-6330. To improve our work, we ask our readers to complete and return the evaluation form at the back of this report.

Sincerely,

Susan Cohen
City Auditor

Attachment

Office of City Auditor

**SEATTLE CITY LIGHT
SKAGIT COOKHOUSE AUDIT**

FEBRUARY 26, 2001

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EXECUTIVE SUMMARY

The Skagit Cookhouse Audit is the third Office of City Auditor project completed for the Skagit Hydroelectric Power Generation Project (Skagit Project). The audit was conducted at the request of Seattle City Light management, who were interested in reducing operating costs for the Skagit cookhouse. Two factors prompted the review: 1) Skagit cookhouse 's history of increased deficit spending, and 2) industry pressure to lower the Skagit Project total operating costs after a 1998 hydroelectric generation benchmarking study¹ indicated that Skagit Project's cost per megawatt hour was the ninth highest for 31 medium-sized facilities.

SUMMARY OF SIGNIFICANT ISSUES RAISED AND AUDIT FINDINGS

FINDING 1: SKAGIT COOKHOUSE'S EXPENDITURES SUBSTANTIALLY EXCEEDED ITS REVENUES AND FOOD SERVICE INDUSTRY AVERAGE EXPENDITURES DUE TO HIGH LABOR AND OVERHEAD EXPENSES.

Skagit cookhouse expenditures outpaced revenues during the 1999 and 1998 audit review period. Skagit cookhouse's annual operating deficit was \$341,580 in 1999 and \$363,012 in 1998. Although the operating deficit declined by \$21,432 (6 percent) during 1999 due to higher meal revenues, the total revenues covered only 34 percent of the \$516,728 annual operating expense.

Based on industry standards and benchmarks, the average hourly labor cost for the Skagit cookhouse was approximately 73 percent higher than the industry average in 1998 and 1999. The Skagit cookhouse food product costs were more than five times greater than the industry average in both 1998 and 1999. In addition, the industry averages for both labor and total operating costs were only a fraction of the Skagit cookhouse expenses during the two-year period.

Wage, benefit and other overhead expenses comprised a significant portion of the Skagit cookhouse annual operating costs. Skagit cookhouse 1999 labor expenses were \$363,926 or 70 percent of the total cookhouse operating costs. The expenses covered a full-time food service supervisor, a cook, and 10.05 full-time equivalent camp service aides.

However, the hourly salaries for the Skagit cookhouse personnel did not compare favorably to either industry benchmarks or the local area salary and benefit data for food service and cook personnel. In fact, the Skagit cookhouse ongoing operating deficit could be reduced by developing a food service aide position that would be responsible only for the food service duties. An appropriate salary range for the food service aide could then be assigned, based on the prevailing local area wages and Seattle City Light's salary structure. Potential savings could also be generated from a review of the intermittent cook and senior food service aide positions and salary requirements.

¹HJA Consulting, *HYDRO 1997: Hydroelectric Generation Benchmarking Program*, 1998.

Skagit Cookhouse Operating Deficit Could Be Reduced By Increasing Tour Meal Prices and Establishing Profit Sharing Arrangements with Tour Center and General Store

The Skagit tour meal cost of \$7 for an all-you-can-eat chicken dinner was well below the average cost of lunch with dessert or dinner in the local area. The current tour lunch had not been adjusted for inflation since 1993. If the price of the family-style tour dinner were raised to \$10.50, which is more consistent with the local area meal costs, an additional \$21,000 could potentially be raised to offset the annual cookhouse operating deficit.

The Skagit cookhouse also prepares sandwiches, salads, pastries and other items that are sold at a profit in the general store. However, the Skagit cookhouse has absorbed costs associated with general store orders that are reflected in its current operating deficit. Thus, the operating deficit could be further reduced if the Skagit cookhouse were able to charge general store expenses to the appropriate cost center, and arrangements were established to share profits generated from cookhouse products.

It should be noted that Skagit Project management has already initiated other efforts to improve operating costs. Examples of recent cost reduction initiatives include preparing take-out meals that can be reheated in microwave or conventional ovens when three or fewer employees require meals, and restricting temporary employee upgrades. However, further initiatives will need to be implemented to lower meal costs to levels consistent with Runzheimer reimbursement rates or potential food contract arrangements for Skagit employees.

Finally, the Skagit cookhouse responds to dramatic fluctuations in the demand for meals due both to seasonal tourist and construction activities, and due to variations in Seattle City Light annual capital and maintenance plans. The number of meals served ranged from a low of one meal to a high of 256 meals per day in 1999. However, the Skagit cookhouse cannot prepare substantial meals economically when the demand for meals falls significantly during the winter months.

RECOMMENDATIONS

1. Skagit Project management should continue to reduce the cookhouse's annual operating deficit by establishing a new food service aide classification and developing a compensation rate that is more consistent with the prevailing wage offered by local area restaurants and Seattle City Light. Cost reduction initiatives (e.g., restricting temporary staff upgrades, preparing take-out meals and sack lunches, etc.) proposed by the Food Service Supervisor should continue to be implemented for a more efficient and economical operation.
2. Seattle City Light and Skagit Project management should ensure that food production and supply costs incurred for general store and tour meals are charged to appropriate work order numbers rather than absorbed by the cookhouse. A tour meal price increase should be negotiated with the tour center and a profit sharing arrangement should be negotiated with the general store based on actual sales revenues.
3. Seattle City Light and Skagit Project management should establish a financial goal or target for reducing the daily cost per meal to a level that is more consistent with the Runzheimer

reimbursement rates as well as the staff expenses associated with trips to local area restaurants. Seattle City Light and Skagit Project management should also consider instituting alternative food service arrangements, such as standard reimbursement of locally purchased meals or private contracting arrangements, if the Skagit cookhouse's average daily meal cost cannot be sufficiently reduced.

FINDING 2: SKAGIT COOKHOUSE'S CURRENT MANAGEMENT SYSTEMS WERE NOT EFFECTIVE IN MONITORING AND CONTROLLING FOOD OPERATIONS AND EXPENSES.

Neither the automated nor the manual reservation and billing systems were effective in monitoring and controlling the Skagit cookhouse operations and expenses. The automated reservation and billing system, installed during 1999, was not fully operational as of September 2000. The automated system was cumbersome and difficult to use and did not consistently produce accurate billing statements.

Although Skagit cookhouse personnel also maintained a manual reservation system, the accuracy of the system was also questionable given discrepancies in various meal counts developed by Skagit cookhouse personnel. This was a concern because the meal revenues recorded in the financial system were based on meal counts that could not be verified.

Another management system issue related to the Skagit cookhouse's cost reduction initiatives is that the Food Service Supervisor was unable to access financial reports and was not trained to monitor cookhouse revenues and expenditures. In addition, work order or account numbers had not been established for all the Skagit cookhouse functions. Thus, it was difficult to track and reconcile Skagit cookhouse personnel and activities, including the actual labor hours charged to various cost centers, due to the accounting system deficiencies.

Seattle City Light management is currently considering contracting options for the cookhouse in an effort to reduce its indirect operating costs at the Skagit Project. It is likely that Seattle City Light would be required to offer a mixed contract, in which some portion of the cookhouse operations are operated on a profit and loss basis, and other portions operated on a fee-for-services basis, due to the dramatic fluctuations in meal volumes. Accurate operational and financial data will be required to successfully negotiate a food services contract.

RECOMMENDATIONS

1. The Seattle City Light Information Technology Division should ensure that the Skagit cookhouse's automated reservation and billing system generates accurate and useful information for accounting and reporting purposes. In addition, Seattle City Light Finance Division should establish work order numbers to accurately account for food service expenses incurred by the Skagit cookhouse for the general store and tour center. Skagit cookhouse personnel should be provided adequate training to use the City financial reports and the automated reservation and billing system.
2. The Seattle City Light Cost Accounting Section and Skagit Project Manager should work with the Food Service Supervisor to develop reporting formats for routine monitoring of

cookhouse revenues and expenses. In turn, the Food Service Supervisor should monitor the cookhouse's expenditures on a monthly basis to verify that expenses were charged to the correct work order numbers and to control excess expenditures.

CHAPTER 1: INTRODUCTION

BACKGROUND

The Skagit Project facilities are located in the remote Ross Lake National Recreation Area, approximately 125 miles from Seattle. The Skagit Project facilities include three hydroelectric dams—Gorge, Ross and Diablo—constructed along the Skagit River, and two company towns. The company towns—Newhalem and Diablo—were developed for employees who work full-time at the Skagit Project. Housing, education and recreation facilities, as well as a general store, were provided within the towns for the Skagit-based employees and their families.

In addition, the Skagit cookhouse and lodging facilities were developed for other Seattle City Light personnel temporarily assigned to maintenance and operating activities at the Skagit Project, and touring facilities were incorporated into the design of the Ross Lake and Diablo powerhouses for the general public. Seattle City Light employees and tourists currently use the Skagit general store, cookhouse, and lodging facilities.

The Skagit company towns are unique in the hydroelectric power generation industry, and the general store, cookhouse, lodging and tourist facilities add to the indirect operating expenses factored into the Skagit Project's overall cost per megawatt hour. Due to increasing competition within the hydroelectric power industry, Seattle City Light initiated several studies to identify cost reduction strategies in non-direct operating costs associated with general store, cookhouse, tour and lodging facilities during the 1990s.

Skagit Cookhouse Serves First Class Meals to Seattle City Light Employees and Tourists

Seattle City Light currently operates a commercial kitchen, full-service cafeteria and dining room in the Skagit cookhouse. The Skagit cookhouse, currently located in Diablo, serves three full-course meals daily on a reservation basis, primarily for non-resident Seattle City Light employees. The Skagit cookhouse also serves “all-you-can-eat, family-style” chicken dinners for Skagit tourists during the summer months. Approximately 11,422 full-course meals and 6,000 tour meals were served in 1999.

Skagit cookhouse expenditures have historically outpaced the revenues generated through meal charges to other Seattle City Light operating units and tourist fees. However, the operating deficit significantly increased during the 1990s despite efforts to improve the cost effectiveness of the cookhouse operations. In fact, Skagit cookhouse's operating deficit increased from \$104,444 in 1991 to \$341,581 in 1999, which represented a 227% increase during the nine-year period.

STUDY OBJECTIVES

The Office of City Auditor initiated the Skagit Cookhouse Audit in 1999, as the third of a series of performance audits on Seattle City Light's Skagit Project. The purpose of the audit was to review the cost effectiveness of the Skagit cookhouse, including its staffing, operations and

financial management practices, and to identify potential cost reduction strategies in cookhouse operations.

SCOPE AND METHODOLOGY

Audit staff reviewed and analyzed Skagit cookhouse staffing, scheduling, operations, and financial management practices, including performance reports, operating statements, financial data, and the automated cookhouse reservation and billing system. In addition, audit staff reviewed the current Federal licensing agreement and labor union contract that require Seattle City Light to provide touring facilities and first class meal service for the public and non-resident employees, respectively. Audit staff also interviewed Seattle City Light managers and employees associated with the Skagit Project and cookhouse operations.

In addition, a comparative industry analysis is provided based on operating cost data drawn from the Society for Foodservice Management's *1998 Industry Standards and Benchmark Comparison* and the Skagit cookhouse's 1998 and 1999 operating expenses. The comparative analysis focuses on labor, food and total operating expenses. An analysis of Skagit cookhouse's daily meal costs compared to the costs associated with daily reimbursements of employee travel time and meal purchases is also provided.

The performance audit of the Skagit cookhouse was conducted during 1999 and 2000. Additional audit work was initiated in July 2000 to respond to technical review issues and to expand our review to include the Skagit cookhouse's 1999 operations. Please note that issues arose during the audit related to the validity and reliability of Skagit cookhouse's financial and performance data. The audit findings are based on the best data available; exceptions are identified in the audit text, as appropriate.

CHAPTER 2: SKAGIT COOKHOUSE OPERATIONS

This chapter focuses on the evaluation of the Skagit cookhouse operations in 1998 and 1999, including a review of meals served, staffing and compensation, and financial management practices. Comparative data is provided on food service industry operations and from local area restaurants. A comparative analysis of Skagit cookhouse and purchased meal costs is also provided for consideration in establishing future cost reduction goals and strategies. In addition, the chapter examines the adequacy of the Skagit cookhouse management systems for monitoring and controlling its operations and expenses.

The Skagit cookhouse provides substantial meals, primarily for Seattle City Light employees who are temporarily assigned to work at Skagit facilities and Skagit tourists who purchase tour packages that include meals.² Employees are provided three full-course meals daily in a cafeteria setting. Lunch and dinner meals include choices between two main entrees, soup, salad, desserts and beverages. Tourists are provided family-style chicken dinners, or vegetarian pasta, along with mashed potatoes, vegetables, salads, rolls and desserts in a dining room setting.

FINDING 1: SKAGIT COOKHOUSE'S EXPENDITURES SUBSTANTIALLY EXCEEDED ITS REVENUES AND FOOD SERVICE INDUSTRY AVERAGE EXPENDITURES DUE TO HIGH LABOR AND OVERHEAD EXPENSES.

Employee and cash meal charges were \$7.72 for breakfast; \$8.37 for lunch, and \$17.21 for dinner in 1999 and 1998. Skagit cookhouse charged a flat rate of \$7.00 for adult, children and senior tourist meals. Exhibit 1 below displays the total meals served and revenues generated.

Exhibit 1			
Skagit Cookhouse 1999 and 1998			
Meals Served and Revenues Generated			
1999 Meal Categories	Number of Meals Served	Amount of Meal Revenue Generated	Average Revenue Per Meal
Employee Meals	11,250	\$131,226	\$11.66
Tourist Meals	6,000	42,000	7.00
Cash Meals ^a	172	1,921	11.17
1999 Totals	17,422	\$175,147	\$10.05
1998 Meal Categories	Number of Meals Served	Amount of Meal Revenue Generated	Average Revenue Per Meal
Employee Meals	7,653	\$ 87,780	\$11.47
Tourist Meals	6,937	48,559	7.00
Cash Meals	292	3,273	11.21
1998 Totals	14,882	\$139,612	\$ 9.39

²One to two percent of Skagit cookhouse meals were served to Skagit-based City Light, Washington State Department of Transportation, National Park Service and other personnel on a contract or cash basis.

Source: Seattle City Light Cookhouse Revenues, Operating Expenses and Number of Meals for the Years Ended December 31, 1999 and 1998. *See Footnote 2 below for explanation of cash meals.

As shown in Exhibit 2, the Skagit cookhouse generated \$175,147 in 1999 and \$139,612 in 1998 from employee, tourists and senior meals. The Skagit cookhouse increased its 1999 meal revenues by \$35,535 (25 percent) because 3,597 more employee meals were served. However, Skagit cookhouse expenditures outpaced revenues in the two-year period despite the significant 1999 revenue increase. In fact, the total average 1999 cost per meal was \$29.66, or \$19.61 higher than the average revenues per meal, and the 1998 cost per meal was \$33.77, or \$24.38 higher than the average revenues per meal.

Skagit cookhouse revenues and expenditures for the two-year period are displayed in Exhibit 2 below. (Detailed 1999 and 1998 Skagit cookhouse operating statements are provided in Appendix 1.)

Exhibit 2			
Skagit Cookhouse 1999 and 1998			
Revenues and Expenditures			
Year	Revenues	Expenditures	Annual Deficit (Difference)
1999	\$175,147	\$516,728	\$341,580
1998	\$139,612	\$502,624	\$363,012
Source: Seattle City Light Cookhouse Revenues, Operating Expenses and Number of Meals for the Years Ended December 31, 1999 and 1998.			

As shown in Exhibit 2, the Skagit cookhouse operating deficit was \$341,580 in 1999 and \$363,012 in 1998. Although the Skagit cookhouse deficit declined by \$21,432 (6 percent) during 1999 due to higher revenues, the total meal revenues covered only 34 and 28 percent of the respective 1999 and 1998 total operating expenses.

Skagit Cookhouse Annual Operating Expenses Were Not Consistent with Private Industry Average Expenses

The Society for Foodservice Management is the publisher of a *1998 Industry Standards and Benchmark Comparison* that offers comparative data on cafeteria facility operating costs. The standards and benchmarks provided in the publication were drawn from 437 surveys of foodservice vendors, contractors, and associates who participated in the survey to develop data for evaluating food service businesses, understanding similarities or differences, and improving operations.

Exhibit 3, shown at the top of the next page, compares the industry benchmarks from the vendor surveys to the Skagit cookhouse operating and cost data. Please note that the industry figures were calculated on the basis of 1998 food service costs, while the Skagit cookhouse costs are displayed for both 1998 and 1999 to show the meal cost improvements.

Exhibit 3			
Skagit Cookhouse and Food Service Industry			
1998 and 1999 Cost Comparison			
Industry Factor/Criteria	Skagit Cookhouse 1998 Average	Skagit Cookhouse 1999 Average	Industry Average (1988)
Average Labor Cost Per Hour	\$22.02	\$22.37	\$12.39
Labor Cost Per Meal	\$24.04	\$20.89	\$ 1.44
Product Cost Per Meal	\$ 7.87	\$ 6.69	\$ 1.25
Actual Operating Cost Per Meal	\$33.77	\$29.66	\$ 3.43
Sources: Seattle City Light Cookhouse Revenues, Operating Expenses and Number of Meals for the Years Ended December 31, 1999 and 1998, and Society for Foodservice Management <i>1998 Industry Standards and Benchmark Comparison</i> . Note that Skagit cookhouse's and the industry actual operating costs per meal are slightly higher due to other non-labor and product expenses.			

As shown in Exhibit 3 above, the average hourly labor cost for the Skagit cookhouse was approximately 73 percent higher than the industry averages in 1998 and 1999. The Skagit cookhouse product costs were more than five times greater than the industry averages in both 1998 and 1999. Although the Skagit cookhouse's average labor, product and total operating costs per meal improved from 1998 to 1999, the food service industry expenses for both labor and total operating costs were only a fraction of the Skagit cookhouse expenses during the two-year period.

Skagit Cookhouse Flexible Staffing Arrangement and Overhead Rates Contribute to High Food Service Expenses

Wage, benefit and other overhead expenses represent a significant portion of the Skagit cookhouse annual operating costs. Skagit cookhouse 1999 labor expenses were \$363,926, or 70 percent of the total cookhouse operating costs. The expenses covered a full-time food service supervisor, a cook (.75 FTE), camp service aides (6.25 FTE), and intermittent camp service aides (3.8 FTE).

The camp service aides were responsible for performing both food service and housekeeping duties for the Skagit cookhouse and lodging facilities, which ranged from assisting with meal preparation, serving food, and cleaning the kitchen to sweeping and waxing floors, making beds, emptying garbage, and cleaning restrooms. The intermittent camp service aides performed a similar combination of food and camp service duties during the tourist season. In addition, camp service aides were temporarily upgraded to intermittent cook positions when more than one cook was required during the summer months and other busy periods, and temporarily upgraded to senior camp service aide positions when they were required to supervise other camp service aides.

While the hourly salaries for the camp service aide classifications ranged between \$11.41 and \$13.02, which is reasonable for the current mix of duties, Seattle City Light's overhead factor in 1999 was 52.58% for full-time employees and 25% for intermittent employees. Consequently, the fully loaded (i.e., including overhead and benefit costs) hourly salaries for the regular and

intermittent camp service aides in 1999 were \$18.77 and \$14.26, respectively. The fully loaded hourly salary for the intermittent cook and senior camp service aide positions were \$20.54 and \$19.87 respectively.

These hourly salaries did not compare favorably to either the Society for Foodservice Management or the local area salary and benefit data for food service and cook personnel. Local area salary and benefit data were provided by five restaurants in the neighboring communities of Concrete, Marblemount, and Rockport. Three of the five restaurants are open on a year-round basis.

Exhibit 4 below compares the local area average salaries and benefits to the “loaded” labor rates for Skagit cookhouse food service and intermittent cook personnel.

Exhibit 4 Skagit Cookhouse and Local Area Salary and Benefit Comparison		
	Wait Personnel Hourly Range	Cook Personnel Hourly Range
Concrete	\$6.50–8.00	\$ 9.43
Marblemount	6.50–7.50	9.00
Rockport	10.00	10.00
<i>Skagit Cookhouse</i>	<i>\$14.26 - \$19.87</i>	<i>\$20.54 – \$26.08</i>
Sources: Seattle City Light Cookhouse Revenues, Operating Expenses and Number of Meals for the Years Ended December 31, 1999 and 1998, and City Auditor’s Office Telephone Survey, 2000.		

The hourly salary data, drawn from a sample of five local area restaurants, ranged between \$6.50 and \$10.00 per hour for food service personnel and \$9.00 and \$10.00 for cook personnel. None of the restaurants offered benefits to food service personnel, and only one restaurant offered benefits for a cook.

Skagit Cookhouse Operating Deficit Could Be Reduced with Development of Food Service Aide Classification and Appropriate Salary Assignment

The Skagit cookhouse ongoing operating deficit could be reduced by developing a food service aide position and by separating the food service and camp service aide duties. The food service aides could be assigned food service and light cleaning duties, and the regular camp service aides could then be assigned the heavier kitchen and camp cleaning responsibilities. An appropriate salary range could then be assigned for the position based on the prevailing local area wages and Seattle City Light’s salary structure. For example, if the intermittent food service aides were paid \$8.50, the fully loaded hourly salary rate would be \$10.62, compared with the current Skagit cookhouse rates of \$14.26 per hour. (Note that the \$10.62 food service hourly rate is also more consistent with the private industry average displayed in Exhibit 3.)

Unfortunately, accounting records for food service and cleaning duty hours accrued by the camp service aide positions were not precise in 1999. However, if 60 percent of the camp service

aides' 1999 hours were dedicated to food service, the estimated annual savings would be \$44,102 (\$3.64 hourly savings times 12,116 hours). The \$44,102 was approximately 12.9 percent of Skagit cookhouse's 1999 deficit of \$341,580. Savings could also be achieved if the regular camp service aide, intermittent cook, and senior camp service aide salary rates were adjusted.

Skagit Cookhouse Operating Deficit Could Be Reduced By Increasing Tour Meal Prices and Establishing Profit Sharing Arrangements with Tour Center and General Store

Skagit cookhouse employee meal prices are higher than the local area average of \$7.66 for breakfast, \$7.89 for lunch (\$10.56 with dessert) and \$15.46 for dinner (includes dessert) at the restaurants surveyed in Concrete, Marblemount and Rockport. However, the tour meal price, which has remained constant at \$7 since 1993, was well below the comparable lunch and dinner prices in the local area. The current tour lunch price was initially negotiated between the tour center and the Skagit cookhouse managers rather than set at the market rate, and it has not been adjusted for inflation since 1993. If the price of the all-you-can-eat chicken or vegetable pasta dinners were raised to \$10.50, consistent with the local area meal prices, an additional \$21,000 could potentially be raised to offset the annual cookhouse expenditures.

It should be noted that the \$21,000 revenue estimate assumes that the same number of tourists would continue to purchase an optional meal with the tour package. This is a reasonable assumption given that the Skagit cookhouse offers a first class tourist meal in a unique setting that is not available at other local area restaurants.

In addition to the tour meals, the Skagit cookhouse also prepares, at cost, sandwiches, salads, pastries, and other items that are sold in the general store at a profit. Although the Food Service Supervisor intended to charge the general store for all food preparation time and food supply costs, work order numbers were not established or consistently used for that purpose. Consequently, the Skagit cookhouse absorbed costs associated with the general store orders that are reflected in its current operating deficit.

Due to the absence of historical data, it is impossible to estimate the additional costs that can be charged to the general store, or to estimate the revenues that can potentially be generated from the general store orders. However, Skagit Project management could give the Skagit cookhouse consideration in sharing some portion of the proceeds generated from retail sale of meals and food items it produces so the annual operating deficit can be further reduced. In addition, the Skagit cookhouse needs to be given priority in establishing the appropriate work order numbers to accurately account for all its revenues and expenses and to accurately portray its progress in reducing Skagit Project indirect operating costs. (Please see additional information about Skagit cookhouse's management systems in Finding 2.)

Skagit Project and Cookhouse Management Have Implemented Numerous Cost Reduction Strategies

As noted in Chapter 1, Seattle City Light has completed several studies on the Skagit Project, including the cookhouse, general store, tour center, and lodging. Skagit Project management has been responsive to many of the study recommendations, and has initiated other efforts to improve operating costs. The Skagit cookhouse food service manager provided the following examples of its recent cost reduction initiatives:

- Preparing take-out breakfast and dinner meals that can be reheated in a microwave or conventional ovens when three or fewer employees require meals, which saves an estimated \$216 per day in staffing costs during slower work periods.
- Providing a preorder form and sack lunches when a small number of employees require lunch, which saves \$1.30 per order in food supply costs. (Note: The City Auditor's Office received positive feedback from several frequent cookhouse diners regarding the preorder arrangement, including the ability to choose the quantity and type of food while saving money for Seattle City Light.)
- Requiring the cook to serve as well as cook meals and clean the kitchen when five or fewer employees require meals, which saves \$155 per day in camp service aide costs.
- Restricting camp service aides' temporary upgrades to senior aide and intermittent cook positions. Upgrades to senior aides are scheduled for two to three hour periods rather than for full eight-hour shifts, and upgrades to the intermittent cook position are scheduled once a week rather than daily during the tourist season.
- Preparing sandwiches eaten in the cafeteria as ordered rather than anticipating the demand, which saves on food preparation time and reduces food waste.
- Eliminating the tour guide "free" meals, which saves food supply costs.

The Food Service Supervisor is considering additional improvements to reduce the cookhouse operating costs. For example, one camp service aide position was not refilled following a termination toward the end of the tourist season in an effort to determine whether the workload was still manageable. The Food Service Supervisor was also actively marketing the cookhouse and lodging services to the public in an effort to increase cash proceeds during slower work periods. Cookhouse staff were highly cooperative in implementing the management improvements.

Finally, it should be noted that the Skagit cookhouse responds to dramatic fluctuations in the demand for meals due both to seasonal tourist and construction activities, as well as due to variations in Seattle City Light annual capital and maintenance plans. As a result, the number of meals served by the Skagit cookhouse ranged from one meal to 256 meals per day. (Please see Appendix 3 for display of Skagit cookhouse 1998 and 1999 meal count by month.) However, the Skagit cookhouse cannot prepare substantial meals economically when the demand for meals falls significantly in the winter months. In fact, the Society for Foodservice Management noted in its standards and benchmarking publication that the proportion of food service facilities that

operated with a subsidy increased to 51 percent in 1998 since more facilities were serving smaller populations.

Seattle City Light Obligated to Continue Serving “First Class Meals” to Employees Assigned to Remote Locations

Article 18 of the Agreement between Seattle City Light and the International Brotherhood of Electrical Workers, Local No. 77, requires the Department to provide first class (not defined) board and lodging for employees who are assigned temporarily to work locations that are not within reasonable commuting distances. The Local No. 77 agreement requires Seattle City Light to either provide a meal at “its own mess hall” or to provide reimbursement for meals purchased elsewhere. Consequently, Seattle City Light must continue to operate the cookhouse or identify either a local area restaurant or food contractor to supply first class meals to Seattle-based employees temporarily assigned to the Skagit Project.

Although the average meal costs for local area restaurants were lower than Skagit cookhouse’s average meal cost of \$29.66 in 1999, additional labor costs would also have to be factored into the total costs of purchasing meals from local area restaurants. For example, if employees were required to drive 28 and 43 round-trip miles to Marblemount from Newhalem and Diablo, respectively, the daily meal cost would increase by an estimated \$29.62 for a 40-minute round trip, or \$44.43 for a 60-minute round trip for one employee meal each day. (The estimated labor rates are fully loaded and based on the current salary rates for 6 job classifications provided by Seattle City Light’s Workload Planning & Scheduling Analyst, Supervisor.)

Seattle City Light’s reimbursement rate for three meals purchased at local area restaurants would be a maximum of \$42.15 based on the Runzheimer Cost Index (City of Tacoma table rate suggested by the Executive Service Division). It is unlikely that Seattle City Light would be required to pay the maximum reimbursement for every employee meal. In fact, based on an analysis of a sample of actual Seattle City Light meal reimbursements for employees assigned to another remote facility location, the average reimbursement costs were only 75 percent of the Runzheimer Cost Index rates.³

Exhibit 5 below compares the cost of the Skagit cookhouse meals with the reimbursements authorized by Seattle City Light for purchased meals and the lower average reimbursement cost based on our sample. Employee travel time costs are included in both scenarios for round trip travel from Newhalem and Diablo to Marblemount. Round trip travel from Newhalem and Diablo to Concrete takes up to 1.5 hours, which was considered excessive for lunch hour travel time and was omitted from the analysis.

³During the audit, we reviewed dinner meal receipts submitted by Seattle City Light employees assigned to another remote facility to estimate comparable costs for purchased “first class” meals. Based upon the receipts, the average dinner cost was \$16.50 (75 percent of \$22.15 maximum dinner reimbursement), ranging from a high of \$22.66 to a low of \$7.75 per meal.

Exhibit 5			
Cost Comparison for Skagit Cookhouse Meals and Reimbursement Rates with Employee Travel Time			
Cost Factor	Skagit Cookhouse Costs	Runzheimer Rates	Estimated Reimbursements
Breakfast	\$29.66	\$9.60	\$7.20
Lunch	29.66	10.40	7.80
Dinner	29.66	22.15	16.60
Travel Time	None	29.52-44.32	29.52-44.32
Total Cost	\$88.98	\$71.67-86.47	\$61.12-75.92
Sources: Seattle City Light Cookhouse Revenues, Operating Expenses and Number of Meals for the Year Ended December 31, 1999 and 1998, and Runzheimer Cost Index. (Note that the \$29.66 cost per meal also includes some labor and food expenses incurred by the Skagit Cookhouse for the tour center and general store and represents the overall total average meal cost because the actual average breakfast, lunch and dinner costs could not be determined.)			

As shown in Exhibit 5, the Skagit cookhouse daily meal cost would total \$88.98, and the daily purchased meal cost added to a round trip travel cost would total \$71.67 for a 40-minute trip and \$86.47 for an hour trip. However, based upon the actual 75 percent sample reimbursement rate, the daily meal cost would be \$61.12 for a 40-minute trip and \$75.92 for a 60 minutes trip. Again, it is unlikely that Seattle City Light would be required to reimburse all employee meals at the maximum allowable rate, so the above analysis does suggest a broad range to consider for reducing Skagit cookhouse's future daily meal costs.

Seattle City Light has retained a consultant to explore a contract food service operation for the Skagit Project. Ultimately, the Skagit cookhouse will not be able to compete with a private vendor due to its expensive employee wage, benefit and overhead costs (please refer back to Exhibit 3 for the private industry analysis). However, the Skagit cookhouse provides other important benefits for Seattle City Light employees. For example, the Skagit cookhouse provides employment for some family members and consistent access to meals when avalanche danger results in road closures. Although the Skagit cookhouse has provided valuable food services since the 1920's, Seattle City Light management is appropriately focused on reducing current operating costs. Skagit cookhouse personnel also recognize that economical as well as quality food service must be provided to continue to operate in the future.

RECOMMENDATIONS

1. Skagit Project management should continue to reduce the cookhouse's annual operating deficit by:
 - Establishing a new food service aide classification and developing a compensation rate that is more consistent with the prevailing wage offered by local area restaurants and Seattle City Light.

- Ensuring that food production and supply costs incurred for tour meals and the general store are charged to appropriate work order numbers rather than absorbed by the cookhouse.
 - Negotiating a higher price for tour meals with the tour center and negotiating a profit sharing arrangement with the general store based on actual sales revenues.
 - Implementing the cost reduction initiatives (e.g., restricting temporary staff upgrades, preparing take-out meals and sack lunches, and eliminating free meals) proposed by the Food Service Supervisor for a more efficient and economical operation.
2. Seattle City Light and Skagit Project management should establish a financial goal or target for reducing the cost per meal to a level that is more consistent with the Runzheimer reimbursement rates as well as the employee expenses associated with trips to local area restaurants.
 3. Seattle City Light and Skagit Project management should institute alternative food service arrangements, such as standard reimbursement of locally purchased meals or private contracting arrangements, if the Skagit cookhouse's average meal cost cannot be sufficiently reduced.

FINDING 2: SKAGIT COOKHOUSE'S CURRENT MANAGEMENT SYSTEMS WERE NOT EFFECTIVE IN MONITORING AND CONTROLLING FOOD OPERATIONS AND EXPENSES.

The Skagit cookhouse currently maintains both automated and manual reservation and billing systems. However, neither the automated nor the manual reservation and billing system was particularly effective for monitoring and controlling food operations and expenses. The automated reservation and billing system, installed during 1999, was not fully operational as of September 2000. For example, when rate adjustments (fees for meals or lodging) were entered into the system, the invoices generated automatically by the system did not reflect either the former rates or adjusted rates.

In addition, the automated system was cumbersome and difficult to use. For example, a single reservation for multiple customers had to be modified for each customer because the system would miscount total reservations and inflate customer billings. Cookhouse personnel did not consider the system to be reliable or useful and were months behind in entering reservation data into the automated system.

Consequently, the Skagit cookhouse personnel also maintained an existing, manual reservation system and depended upon the manual system for the correct reservation count and billing information. Unfortunately, the accuracy of the manual system was also questionable, based on various meal counts developed by Skagit cookhouse personnel. Due to the discrepancies identified in the summary meal counts, audit staff attempted to verify the counts for a four-month period. Although we reviewed the individual reservations, we were unable to approximate the

meal counts. It is important for the Skagit cookhouse to maintain accurate records, because the revenues recorded in the financial system were based on meal counts.

Another management system issue directly related to the Skagit cookhouse's cost reduction initiatives is that the Food Service Supervisor did not have access to financial reports to perform ongoing monitoring of cookhouse revenues and expenditures. In 1999, the Skagit cookhouse employed 14 individuals who charged hours to eight different accounts or work order numbers. In addition, work order or account numbers were not established for all the Skagit cookhouse functions. Thus, it was difficult to track Skagit cookhouse personnel and activities (i.e., the actual hours worked and expenses charged) to cost centers given the existing resources.

Although City of Seattle's Summit Budget and Expenditure Reports⁴ are now accessible on the internal City web site, Skagit cookhouse Project personnel were not familiar with the process required to access those reports. Skagit cookhouse personnel will require training to access and use the report efficiently. In addition, it would be beneficial for Seattle City Light or Skagit Project management to establish basic budget and expenditure reporting formats, to facilitate routine monitoring of food operations and costs by the Skagit Food Service Supervisor.

Another financial issue related to the Skagit cookhouse is the current depreciation expense for its kitchen facilities. The Skagit cookhouse includes a commercial kitchen valued at approximately \$160,000 in 1997. According to Seattle City Light's Workload Planning & Scheduling Analyst, Supervisor, the depreciation rate for the cookhouse was initially calculated on a 40- to 50-year cycle, so depreciation expenses were previously underreported in the Skagit Project's annual financial reports. We contacted the Executive Services Department to determine whether a depreciation rate was established for City-owned commercial kitchens. However, a standard Citywide depreciation rate was not yet established, so Seattle City Light's Finance Division will need to modify Skagit cookhouse's financial statements when a depreciation rate is available for City-owned commercial kitchens.

As noted earlier, Seattle City Light management is currently considering contracting out the cookhouse and other support operations to private industry in an effort to reduce its indirect operating costs at the Skagit Project. One advantage of contracting out Skagit food service is that some facilities maintenance costs incurred by Seattle City Light would be absorbed by the contractor. In fact, the Skagit cookhouse seasonal operations offer incentives favorable to both the City and private parties. However, a private contractor would not be able to profitably operate the cookhouse during the winter months. Thus, it is likely that Seattle City Light would be required to offer a mixed contract, in which some cookhouse operations are operated on a profit and loss basis, and other portions operated on a fee-for-services basis. Accurate operational and financial data will be needed to successfully negotiate a food services contract.

⁴Summit is the City of Seattle's financial reporting system.

RECOMMENDATIONS

1. The Seattle City Light Information Technology Division should ensure that the Skagit cookhouse's automated reservation and billing system is programmed to produce accurate and useful information for monitoring and reporting purposes.
2. The Seattle City Light Finance Division should establish appropriate work order numbers to accurately account for food service expenses incurred by the Skagit cookhouse for the general store and tour center.
3. The Seattle City Light Finance and Information and Technology Divisions should ensure that Skagit cookhouse personnel receive the necessary training to use City financial reports and the automated reservation and billing system.
4. The Seattle City Light Cost Accounting Section and Skagit Project Manager should work with the Food Service Supervisor to develop reporting formats for routine monitoring of cookhouse revenues and expenses. In turn, the Food Service Supervisor should monitor the cookhouse's expenditures on a monthly basis to verify that expenses were charged to the correct work order numbers and to control excess expenditures.
5. The Seattle City Light Cost Accounting Section should make appropriate adjustments for the Skagit cookhouse's depreciation expense if a Citywide depreciation rate is developed for kitchen facilities.

APPENDIX 1

**SKAGIT COOKHOUSE
COMPARATIVE STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>	<u>1999-1998 INCREASE (DECREASE)</u>	<u>PERCENT CHANGE</u>
REVENUES				
Cash Sales	\$1,921.26	\$3,272.89	(\$1,351.63)	-41.30%
Tour Meals	42,000.00	48,559.00	(6,559.00)	-13.51%
Sales to City Light	131,226.50	87,780.11	43,446.39	49.49%
<u>Total Revenue</u> ⁽¹⁾	<u>\$175,147.76</u>	<u>\$139,612.00</u>	<u>\$35,535.76</u>	<u>25.45%</u>
OPERATING EXPENSES				
Labor ⁽²⁾	\$363,926.26	\$357,750.83	\$6,175.43	1.73%
Shop Services	6,155.07	3,962.25	2,192.82	55.34%
Food Purchases	116,505.28	117,096.31	(591.03)	-0.50%
Cookhouse Supplies	20,386.50	18,152.35	2,234.15	12.31%
Office Supplies	2,521.46	948.31	1,573.15	165.89%
Prof. Services (Data Processing)	3,570.00	621.07	2,948.93	474.81%
Copy Machine Rental ⁽³⁾	388.26	271.58	116.68	42.96%
Miscellaneous Expenses	3,275.89	3,821.83	(545.94)	-14.28%
<u>Total Operating Expenses</u>	<u>\$516,728.72</u>	<u>\$502,624.53</u>	<u>\$14,104.19</u>	<u>2.81%</u>
NET INCOME (LOSS)	<u>(\$341,580.96)</u>	<u>(\$363,012.53)</u>	<u>\$21,431.57</u>	<u>5.9%</u>

Notes:

- 1) Represents 17,422 meals served in 1999 and 14,882 meals served in 1998.
- 2) Represents 16,268 labor hours in 1999 and 16,248 labor hours in 1998.
Labor includes labor overhead but excludes transportation loading.
- 3) Cookhouse operation charged one-third of costs of copy machine rental for 1998 and 1999.

Source: Seattle City Light Finance Division, August, 2000.

APPENDIX 2

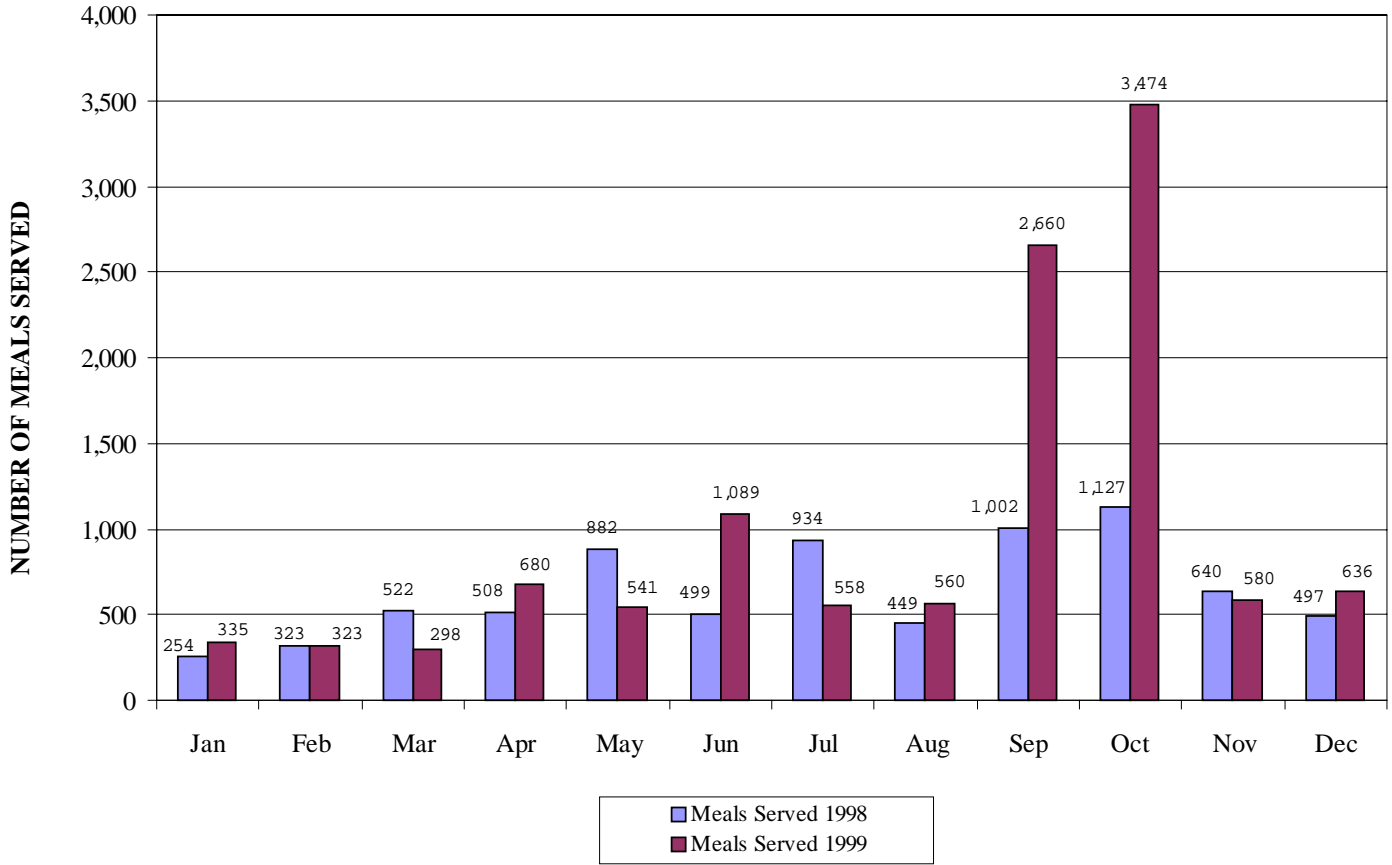
**SKAGIT COOKHOUSE
REVENUES, OPERATING EXPENSES AND NUMBER OF MEALS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

REVENUE	<u>1999</u>	<u>1998</u>
Cash Sales	\$1,921.26	\$3,272.89
Tour Meals	\$42,000.00	\$48,559.00
Sales to City Light	\$131,226.50	\$87,780.11
Total Revenue	\$175,147.76	\$139,612.00
 OPERATING EXPENSES	 \$516,728.72	 \$502,624.53
 NUMBER OF MEALS		
Cash Sales	172	292
Tour Meals	6,000	6,937
Sales to City Light	11,250	7,653
Total Meals	17,422	14,882
 <u>AVERAGE COST PER MEAL</u>	 <u>\$29.66</u>	 <u>\$33.77</u>

Source: Seattle City Light Finance Division, August, 2000.

APPENDIX 3

COMPARISON OF EMPLOYEE AND CASH MEALS SERVED IN 1998 AND 1999





DATE: January 8, 2001
TO: Susan Cohen, City Auditor
FROM: Dave Howell, Director, *D. Howell* Generation Plant Operations Division
SUBJECT: Response to Final Draft Cookhouse Audit

Thank you for the fine job that Susan Baugh of your staff did on the Management Audit of Seattle City Light's Skagit Cookhouse dated October 27, 2000. I appreciate the effort that she put forth to understand the challenges facing the cookhouse.

I concur with the findings and recommendations in the report and will implement the recommendations expeditiously.

Finding 1:

We have held preliminary discussions with the Classification Compensation Unit on establishing a third classification in the Camp Service Aide Series. Food and labor charges are now being made against the appropriate work orders and we will develop a more equitable sharing of tour and general store revenue from Cookhouse items. I have instructed the Skagit Project Manager to develop targets as well as the monitoring systems recommended in Finding 2.

Finding 2:

We will work with our Information Technology to improve the automated reservation and billing system. I have instructed the Skagit Project Manager to develop and review monitoring systems for the Food Service Supervisor to manage the cookhouse.

JJH:avv

cc: Kyung Kim
Fernando Estudillo
Fred Podesta
Janet Aldridge
Jim Hannigan
Rod Stotler
Chris Doerfler