

Implementing Audit Processes That Improve Efficiencies

By Mark Kelnhofer, MBA

Mark Kelnhofer is the President and CEO of Return On Ingredients LLC and has over 20 years in management accounting experience including ten years in restaurant industry. He is an international speaker on recipe costing and menu engineering. He can be reached at (614) 558-2239 and Mark@ReturnOnIngredients.com.



In the past I have written articles regarding performance benchmarking which included actual to theoretical and other techniques. Although these benchmarking techniques are important, how we respond to the results can make or break an operation. One thing to remember is that we are establishing standards (i.e. recipe standard, labor standard, overhead standard, etc.) that all locations and personnel are going to be held accountable to and compared to. These tools only work if a proper audit process is established. The purpose of the audit is not to determine blame for inefficiencies or lower performance, but to identify how the operation is to gain improvements or increased efficiencies. The whole purpose is to create a team atmosphere approach. By taking this approach, everyone has the same goals.

Actual to theoretical benchmarking is great only if it is done correctly. All activity should be captured in order for these reports to really mean something. In many cases, systems that are in place do not capture all the activity. As a great example, one activity that is frequently not captured accurately is the prep production process. In many cases systems tend to report a theoretical production based on a daily sales mix rather than having the means of reporting what actually happens. In calculating variances, the more accurately captured data, the better the tool. When starting off, the period we have a beginning inventory and then take in account of all the various processes (i.e. receiving, invoicing, production, waste, sales, etc.) to come up with an expected ending inventory. Then at the end of the period we conduct a physical inventory to determine variances to the expected ending inventory.

When we have the proper data the ability to react becomes much more precise and effective. In most cases the operator should focus on those items that are causing the most issues both on the food and beverage side. Whenever there was a visit to an inefficient location, in every case we could determine and react properly. The ability to view data and practices is what the audit is all about. Practices includes not only activities that affect the inventory levels (i.e. invoicing, production, waste, etc.) but also other practices such as food safety, rotation of stock and quality

control confirmations. All are very important to improve performance and consistency.

Two common areas for inefficient activity are related to the production and ordering processes. There have been many cases when large variances (losses) exist that are related to the production and ordering practices. In manufacturing, they utilize just-in-time (JIT) practices. What could be more perfect for the restaurant industry? We are first and foremost dealing with a perishable product. We also have some bad habits that have been within the industry for a long period of time. Over producing because the item has a long shelf life (i.e. three days) or over ordering as not to ever run out of purchased products. They are both so related to each other. Over ordering translates to higher inventory levels of purchased product and cash potentially tied up in resources that may not turn for us. Over production can generate higher levels of waste, especially on those items that have shorter shelf lives.

Another excellent audit point is the unit cost that appears on our invoices. It is always a great practice to periodically audit the cost. In cases where contracted price exists and should not change, it should be checked periodically as best practice and to ensure that the proper price in being paid to the vendor. In cases of non-contracted costs, it would also be wise to periodically check on the higher volume items to analyze significant shifts in costs. Too many times incorrect pricing and increased cost increases are unjustified. As the operation making the purchase we need to stay on top of it. There are cases where overcharging for product has been in existence for years before it was caught. Don't fall prey to this by enabling your own spot checks of cost.

Audit processes are important to the overall improvement and profitability of the company. Review your processes to ensure that you have the correct accurate data and that you are responding in a positive manner. The goal is to increase teamwork with the operator and the results at the same time. If you make the audit about placing blame, the true effectiveness of the audit is now no longer there. Remember, ultimately, it is all about increasing the bottom line and profitability.

ACF Chefs Las Vegas Associate Advisory Board's Fabulous Feast for Fifty www.acfchefslasvegas.org



Photos courtesy ACF Chefs Las Vegas