

# OVERVIEW

## *Procurement Audit of Food Purchases and Related Inventory Controls of the Department of Public Safety and the Department of Education*

Report No. 99-15, March 1999

### Summary

The State Auditor initiated this audit to examine the food purchasing practices and related inventory controls for the food services programs at correctional facilities of the Department of Public Safety and the schools of the Department of Education. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. In addition, Chapter 103D, HRS, the Hawaii Public Procurement Code, requires the Auditor to periodically audit procurement practices within government.

The Department of Public Safety allocates approximately \$9 million annually for its food service program that feeds over 4,000 inmates and staff at eight state correctional facilities.

We found that the Department of Public Safety lacks clear written procedures and adequate guidance for the purchase of food. As a result, correctional facilities violated the Hawaii Public Procurement Code's small purchase and competitive sealed bidding provisions in purchasing non-bid food items. Facilities failed to retain price quotations and neighbor island facilities' annual milk purchases exceeded the small purchase dollar thresholds. Procedures for purchasing produce are inconsistent among facilities and the intra-departmental meat purchasing program is costly.

We also found that the department failed to establish adequate internal controls over food inventory. Weaknesses were noted in its record-keeping system, inaccurate meal counts, inadequate supervision of meals served, and ineffective monitoring of food costs. For example, at the Halawa Correctional Facility, extra meals prepared cost the State an additional \$34,000 each year. At the Oahu Community Correctional Center, the extra food prepared is costing the State about \$144,000 annually.

With an annual budget of about \$64.3 million, the School Food Services Program of the Department of Education is responsible for feeding over 160,000 students daily at approximately 250 public schools.

We found that the Department of Education lacks fundamental internal controls over food purchasing. Segregation of duties is ignored, no independent party is monitoring food purchases at schools, matching invoices with purchase requisitions is not always performed, and the department's disbursement policies are ambiguous.



The School Food Services Branch does not have clear written procedures and reporting requirements for non-bid and exempt purchases. Four out of six schools we sampled violated the small purchases provision of the Hawaii Public Procurement Code by “parceling” purchases of non-bid food items into small purchases.

We also found that the department’s procedures and controls over food inventory to be inadequate. Many kitchen staff have access to food inventory and the segregation of duties and inventory record keeping systems fall short. Our test counts resulted in unresolved inventory discrepancies.

Finally, the department lacks adequate controls over food costs. Internal feedback reports may not be always accurate and complete, and the actual and budgeted food costs per meal are inaccurate.

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## Recommendations and Response

We recommended that the Department of Public Safety establish clear written procedures and reporting requirements on non-bid and exempt purchases. The department should enforce the small purchase provision of the procurement code and the State’s record retention guidelines. Also, the department should request the inclusion of neighbor island facilities into the milk price list of the State Procurement Office and assess the intra-departmental meat purchasing program.

We also recommended that the department establish and enforce a standardized inventory record system and monthly reporting format. The department should also observe physical inventory taking and ensure the enforcement of sign-in procedures for meals. Finally, we recommended that the department update its budgeted food cost per meal, reevaluate the menu, and utilize available expenditure information to verify cost information.

With regard to the Department of Education, we made a number of recommendations on its food purchasing practices including monitoring, invoice authorization, non-bid and exempt purchases, and training. To improve the department’s food inventory and cost controls, we made recommendations concerning monitoring, record keeping, key and access control, budgeted food cost, and internal feedback reporting.

The Department of Public Safety concurs with our audit findings and recommendations and states that our audit provided it with useful information to improve its food services program. The department is taking actions to implement our recommendations.

The Department of Education concurs with most of our findings and recommendations and commented that it will take actions, as best it can within budgetary constraints, to follow our recommendations.

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