

AUDIT REPORT NO. 71-1

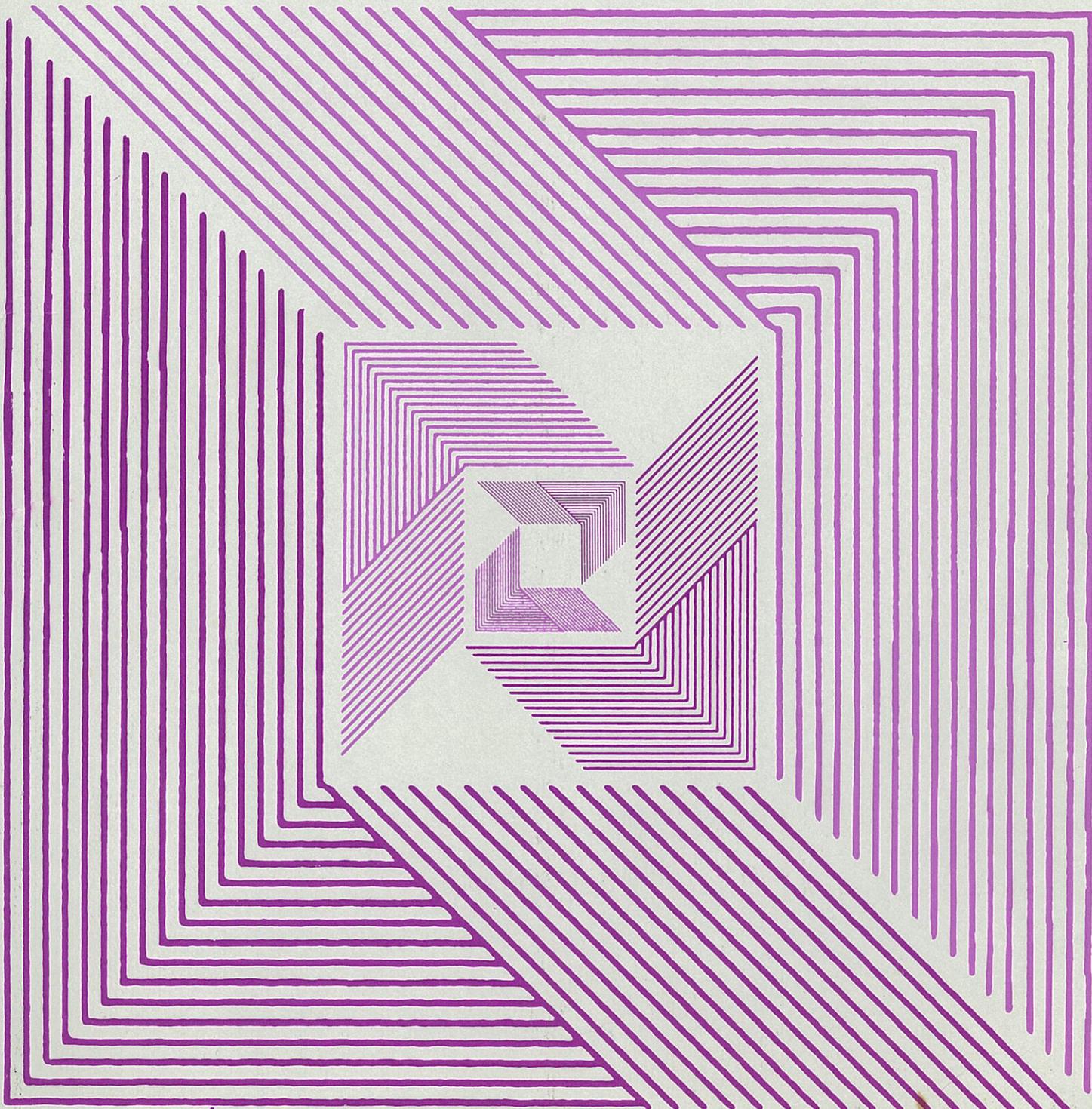
JANUARY 1971



# FINANCIAL AUDIT OF THE STATE SCHOOL LUNCH SERVICES PROGRAM DEPARTMENT OF EDUCATION

FOR THE FISCAL YEAR ENDED JUNE 30, 1970

A REPORT TO THE GOVERNOR AND THE  
LEGISLATURE OF THE STATE OF HAWAII



## **THE OFFICE OF THE LEGISLATIVE AUDITOR**

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 7, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



**LEGISLATIVE AUDITOR  
STATE CAPITOL  
HONOLULU, HAWAII 96813**

## FOREWORD

This financial audit report is the result of the examination of the financial statements and records of the school lunch services program of the department of education for the fiscal year ended June 30, 1970. The audit was conducted jointly by the certified public accounting firms of Main LaFrentz & Co.; Inagaki, Mukai, Fo & Morikawa; Ishimoto, Imamoto & Co.; and Herman Lemke.

The audit was performed in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants. In addition, the audit was governed by the *Specifications and Instructions for Submitting Proposals for the Audit of the School Lunch Services Program of the State Department of Education*, issued by our office.

The audit report is divided into four parts. Part I, entitled, *Accountant's Report - Financial Statements*, is concerned with displaying the financial statements of the department's school lunch services program and expressing the auditors' opinion as to the reasonable accuracy of these statements.

Part II, the *Management Letter*, includes the auditors' evaluation of the adequacy and effectiveness of the system of internal control and the adequacy of the financial records, financial reporting, and budgetary controls. In addition, it discusses the weaknesses and inadequacies in the financial system and operations that the audit has uncovered and makes appropriate recommendations for their rectification.

It is our practice to request each of the agencies affected by our examination to submit in writing its comments on our findings and recommendations and to indicate what action has been or will be taken. Agency response resulting from this audit is included in Part III of this report titled, *Memorandum on the Comments Made by Affected Agencies*. An internal memorandum of the department of education relating to school lunch services is attached as Appendix A.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the staff of the school lunch services program and others in the department of education.

Clinton T. Tanimura  
Legislative Auditor

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PART I

REPORT ON EXAMINATION WITH SUPPLEMENTARY INFORMATION

STATE OF HAWAII  
SCHOOL LUNCH SERVICES PROGRAM  
OF THE  
DEPARTMENT OF EDUCATION

Report on Examination with Supplementary Information

June 30, 1970

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

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To the Auditor  
State of Hawaii

We have examined the balance sheet of the Special Fund of the School Lunch Services Program of the Department of Education of the State of Hawaii as of June 30, 1970 and the related statement of fund balance, statement of revenues and statement of appropriations and expenditures and the statement of revenues and statement of appropriations, expenditures and encumbrances of that portion of the General Fund that relates to the School Lunch Services Program of the Department of Education for the year then ended. In accordance with the terms of our engagement, the scope of our examination did not include the balance sheet of the General Fund, which includes assets, liabilities and fund balances of other departments of the State government as well as those of other programs within the Department of Education, or the General Fixed Assets or the Capital Improvements Program of the School Lunch Services Program. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The State of Hawaii, like many other governmental units, does not charge current appropriations with vacation pay earned but not taken. Accordingly, the liability for accumulated vacation pay is not reflected on the books of account.

In our opinion, the accompanying financial statements present fairly the financial position of the Special Fund of the School Lunch

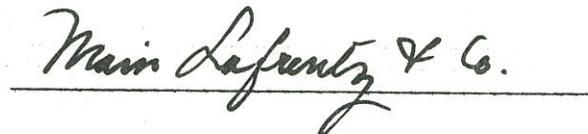
Services Program at June 30, 1970 and the results of the operations of that Special Fund and of that portion of the General Fund which relates to the School Lunch Services Program for the year then ended in conformity with generally accepted governmental accounting principles.

INAGAKI, MUKAI, FO & MORIKAWA

  
ISHIMOTO, IMAMOTO & CO.

  
HERMAN G. P. LEMKE

  
MAIN LAFRENTZ & CO.



Honolulu, Hawaii  
November 12, 1970

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
BALANCE SHEET  
JUNE 30, 1970

ASSETS

Cash in cafeteria collection accounts		\$ 13,206
Cash in State Treasury		22,312
Accounts receivable		17,416
Federal reimbursements receivable		11,773
Inventories, at cost		
Food	\$ 51,929	
Supplies	<u>35,135</u>	87,064
Inventory of Federal Commodities, at San Francisco wholesale fair value as established by the U.S.D.A.		<u>334,644</u>
		\$ <u>486,415</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$ 1,937
Due to General Fund	8,935
Fund balance	<u>475,543</u>
	\$ <u>486,415</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
STATEMENT OF FUND BALANCE  
YEAR ENDED JUNE 30, 1970

Opening fund balance, July 1, 1970		\$ 408,037
Revenues	\$ 10,122,875	
Expenditures	<u>(10,621,837)</u>	(498,962)
Contribution from General Fund to cover Special Fund deficit		<u>566,468</u>
Ending fund balance, June 30, 1970		\$ <u>475,543</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
STATEMENT OF REVENUES  
YEAR ENDED JUNE 30, 1970

	Estimated revenues	Actual revenues	Revenues over or (under) estimate
Special school lunch revenues	\$ 6,752,551		
Cafeteria sales			
Type A lunches			
Students		\$ 5,184,160	
Adults		591,585	
		5,775,745	
Supplementary food sales		781,286	
Other income		16,505	
		6,573,536	
Project Head Start		48,222	
	6,752,551	6,621,758	(130,793)
Total special school lunch revenues			
School lunch and milk subsidy	1,246,640		
National School Lunch Program			
Section 4		973,964	
Section 11		103,379	
Child Nutrition Program			
School breakfast		32,198	
Special child feeding - section 30		142,176	
Special milk program		91,386	
	1,246,640	1,343,103	96,463
Total school lunch and milk subsidy			
Federal commodity receipts	2,158,014	2,158,014	-
	2,158,014	2,158,014	-
Total revenues	\$ 10,157,205	\$ 10,122,875	\$ ( 34,330)

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
STATEMENT OF APPROPRIATIONS AND EXPENDITURES  
YEAR ENDED JUNE 30, 1970

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Expenditures over (under) appropriation</u>
Food services			
Personal services	\$ <u>2,103,742</u>	\$ <u>2,140,893</u>	\$ <u>37,151</u>
Other current expenses	7,985,957		
Food - purchased		5,641,512	
Food - Federal commodities used		2,090,508	
Supplies		141,832	
Other expenses		<u>607,092</u>	
	<u>7,985,957</u>	<u>8,480,944</u>	<u>494,987</u>
Total food services	\$ <u>10,089,699</u>	\$ <u>10,621,837</u>	\$ <u>532,138</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - GENERAL FUND  
STATEMENT OF REVENUES  
YEAR ENDED JUNE 30, 1970

	<u>Estimated</u> <u>revenues</u>	<u>Actual</u> <u>revenues</u>	<u>Revenues</u> <u>over or</u> <u>(under)</u> <u>estimate</u>
Revenues			
Federal programs			
Public Law 90-302, School Lunch	\$ 12,000	\$ 8,056	\$( 3,944)
Public Law 89-642, Nonfood Assistance	<u>4,482</u>	<u>18,988</u>	<u>14,506</u>
Total	\$ <u>16,482</u>	\$ <u>27,044</u>	\$ <u>10,562</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - GENERAL FUND  
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES  
YEAR ENDED JUNE 30, 1970

	1969 Encumbrances forwarded	1969 Unencumbered balances forwarded	Appropriations	Adjustments	Transfer to Special Fund	Total	Expenditures	Encumbrances	Unencumbered balances June 30, 1970
Administration and supervision									
Personal services	\$ 240		\$ 103,831			\$ 104,071	\$ 106,630	\$ 555	\$ (3,114)
Other current expenses	345	\$ 1,774	11,547	\$ (65)		13,601	14,790	511	(1,700)
Equipment	103		1,523	(1)		1,625	1,518		107
Total administration and supervision	<u>688</u>	<u>1,774</u>	<u>116,901</u>	<u>(66)</u>	\$ -	<u>119,297</u>	<u>122,938</u>	<u>1,066</u>	<u>(4,707)</u>
Cafeteria management									
Personal services	502	-	1,499,094	-	-	1,499,596	1,452,781	1,013	45,802
Total cafeteria and management	<u>502</u>	<u>-</u>	<u>1,499,094</u>	<u>-</u>	<u>-</u>	<u>1,499,596</u>	<u>1,452,781</u>	<u>1,013</u>	<u>45,802</u>
Food services									
Personal services	4,921		2,052,617	(640)	(566,468)*	1,490,430	1,359,311	3,778	127,341
Other current expenses	402		14,073	(70)		14,405	27,836	31,727	(45,158)
Equipment	263,048	218,275	726,684	(4,134)		1,203,873	662,386	105,418	436,069
Motor vehicles			10,452			10,452		10,650	(198)
Total food services	<u>268,371</u>	<u>218,275</u>	<u>2,803,826</u>	<u>(4,844)</u>	<u>(566,468)</u>	<u>2,719,160</u>	<u>2,049,533</u>	<u>151,573</u>	<u>518,054</u>
Grand totals	\$ <u>269,561</u>	\$ <u>220,049</u>	\$ <u>4,419,821</u>	\$ <u>(4,910)</u>	\$ <u>(566,468)</u>	\$ <u>4,338,053</u>	\$ <u>3,625,252</u>	\$ <u>153,652</u>	\$ <u>559,149</u>

\*Note - The transfer to the Special Fund represents that portion of the payroll cost of the Special Fund which is borne by the General Fund. The total of \$566,468 represents the deficit of the Special Fund exclusive of Federal Donated Commodities.

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements  
June 30, 1970

Organization

The School Lunch Services Program was created as a division within the Department of Education under authority granted to the Governor of the State of Hawaii under Section 296-44 of the Hawaii Revised Statutes to carry out the cafeteria functions and program of the Department of Education.

The School Lunch Services, a staff organization, which is accountable to the Office of Business Services of the Department of Education, supervises the operations of the School Lunch Services Program for the State of Hawaii. This organization is headed by a Director who has the overall responsibility for the administration of the Program. He is assisted by six district supervisors who are assigned from 22 to 56 schools each. The School Lunch Services accomplishes its goals through recommendations to the District Superintendent, Principal and Cafeteria Manager who have the responsibility for the program operations.

The operations of the School Lunch Services Program are financed by special school lunch revenues derived from the sale of lunches and cash subsidies from the United States Department of Agriculture. Any costs of operating the School Lunch Services Program in excess of amounts derived from the sale of lunches, from cash subsidies and from any other source are financed by the General Fund out of the general

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Organization - continued

revenues of the State of Hawaii.

Accounting Principles and Procedures

The accounts of the School Lunch Services Program of the Department of Education are maintained in conformity with generally accepted governmental accounting principles.

The accompanying financial statements for the General Fund accounts have been prepared on a modified accrual method of accounting. Under this method, revenues are not taken into account until collected. However, expenditures are maintained on an accrual basis and are accounted for when the liabilities are incurred. The accounting procedures provide for the recording of commitments at the time contracts are awarded and orders placed for equipment, services and supplies. These commitments are represented as encumbrances in the accompanying financial statements for the General Fund and are necessary to reflect obligations against appropriations.

The financial statements for the Special Fund have been prepared on the accrual method of accounting. Under this method, revenues are taken into account as they are earned and expenses are recognized as the liabilities are incurred.

Items of equipment purchased by the School Lunch Services Program are recorded as expenditures of the General Fund. Assets

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Accounting Principles and Procedures - continued

represented by these expenditures are reflected in the General Fixed Assets of the State. In conformity with generally accepted governmental accounting principles, depreciation is not reflected in the accompanying financial statements.

Commitments

Outstanding contractual commitments for equipment, supplies and expenses are reflected as encumbrances in the accompanying statements.

Pending Litigation

The Department of the Attorney General of the State of Hawaii has reported that there is no pending litigation which could result in liability to the School Lunch Services Program as of June 30, 1970.

The State of Hawaii is currently involved in litigation questioning the legality of the rules of the Department of Education dealing with the services provided by students under the student cafeteria work program.

If this program is found to be illegal by the courts, the Department will require a substantial increase in funds on a continuing basis to provide the services now being performed by students.

A preliminary study by the Department's planning staff on student help reveals that it would require, on an annual basis, approximately 387,800 man-hours ranging in dollar cost from \$678,600 to

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Pending Litigation - continued

\$1,035,300 depending on the class of personnel utilized to provide the service now being performed by students.

Balance Sheet

The following is a description of the accounts in the balance sheet:

1. Accounts receivable are amounts due from the sale of lunches by the schools to special programs sponsored by Federal and State agencies. The revenues arising from such sales have been recognized on the Statement of Revenues.

2. Federal reimbursements receivable are amounts due from the United States Department of Agriculture based on claims for reimbursements filed for Child Nutrition Programs.

3. Inventories of food and supplies represent amounts on hand at the various cafeterias as of June 30, 1970, valued at cost on the first-in first-out method of valuing inventories.

4. The inventory of federal commodities represents amounts on hand at the various school cafeterias and at the central warehouse located on the island of Oahu as of June 30, 1970. The commodities are valued at the San Francisco wholesale fair value as established by the United States Department of Agriculture.

5. The amount due to the General Fund represents reimburse-

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Balance Sheet - continued

ments for payroll cost which were paid by the General Fund.

6. The fund balance represents the excess of revenues over expenditures and contributions from the General Fund to cover deficits from the operation of the School Lunch Services Program.

Description of Revenues

Revenues of the General Fund represent funds received from the United States Department of Agriculture to assist in the operations of the School Lunch Services Program. Funds are provided for use in the administration of child nutrition programs and for the purchase of food service equipment for schools serving needy children.

Revenues of the Special Fund represent amounts received and accrued from the following sources:

1. Cafeteria sales represent revenues from the sale of lunches and other food items made by the various cafeterias.

2. Project Head Start revenues are from the sale of lunches to the various Community Action Programs in the State of Hawaii.

3. School Lunch and Milk Subsidy revenues represent amounts from the participation in the National School Lunch Program and the Child Nutrition Programs administered by the United States Department of Agriculture.

a. The National School Lunch Program provides for

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Description of Revenues - continued

cash reimbursements and donated commodities to participating schools for lunches which meet the nutritional requirements designated as a Type A meal served to children in grades kindergarten to twelve, and to pre-schoolers in programs operated as part of the school system.

- b. The Child Nutrition Programs provide cash reimbursements for the Breakfast Program, the Special Food Service Program for Children and the Special Milk Program.

4. Federal donated commodities are distributed by the United States Department of Agriculture under the National School Lunch Program as noted above.

Statement of Appropriations, Expenditures and Encumbrances and Statement of Appropriations and Expenditures

The columnar headings in the statement of appropriations, expenditures and encumbrances and the statement of appropriations and expenditures for the year ended June 30, 1970 are described briefly in the following paragraphs:

The 1969 encumbrances forwarded represent purchase orders and

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Statement of Appropriations, Expenditures and Encumbrances and Statement  
of Appropriations and Expenditures - continued

contracts outstanding at June 30, 1969 against which deliveries of goods and services were not made as of that date.

The unencumbered balances forwarded represent unencumbered and unexpended funds from June 30, 1969. The Act which approved the appropriation for the fiscal year ending June 30, 1969 specifically provided that funds authorized for the Department of Education which are unencumbered and unexpended on June 30, 1969, shall not lapse. A similar provision has been made by the State Legislature for the fiscal year ending June 30, 1970.

Appropriations include amounts authorized by the State Legislature to be expended. These appropriations are available for use until completely expended as described in the preceding paragraph.

Appropriation adjustments are transfers of appropriations to and from other programs of the Department of Education as authorized by the Superintendent of the Department of Education.

Expenditures represent expenses incurred against current appropriations and against unencumbered and unexpended funds of the prior period carried forward, as well as against encumbrances at June 30, 1969.

Encumbrances include purchase orders and contracts outstanding at June 30, 1970 against which deliveries of goods and services were not made as of that date.

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

Notes to the Financial Statements - continued  
June 30, 1970

Statement of Appropriations, Expenditures and Encumbrances and Statement  
of Appropriations and Expenditures - continued

Unencumbered balances are authorizations against which expenditures have not been incurred or purchase commitments made. These balances will not lapse as mentioned earlier. They will be available for use by the Department of Education until completely expended. The Superintendent of the Department of Education is authorized to allocate the unencumbered balances to other programs of the Department of Education based on budget requests. Of the unencumbered balance of \$559,149 at June 30, 1970, \$319,701 was allocated to the School Lunch Services Program for the fiscal year beginning July 1, 1970 and ending June 30, 1971.

Expenditures charged to the General Fund included administrative salaries and expenses, school lunch managers' salaries, equipment purchases and a portion of the salaries of cooks and helpers. Expenditures charged to the Special Fund included the remaining portion of the salaries of cooks and helpers, food and supply purchases and other food service costs.

ACCOUNTANTS' OPINION ON SUPPLEMENTARY INFORMATION

Our examination of the basic financial statements presented in the preceding section of this report was made primarily to form an opinion on such financial statements taken as a whole. Supplementary information, contained in the following pages, is not considered essential for the fair presentation of the financial position of the School Lunch Services Program of the Department of Education of the State of Hawaii or the results of their operations. However, the following data were subjected to the audit procedures applied in the examination of the basic financial statements except that we did not perform auditing tests of the information for the period from June 30, 1966 through June 30, 1969 included in the statement of Federal commodities usage and related costs of storage and delivery. In our opinion, except as noted above, the following data are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INAGAKI, MUKAI, FO & MORIKAWA



ISHIMOTO, IMAMOTO & CO.



HERMAN G. P. LEMKE



MAIN LAFRENTZ & CO.



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - ALL FUNDS  
STATEMENT OF REVENUES AND EXPENDITURES  
YEAR ENDED JUNE 30, 1970

	Regular School Lunch Program	Project Head Start	Total Special Fund	General Fund	Grand Totals
Revenues					
Cafeteria sales	\$ 6,573,536	\$ 48,222	\$ 6,621,758	\$	\$ 6,621,758
Federal cash subsidies	1,343,103		1,343,103	27,044	1,370,147
Federal commodities received	<u>2,158,014</u>		<u>2,158,014</u>		<u>2,158,014</u>
Total revenues	<u>10,074,653</u>	<u>48,222</u>	<u>10,122,875</u>	<u>27,044</u>	<u>10,149,919</u>
Expenditures					
Cost of administration					
Salaries and wages				106,630	106,630
Other expenses				14,790	14,790
Equipment				<u>1,518</u>	<u>1,518</u>
Total cost of administration	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,938</u>	<u>122,938</u>
Cost of food service					
Food - purchased	5,612,605	28,907	5,641,512		5,641,512
- Federal commodities used	2,090,508		2,090,508		2,090,508
Supplies	141,832		141,832		141,832
Other expenses	601,132	5,960	607,092	27,836	634,928
Salaries and wages	<u>2,127,538</u>	<u>13,355</u>	<u>2,140,893</u>	<u>2,812,092</u>	<u>4,952,985</u>
Total cost of food service	<u>10,573,615</u>	<u>48,222</u>	<u>10,621,837</u>	<u>2,839,928</u>	<u>13,461,765</u>
Cost of cafeteria equipment purchases				<u>662,386</u>	<u>662,386</u>
Total expenditures	<u>10,573,615</u>	<u>48,222</u>	<u>10,621,837</u>	<u>3,625,252</u>	<u>14,247,089</u>
Excess of expenditures over revenues	\$ <u>(498,962)</u>	\$ <u>-</u>	\$ <u>(498,962)</u>	\$ <u>(3,598,208)</u>	\$ <u>(4,097,170)</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
SCHEDULE OF COST OF FOOD SERVICES AND SUPPLIES USED  
YEAR ENDED JUNE 30, 1970

	<u>Food</u>	<u>Supplies</u>
Beginning inventory	\$ 44,160	\$ 27,956
Purchases	<u>5,620,374</u>	<u>149,011</u>
Total available	5,664,534	176,967
Less ending inventory	<u>51,929</u>	<u>35,135</u>
Total used	\$ <u><u>5,612,605</u></u>	\$ <u><u>141,832</u></u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM  
FEDERAL DONATED COMMODITIES  
YEAR ENDED JUNE 30, 1970

Commodities available		
Beginning inventory		
At schools		\$ 260,214
At warehouse		<u>6,924</u>
Total		267,138
Received from United States Department of Agriculture	\$ 2,160,375	
Less transfers to outside agencies	<u>( 2,361)</u>	<u>2,158,014</u>
Total commodities available		2,425,152
Less ending inventory		
At schools	278,382	
At warehouse	<u>56,262</u>	<u>334,644</u>
Federal commodities used		\$ <u>2,090,508</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - SPECIAL FUND  
DETAILED SCHEDULE OF OTHER EXPENSES  
YEAR ENDED JUNE 30, 1970

Regular school lunch program	
Repairs and maintenance	\$ 47,279
Utilities	276,694
Armored car service	23,962
Storage and hauling	162,255
Utensils	10,371
Other	<u>80,571</u>
Total regular school lunch program	\$ <u>601,132</u>

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - GENERAL FUND  
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES  
(By Source of Funds)  
YEAR ENDED JUNE 30, 1970

	1969 Encumbrances forwarded	1969 Unencumbered balances forwarded	Appropriations	Adjustments	Transfer to Special Fund	Total	Expenditures	Encumbrances	Unencumbered balances June 30, 1970
Administration and supervision									
Federal funds			\$ 8,056			\$ 8,056	\$ 8,501	\$ 193	\$ (638)
Other sources	\$ 688	\$ 1,774	108,845	\$ (66)		111,241	114,437	873	(4,069)
Total	688	1,774	116,901	(66)	\$ -	119,297	122,938	1,066	(4,707)
Cafeteria management									
Other sources	502		1,499,094			1,499,596	1,452,781	1,013	45,802
Total	502	-	1,499,094	-	-	1,499,596	1,452,781	1,013	45,802
Food service									
Federal funds	5,979		18,988			24,967	8,349	16,618	
Other sources	262,392	218,275	2,784,838	(4,844)	(566,468)*	2,694,193	2,041,184	134,955	518,054
Total	268,371	218,275	2,803,826	(4,844)	(566,468)	2,719,160	2,049,533	151,573	518,054
Grand totals									
Federal funds	5,979		27,044			33,023	16,850	16,811	(638)
Other sources	263,582	220,049	4,392,777	(4,910)	(566,468)	4,305,030	3,608,402	136,841	559,787
Total	\$ 269,561	\$ 220,049	\$ 4,419,821	\$ (4,910)	\$ (566,468)	\$ 4,338,053	\$ 3,625,252	\$ 153,652	\$ 559,149

\*Note - The transfer to the Special Fund represents that portion of the payroll cost of the Special Fund which is borne by the General Fund. The total of \$566,468 represents the deficit of the Special Fund exclusive of Federal Donated Commodities.

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM - GENERAL FUND  
STATEMENT OF FUND LIMITATIONS AND EXPENDITURES AND ENCUMBRANCES  
FOR FEDERAL PROGRAMS  
YEAR ENDED JUNE 30, 1970

	P. L. 90 - 302 State Administrative Expenses			P. L. 89 - 642 Nonfood Assistance			Totals		
	Fund limitations	Current period expenditures and encumbrances	Expenditures and encumbrances (over) under	Fund limitations	Current period expenditures and encumbrances	Expenditures and encumbrances (over) under	Fund limitations	Current period expenditures and encumbrances	Expenditures and encumbrances (over) under
Personal services	\$ 13,115	\$ 6,128	\$ 6,987				\$ 13,115	\$ 6,128	\$ 6,987
Other current expenses	1,500	3,194	(1,694)				1,500	3,194	(1,694)
Equipment	<u>1,115</u>	<u>1,066</u>	<u>49</u>	\$ 25,000	\$ 25,317	\$ (317)	<u>26,115</u>	<u>26,383</u>	<u>(268)</u>
	15,730	10,388	5,342	25,000	25,317	(317)	40,730	35,705	5,025
Costs absorbed by General Fund									
Expenses in excess of fund limitations		(1,694)	1,694					(1,694)	1,694
Non-federal portion - 25% of total program costs					(6,329)	6,329		(6,329)	6,329
Federal program costs	<u>\$ 15,730</u>	8,694	<u>\$ 7,036</u>	<u>\$ 25,000</u>	18,988	<u>\$ 6,012</u>	<u>\$ 40,730</u>	27,682	<u>\$ 13,048</u>
Federal funds received fiscal year 1969 - 70		<u>8,056</u>			<u>18,988</u>			<u>27,044</u>	
Claim for reimbursement made in fiscal year 1970 - 71		<u>\$ 638</u>			<u>\$ -</u>			<u>\$ 638</u>	

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM  
STATEMENT OF FEDERAL COMMODITIES USAGE AND RELATED COSTS OF STORAGE AND DELIVERY  
YEARS ENDED JUNE 30, 1966 THROUGH 1970

	Unaudited				
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Commodities available					
Beginning inventory - July 1	\$ 180,836	\$ 54,354	\$ 174,562	\$ 456,821	\$ 267,138
Received from United States Department of Agriculture	<u>1,143,663</u>	<u>1,480,005</u>	<u>2,109,602</u>	<u>1,848,678</u>	<u>2,158,014</u>
Total available	1,324,499	1,534,359	2,284,164	2,305,499	2,425,152
Less ending inventory - June 30	<u>54,354</u>	<u>174,562</u>	<u>456,821</u>	<u>267,138</u>	<u>334,644</u>
Commodities used	\$ <u>1,270,145</u>	\$ <u>1,359,797</u>	\$ <u>1,827,343</u>	\$ <u>2,038,361</u>	\$ <u>2,090,508</u>
Cost of storage and delivery					
Cost of storage	\$ 28,882	\$ 47,388	\$ 94,053	\$ 71,020	\$ 76,748
Cost of delivery	<u>52,511</u>	<u>56,019</u>	<u>77,706</u>	<u>68,894</u>	<u>85,507</u>
Total	\$ <u>81,393</u>	\$ <u>103,407</u>	\$ <u>171,759</u>	\$ <u>139,914</u>	\$ <u>162,255</u>

PART II

MANAGEMENT LETTER

STATE OF HAWAII  
SCHOOL LUNCH SERVICES PROGRAM  
OF THE  
DEPARTMENT OF EDUCATION

Management Letter

June 30, 1970

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

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STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SCHOOL LUNCH SERVICES PROGRAM

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To the Auditor  
State of Hawaii

ACCOUNTANTS' REPORT ON INTERNAL CONTROL AND ACCOUNTING

In accordance with the requirements of Section II of the General Instructions to Independent Certified Public Accountants on Financial Post-Audit Engagements of Agencies of the State of Hawaii (Revised June 5, 1970) with which we have agreed to comply under the terms of our agreement with you dated June 23, 1970, we submit this report on the system of internal control and accounting of the School Lunch Services Program of the Department of Education of the State of Hawaii for the year ended June 30, 1970.

The objectives of our examination of the accounting records of the School Lunch Services Program were as follows:

1. To provide a basis for an independent accountant's opinion of the reasonable accuracy of the financial statements of the School Lunch Services Program.
2. To ascertain that the expenditures were made in accordance with the laws of the State of Hawaii and the applicable rules and regulations and to reasonably ascertain that the revenues and other receipts to which the Program is entitled have been collected and properly accounted for.
3. To ascertain the adequacy of the financial reports in providing responsible public employees and officials at the different levels of the organization with the proper information to plan, evaluate, and control program activities.
4. To evaluate the adequacy, effectiveness, and efficiency

of the systems and procedures for financial accounting and internal control and to recommend improvements to such systems and procedures.

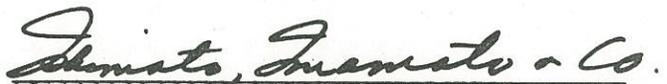
We were not engaged to make a comprehensive study of the system of internal control and accounting of all phases of the Program's operations. Accordingly, our comments and recommendations are limited to observations made by our staff in the course of reaching our objectives. In addition, any qualifications as to the scope of our examinations contained in the Accountants' Opinion - Report on Examination as of June 30, 1970 would be equally applicable here.

The system of internal control of the School Lunch Services Program of the Department of Education, taken as a whole, is adequate. While we noted some deficiencies, they were not of such material significance as to detract from the adequacy of the system taken as a whole.

INAGAKI, MUKAI, FO & MORIKAWA



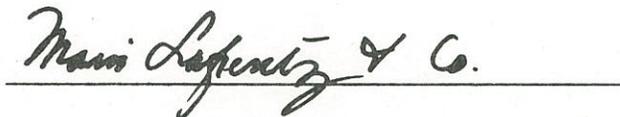
ISHIMOTO, IMAMOTO & CO.



HERMAN G. P. LEMKE



MAIN LAFRENTZ & CO.



Honolulu, Hawaii  
November 12, 1970

## SOME BACKGROUND

### General

The School Lunch Programs, as we know them today, appear to have been founded on two basic considerations:

1. That the continuous evolution of school consciousness demands that all children be developed physically and mentally so that they have the opportunity to make a contribution to society;

2. That there is the economic necessity of controlling the market for agricultural products.<sup>1</sup>

The School Lunch Program of the State of Hawaii had its beginnings as early as 1912 with the opening of a cafeteria that served five-cent lunches at the Territorial Normal and Training School. By 1936, approximately 35,000 five-cent lunches were served daily in 127 schools.

In 1941, Hawaii received Federal assistance for the first time when the Surplus Commodity Corporation and the Department of Welfare made free surplus food available to public schools. Since then and especially after World War II, there has been a tremendous expansion in school food service programs nationally and particularly in Hawaii. According to the National School Lunch Survey for fiscal year 1970-71, Hawaii today is the only state in which every public school student has an opportunity to participate in Type A Lunch Program.<sup>2</sup> It ranked near the top for student participation in the program during the year ended June 30, 1969 (latest

<sup>1</sup> Twenty Million for Lunch, a report from Educational Facilities (477 Madison Ave., New York, N. Y., March 1968) P. 9.

<sup>2</sup> The nutritional adequacy of a school lunch is defined as a Type A Lunch which meets the nutritional standards of the U. S. Department of Agriculture.

SOME BACKGROUND

General - continued

available survey) with 82.2% of the students utilizing school lunch services against a national average of 55.9%.<sup>3</sup>

During the year ended June 30, 1970, the School Lunch Services Program prepared and served an average of 129,000 lunches daily, or approximately 24,000,000 lunches yearly, through 189 school cafeterias, which included eight centralized preparation centers that serviced an additional eleven satellite kitchens. It required 189 school lunch managers assisted by 758 cooks, helpers and van drivers to provide a food service program of this magnitude.

The School Lunch Program operated on an annual budget of \$14.5 million for the fiscal year ending June 30, 1970. The Program was funded in the following manner:

Revenue from school food services	\$ 6.6 million
Cash subsidies and donated commodities from the Federal government	3.5 million
Appropriation from the State General Fund	<u>4.4 million</u>
	<u>\$ 14.5 million</u>

The General Fund appropriation was specifically used for equipment purchases, administrative expenses, school lunch managers' salaries and a portion of the salaries of cooks and helpers.

<sup>3</sup>U. S. Department of Agriculture, Food and Nutrition Services, Program Reporting Staff, January 23, 1970.

## SOME BACKGROUND

### School Lunch Services Administration

It is the responsibility of the Department's School Lunch Services to supervise the operation of the School Lunch Services Program in the public schools. It is a staff organization that provides the following services:

1. Consultation and supervision in the administration of the food service programs in the schools.
2. Procurement and allocation of Federal commodities.
3. Claims and distribution of cash reimbursements from Federal school lunch and special milk programs.
4. Long-range planning of cafeteria and kitchen facilities for maximum efficiency and service.

The School Lunch Services Director has the overall responsibility for the administration of the Program. He is assisted by six district supervisors who are assigned from 22 to 56 schools each.

The School Lunch Services, as the State of Hawaii distributing agency for the Federal commodities program, has the responsibility of procuring and distributing Federal commodities in behalf of thirty-three private and special schools and twenty-three non-educational institutions (such as hospitals, prisons and non-profit organizations), as well as the two hundred schools in the School Lunch Services Program.

### Federal Assistance

In recent years, Federal assistance to the School Lunch Program

## SOME BACKGROUND

### Federal Assistance - continued

has come through the National School Lunch Act of 1946 and the Child Nutrition Act of 1966.

1. The National School Lunch Program was established under the National School Lunch Act of 1946, which was specifically designed to provide assistance to the states "in the establishment, maintenance, operation and expansion of school lunch programs". The program is administered by the U. S. Department of Agriculture's Agricultural Marketing Service in cooperation with state education agencies and gives participating schools a cash subsidy for type of lunches served, in addition to available surplus commodities. Federal surplus commodities include:

a. Section 6 commodities which are distributed only to schools (public and private) on the basis of participation in the National School Lunch Program and include certain canned fruits and vegetables (such as green beans, peaches, tomatoes and pineapples), frozen chicken and ground beef. These items are allocated by the United States Department of Agriculture.

b. Sections 32 and 416 commodities which are distributed to the schools and the previously mentioned non-educational institutions, and ordered from the Department of Agriculture by the distributing agency. Section 32 items include such items as frozen orange juice, fresh apples, peanut butter and canned corn, whereas Section 416

SOME BACKGROUND

Federal Assistance - continued

commodities include staples, such as print butter, all-purpose flour, rice and cheese.

During the year ended June 30, 1970, 7,869,230 pounds of commodities with a value of \$2,459,793 were received by organizations in the State of Hawaii.

2. The Child Nutrition Act of 1966 extended the purpose and action of the National Lunch Act of 1946 by providing assistance to schools in three specific programs, as follows:

a. The Special Milk Program provides milk to all public and non-profit private schools of high school and under (including nursery schools, child care centers and similar non-profit institutions devoted to the care and training of children) through a system of cash reimbursements to participating schools. These payments make it possible for schools to sell milk at reduced prices to students.

b. The Breakfast Program provides cash reimbursement for breakfast served to children who are needy or who travel long distances to school.

c. The Non-Food Assistance Program provides limited funds for purchase of food service equipment for schools serving needy children.

## SOME BACKGROUND

### Revenues and Costs

During the last five years, revenues from school food services have not increased materially, despite an increase in the total number of lunches served in the School Lunch Services Program of 1,641,610 from 22,122,277 during the year ended June 30, 1966 to 23,763,887 for the year ended June 30, 1970. The increase was primarily attributed to the rise in the number of free and reduced price lunches served from 542,649 in 1966 to 1,885,906 in 1970. This contributed to the decrease in the sales revenue per meal from \$.309 in 1966 to \$.276 in 1970. However, the increase in financial assistance from the General Fund and Federal cash subsidies have more than adequately covered the increase in the cost of providing free and reduced price lunches. From 1966 to 1970 the cost of providing free and reduced price lunches increased by approximately \$810,000 while the General Fund and Federal cash subsidies increased by \$2,150,000. Furthermore, free and reduced price lunches accounted for only 8% of the total lunches served during the year ended June 30, 1970, whereas General Fund and Federal cash subsidies contributed more than 36% of the program costs exclusive of equipment and occupancy costs.

During the same five-year period, the cost per meal served increased 16.5% from \$.491 to \$.571. The following analysis of the cost per meal (exclusive of equipment costs) as compiled by the School Lunch Services for the five years ended June 30, 1970, is presented.

SOME BACKGROUND

Revenues and Costs - continued

<u>Type of cost</u>	<u>Year ended June 30,</u>				
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Food	\$ .305	\$ .293	\$ .293	\$ .316	\$ .324
Labor	.161	.172	.172	.214	.213
Supplies	.004	.005	.005	.004	.007
Other expenses	<u>.021</u>	<u>.022</u>	<u>.026</u>	<u>.025</u>	<u>.027</u>
Total	<u>\$ .491</u>	<u>\$ .492</u>	<u>\$ .496</u>	<u>\$ .559</u>	<u>\$ .571</u>

Although other costs remained relatively stable during the above period, labor cost rose by \$.052, or 32%. Consequently, appropriations from the State General Fund have assumed a dominant role in funding the School Lunch Program. The General Fund's contribution (excluding equipment purchases) to the Program has jumped 85% from \$.081 per meal in 1966 to \$.150 in 1970. An analysis by the School Lunch Services of the source of funding the cost per meal for the aforementioned five-year period is shown below:

<u>Name of source</u>	<u>Year ended June 30,</u>				
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Special Funds	\$ .309	\$ .296	\$ .281	\$ .283	\$ .276
General Fund	.081	.089	.088	.139	.150
Federal Cash Subsidies	.044	.047	.047	.050	.057
Donated Federal Commodities	<u>.057</u>	<u>.060</u>	<u>.080</u>	<u>.087</u>	<u>.088</u>
Total	<u>\$ .491</u>	<u>\$ .492</u>	<u>\$ .496</u>	<u>\$ .559</u>	<u>\$ .571</u>

## SOME BACKGROUND

### Revenues and Costs - continued

Federal assistance from cash subsidies and donated commodities are limited, as noted above, and is generally dependent upon National School Lunch Program participation, which has stabilized at approximately 80% of total enrollment. Although the U. S. Government will continue to play an important part in the Program, it will not relieve the problem of rising costs resulting from an inflationary economy. It is evident that under present conditions the General Fund must continue to carry the burden of funding the Program's deficit, which will continue on an upward trend in the foreseeable future.

### Studies by Consultants

The State of Hawaii has retained the services of independent consultants to conduct studies and surveys for the purpose of improving its School Food Services Program. The following is a summary of the findings and recommendations of these studies and surveys:

1. Odell and Associates conducted the first study on the feasibility of centralized food preparation and purchasing and issued a report, dated February 1960, in which they recommended that a pilot project in centralized food preparation be conducted on Oahu. However, they recommended that the establishment of a general plan for the State be postponed for the present because all schools, with minor exceptions, were already equipped with kitchen facilities; the cost of additional central kitchen units and related delivery equipment was not justifiable and the geographical location

## SOME BACKGROUND

### Studies by Consultants - continued

of existing schools and the distances involved between schools made such a plan impractical. They also recommended the continuance of the practice of local purchasing by school cafeterias located on all islands except for Oahu, where a modified form of central food purchasing should be initiated because a majority of the schools are located on that island.

2. A second report, dated March 10, 1960, was prepared by John A. Donaho and Associates after a review and analysis of the administration and operation of the public school cafeteria system. The report included recommendations that (a) the cafeteria special funds be abolished and all revenues from the School Lunch Program be deposited into and all expenditures be paid by the General Fund to eliminate the need for supporting cafeteria operations by deficiency appropriations and to bring the system under effective budgetary control, (b) a Division of Cafeteria Administration be established in the Department that will be responsible for the general administration of the School Lunch Program, (c) the possibilities of centralized preparation of sandwiches, salads, desserts and pastries on Oahu be investigated and procedures for the installation of centralized purchasing for schools on Oahu be developed, and (d) work hours of cafeteria workers be determined, based upon need, and such workers be utilized for other-duties during the summer months and the salary costs for such summer work not be charged to the School Cafeteria System.

3. In 1961, the firm of Booz, Allen and Hamilton was retained to review the extent to which the Department implemented the recommendations of the Donaho study. Their report, dated June 5, 1961, revealed that very

## SOME BACKGROUND

### Studies by Consultants - continued

few of the previous consultants' recommendations had been acted upon. The most significant finding, however, was that funds which should be earmarked for educational purposes were being diverted to cafeteria subsidy. The report further stated that the State "should carefully examine its cafeteria program and we recommend that its future policies be pointed towards a self-supporting cafeteria system". Among the more important specific recommendations, the consultants recommended that (a) lunch prices be increased to \$.35 for students and \$.45 for teachers, (b) the use of student assistance be continued, (c) cafeteria workers be employed on an hourly basis and only as actually required, instead of being hired for twelve months, (d) centralized purchasing of supplies and non-perishable foodstuffs be initiated, (e) menus be standardized, and (f) central kitchens be utilized where schools are in close proximity.

Except for the increase in student lunch price and employment of cafeteria workers on an hourly basis, the previously-mentioned recommendations of the three consulting firms have been implemented in varying degrees. The School Lunch Services, which is discussed earlier in this report, has been established as the administrative arm of the Department's School Lunch Program. Centralized food preparation and purchasing and standardized menus are discussed in another section of this report.

Contrary to the recommendations of the consultants, school cafeterias are generally staffed with full-time, salaried employees at the present time and, although the adult lunch price was increased to \$.50 in 1965, the lunch price for students (\$.25) has not been changed in seventeen years.

## GENERAL

### The Use of Central Menu and the Centralization of Purchasing Function

Under the Department's present procurement policies, the School Lunch Services negotiates contracts with suppliers of certain products to purchase such items at specific prices. However, the school lunch manager is authorized to purchase certain other food and supply items without obtaining prior approval of the School Lunch Services Administrative Office. Since such responsibility gives a certain amount of autonomy to the lunch manager and is confined only to fulfilling the requirements of the cafeteria under her management, these decentralized purchasing practices have contributed to the following conditions:

1. Variety of purchasing practices among the schools, some of which are inefficient. Because of inadequate planning, some cafeteria managers occasionally purchase items at neighborhood stores at higher prices.
2. Lack of segregation of purchasing and receiving functions.
3. Purchasing of food and supplies at relatively higher prices, because quantity discounts may not be received or may not be fully realized.
4. Variation in quality of items purchased and related service.

Beginning with the year ended June 30, 1970, all school districts in the School Lunch Services Program established a central menu policy, whereby one menu is prepared for and followed by all schools within a district. The central menu concept was adopted after a 1968 trial run in the Honolulu District proved successful and was established for the

GENERAL

The Use of Central Menu and the Centralization of Purchasing Function -  
continued

following reasons:

1. More effective utilization of donated Federal commodities.
2. More equality in value of food offered to students.
3. Reduction of the wide variation in food cost among schools.
4. More efficient use of lunch manager's time for supervision.

Because a central menu provides for uniformity in requirements for food and supplies within a school district, effective planning for the purchase of food items is possible. We recommend that the School Lunch Services expand on its present practice of negotiating contracts, by centralizing the purchasing of substantially all food and supplies within the district which would offer the following advantages:

1. Better control in the procurement of goods and services.
2. Reduction of food cost through lower prices resulting from the purchasing of goods in larger quantities and by requiring bid proposals from prospective vendors.
3. Relieving of lunch managers from the purchasing function and using their talents more effectively in the supervision of personnel and planning for better food service.

We further recommend that a study be made to determine the feasibility of acquiring and maintaining district warehouse facilities for the storage of donated Federal commodities and items procured under this plan since public warehouse facilities are already being used and paid for by the State to store Federal commodities.

## GENERAL

### Use of Central Food Preparation Centers

Central Food Preparation Centers or Kitchens are areas where food is prepared for distribution to other serving locations. The School Lunch Services Program initially established a centralized food preparation center in 1961 at Waiakea Intermediate School as a pilot project, primarily because of the reduction in expenditures for kitchen facilities, which was estimated at \$125,000. Although special and additional equipment is required in the central kitchen itself and for transporting the prepared food to other locations, the overall reduction in expenditures resulting from savings in building and equipment costs in the receiving or satellite schools justified such a plan. Under capable management, other benefits could possibly be realized, such as:

1. Reduction in food cost through additional purchase discounts which should result from combining the requirements of two or more schools.
2. Reduction in labor cost by reducing the number or grade of management and skilled personnel by combining the staff of two or more schools.
3. Feasibility of labor saving devices and equipment due to larger volume of production.

There were eight schools with central kitchens that served eleven satellite schools during the year ended June 30, 1970. The schedule on page 19, which was prepared from information included in the Program's financial reports, shows a summary of the costs per lunch served by these schools in relation to the costs per lunch of their respective districts

GENERAL

Use of Central Food Preparation Centers - continued

and the Program as a whole. The comparison reveals that in relation to the entire school lunch program taken as a whole, the total cost of food services per lunch for all schools with central kitchens was less by \$.019 per lunch. While it cannot be said, without further analysis, that the foregoing results are due to centralization rather than to pre-existing efficiencies, there is a strong suggestion that savings beyond cost savings in equipment can be realized in the use of central kitchens. A two cents per lunch saving would have resulted in savings totaling \$475,000 for the entire program for the year ended June 30, 1970. The labor cost shown in the aforementioned reports is not reflected properly (as we have observed in our review of the adequacy of financial reports which is discussed further in this section) and, therefore, any reflection of savings in labor cost is inconclusive.

The Program will have established five more central kitchens which, with certain existing central kitchens, will serve five additional satellite schools for the year ending June 30, 1971. Future plans call for the implementation of nine additional central kitchens to serve thirteen satellites by 1976.

Because of the savings experienced through reduction in expenditures for kitchen facilities and, to a lesser degree, cost of food services, the Program should continue to plan for centralized food preparation centers in new school developments. However, due to the costs involved, the possible conversion of existing conventional facilities may not be warranted unless the equipment at such facilities are obsolete and require replacement.

State of Hawaii  
 Department of Education  
 School Lunch Services Program

COST OF FOOD SERVICES\*  
 PER LUNCH SERVED FOR THE SCHOOL LUNCH SERVICES PROGRAM AS A  
 WHOLE, SCHOOL DISTRICTS WITHIN THE PROGRAM AND  
 CERTAIN SCHOOLS WITH CENTRALIZED FOOD PREPARATION CENTERS

Year ended June 30, 1970

	Cost of Food Services				
	Food	Labor	Federal commodities	Other expenses	Total
All schools in the School Lunch Services Program	\$.236	\$.090	\$.088	\$.031	\$.445
<hr/>					
<u>District I</u>					
All schools	\$.223	\$.097	\$.085	\$.030	\$.435
Anuenue Elementary School (2)	.223	.088	.075	.033	.419
Kalihi-Waena Elementary School (2)	.215	.091	.079	.026	.411
<hr/>					
<u>District II</u>					
All schools	\$.241	\$.085	\$.088	\$.030	\$.444
Aiea Intermediate School (2)	.214	.085	.080	.026	.405
<hr/>					
<u>District III</u>					
All schools	\$.234	\$.084	\$.084	\$.032	\$.434
Barbers Point Elementary School (1)	.255	.080	.070	.039	.444
Iroquois Point Elementary School (1)	.230	.080	.074	.032	.416
Waianae Intermediate School (1)	.224	.087	.084	.051	.446

\*Exclusive of costs charged to the General Fund.

The numbers in parentheses after the names of the schools indicate the number of satellites served.

State of Hawaii  
 Department of Education  
 School Lunch Services Program

COST OF FOOD SERVICES\*  
 PER LUNCH SERVED FOR THE SCHOOL LUNCH SERVICES PROGRAM AS A  
 WHOLE, SCHOOL DISTRICTS WITHIN THE PROGRAM AND  
 CERTAIN SCHOOLS WITH CENTRALIZED FOOD PREPARATION CENTERS

Year ended June 30, 1970

	Cost of Food Services				
	<u>Food</u>	<u>Labor</u>	<u>Federal commodities</u>	<u>Other expenses</u>	<u>Total</u>
<u>District IV</u>					
All schools	\$.247	\$.086	\$.093	\$.037	\$.463
King Intermediate School (1)	.223	.082	.088	.034	.427
<hr/>					
<u>District V</u>					
All schools	\$.239	\$.089	\$.092	\$.030	\$.450
Waiakea Intermediate School (1)	.225	.105	.088	.020	.438
<hr/>					
<u>District VI</u>					
All schools	\$.266	\$.096	\$.096	\$.032	\$.490
<hr/>					
<u>District VII</u>					
All schools	\$.222	\$.082	\$.088	\$.024	\$.416
<hr/>					
All schools with central kitchens	\$.226	\$.087	\$.080	\$.033	\$.426
<hr/>					

\*Exclusive of costs charged to the General Fund.

The numbers in parentheses after the names of the schools indicate the number of satellites served.

## GENERAL

### Inaccuracy of Financial Reports

Nine different financial reports which reflect revenues, expenses, cost of goods used, inventory of Federal commodities, Federal reimbursements and lunch count, are presently being prepared for the School Lunch Services Program. These reports contain summarized information of all the schools in the Program and are inter-related, since the data shown in certain reports are derived from details contained in others. However, they reflect only those revenues and expenses of the School Lunch Special Fund.

The School Lunch Services staff uses the reports to analyze and evaluate the performance of the respective school cafeterias, especially with respect to cost. Because of the differences in school enrollment, particular emphasis is placed on the "per lunch served" data to evaluate all schools equally.

We noted certain deficiencies in these reports that may tend to distort the results shown therein:

1. Labor costs do not include the salaries of the school lunch managers, who are all paid from the General Fund and are an integral part of each school's lunch program. The exclusion of the lunch manager's salary will distort labor cost, especially in the cafeteria operation of a small school where such distortions will be significant. For the year ended June 30, 1970, salaries of the cafeteria managers totaled \$1,452,781 or approximately 29% of the total labor cost.

2. Because the salaries and wages of cafeteria cooks and helpers are partially funded by the General Fund, the School Lunch Labor Distribution

GENERAL

Inaccuracy of Financial Reports - continued

Plan was devised in 1965 and revised on September 16, 1969 as a method "to charge the school lunch special fund for the salary cost of the cafeteria helpers and cooks....." Generally, the purpose of the plan was to charge the School Lunch Special Fund for the employees' productive time and to charge the General Fund for non-productive time, such as vacation, sick leave, holidays, and summer months. Consequently, only a portion of the total payroll for cooks and helpers for the year was charged to the School Lunch Special Fund and shown as labor cost on Forms SL-10 (Statement of Income and Expense) and SL-18 (Cost Per Lunch Served Statement), which are used to analyze cost. Except for summer time work which should not be charged to the Program because the employees are usually assigned to duties outside of the Program, such non-productive time is part of the cost of doing business for any private enterprise and should also be considered in the same light for the purpose of realistically analyzing cost. Because the Special Fund could not absorb the allocated cost and such allocation proved to be meaningless, the plan was discontinued after March 1970 until a further review could be made.

3. In addition to providing the regular food service, some school cafeterias have snack bar operations as part of the school's lunch program. In preparing financial reports, the costs and expenses of snack bar operations are included with the costs and expenses of the school's regular food service program and the totals are divided by the number of Type A lunches served. This results in representing the cost of Type A lunches as being

GENERAL

Inaccuracy of Financial Reports - continued

higher than they actually are. During the year ended June 30, 1970, the revenues from sales of food other than Type A lunches was \$797,791 or 12.1% of the total sales for the entire program. In one school, supplementary food sales represented 52.7% of the total.

We recommend that the financial reports be revised to include as labor costs the salaries of cafeteria managers and, all of the payroll costs of cafeteria cooks and helpers except for costs relating to summertime work outside the Program, and that the snack bar operations be segregated from the operating totals of the regular lunch program. These revisions should result in improved financial reports on which reliance can be placed for purposes of analyzing and evaluating the lunch programs of the schools.

Use of Tokens by Needy Students

During our visits to the various school cafeterias, we were informed by six school lunch managers that tokens or other money substitutes were used by needy students to pay for their lunches as follows:

<u>School</u>	<u>Medium of payment</u>	<u>Approximate number of needy students</u>
Dole Intermediate	slips of paper	3
Waianae High School	tokens	25
Kaaawa Elementary	blue slips of paper	16
Kailua Elementary	tickets	32
Benjamin Parker	tokens	40
Kapaa High & Intermediate	tokens	140

GENERAL

Use of Tokens by Needy Students - continued

Section 210.8 (e)(6) of the National School Lunch Program states that a school shall "make no discrimination against any child because of his inability to pay the full price of the lunch". Apparently this clause was included in the Act to assure full and free participation in the program by those who are in need. The use of tokens and other money substitutes which would tend to inhibit participation in the program appears to be contrary to the intent of the law.

The Director of the School Lunch Services Program expressed the opinion that the token system to identify needy students is discriminatory and that the U. S. Department of Agriculture would probably not condone such a system. However, he indicated that he did not know of a practical and nondiscriminatory method of identifying needy students, particularly in schools with large enrollments.

The Department should ask the Office of the Attorney General or the U. S. Department of Agriculture for an opinion as to whether the use of tokens and other money substitutes by needy students constitute "discrimination" under the National School Lunch Program. The Department should also study this problem further to eliminate the need for the use of money substitutes by needy students. The issuance of tokens to both paying and nonpaying students appears to be an obvious solution, if the costs of such a plan are within reasonable limits.

GENERAL

Free and Reduced Price Lunches for Needy Students

A review of the financial reports prepared by the Department of Education for the year ended June 30, 1970 revealed that only 465 free and reduced price lunches were served during the entire school year by Dole Intermediate School. This represents an average of only 2 to 3 free and reduced price lunches per day. This information is particularly significant since Dole serves two large public housing areas--Kuhio Park Terrace and Kalihi Housing. The following summary shows the feeder schools for Dole and the number of free and reduced price lunches served by those schools during the year ended June 30, 1970:

Kaewai	112,476
Kalihi Elementary	133,357
Kalihi-uka	4,026

Linapuni School is also a feeder school for Dole. However, during the year ended June 30, 1970, the cafeteria at Linapuni School operated as a satellite kitchen for Kalihi-waena School. Therefore, separate statistical data was not available for Linapuni School.

The above information indicates that there should be much greater participation in the free and reduced price lunch program by the students at Dole. It seems highly unlikely when there is such great participation in the program at the elementary level that the need for the program should be practically eliminated at the intermediate school level.

Assuming that the statistics reported are correct, the School Lunch Services Program should take immediate steps to determine why parti-

GENERAL

Free and Reduced Price Lunches for Needy Students - continued

pation by the students at Dole is so low when the area has many students who are eligible to participate in the program. The use of money substitutes by needy students described in the preceding section appears to be a definite inhibiting factor. The Department should also study the effectiveness of the entire program of providing free and reduced price lunches and take steps to correct any deficiencies.

REVENUES

Total revenues of the School Lunch Services Program for the year ended June 30, 1970, which amounted to \$10,149,919, were derived from the following sources:

Revenue from school food services	\$ 6,621,758
Cash subsidies from Federal programs	1,370,147
Donations of Federal commodities	<u>2,158,014</u>
	<u>\$10,149,919</u>

Except for donated Federal commodities, which are discussed elsewhere in this report, this section deals with our observations of the system of internal control and accounting relative to the collection of these revenues based on our visits to forty-one schools that were selected as a test for the purpose of reviewing the operations and examining available financial records at the school level.

Deposit and Transfer of Cash Receipts

Department Procedures, Bus. 67-45, provides that cash receipts from school lunch sales be deposited intact daily at the bank and that total collections for the week be transferred every Tuesday to the Department's Office of Business Services (also referred to as the Business Office), where such funds are processed for transmittal to the State Treasury. However, there was considerable delay in the transfer of such funds. Our reconciliation of cash at June 30, 1970 revealed that several schools did not comply with this rule, as follows:

1. Checks were issued in amounts which represented two or more

## REVENUES

### Deposit and Transfer of Cash Receipts - continued

weeks of lunch sales receipts. For example, one school issued a check, dated June 8, 1970, in the amount of \$2,057,95, which was equal to the lunch sales for the period from May 18 through June 8, 1970.

2. Although most of the school cafeterias did not provide food service after the week ended June 12, 1970, in many instances, transfer of such funds was not initiated until a week or more after that date.

Moreover, there was a time lag between the dates shown on checks issued by the schools and the date such checks were deposited in the State Treasury, which indicates that either the schools are not mailing the checks as soon as they are prepared or the Business Office is not processing and depositing fund transfers promptly. We recommend that the Business Office enforce compliance of the rule and transfer such monies to the State Treasury as soon as possible.

### Accounts Receivable

The accounting for accounts receivable from the sale of lunches to special programs sponsored by Federal and State agencies, such as the various Community Action Programs, is not being done in a manner in which the participants and the Department can readily determine the balances owed and the Department does not maintain a control account to control the various charges to and payments made by the participants.

The number of lunches sold is reported by the schools on a monthly basis to the Business Office where monthly billings are prepared and mailed

## REVENUES

### Accounts Receivable - continued

to the respective programs. Monthly statements showing the outstanding charges from the preceding month and the charges and payments for the current month are not prepared. Furthermore, there is no means of readily determining what the total receivables outstanding are at the end of any accounting period and the extent of delinquency, if any.

To provide better accounting control over billings and collections from the sale of lunches, we recommend that the following procedures be instituted:

1. The schedule of monthly billings currently being prepared should be revised and provide the following information:

- a. name of program
- b. balance due at the beginning of the month
- c. amount billed during the month
- d. payment received during the month
- e. balance due at end of month

2. Monthly statements should be prepared and sent to the various programs showing the information described in 1 above.

### Reconciliation of Revenues

Revenues from school lunch sales and Federal subsidies are recognized on the appropriation ledger maintained by the Department and similar records maintained independently by the Department of Accounting and General Services when such revenues are deposited in the State Treasury.

## REVENUES

### Reconciliation of Revenues - continued

On the internal reports prepared by the Department, revenues from school lunch sales are reported when collected by the cafeterias and revenues from Federal subsidies are reported when they are earned by the Department.

The revenues reported on the internal reports of the Department are not being reconciled periodically with the Department's appropriation ledger which in turn is not being reconciled with the records maintained by the Department of Accounting and General Services. We recommend that monthly reconciliations be made of information contained in these records to give assurance that revenues are being properly recorded and the resulting financial reports are being correctly prepared.

### Accounting for School Lunch Sales at the Schools

The intermediate and high school cafeterias generally have more than one lunch line or different areas for serving meals and snacks to students and teachers. We noted that cash receipts and related lunch sales were not accounted for by lines and areas at eighteen of the schools visited. All receipts were commingled and counted in total and reconciled to total sales. The school lunch managers who did prepare reports which account for cash receipts and lunch sales by lines or areas, did not keep such reports on file after the "Computation of Daily/Monthly School Lunch Transactions -- Form SL-5" was prepared.

To improve the control over cash, we recommend that the accounting of cash receipts and lunch sales be made by lines and areas in order that

## REVENUES

### Accounting for School Lunch Sales at the Schools - continued

any difference between receipts and sales can be pinpointed to a specific line or area. The cause of such differences should be investigated should they occur frequently. The cash count reports should also be included in the file of Form SL-5s and bank deposit slip copies presently being maintained by the lunch managers, because such reports are the primary source documents from which information is obtained for preparation of Form SL-5 and they will be invaluable aids in detecting and providing documentation for cash shortages.

### Operation of Soft Drink Vending Machine

A soft drink vending machine is in operation in the adult section of a high school cafeteria. Income is realized from such sales and the cost of the drinks paid for by the School Lunch Services Program. Further inquiry revealed that while the School Lunch Services knows of the existence of the machine, which is used to supplement meals, they have not formally authorized it. The use of a soft drink vending machine does not seem to be part of the School Lunch Services Program. Therefore, we recommend that this matter be reviewed and resolved by the Administrative Office. If it is found to be within the scope of the Program, it is suggested that formal authorization be obtained for the use of the machine and for any future acquisitions.

## REVENUES

### Operation of Non-Cafeteria Snack Concession

Potato chips and peanuts are being sold to students from a counter adjacent to the snack bar at one high school, and income from such sales is being realized by the school's athletic department. Although the project was approved by the school's district office, it appears to be contrary to the policy statement in the School Code which permits sales only by the school cafeteria at the cafeteria. We recommend that the Department re-examine this policy which was last amended in June 1960 and take the steps to enforce this policy if its continued maintenance is considered to be desirable.

### Disposition of Swill

The Department has left the problem of disposition of swill to the discretion of the cafeteria managers. Consequently, the manner in which swill is disposed of varies considerably among the school cafeterias. In urban areas where there is a lack of demand for swill, the swill is either given away or disposed of through garbage disposal units. In other areas where there is some demand, swill is sold under informal or formal agreements with the collectors. The sale prices range from \$60 to \$150 annually for schools in District I, and from \$30 to \$275 per year for schools in District V. The proceeds from these sales are included in the revenues of the School Lunch Services Program.

To achieve greater uniformity and maximum benefits from the disposition of swill, we recommend that procedures be outlined by the

## REVENUES

### Disposition of Swill - continued

Department for the school lunch managers which would include:

1. Formal agreements for such sales.
2. A list of prospective purchasers.

The Department should also review the possibility of obtaining bids for the sale of swill of an entire school district to provide such volume as to make it worthwhile for prospective purchasers to submit bids.

### Other Matters on the Accounting for Cash Receipts from Lunch Sales

Certain minor matters were noted concerning the internal controls over the accounting for cash receipts from lunch sales during our school visits:

1. Only one signature was required for checks issued from the cafeteria collection bank accounts of twelve of the schools visited. In situations such as these, dual signatures are generally recommended to minimize the possibility of unauthorized payments being made out of the bank accounts. Therefore, we recommend the adoption of a policy which requires two signatures on all checks issued.

2. In those schools where the checks issued from the cafeteria collection bank accounts require two signatures, the principal and secretary of the school were authorized as co-signers at most schools. However, the secretaries at sixteen schools were responsible for receiving and counting lunch receipts, preparing bank deposit slips, preparing the checks for the transfer of funds for the State Treasury, maintaining other cash records and performing follow-up procedures on discrepancies noted

## REVENUES

### Other Matters on the Accounting for Cash Receipts from Lunch Sales - continued

by the Business Office. Good internal control procedures require that the recordkeeping function be segregated from the function of authorizing payments to remove from one individual the authority to see a transaction through completely from its inception to its disposition, thereby minimizing the possibility of unauthorized use of funds. Therefore, we recommend that whenever possible, persons authorized to sign checks be persons other than those responsible for maintaining the related records.

3. At eighteen of the schools visited, we noted that cash receipts from the sale of school lunches were not being counted in the presence of another adult. We recommend that another adult be present when such counts are made to protect the person making the actual count should any cash shortages occur.

4. At one elementary school, we observed that the cafeteria manager performed dual tasks of serving the teachers and collecting money from them. The tasks of serving meals and collecting the cash from the sales of such meals should be segregated for better control.

PURCHASING

This section deals with our observations of the internal control and accounting procedures relating to the preparation, approving, issuance and accounting for purchase requisitions and purchase orders.

Coordination of Purchasing Efforts

The central purchasing efforts of the School Lunch Services Administration and the Department of Accounting and General Services appear to be totally uncoordinated.

The Department of Accounting and General Services maintains a central price list for State institutions which includes description of items, prices of these items and the names of the vendors from whom DAGS has made the commitment to make purchases. The list of State institutions covered under these commitments does not include any of the schools except for special schools, such as the Hawaii School for Deaf and Blind.

A review of the purchase contracts of the School Lunch Services Administration and the Department of Accounting and General Services revealed that there were price differences between contracts covering the same products as follows:

<u>Product</u>	<u>Vendor</u>	<u>Unit Price</u>
<u>Frankfurters</u>		
DOE	Hilo Meat Co.	\$ .5374/16
DAGS	Redondos	.5046/16
<u>Potato Granules</u>		
DOE	Y. Hata	11.87/case
DAGS	Y. Hata	12.00/case

## PURCHASING

### Coordination of Purchasing Efforts - continued

The variances in prices were attributable to differences in quantity and quality in the first instance and difference in quantity in the second. These examples indicate that these two organizations are using less than their best efforts in purchasing by not combining their requirements. We recommend that the School Lunch Services Administration and DAGS review the possibility of combining their purchases to optimise their results.

### Cafeteria Equipment Purchases

It is the responsibility of the School Lunch Services (also referred to as the Administrative Office) to order all cafeteria equipment purchased through the General Fund. Except for requisitions initiated by school lunch services supervisors in emergencies and special situations, the orders are usually based upon requisitions originating at the school level. We noted in our review of the equipment purchasing procedure that there is excessive handling of a vendor's invoice, as briefly outlined below:

1. When the school receives the invoice, it is matched with the purchase order. One copy of an invoice, together with the purchase order, is kept on file at the school and two copies are forwarded to the Administrative Office.

2. The school lunch clerk at the Administrative Office matches the invoice with the purchase order, notes pertinent information on the purchase order and forwards all invoice copies to the Business Office for the processing of payment.

## PURCHASING

### Cafeteria Equipment Purchases - continued

We recommend that the invoice be sent directly to the Administrative Office by the vendor and a receiving report be prepared by the school lunch manager when goods are received at the cafeteria. Such report would then be forwarded to the Administrative Office where it would be matched with the related invoice and purchase order. One copy of the invoice, together with the purchase order, receiving report and original purchase request (Form SL-1A) would be kept on file at the Administrative Office. The advantages of the above recommendation are as follows:

1. It would relieve the lunch clerk of having to note pertinent data on the purchase orders.
2. All equipment purchase invoices will be kept at one location instead of being maintained in files of 200 different schools.
3. A copy of all of the primary supporting documents relative to a purchase transaction will be filed at the Administrative Office, which is appropriate because it is the hub of the Program's purchasing activities, and these documents can be used for reference in making future purchases.

### Letter of Request for Equipment Purchases

For the purpose of effective coordination and proper documentation, the procurement policies and procedures of the State of Hawaii, Department of Education, provide that all procurement estimated to be in excess of \$4,000 must be initiated with a letter of request from the school or office requiring the goods or services and all pertinent information,

## PURCHASING

### Letter of Request for Equipment Purchases - continued

such as delivery date, delivery location, detailed specifications and funding limitations must be outlined in the letter. However, we noted that such a letter was not written to initiate the purchase of cafeteria equipment on bid proposal number 43, which falls into the "over \$4,000" category.

Therefore, we recommend that the Department's purchasing office exercise due care in the review of all purchase requests for compliance with the above requirement before approval to avoid any misunderstanding between the party making the request and the Purchasing Section as to the requirements of a purchase.

### Purchase Orders Dated After Commitments

Certain purchase orders included in our test of General Fund expenditures were dated after the date of the vendor's invoice, which indicates that purchase commitments were made before they were properly authorized. The purpose of a purchase order is to authorize purchase of goods and services and to establish price, quantity and quality of such goods and services prior to performance by the vendor. If the purchase order is prepared subsequent to performance, there is no assurance that the goods or services received were as originally ordered. We recommend that all purchase orders be prepared and approved before the commitments are made.

## PURCHASING

### Violation of Purchase Commitment

We noted that one school cafeteria purchased wieners from Purity Foods several times during the year at \$.6138 per pound, whereas the School Lunch Services had contracted to purchase the item at \$.5374 per pound from Hilo Meat Company. Because this action was in violation of the contract with Hilo Meat Company and resulted in the cafeteria spending more for wieners than it should have, we recommend that the Administrative Office instruct all school lunch managers to refrain from such practices. Beyond the added cost, such a breach of contract could result in litigation.

### Formal Bid Procedures

To discourage favoritism in procurement practices, provisions of Section 103 of the Hawaii Revised Statutes, as amended, require that purchases of \$8,000 or more be made through formal bid procedures and furthermore, that expenditures should not be divided or parceled as to defeat or evade this Section. The following additional requirements are necessary for formal bidding as compared to an informal bid:

1. Publishing in the newspaper a notice for bids for at least five days, as compared to one day.
2. Formal opening of bids.
3. Bid bond.
4. Performance bond.
5. Award by contract.

We noted that bid proposal numbers 64 and 69 pertaining to the

PURCHASING

Formal Bid Procedures - continued

acquisition of waste handling systems for Castle High School and Leilehua High School, respectively, could possibly have been combined under one bid proposal and purchase of the equipment made through formal bid procedures for the following reasons:

1. The total award for the two bids amounted to \$13,392, which would have placed it in the "\$8,000 or over" class.
2. Notices for bids were published in the newspapers only a week apart for one day each: on May 22, 1970 for bid number 64 and on May 28, 1970 for bid number 69.

Since only one and the same bidder was involved in both instances, the jobs were awarded by purchase orders to Mesco Mechanical Systems Corp. in the amounts of \$6,339 on bid number 64 and \$7,053 (including installation) on bid number 69. We recommend that the Department carefully review each procurement request and, if possible, make purchases through the formal bidding process because of the inherent advantages of this method, such as requiring a written contract and obtaining a performance bond from the contractor.

## EXPENDITURES

During our examination of the General and Special Fund expenditures of the Department of Education's School Lunch Services Program, we noted that receipts of purchases of food and supply items were not being documented, input data were not being reconciled with information received from the Department's computer center, certain equipment purchases were not being classified properly, the form number was duplicated on certain forms and control is inadequate in accounting for encumbrances. These matters are discussed in this section.

### Receiving of Food and Supply Purchases

Vendors' invoices are presently documented with the following information when goods are received on General Fund purchases:

1. Date item received.
2. Verification of prices, extension and footings.
3. Shipment complete or partial.
4. Approval for payment.

However, the receipt of food and supply items purchased from the Special Fund at the school level is not being documented in most instances at the present time. The purchase requisition (Form SL-2) and delivery slip, if any, relating to a particular purchase, are being destroyed after the invoice is processed by the school lunch manager for transmittal to the Business Office. The Business Office assumes that goods have been received on the belief that the school lunch manager will not transmit an invoice unless the goods are received.

To avoid unauthorized payments for items that have not been

## EXPENDITURES

### Receiving of Food and Supply Purchases - continued

received, we recommend the adoption of the procedures being followed for General Fund expenditures. An alternative procedure would be the use of a receiving report as discussed on page 37.

### Recording of Encumbrances and Processing of Vouchers

At the present time, the reports received from the computer section on recorded encumbrances and processed vouchers are not being reconciled with input data submitted by the vouchering section of the Business Office. Therefore, the Department has no assurance that the information has been recorded correctly.

1. Encumbrances are recorded from purchase orders submitted to the computer section where a tabulation of encumbrances (Detail of Expenditure Run) is prepared.

2. The expenditure vouchers and summary warrant vouchers are prepared by the computer from information contained in the Invoice Transmittal Form (Form 420 for General Fund and Form SL-3 for Special Fund).

In both instances, the input items are not being compared with the data from the computer and, consequently, the possibility of errors exists, which could result in inaccurate financial reports and incorrect payments. Presently, an error can only be detected as a result of a complaint or inquiry from a vendor about non-receipt of payment or an underpayment from the State. An overpayment may go totally undetected.

To insure that all information sent to the computer center is being

## EXPENDITURES

### Recording of Encumbrances and Processing of Vouchers - continued

recorded properly, we recommend the taking of adding machine tapes of the input items transmitted for processing, the comparison of the totals thereon with the resulting computerized data and the reconciliation of any differences. Since the input information is sent periodically to the computer center in batches, it may be necessary to maintain a log in which the tape total of each batch is recorded. The total of all batches transmitted for a particular month should then be compared with the result from the computer.

### Classification of Expenditures

Inconsistencies were noted in the classification by object code of certain General Fund equipment purchases, as follows:

1. Small appliances, such as can openers and mixing bowls, were charged to "Cafeteria Equipment" (Account #6420) in one instance and to "Supplies" (Account #3509) in another.

2. A coffee percolator was classified as "Supplies", whereas it is considered to be cafeteria equipment according to the list of such items.

Further inquiry revealed that purchases are classified by the person who initiates the requisition, usually the lunch manager at the school level and, apparently, the requisition is not reviewed to determine the correctness of such classification.

We recommend that all purchase requisitions be reviewed at the

## EXPENDITURES

### Classification of Expenditures - continued

Administrative Office for classification and coding before the purchase order is prepared to insure that all expenditures are properly classified.

### Duplication of Form Number

There are two forms that are presently being used with the same numerical designation of "SL-3". One form is the "Invoice Transmittal", which is used at the Business Office to transmit invoices to the computer center for processing, and the other is a purchase order worksheet which is used by the school lunch supervisors at the Administrative Office to summarize purchase requisitions from which purchase orders are subsequently prepared. Although the forms used in one office will, in all probability, never be used in the other, the situation may nevertheless cause confusion among people in the Program. Therefore, we recommend that a different numerical designation be assigned to the purchase order worksheet used in the Administrative Office because it is not an "official" form of the Program. It is further recommended that the Business Office maintain control over the assignment of all form numbers for the Department as a whole to prevent future duplications.

### Lack of Control in Accounting for Encumbrances

There is an apparent lack of control over the accounting for encumbrances. We discovered that encumbrances at June 30, 1970 and June 30, 1969 were understated on the books of account by \$40,097 and \$35,510 respectively. The understatements resulted from the following causes:

## EXPENDITURES

### Lack of Control in Accounting for Encumbrances - continued

1. At June 30, 1970, the encumbered balance on contract number 11971 of \$40,097 did not appear on the detail of expenditure listing although prior to June 1970 the balance appeared properly.

2. At June 30, 1969, the encumbered balance on contract number 10714 of \$45,537 was not listed on the detail of expenditure listing. In addition, the encumbered balance on contract number 10713 was overstated by \$10,027 resulting in a net understatement of \$35,510.

An adjustment was made to the detail of expenditure listing for the overstatement of \$10,027 on contract number 10713 in October 1969. However, adjustments were not prepared for the understatements on contracts 10714 and 11971 which apparently went unnoticed.

We recommend that the procedures presently being used to account for encumbrances be reviewed to improve control in this area.

### Unrecorded Liabilities

Unrecorded liabilities at June 30, 1970 were noted at twenty-four of the forty-one schools that we visited. These liabilities, which in most cases involved unpaid utility charges, ranged in dollar value from a low of \$4.07 at one school to \$697.00 at another. We recommend that all liabilities be reported as soon as invoices are received for proper and timely recording, which would result in more reliable financial reports.

### DONATED FEDERAL COMMODITIES

The School Lunch Services Program received \$2,158,014 in donated Federal commodities and consumed \$2,090,508 during the year ended June 30, 1970. Our review of the internal control and accounting relative to the requisition, receipt, storage, withdrawal, use and transfer of such commodities disclosed the following matters.

#### Verification of Billings on Storage Charges

Storage cost of State Reserve Commodities are charged to the respective schools when the commodities are delivered by Hawaiian Cold Storage Company. Although the cafeteria managers at the schools approve the billings at the time of delivery, they do not have the necessary information to verify the storage charges. Therefore, any errors in the computation of storage cost will not be detected. Consequently, the Program may be paying more for storage than is required. We recommend that the Department review the problem and devise a method whereby storage charges of State Reserve Commodities can be verified to assure that the Program is being charged properly.

#### Ordering of State Reserve Commodities

Certain Federal commodities are placed in storage upon receipt from the U. S. Department of Agriculture and are distributed twice monthly to the schools on the basis of their individual requirements. Our review of the procedure for ordering commodities from the State Reserve revealed that the same type of form is used by two different people at the Administrative Office in summarizing the schools' orders, resulting in extra time and paper

DONATED FEDERAL COMMODITIES

Ordering of State Reserve Commodities - continued

work in this phase of the ordering procedure, which is briefly described as follows:

1. When requests for commodities are received at the Administrative Office, the District School Lunch Supervisor reviews and approves such requests for schools in her district, summarizes the orders on a form titled "Federal Commodity Monthly Orders - State Reserve (Warehouse) Account" and forwards the summary to the School Lunch Clerk.

2. The School Lunch Clerk checks the commodities and quantities ordered against the goods available in the State Reserve, notes the necessary adjustments if the available quantity of a specific commodity is less than the amount ordered, and prepares another summary, which reflects the adjustments, on exactly the same type of form used by the School Lunch Supervisor. The adjusted summary is transmitted to Hawaiian Cold Storage Company, where the commodities will be processed for delivery to the schools.

We recommend revision of the aforementioned form so that one summary can be used by both the School Lunch Supervisor and School Lunch Clerk. We suggest that small square blocks be placed in one corner of the larger blocks shown on the present form. The Supervisor will place the quantity ordered in the small block, and the Lunch Clerk will use the large block for the quantity to be shipped, which will be the quantity that the storage company will rely on. If there are any differences between the quantity ordered and the quantity available, an "X" should be marked in the small block to prevent any misunderstanding on the part of warehouse

## DONATED FEDERAL COMMODITIES

### Ordering of State Reserve Commodities - continued

personnel as to which amount is correct.

### Inventory of Federal Commodities

At the end of each month, the school lunch managers are required to prepare Form SL-4A (Monthly Inventory of Federal Commodities), which is submitted to the Administrative Office where it is checked against related records and, together with similar reports from other schools, forwarded to the computer center for the preparation of Form SL-16 (Financial Inventory of Federal Commodities). Form SL-16 is a summary of all Form SL-4As submitted by the schools.

We noted that the input data were not subsequently reconciled with the output in total amounts to determine the accuracy of the computer-processed information. An adding machine tape of the dollar value of the ending inventory as shown on each Form SL-4A should be taken and the total compared with the total shown on Form SL-16.

1. If the totals agree, there is a certain amount of assurance that the transactions (received, transferred in and out, and used) for each month are also in agreement.

2. If a difference exists, it may then be necessary to foot each transaction column and compare the resulting totals with amounts shown on Form SL-16 to pinpoint the column (or columns) where discrepancies may exist before attempting to locate specific input items that are in error.

## DONATED FEDERAL COMMODITIES

### Transfers of Federal Commodities

Donated Federal commodities are transferred from one participating school to another in situations where a school does not have enough of certain commodities and another school may have more than is required to meet its current needs. During the year ended June 30, 1970, there were transfers in the amount of \$41,058, which is not material in comparison to the whole. However, further analysis revealed that an average of 60 to 70 transfers occur monthly, which seem to indicate the following:

1. Some schools are allocated more of certain commodities than is needed, while other schools are receiving less than is required. Transfers resulting from these circumstances generally involved those commodities that were delivered to the school upon receipt from the USDA on the basis of pre-determined allocations made by the Administrative Office. These allocations are based upon prior year's participation in the National School Lunch Program and, consequently, frequent transfers of commodities may occur if the preceding year's experience of a school is not applicable to its current requirements.

2. Some schools are ordering more than is needed of those commodities stored in the State Commodity Reserve, whereas other schools are ordering less than is required.

Because of the above circumstances, a considerable amount of additional paper work is being created, since Form SL-4B (Transfer of Donated USDA Commodities) must be prepared by the lunch manager of the school that transfers the commodities, signed by the lunch manager of the school receiving the items and transmitted to the Administrative Office, where it is reviewed, approved and

## DONATED FEDERAL COMMODITIES

### Transfers of Federal Commodities - continued

subsequently compared with the amounts shown on Form SL-4A which is prepared by the schools involved.

To minimize the transfers of commodities, we make the following recommendations:

1. For commodities delivered to the schools upon receipt from the USDA, we recommend that the Administrative Office review the present method of allocating such commodities and devise a new method whereby commodities can be distributed on a basis of an individual school's need.

2. For commodities ordered from the State Reserve, we recommend that the school lunch managers review their projected requirements more carefully to prevent an oversupply or undersupply of commodities.

### Inventory of State Reserve Commodities

The inventory of State Reserve Commodities stored at the Hawaiian Cold Storage Company consists primarily of three items: print butter, all-purpose flour and rice. The following summary, which was prepared from the information contained in the detailed schedule on page 53, shows the average monthly unit inventory balance and the average monthly unit withdrawals of the State Commodity Reserve of these items during the year ended June 30, 1970. The monthly withdrawals are based upon an average of ten months, which is the approximate length of period that cafeterias are in operation during the year.

DONATED FEDERAL COMMODITIES

Inventory of State Reserve Commodities - continued

	<u>Average monthly inventory balance</u>	<u>Average monthly withdrawals</u>
	<u>(In units)</u>	<u>(In units)</u>
Print butter	2,715	1,615
All-purpose flour	2,967	2,543
Rice	1,360	1,123

Our analysis, as shown in the above summary and the detailed schedule on page 53, revealed the following:

1. Except for print butter, the average monthly inventory closely corresponds with the average monthly withdrawals of the above commodities which, in most instances, reflect the usage of these items in the schools. Print butter, however, seems to be in excess of normal requirements as shown by the difference in average monthly inventory and withdrawal of this commodity. Furthermore, there was a transfer in May 1970 of 1,267 units to a participant outside of the Program. Our examination of inventory at one of the schools revealed that 151 units of butter were sent to the school in May 1970, which was far more than the school needed and the entire amount was still in inventory on June 30, 1970. We learned that the excessive shipment was made to reduce storage charges at Hawaiian Cold Storage Company.

2. Commodities were not received in a smooth, constant flow, and the number of units received fluctuated during the period. As a result, there were wide fluctuations in the monthly inventory balance of these products, which, in certain months, were far in excess of the average monthly withdrawals.

DONATED FEDERAL COMMODITIES

Inventory of State Reserve Commodities - continued

Because these commodities and others are generally available from the USDA throughout the year and the delivery of such goods can be scheduled within reasonable limits in accordance with the Program's projected needs, we recommend that more care be exercised in the preparation of the quarterly projection of commodity requirements submitted to the regional office of the USDA. A reasonably accurate projection should reduce fluctuations in the receipt of commodities, which would result in storage cost savings. Storage costs amounted to \$76,748 during the year ended June 30, 1970.

State of Hawaii  
 Department of Education  
 School Lunch Services Program

TRANSACTIONS RELATIVE TO CERTAIN COMMODITIES IN  
 THE STATE COMMODITY RESERVE (BY UNITS)

Year ended June 30, 1970

	Print Butter				A. P. Flour				Rice			
	Received	Withdrawn	Transferred	Ending balance	Received	Withdrawn	Transferred	Ending balance	Received	Withdrawn	Transferred	Ending balance
Balance - July 1, 1969				-				104				807
July, 1969	-	-	-	-	4,000	(103)	(1)	4,000	-	-	(61)	746
August, 1969	4,273	(2,035)	(3)	2,235	3,000	(2,963)	(2)	4,035	2,936	(1,390)	(3)	2,289
September, 1969	2,142	(679)	-	3,698	4,000	(382)	-	7,653	-	(160)	(10)	2,119
October, 1969	3,003	(1,836)	-	4,865	1,738	(2,564)	-	6,827	-	(1,079)	(160)	880
November, 1969	-	(1,864)	13	3,014	-	(3,039)	135	3,923	-	(880)	-	-
December, 1969	-	(1,531)	-	1,483	2,000	(2,810)	-	3,113	4,852	(1,665)	(550)	2,637
January, 1970	-	(1,483)	-	-	1,500	(2,833)	-	1,780	-	(1,428)	-	1,209
February, 1970	4,502	(1,390)	(4)	3,108	2,369	(2,166)	(3)	1,980	2,699	(999)	(4)	2,905
March, 1970	4,835	(1,294)	-	6,649	-	(1,980)	-	-	1	(982)	-	1,924
April, 1970	-	(1,332)	(157)	5,160	5,385	(2,904)	(292)	2,189	-	(1,052)	(70)	802
May, 1970	-	(2,710)	(1,267)	1,183	1,500	(3,689)	-	-	-	(792)	(10)	-
June, 1970	-	-	-	1,183	-	-	-	-	798	(798)	-	-
	<u>18,755</u>	<u>(16,154)</u>	<u>(1,418)</u>		<u>25,492</u>	<u>(25,433)</u>	<u>(163)</u>		<u>11,286</u>	<u>(11,225)</u>	<u>(868)</u>	

## INVENTORY

Thirty-seven schools with complete cafeteria facilities were visited as part of our examination. Our observations concerning the inventory of food and supplies are discussed in this section.

### Maintenance of Perpetual Inventory Records

The Department of Education requires that perpetual inventory records be maintained at the schools. Perpetual inventory records provide detailed information on the purchase of food and supplies and the withdrawal of these items from stock. This information provides a means whereby the cafeteria managers can readily determine the availability of items in inventory, the rate of usage of items for reordering purposes, and the misappropriation of food and supplies. Therefore, it is essential that proper perpetual inventory records be maintained.

We found the following conditions in existence in our review of the perpetual inventory records.

1. The individual schools did not retain the adding machine tapes used to arrive at the dollar value of the inventory reported to the Business Office as of June 30, 1970. Therefore, we found it necessary to add the extended amounts shown on the perpetual inventory cards to reconcile the inventory balances with the amounts reported on that date. The result obtained in this manner did not agree with the inventory amount reported to the Business Office at thirteen of the schools.
2. The cafeteria manager at one school calculated the dollar value of each inventory item on an adding machine tape, but did not record the results on the inventory cards. The adding machine tape was subsequently

## INVENTORY

### Maintenance of Perpetual Inventory Records - continued

discarded. Consequently, we were not able to reconcile the school's food and supplies inventory at June 30, 1970 to the amounts reported.

3. One school did not maintain a perpetual inventory record at all during the year ended June 30, 1970. The inventory on that date seems to have been estimated by the lunch manager. Perpetual inventory records were established after June 30, 1970.

Because the maintenance of perpetual inventory records is a procedural requirement of the Program which aids in controlling the purchase and use of food and supplies, we recommend that the Department ascertain that all schools are complying with such requirements. It is further recommended that the cafeteria managers exercise care in maintenance of the records to provide information which is reliable. Any supporting documents which would aid in reconciling the total inventory reported to the perpetual inventory cards (such as adding machine tapes) should be kept on file.

### Maintenance of Spoilage Record

Except for the purpose of reporting spoilage of donated Federal commodities to the USDA, the cafeteria managers at the schools visited did not keep a record of spoiled items that were removed from the inventory. A spoilage record should be maintained by all lunch managers to enable them to determine the causes and frequency of spoilage in order that purchasing and storage procedures and methods can be improved to minimize this problem.

## INVENTORY

### Investigation of Inventory Shortages

The cafeteria managers at four schools replied that they did not immediately investigate any inventory shortages upon discovery. Shortages should be investigated immediately in order that steps can be taken to improve the control over inventory and, thereby, prevent future shortages.

## PAYROLL

Our examination of the payroll function did not reveal any serious problems. However, certain matters relating to the preparation of time reports, maintenance of personnel records and recording of payroll data, are noted herewith.

### Variety of Timekeeping Practices

Based upon the survey of forty-one schools selected as a test, we noted that, in most instances, the responsibility for maintaining time data rests with the school secretaries, who obtain the daily employee time information from the school lunch managers. Because of the lack of written policies, the schools have developed their own procedures, which have resulted in a variety of timekeeping practices, some of which are described as follows:

1. Some schools maintain daily time sheets on which the cafeteria employees sign in when reporting for work and sign out when leaving at the end of the day. However, the time of sign-in and sign-out are not recorded in many instances. In one school, one employee signed in for all employees at the beginning of the work day.

2. Other schools do not have time sheets and the school lunch managers report the necessary information to the secretaries over the telephone. In one school the secretary assumes that all employees are present for work if a telephone call is not received from the lunch manager and records a full day's work for all employees.

The aforementioned practices could result in improper reporting of time worked by employees which would be in violation of State and Federal wage and hour regulations. We recommend the formulation of written,

PAYROLL

Variety of Timekeeping Practices - continued

standardized policies and procedures for timekeeping to encourage accurate and uniform time reporting and compliance with State and Federal labor statutes.

Personnel Records

The examination of the Department's personnel files on the School Lunch Services Program employees revealed the following:

1. There is no policy on the type of written authorizations for payroll assignments and deductions required to be maintained in the personnel file. We noted an absence of authorizations for such items as employee organization deductions, net salary assignments, ordinary garnishments, donations, and Federal Credit Union deductions.

2. Although there is an absence of guidelines on this matter, the contents of the personnel files examined seem to indicate that such files should contain at least the State and Federal Withholding Exemption Certificates, the State Health Benefits Enrollment Form and the annuity plan premium withholding form. However, a large number of the files did not have the withholding exemption certificates.

3. We were informed by the Department's personnel that, because the authorization forms are sent to DAGS, the Department does not retain copies of such forms in their files, except for those mentioned in 2 above. However, the forms retained by DAGS are filed chronologically in accordance with the date they were received and without any segregation by departments.

## PAYROLL

### Personnel Records - continued

Consequently, it is extremely difficult to locate a particular authorization for future reference. According to the personnel at DAGS, the departments are responsible for maintaining a copy of the payroll authorizations in the employees' personnel files, because inquiries received regarding such matters are referred to the department involved.

4. The Department's personnel files are not being reviewed periodically to determine whether the files are being maintained properly.

In view of the above findings, we recommend that the Department adopt written guidelines on the items to be included in the personnel files with due consideration being given to the requirements of DAGS, the Department of Personnel Services and other State agencies as well as its own. Furthermore, the personnel files should be reviewed periodically by the Department's Office of Personnel Services and up-dated, if necessary, to assure compliance with the aforementioned guidelines once they are adopted.

### Duplication of Payroll Records

The Payroll Section of the Business Office maintains Payroll Master Cards on which gross earnings and vacation and sick leaves are manually recorded. This appears to be a duplication of records since DAGS Computer Center #1 maintains the payroll data and the Department's Computer Center #3 processes vacation and sick leave data and prepares a report of accumulated vacation and sick leave at least annually. Furthermore, certain schools maintain vacation and sick leave records for their own staff members.

PAYROLL

Duplication of Payroll Records - continued

The purposes of the Payroll Master Cards, according to the Payroll Section personnel, are as follows:

1. To provide employees with information when they inquire about their respective accounts. Further inquiry revealed that such requests were infrequent.

2. To check vacation and sick leave information against the computerized tabulation from Computer Center #3, which is backlogged to such an extent that a tabulation is presently being received only on an annual basis. We learned that vacation and sick leave data for the year ended December 31, 1969 was received by the Payroll Section in August 1970.

Since the gross earnings records are being maintained by Computer Center #1 and the requests for such information are infrequent, the recording of gross earnings on the cards should be discontinued.

We further recommend that the Department conduct an investigation to determine the reasons for the backlog at Computer Center #3. Vacation and sick leave data should be processed on a monthly basis as was done in the past in order that current information will always be available. Finally, the Department should conduct a study to determine where the vacation and sick leave records can best be kept. There should be no need for duplication.

## DATA PROCESSING

The following matters were brought to our attention during our review of the data processing internal controls of Computer Center #3 of the Statewide Information Service which handles the Department's computer processing.

### Input Documents Not Cancelled

It is an established procedure at the computer center that all input documents be cancelled to prevent reprocessing by placing a check mark on the bottom of such document after the information is keypunched. Our examination of input documents revealed, however, that the procedure has not been followed consistently. Although errors resulting from the reprocessing will be discovered in the vouchering process at the Business Office, it will still involve extra time and effort on the part of an employee (or employees) to clear the discrepancy. Therefore, the procedure of canceling input documents should be followed to prevent wasted efforts.

### No System of Batch Control

The processing of input data is performed in batches at the computer center. Because there is no system of controlling pre-determined batch totals, differences can occur between the information derived from the computer and the input data compiled by the vouchering section of the Business Office which may go undetected, due to possible misplacing of input documents or keypunched cards. We have previously recommended methods of controlling input data in other sections of this report and recommend that a system of maintaining batch controls be established.

## DATA PROCESSING

### No Programming Manual

We noted that a programming manual has not been prepared for the computer center and, consequently, certain programming techniques have not been standardized.

Although each computer is unique in its purpose, there are many programming techniques and procedures which are common to all programs. It is desirable that these techniques and procedures be standardized and set forth in a programming manual, which would contain a written record of all policies, procedures, and techniques to be used throughout the data processing organization. Such a manual will facilitate communication among programmers, assist in training of new personnel, and prevent the development of conflicting procedures. Therefore, we recommend that a programming manual be prepared.

### Program Maintenance

We noted that final testing of computer programs is not made with actual data which are representative of true conditions and that program tests do not include transactions designed to violate control procedures. We recommend that these procedures be incorporated in the testing of all programs to give added assurance to the reliability of the programs before they are put on operational status.

### Equipment Not Periodically Checked

The computer processing procedures did not include periodic

## DATA PROCESSING

### Equipment Not Periodically Checked - continued

checking of equipment controls for accuracy through the processing of test data. We recommend that this procedure be established to ensure that all controls built into the equipment are operating effectively.

### No Written Plan for Future Changes

There are no written plans for changes to be made to the computer system. We recommend that provision be made to have all plans for future changes documented. In this connection, the approval for each application should be supported by a study of costs and benefits. In addition, a schedule of implementation should be prepared showing actual versus planned progress.

## SUMMARY

Section 32, Chapter 2, Revised Laws of Hawaii, 1955, as amended, requires the Office of the Legislative Auditor to conduct post-audits of all transactions and of all books and accounts kept by State departments and its political subdivisions. Pursuant to this requirement and in accordance with the requirements of Section II of the General Instructions to Independent Certified Public Accountants, we have reviewed the system of internal control and accounting of the School Lunch Services Program of the Department of Education of the State of Hawaii for the year ended June 30, 1970.

Our examination was made to provide a basis for an independent accountant's opinion on the financial statements of the School Lunch Services Program, to ascertain the propriety of expenditures and revenue collections, to ascertain the adequacy of financial reports and to evaluate the system of accounting and internal control.

Our major findings and recommendations are summarized as follows:

### General

The use of a central menu provides uniformity in food and supply requirements within a school district, which makes possible effective planning for the purchase of the food items. Therefore, centralized purchasing of food and supplies within the district is recommended. We also recommend a study into the feasibility of centralized district warehousing.

Cost analysis reveals that savings are being realized from the operation of centralized food preparation centers. Because of the reduction in expenditures for kitchen facilities and possible savings in cost of food services, the efficiency of existing facilities should be reviewed for possible conversion to this plan, as well as planning of central kitchens

## SUMMARY

### General - continued

for new school developments.

The financial reports presently being prepared are inaccurate for the purpose of analyzing and evaluating costs because of omissions and inclusions. We recommend that these reports be revised.

The use of tokens or other money substitutes by needy students to pay for their lunches may be in violation of applicable provisions of the National School Lunch Act. We, therefore, recommend that a legal opinion be obtained on this matter and a study be made to eliminate the need for using money substitutes by needy students.

All needy students may not be participating in the free and reduced price lunch program and, therefore, the School Lunch Services should determine the cause of the low rate of student participation in certain schools that serve low income areas.

### Revenues

Weekly receipts from lunch sales are not being transferred promptly, as required by Department directive, to the Business Office, where there are further delays before the funds are transmitted to the State Treasury. The Business Office should enforce compliance of this rule and, in turn, process and deposit funds as soon as possible to the State Treasury.

Monthly accounts receivable statements are not being sent to debtors, and there is no means of readily determining the balances receivable at the end of each month from debtors. We recommend preparation and mailing

## SUMMARY

### Revenues - continued

of monthly statements and revision of the schedule of monthly billings.

Financial records and reports pertaining to revenues are not presently being reconciled to one another. To assure that revenues are being properly recorded in all records, we recommend that a monthly reconciliation be performed of information contained in such records.

### Purchasing

There is a lack of coordination in the contract purchasing efforts of the School Lunch Services and the Department of Accounting and General Services. We recommend that the two organizations review the possibility of combining their efforts to achieve better results.

There appears to be excessive handling of a vendor's invoice in the procedure for purchasing cafeteria equipment. The vendor's invoice should be sent directly to and kept on file at the Administrative Office, and a receiving report prepared by the school lunch manager and sent to the Administrative Office for goods received at the cafeteria.

A letter of request was not initiated as required by Departmental procurement policies in one instance where the amount purchased was in excess of \$4,000. We recommend that the purchasing office exercise due care in the review of all purchase requests before approval.

Certain purchase orders were dated after the date of the vendor's invoice. We recommend that all purchase orders be prepared and approved before commitments are made.

## SUMMARY

### Purchasing - continued

One school cafeteria purchased food from one supplier that was in violation of a contract that the School Lunch Services had negotiated with another supplier and resulted in payment for the item at a higher price. We recommend that the Administrative Office instruct all school lunch managers to refrain from such practices.

Certain bid proposals could possibly have been combined under one bid proposal and the purchase of equipment made through formal bid procedures. We recommend that the Department carefully review each procurement request and, if possible, make purchases through the formal bidding process.

### Expenditures

Receipt of food and supply items purchased at the school level from the Special Fund is not being documented in most instances. We recommend adoption of the procedure followed for General Fund expenditures and, as an alternative, the use of a receiving report.

Computer-processed information on recorded encumbrances and processed vouchers are not being reconciled with the input data. We recommend that a reconciliation of input and output data be performed through the use of adding machine totals and maintenance of a log for batch control.

Inconsistencies were noted in the classification of certain General Fund equipment purchases. We recommend that all purchase requisitions

## SUMMARY

### Expenditures - continued

be reviewed for classification and coding at the Administrative Office.

The numerical designation was duplicated on two forms. We recommend that a new number be assigned to one form and that the Business Office maintain control over assignment of all form numbers for the Department.

There is a lack of control over the accounting for encumbrances. We recommend that present procedures be reviewed to improve control in this area.

### Donated Federal Commodities

Billings for storage charges are being approved by the cafeteria managers without verifying such charges. We recommend that the Department review this problem and devise a method to verify storage charges of State Reserve Commodities.

The same type of form is being used by two different persons in summarizing the ordering of commodities from the State Reserve. We recommend that the form be revised in order that one form can be used by both persons in performing their respective tasks.

The computerized summary of the commodities inventory is not being reconciled to the input data. We recommend that the summary be reconciled with the input information by using adding machine tape totals.

Transfers of commodities are occurring too frequently and, consequently, considerable time and effort are spent in the transfer and

## SUMMARY

### Donated Federal Commodities - continued

recording procedures. We recommend that commodity requirements be analyzed more carefully by the Administrative Office in allocating such items received from the USDA and by the individual schools in ordering from the State Reserve.

There are wide fluctuations in monthly inventory balances of State Reserve Commodities and, consequently, the Program may be paying more than is necessary for storage charges. We recommend a careful review and analysis of the Program's requirements before preparing the quarterly projection to the USDA.

### Inventory

The maintenance of perpetual inventory records is a procedural requirement of the Program and aids in controlling the purchase and use of food and supplies. We recommend that the Department ascertain that such requirement is being complied with and that the cafeteria managers exercise care in maintaining records.

Cafeteria managers presently do not maintain food spoilage records to determine the cause and frequency of spoilage. We recommend that such records be maintained to improve purchasing and storage procedures and methods.

### Payroll

Lack of written policies have resulted in a variety of timekeeping

## SUMMARY

### Payroll - continued

practices. Standardized policies and procedures for timekeeping reports should be formulated.

There is no policy regarding the type of documents that should be kept in the personnel files, and they are not being reviewed periodically. We recommend the adoption of written guidelines on the items to be included in and periodic review of such files.

There appears to be a duplication in the maintenance of payroll records. We recommend that payroll recording procedures be reviewed to possibly eliminate this duplication.

### Data Processing

The procedure of canceling input documents during processing of such data at the computer center is not being consistently followed. All input data should be canceled to prevent reprocessing of such documents.

Because there is no system of controlling pre-determined batch totals, differences between input data and the computerized information may go undetected. We recommend a system of maintaining batch controls to prevent such discrepancies.

The Department's computer center does not have a programming manual and, consequently, certain programming techniques have not been standardized. We recommend the preparation of such a manual, which will facilitate communication, assist in training and prevent conflicting procedures.

SUMMARY

Data Processing - continued

The final testing of programs is not made with actual data, and such tests do not include transactions designed to violate control procedures. These procedures should be included in the testing of all programs.

Periodic checking of equipment for accuracy through the processing of test data is not presently being performed and, therefore, we recommend that such a procedure be established.

We noted that there are no written plans for future changes in the computer system and recommend that provisions be made for such written plans.

## GLOSSARY

### ADMINISTRATIVE OFFICE

A term used in this report as a reference to the School Lunch Services.

### APPROPRIATION

An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes.

### APPROPRIATIONS LEDGER

A detailed record containing an account for each appropriation. Each account usually shows the amount originally appropriated, transfers to or from the appropriation, amounts charged against the appropriation, the net balance and other related information.

### BATCH PROCESSING

A technique used in data processing in which information to be processed by the computer are collected into groups (batched) to permit convenient and efficient processing.

### BATCH TOTAL

The sum of a group of information that is used to check the accuracy of the related computerized data.

GLOSSARY - CONTINUED

BUSINESS OFFICE

A term used in this report as a reference to the Department's Office of Business Services.

COMPUTER PROGRAM

The complete plan for the solution of a problem on the computer; more specifically, the complete sequence of machine instructions and routines necessary to solve a problem.

CONTROL ACCOUNT

A summary of certain accounting information that appears as one item on a financial statement; it is supported by a detailed classification of that information.

ENCUMBRANCES

Obligations in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

EXPENDITURE VOUCHER

A form used to summarize, by claimant, invoices which have been approved for payment.

FOOT

An accounting term, which means "to add".

GLOSSARY - CONTINUED

INPUT DOCUMENT

A data processing term, which refers to a form, voucher, or written evidence of a transaction which is to be processed.

KEYPUNCH

A data processing term, which refers to the recording of information on cards or tapes for processing by the computer.

SATELLITE SCHOOL

A term used in this report as a reference to a school that maintains facilities only for serving food prepared at another school cafeteria.

SUMMARY WARRANT VOUCHER

A form used for departmental certification of claims for payment that are supported by expenditure vouchers and invoices and for the preparation of warrants.

PERFORMANCE BOND

A written promise to indemnify a customer for losses caused by the party or parties named in the document, through non-performance or through default.

GLOSSARY - CONTINUED

WARRANT

A draft for the payment of money, drawn by the Comptroller upon the State Treasury and payable on demand within a specific period.

PART III

COMMENTS BY AFFECTED AGENCIES

**A MEMORANDUM ON THE COMMENTS MADE BY  
THE AFFECTED AGENCIES**

This financial audit report of the school lunch services program of the department of education was completed in January 1971 by a joint venture of certified public accounting firms. A preliminary copy of the report or a section thereof was distributed to the department of education and the department of budget and finance via a transmittal letter, a copy of which is attached as Attachment No. 2. The departments were requested to submit their comments on the recommendations contained in the report, including information as to the specific action they have taken or intend to take with respect to the recommendations.

The departments, in their responses (see Attachments 3 and 4), have expressed general agreement with the recommendations made by the contract auditors and have indicated that they are implementing or will implement most of the changes recommended.

The contract auditors were requested to submit their comments on the departments' responses. A copy of the contract auditors' reply is attached as Attachment No. 1. The auditors limited their reply to those areas where the agency had some special comment to make.

*ATTACHMENT NO. 1*

February 5, 1971

Mr. Clinton T. Tanimura  
Auditor  
State of Hawaii  
State Capitol  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

In compliance with your request, we submit the following comments on the memorandum you received from the Chairman of the Board of Education dated February 2, 1971, and the letter from the Director of Finance dated February 3, 1971, both of which were written in response to the comments and recommendations contained in the Management Letter on our review of the system of accounting and internal control of the School Lunch Services Program of the Department of Education for the year ended June 30, 1970. The departments concerned have concurred with substantially all of our findings, therefore, we are limiting our comments to those areas where we feel that further discussion is required.

The need for additional manpower and the extent of this need cited by the Chairman of the Board of Education is not apparent in all instances.

1. Centralizing of food and supply purchases will require additional manpower. However, we recommend that the Department of Education utilize the resources available within its own Procurement and Distribution Section and at the Purchasing and Supply Division of the Department of Accounting and General Services to the fullest extent possible, and if such resources are inadequate to meet these new requirements, consideration should be given to the hiring of additional personnel.
2. In our comments on the deposit and transfer of cash receipts, we did not recommend any procedural changes which would require additional manpower. We merely recommended that the existing procedures be followed on a timely basis.
3. We are unable to assess the additional manpower requirements for processing vouchers with adding machine control tapes of the dollar amounts since we have no information on the volume of transactions generated by the Department of Education outside of the School Lunch Services Program.

Clinton T. Tanimura  
Page 2  
February 5, 1971

4. In our recommendation that the billings of storage charges be verified, we did not contemplate that a 100% check would be made unless tests indicate that there are sufficient errors in the computations to warrant a 100% check. Furthermore, we question the need for referring to usage records of commodities when requirements can be projected from the standard menus being used by each district.

As indicated by the Director of Finance in item 3 of his letter, we did visit the SWIS offices at the Kamamalu building where we examined the SWIS Technical Manual which is a collection of memorandums and instructions on various phases of computer center operations. These memorandums and instructions appear to have been prepared as the need arose for them rather than with a view towards preparing a complete manual. A Systems Development Guide is in its final phases of completion. This guide together with the Technical Manual should provide a complete programming manual.

We are pleased to note that the Department of Education and the Department of Budget and Finance have accepted our comments and recommendations in constructive spirit in which they were made. Should you have any questions on the above comments or if we can be of any further assistance to you, please call us.

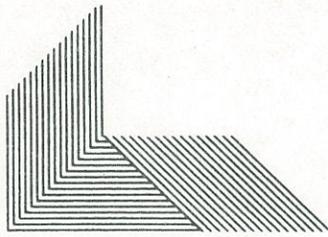
Very truly yours,



Main Lafrentz & Co.  
Inagaki, Mukai, Fo & Morikawa  
Ishimoto, Imamoto & Company  
Herman G. P. Lemke

HT:en

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
STATE CAPITOL  
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA  
AUDITOR  
YUKIO NAITO  
DEPUTY AUDITOR

January 22, 1971

Dr. Richard E. Ando  
Chairman, Board of Education  
Queen Liliuokalani Building  
Honolulu, Hawaii

C  
O  
P  
Y

Dear Dr. Ando:

Enclosed is a copy of our preliminary report on the financial audit of the State School Lunch Services Program covering the fiscal year ended June 30, 1970. The audit was conducted by Main LaFrentz & Co., et al., certified public accountants, under contract with this office.

The term, "preliminary," indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor and the presiding officers of both houses of the Sixth State Legislature. In addition, we have forwarded three copies of the report to the superintendent of your department.

The report is presented in two parts—the first entitled, "Report on Examination," and the second, "Management Letter." The report contains a number of recommendations. I would appreciate receiving the Board's written comments on them, including information as to the specific actions that have been taken or will be taken with respect to the recommendations. Please have your comments submitted to us by February 3. Your comments will be incorporated into the report and the report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before January 29. Please call our office to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

We appreciate the assistance and cooperation extended by your department's staff to our auditors.

Sincerely,

Clinton T. Tanimura  
Legislative Auditor

Enclosure

cc: Dr. Shiro Amioka



STATE OF HAWAII  
BOARD OF EDUCATION

P. O. BOX 2360  
HONOLULU, HAWAII 96804

February 2, 1971

MEMO TO: Mr. Clinton T. Tanimura, Legislative Auditor  
State Capitol

F R O M: Richard E. Ando, Chairman  
Board of Education

SUBJECT: Legislative Audit: School Lunch Services

The Department of Education deeply appreciates the extensive and thorough audit of the School Lunch Services audit performed by your staff.

Members of the Business Office and School Lunch Services staff met with the CPA firms' staff members to review the Report on Examination and the Management Letter on January 26, 1971. We feel that the audit findings offer many valuable recommendations in the improvement of the program.

Some of the recommendations require additional resources and manpower to comply. For example:

- 1) Centralizing of food and supply purchases by district may require two full time personnel. (Page 16)
- 2) Deposit and daily transfer of funds into the State Treasury will require an additional account clerk. (Page 23)
- 3) Recording of encumbrances and processing of vouchers with adding machine control tapes of dollar amounts will require two additional clerks. (Page 43)
- 4) Verification of billings on storage charges and other duties will require an additional clerk to assist the commodity Distribution Assistant. (Pages 46, 48 & 52)

Mr. Clinton T. Tanimura  
Legislative Auditor

- 2 -

February 2, 1971

Action was taken earlier to correct some of the shortcomings listed in the audit report; however, they required the assistance of State-wide Information Service (SWIS) which controls Computer Center #3. Requests for such assistance were not acted on.

KHT:SWD:mi

COMMENTS ON LEGISLATIVE AUDIT  
SCHOOL LUNCH SERVICES

Legislative Auditor recommendation (page 16)

. . . the School Lunch Services expand on its present practice of negotiating contracts by centralizing the purchasing of substantially all food and supplies.

Comment

We concur with the recommendation. The School Lunch Services shall work with the Procurement and Distribution Section (DOE) and the Purchasing and Supply Division (DAGS) to determine items, quantities and methods for expansion of central purchasing. We shall request a status report by June 30, 1971, detailing the extent of expansion planned for the school year beginning September, 1971. If the purchasing function is lodged in the DOE, additional manpower of 2 purchasing agents will be needed to handle this function and the swill sales on page 32.

L A R (page 16)

. . . a study be made to determine the feasibility of acquiring and maintaining district warehouse facilities . . .

Comment

We concur with this recommendation and shall authorize a staff study to determine not only the feasibility for School Lunch Services requirements, but other DOE requirements as well.

L A R (page 18)

. . . continue to plan for centralized food preparation centers in new school developments.

Comment

In the PPB analytic document for School Lunch Services submitted to the Legislative Interim Committee, the recommended alternative closely parallels the Legislative Auditor's recommendation.

L A R (page 23)

. . . financial reports be revised . . . and snack bar operations be segregated . . .

Comment

The Business Office is cognizant of the shortcomings of the present financial reports. A request was made on October 9, 1970 to the Statewide Information Services (SWIS) to revise the computer printout of the financial reports to reflect all costs, whether they be charged to Special Funds or General Funds. No action has been taken

to date. Segregation of snack bar costs will be requested of SWIS.

L A R (page 24)

The Department should also study this problem (i.e. use of tokens) further to eliminate the need for the use of money substitutes . . .

Comment

The Department of Education in its Department Procedure Bus. 69-50-A, page 5, clearly states that an eligible needy child shall not be required to "use ticket or token which will identify them as a free lunch recipient."

However, with the exception of a universal free lunch for all students, no alternative has been discovered that will totally protect the anonymity of the needy child. We recognize that Bus. 69-50-A, page 4, describes methods which are less than ideal. The School Lunch Services shall continue to work closely with the U.S. Department of Agriculture in an attempt to resolve this problem.

L A R (page 25)

. . . the School Lunch Services . . . should take immediate steps to determine why participation (of needy students) . . . at Dole is so low . . .

Comment

The School Lunch Supervisor for the Honolulu schools shall review the situation at Dole Intermediate the week of February 8, 1971 and report her findings to the District Superintendent.

L A R (page 28)

. . . The Business Office enforce compliance of the rule and transfer such monies to the State Treasury as soon as possible.

Comment

The Business Office will work with the District Superintendents and the Principals to remedy this situation. If daily deposits into the State Treasury are necessary, an additional account clerk will be needed, because the clerk handling this function has a full load.

L A R (page 29)

. . . The schedule of monthly billings . . . be revised . . . (and) monthly statements should be prepared . . .

Comment

We concur with the recommendation and shall request the Business Office to be in full compliance no later than September 1, 1971.

L A R (page 30)

. . . monthly reconciliations be made . . . to give assurance that revenues are being properly recorded and . . . financial reports are being correctly prepared.

Comment

While we recognize the value inherent in this recommendation, we note that such reconciliation is done on an annual basis. To reconcile monthly would require approximately 2 to 3 man days per month. With present workload, the reconciliation would result in some other activity being curtailed.

L A R (page 30-31)

. . . The accounting of cash receipts and lunch sales be made by lines . . .

Comment

We concur and shall request the School Lunch Services to provide the necessary instructions and forms so that all schools will be in compliance no later than September 1, 1971.

L A R (page 31)

. . . soft drink vending machine in (a teachers' dining room) . . . this matter be reviewed.

Comment

Department of Education policy directs that all income from food and beverage sales accrue to the School Lunch account. We recognize that the service available to the teachers of one school (or a few schools) is not a standard practice. We shall request the Leadership Group to review the matter and make a recommendation for course of action.

L A R (page 32)

. . . The Department re-examine this policy (i.e. Sale of Ice cream, Candy and Other Foods) . . .

Comment

The policy is currently under review.

L A R (page 32)

. . . procedures be outlined by the Department (to govern the disposition of swill). . .

Comment

The School Lunch Services will review and summarize present practices and prepare for the Department's consideration a recommended procedure for the disposition of swill.

L A R (page 33)

. . . the adoption of a policy which requires two signatures on all checks issued.

Comment

We concur. The Business Office shall develop a procedure that will assure compliance to the extent possible.

L A R (page 34)

. . . persons authorized to sign checks be persons other than those responsible for maintaining related records.

Comment

We concur. As in the above, the Business Office shall develop the implementing procedure. However, we recognize that in small schools there may be difficulty in achieving complete compliance.

L A R (page 34)

. . . another adult be present when (cash) counts are made . . .

. . . tasks of servicing meals and collecting cash . . . should be segregated . . .

Comment

We concur. We shall request that steps be taken by the line administrator and staff agencies to comply with both of these recommendations.

L A R (page 36)

. . . School Lunch Services . . . and DAGS review the possibility of combining their purchases to optimise their results.

Comment

The School Lunch Services shall review the possibility as it proceeds with the expansion of central purchasing.

L A R (page 37)

. . . the invoice be sent directly to the Administrative Office by the vendor and a receiving report be prepared by . . . the manager . . .

Comment

The School Lunch Services indicates that this recommendation is most practical and will take necessary steps to implement by September 1, 1971.

L A R (page 38)

. . . purchasing office exercise due care in the review of all purchase requests . . .

Comment

The Department's purchasing office shall exercise such care.

L A R (page 38)

. . . all purchase orders be prepared and approved before the commitments are made . . .

Comment

With the exception of true emergency situations, full compliance will be effective within 30 days.

L A R (page 39)

. . . instruct all school lunch managers to refrain from (violating central purchasing contracts) . . .

Comment

On February 1, 1971, at district meetings of cafeteria managers, this instruction was repeated.

L A R (page 40)

. . . make purchases through formal bidding process . . .

Comment

The School Lunch Services shall consolidate equipment purchases to the extent possible in order to utilize the formal bidding process.

L A R (page 42)

. . . adoption of the procedures being followed for General Fund expenditures . . . (when purchasing food and supplies) . . .

Comment

We concur. Implementation will provide more assurance that funds are being handled in a responsible manner.

L A R (page 43)

. . . taking adding machine tapes of the input items . . . comparison . . . with . . . computerized data . . .

Comment

At the present time we do check output data with the invoices when processing payments. To comply with this recommendation and to include all data submitted to the computer by the vouchering section will require two additional clerks.

L A R (page 43)

. . . all purchase requisitions be reviewed at the Administrative Office for classification and coding . . .

Comment

Although this procedure is currently being followed, it is obvious that greater care is needed in its execution.

L A R (page 44)

. . . a different numerical designation be assigned to the purchase order work sheet . . . (and) . . . the Business Office maintain control over the assignment of all form numbers for the Department . . .

Comment

We concur. Administrative action will be taken to implement these recommendations.

L A R (page 45)

. . . procedures presently being used to account for encumbrances be reviewed . . .

Comment

Such review shall be initiated during the current school year.

L A R (page 45)

. . . all liabilities be reported as soon as invoices are received.

Comment

Inasmuch as the audit here is primarily concerned with utility bills received after June 30th of each year, a short staff study will be necessary to determine the practicality of complying with this recommendation.

L A R (page 46)

. . . devise a method whereby storage charges of State Reserve Commodities can be verified . . .

Comment

Compliance with this recommendation is necessary to assure that the Program is properly charged for services. The School Lunch Services Commodity Distribution Assistant shall review the problem with the contracting warehouse to determine possible methods. It should be noted that an acceptable method may result in additional position, because the incumbent is working at capacity.

L A R (page 47)

. . . revision of the aforementioned form . . .

Comment

Revision of the form was made during the period of the audit.

L A R (page 48)

. . . dollar value of the ending inventory (SL-4A) . . . and compared with total . . . on SL-16 . . .

Comment

This is a reasonable recommendation to comply with, except that even the one or two hours per month would place added workload on Commodity Distribution Assistant.

L A R (page 50)

. . . Administrative Office review present method of allocation (federal) commodities . . . and School Lunch Managers review their projected requirements more carefully . . .

Comment

Transfers of federal commodities should not be excessive, but the transfers can contribute to program effectiveness. For instance, a delayed shipment from the west coast can, in part be offset by schools pooling their inventories of commodities.

We note that in its annual review of the Commodity Distribution Program, the U.S. Department of Agricultural recommended an increase in the School Lunch Services staff of one to two positions to permit the Commodity Distribution Assistant the time and hands necessary to improve the program.

L A R (page 52)

. . . more care be exercised in the quarterly projection of commodity requirements . . .

Comment

This concern was also expressed by the USDA in its review of the program. It is estimated up to one week per month would be required to compile and maintain accurate usage records of commodities by district and school. At present, this remains a long range objective due to level of staffing. If an additional clerk is available as indicated in our earlier reply, this recommendation may be accomplished sooner.

L A R (page 55)

. . . Department ascertain that all schools are complying with such requirements (i.e. maintenance of perpetual inventory records).

Comment

The School Lunch Supervisors have stressed, and will continue to stress the importance of full and accurate inventory records in their visitations and district meetings.

L A R (page 55)

A spoilage record should be maintained by all lunch managers . . .

Comment

The School Lunch Services will develop a form and set of instructions for a record of spoilage of purchased food items similar to Form SL-4D, Reporting Loss or Damage to Federal Commodities.

L A R (page 56)

Shortages should be investigated immediately . . .

Comment

Implementation of this recommendation will be a part of the procedure noted in the comment immediately preceding this one.

L A R (page 57-58)

. . . formulation of standardized policies and procedures for timekeeping . . .

Comment

Such standard procedures were initiated and will be in effect February 1, 1971.

L A R (page 59)

. . . the Department adopt written guidelines on items to be included in the personnel files . . .

Comment

There are written procedures for payroll deduction authorization in the Business Office Handbook, Section XIII. There are written procedures for filing the Payroll authorization documents in the Business Office Handbook, Section XIII and the Office of Personnel Services was informed on filing the procedures of their documents by DAGS.

L A R (page 60)

. . . recording of gross earnings on the (Payroll Master) cards should be discontinued . . .

Comment

Currently, the data from the Payroll Master Card are needed quite frequently to 1) compute any retroactive pay adjustments; 2) provide Department of Labor with gross quarterly earnings information on separated employees, who claim unemployment compensation; 3) compute summer salaries for teachers who resign before June; and 4) determine employees' leave status, because of the delay in receipt of the leave reports from Computer Center #3.

After the revised payroll system goes into effect after July 1, 1971, the Payroll Master Card will be phased out.

L A R (page 60)

. . . the Department conduct an investigation to determine reasons for the backlog at Computer Center #3 . . . and where the vacation and sick leave records can best be kept.

**Comment**

Numerous requests were made in the past to SWIS to improve our leave accounting system. Recently, a representative from SWIS informed us that the backlog will be ironed out so that the Department of Education will be receiving monthly leave reports.

The vacation and sick leave records are kept at the schools because of the following:

1. For inquiry by the employee of his balance.
2. To authorize the leave requests and to give approval for transfer of leave credits or authorize payments in lieu of vacation leave balance on termination.

Vacation and sick leave records are kept in the Payroll Office because the records are used to audit the documents that are sent in from the originating organizations.

The comments on page 61 and thereafter will require the Department of Budget and Finance to prepare necessary replies, because they apply to computer operations, which are under the jurisdiction of SWIS.

JOHN A. BURNS  
GOVERNOR

ATTACHMENT NO. 4

HIRAM K. KAMAKA  
DIRECTOR

COMMISSION ON CHILDREN AND YOUTH  
STATE COMMISSION ON AGING  
EMPLOYEES' RETIREMENT SYSTEM  
EMPLOYEES' GROUP MEDICAL AND  
HOSPITAL CARE INSURANCE PLAN



DIVISIONS:  
BUDGET  
FINANCE  
STATEWIDE INFORMATION  
SYSTEM

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
STATE CAPITOL  
P. O. BOX 150  
HONOLULU, HAWAII 96810

February 3, 1971

Mr. Clinton T. Tanimura  
Legislative Auditor  
State Capitol  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for your letter of January 28, 1971 regarding your preliminary report on the financial audit of the State School Lunch Services Program covering the fiscal year ended June 30, 1970 and the opportunity to meet with Mr. Wilbert Sakamoto of your staff and the representatives of Main La-Frentz & Co., the certified public accountants, who performed the audit for your office.

On the morning of February 1, 1971 at a meeting in my office with Messrs. Sakamoto, Hisao Taniguchi and Merrald Wakazuru we discussed the following matters which were brought to your attention during your review of the data processing internal controls of Computer Center No. 3 of the Statewide Information System which handles the Department of Education's computer processing.

(1) Documents Not Canceled

We agree that enforcement of the procedure of placing a check mark on the bottom of input documents after the information is keypunched is a valid concern. However, not only do we agree that the procedure must be followed consistently, but we also believe that in our overall responsibility to all departments that a

better system should be made including perhaps, provision for a printed portion on each document to be used for keypunch verification.

(2) No System of Batch Control

The concern regarding the lack of a system of controlling pre-determined batch totals or working in batches is a matter of concern with SWIS as well. However, we are cognizant of the concerns of the "user" agencies and wherever they have requested that we do not utilize batch controls because of their departmental problems, we have generally acceded to their request. We will discuss this matter again with the department and if jointly we deem the benefits accruing to the State to outweigh any disadvantages we will resume the batch control system.

(3) No Programming Manual

At the meeting the Legislative Auditor's contractors indicated that they had visited only Computer Center No. 3 and were not aware that the Programming Manual was available and is being utilized by those concerned at the SWIS administrative offices where all systems analysts and programmers are housed. The Legislative Auditor's contractors were accompanied by SWIS personnel immediately after the meeting of February 1, 1971 to visit the SWIS offices at the Kamamalu Building where I understand they examined and were satisfied that a Programming Manual of the kind about which the Legislative Auditor's contractors were concerned is available.

(4) Program Maintenance

The Legislative Auditor's contractors suggested that SWIS-designed test items have every phase of the program involved. While SWIS conducts programming tests prior to running any program as well as interim tests, we also believe that procedures should be

incorporated in the testing of all programs to give added insurance to the reliability to the programs before they are put on operational status as recommended by the Legislative Auditor's sub-contractors. We will implement such testing procedures.

(5) Equipment Not Periodically Checked

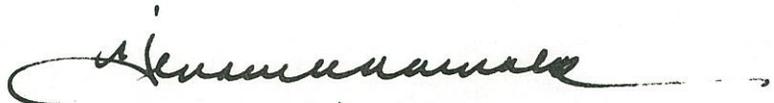
The equipment is checked each Wednesday by IBM representatives since the hardware are IBM machines. Further, the Center's personnel performs hardware diagnostics once a day. This test will be increased in number and shall be run more frequently during each day.

(6) No Written Plan for Future Changes

The Legislative Auditor's representative and contractors were informed that written plans for changes to be made to the computer system are presently being considered by the administration and that Systems Consultants, Inc. was under contract by the State administration covering the points raised by the Legislative Auditor's contractors as well as covering such basic matters as a philosophy of data processing and information management which the State should have coupled with a general implementation plan.

I hope that this letter attempts to explain more fully the practices and procedures which SWIS follows as well as to shed some greater degree of clarification on the matters raised by the Legislative Auditor's contractors.

Very truly yours,



HIRAM K. KAMAKA

APPENDIX

APPENDIX A



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P. O. BOX 2360  
HONOLULU, HAWAII 96804

February 17, 1971

OFFICE OF BUSINESS SERVICES

TO : Dr. Richard Ando, Chairman, Board of Education  
Dr. Shiro Amioka, Superintendent, Dept. of Education

THROUGH: Koichi H. Tokushige, Assistant Superintendent, Off. of Business Serv. *STP*

FROM : Stanley W. Doucette, Director, School Lunch Services *SWD*

SUBJECT: Legislative Audit Re: School Lunch Program

The Management Letter from the Legislative Auditor reporting on the audit of the School Lunch Program noted on Page 25 that "...only 465 free and reduced price lunches were served during the entire school year by Dole Intermediate School."

The Legislative Auditor recommended that "...the School Lunch Services Program should take immediate steps to determine why participation by the students at Dole is so low when the area has many students who are eligible...(for free lunches)."

During the week of February 8, 1971, Mrs. Jane Ditzel, School Lunch Services Supervisor for the Honolulu District, met with Principal Howard Takenaka and Counselor Jolly Peterson of Dole Intermediate School to review the standards and procedures for determining eligibility for free lunches.

Late in January, Dole Intermediate School, as did all other schools, distributed letters and applications to parents regarding availability of free lunches. Within two weeks, 30 applications were received and by February 17, an additional 20 applications were received. Thus, as of this date, 50 students are receiving free lunches at Dole.

Mr. Takenaka expressed his concern about participation in the past and accounted for it as follows:

1. Psychological attitude of the students affects the number participating. Students at the intermediate grade level develop a sense of pride and find it difficult to yield to recognizable assistance.

Legislative Audit Re: School Lunch Program

Page 2

February 17, 1971

2. Identification. Students are sensitive to be labeled a recipient. Various methods have been used in the lunch line to avoid discrimination, however, no way to fully protect the anonymity of the recipient has been discovered. Presently, a daily check sheet is used. Hopefully, all recipients will be identified by the checker so that no overt identification will exist.
  
3. Attitude of the teachers. Students have been reported to complain about the embarrassment caused by teachers labeling students receiving free lunches as needy. Mr. Takenaka has taken steps to correct this situation. It is possible that there may be some carry over of resentment by students that continues to affect participation.

Although the potential number of eligible students are not yet being reached, the recognition of past deficiencies and positive steps currently being taken have resulted in a marked improvement in the services to the needy students at Dole. Continued effort will be made to reach additional needy students.

cc Mr. Teichiro Hirata  
Hon. Akira Sakima  
Mr. Clinton Tanimura

## PUBLISHED REPORTS OF THE LEGISLATIVE AUDITOR

### Audit Reports

- 1966 1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).
- 1967 1. Overtime in the State Government, 107 pp.  
2. Management Audit of Kula Sanatorium, 136 pp.
- 1968 1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p. (out of print).  
2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p. (out of print).  
3. Financial Audit of the Department of Regulatory Agencies for the Fiscal Year Ended June 30, 1967, v.p. (out of print).  
4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.  
5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.  
6. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1966 to January 31, 1968, 69 pp. (out of print).  
7. State Capital Improvements Planning Process, 55 pp. (out of print).  
8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp. (out of print).  
9. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1967 to June 30, 1968, 42 pp.
- 1969 1. Financial Audit of the General Fund, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p. (out of print).  
2. Financial Audit of the Judicial Branch, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p. (out of print).  
3. Financial Audit of the State Department of Budget and Finance for the Fiscal Year Ended June 30, 1968, v.p.  
4. General Audit of the Department of Personnel Services, State of Hawaii, 129 pp. (out of print).  
4. A Summary of the General Audit of the Department of Personnel Services, 53 pp.  
5. Financial Audit of the Samuel Mahelona Memorial Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.  
6. Financial Audit of the Honokaa Hospital for the Fiscal Year Ended June 30, 1968, 41 pp.  
7. Financial Audit of the Kohala Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.  
8. Financial Audit of the Kona Hospital for the Fiscal Year Ended June 30, 1968, 44 pp.  
9. Financial Audit of the Kauai Veterans Memorial Hospital for the Fiscal Year Ended June 30, 1968, 30 pp.  
10. An Overview of the Audits of the Act 97 Hospitals, 18 pp.
- 1970 1. Management Audit of the Department of Water County of Kauai, 65 pp.  
2. Audit of the Kamehameha Day Celebration Commission, 47 pp.  
3. Audit of the Medical Assistance Program of the State of Hawaii, 392 pp.

### Other Reports

- 1965 1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).  
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii, 17 pp.
- 1966 1. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp.
- 1967 1. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.  
2. State-City Relationships in Highway Maintenance, and Traffic Control Functions, 28 pp.  
3. Manual of Guides of the Office of the Legislative Auditor, v.p.
- 1969 1. Transcript of Seminar in Planning-Programming-Budgeting for the State of Hawaii, 256 pp.  
2. Airports System Financing Through Revenue Bonds, 9 pp.  
3. Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967 (Relating to State-County Relationships), 13 pp. (out of print).  
4. An Overview of the Governor's 1969-70 Capital Improvements Budget, 61 pp.  
5. A Supplementary Report on the Audit of the Hawaii Visitors Bureau, 2 pp.
- 1970 1. A Study of the Compensation of Coaches of Interscholastic Athletics of the State Department of Education, 31 pp.

LEGISLATIVE AUDITOR  
STATE CAPITOL  
HONOLULU, HAWAII 96813