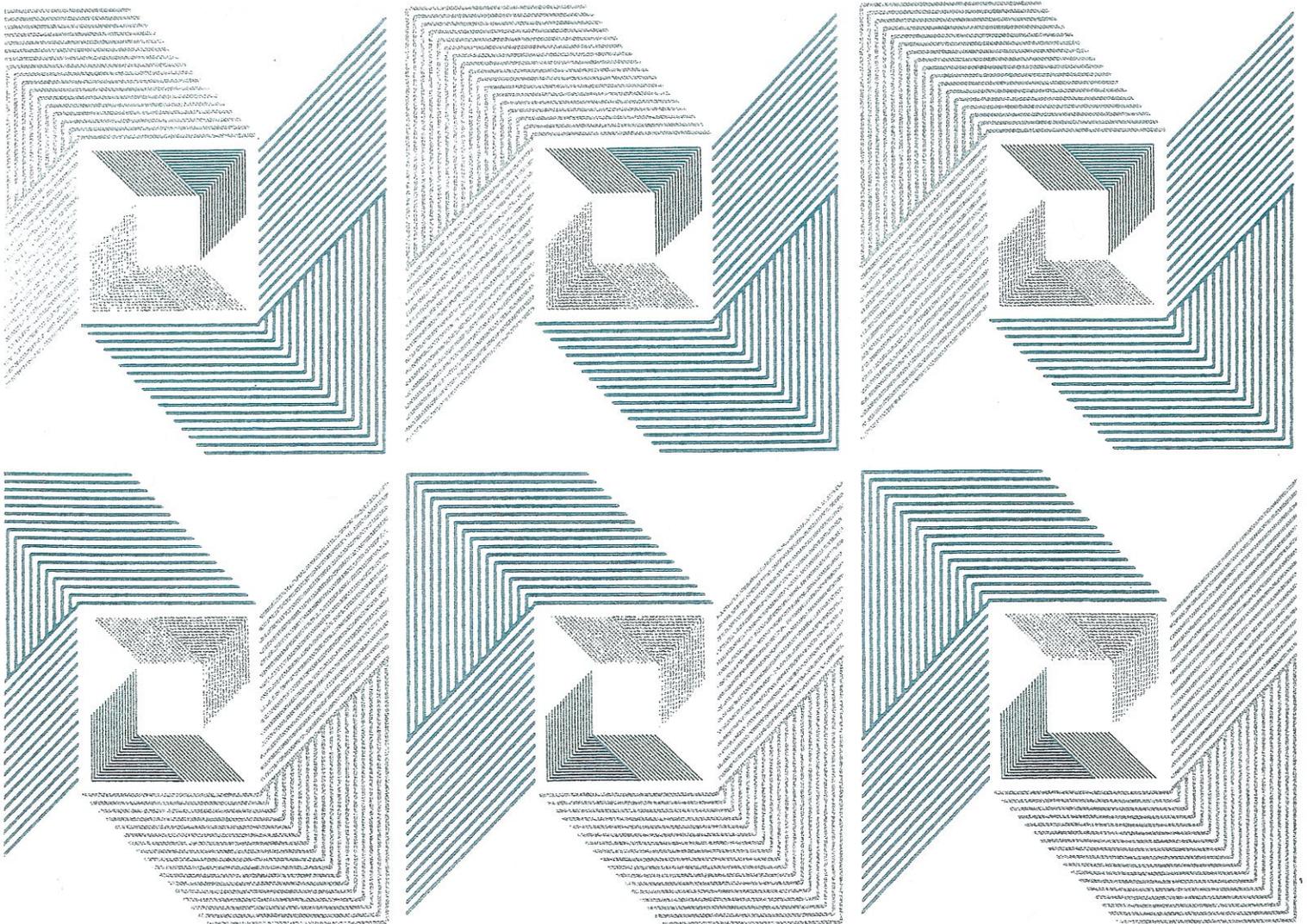


OPERATIONS AND FINANCIAL AUDIT OF THE SCHOOL FOOD SERVICES PROGRAM

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



**THE OFFICE
OF THE LEGISLATIVE AUDITOR**

The missions of the Office of the Legislative Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* are conducted of professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with a schedule and criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Legislative Auditor as to its probable effects.
5. *Health insurance analyses* are conducted on bills which propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Legislative Auditor for an assessment of the social and financial impact of the proposed measures.
6. *Special studies* are conducted when they are requested by both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Legislative Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Legislative Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



LEGISLATIVE AUDITOR

LEGISLATIVE AUDITOR
KEKUANA'O'A BUILDING, RM. 500
465 SOUTH KING STREET
HONOLULU, HAWAII 96813

**OPERATIONS AND FINANCIAL AUDIT
OF THE
SCHOOL FOOD SERVICES PROGRAM**

.....

Conducted by

**Office of the Legislative Auditor
State of Hawaii**

and

**Coopers & Lybrand
Certified Public Accountants**

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

**Legislative Auditor of the State of Hawaii
Honolulu, Hawaii**

**Report No. 90-2
January 1990**

FOREWORD

The Department of Education is responsible for implementing school meal programs that fulfill the legislative intent of the National School Lunch Act and other related federal laws. The School Food Services Branch administers the School Food Services Program which also includes supplementary food such as sandwiches and desserts, and a breakfast program at certain schools.

In 1971, the Office of the Legislative Auditor issued the Financial Audit of the State School Lunch Services Program. In that audit, we found that the department was not implementing effectively the program for free and reduced-price lunches. We reported on the need for more outreach and sensitivity to protecting the anonymity of needy students. This report examines the department's current management of the free and reduced-price lunch program and includes a financial audit of the School Food Services Program. The independent CPA firm of Coopers & Lybrand conducted the financial audit.

We wish to express our appreciation for the cooperation extended to us by the Department of Education, especially the staff at the School Food Services Branch, the district offices, and the schools that we surveyed during the course of the audit.

Newton Sue
Acting Legislative Auditor
State of Hawaii

January 1990

TABLE OF CONTENTS

<i>Chapter</i>		<i>Page</i>
1	INTRODUCTION	1
	Objectives of the Audit	1
	Scope of the Audit	1
	Organization of the Report	2
2	BACKGROUND	3
	Hawaii's School Food Services Program.....	4
	The Free and Reduced-Price Lunch Program	5
3	ASSESSMENT OF THE FREE AND REDUCED- PRICE LUNCH PROGRAM.....	7
	Summary of Findings	7
	Need to Promote the Free and Reduced-Price Meal Program	7
	Need to Protect the Anonymity of Participating Students	9
	Some Alternatives	11
	Recommendations	13
4	FINANCIAL AUDIT	15
	Summary of Findings	15
	Inadequate Monitoring of Cafeteria Cash Receipts....	15
	Recommendation	16
	Independent Auditor's Report	16
	Descriptions and Definitions	17
	Notes to Financial Statements	18
	NOTES	31
	RESPONSES OF THE AFFECTED AGENCIES....	33

LIST OF TABLES

<i>Tables</i>		<i>Page</i>
2.1	Number and Percentage of Lunches Served Fiscal Year 1988-89	5
3.1	Percent Participating in Free and Reduced Price Program by District and School Level, October 1988	8
3.2	Number of Students Paying Cash and Using Tickets at Four High Schools	11

LIST OF EXHIBITS

<i>Exhibits</i>		<i>Page</i>
A	Combined Balance Sheet - Special Revenue Funds - June 30, 1989	23
B	Combined Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund Accounts and Special Revenue Funds - for the Year Ended June 30, 1989	24
C	Combined Statement of Revenues and Expenditures - Budget and Actual - General Fund Accounts and Special Revenue Funds - for the Year Ended June 30, 1989	25
D	Combining Balance Sheet - Special Revenue Funds - June 30, 1989	26
E	Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds - for the Year Ended June 30, 1989	27

LIST OF SCHEDULES

<i>Schedules</i>	<i>Page</i>
I Schedule of Expenditures - Budget and Actual - General Fund Accounts - for the Year Ended June 30, 1989	28
II Schedule of Expenditures - Budget and Actual - Special Revenue Funds - for the Year Ended June 30, 1989	29

Chapter 1

INTRODUCTION

The National School Lunch Act provides federal assistance to public and private schools so that all school children are assured nutritious meals. Schools participating in the school lunch program must agree to serve free or reduced-price lunches to children falling within certain income poverty guidelines. Schools must not overtly identify these children or discriminate against them in any way.

In 1971, the Office of the Legislative Auditor issued the *Financial Audit of the State School Lunch Services Program*. In conducting the audit, we found that the Department of Education was not implementing effectively the program for free and reduced-price lunches. We reported on the need for more outreach work and for more sensitivity in protecting the anonymity of needy students.

This audit of the School Food Services Program was performed pursuant to Section 23-4, *Hawaii Revised Statutes*, which requires the auditor to conduct postaudits of the transactions, accounts, programs, and performance of state departments. It follows up on the department's current management of the free and reduced-price lunch program and includes a financial audit of the School Food Services Program which was conducted by the certified public accounting firm of Coopers & Lybrand.

Objectives of the Audit

The objectives of this audit were:

1. To assess the effectiveness of the Department of Education's operation of the free and reduced-price lunch program, including

the adequacy of its outreach efforts and its procedures for protecting the anonymity of students participating in the program.

2. To assess the adequacy, effectiveness, and efficiency of the department's systems and procedures for financial accounting, internal control, and financial reporting, and to render an opinion regarding the fairness of the financial statements relating to the School Food Services Program.

3. To ascertain whether expenditures and other disbursements for the School Food Services Program have been made, and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules, policies, and procedures.

Scope of the Audit

The audit focused on the implementation and operation of the free and reduced-price lunch program at public schools. We surveyed a sample of schools at all grade levels in all seven school districts to observe program operations and to assess compliance with federal requirements. The guidance and oversight provided by the department's School Food Services Branch, which administers the program, was reviewed.

The financial audit included an examination of financial records and transactions and the related systems of accounting and internal controls for the School Food Services Program for the fiscal year July 1, 1988 to June 30, 1989. The accountants' opinion as to the fairness of the financial statements presented is that of Coopers & Lybrand.

Organization of the Report

The report consists of four chapters. Chapter 1 is this introduction. Chapter 2 provides background on the school food services program. Chapter 3 contains our assessment of the operations for free and reduced-priced school lunches. Chapter 4 presents the results of the financial audit.

Chapter 2

BACKGROUND

The National School Lunch Program, authorized by the National School Lunch Act of 1946 (Public Law 79-396), is the oldest and largest nutrition program for children in the United States. The act provides federal assistance to help states serve nutritious lunches to school children. This assistance includes:

- . Cash and food subsidies for all lunches served, including additional reimbursement for free or reduced-price meals for needy students.
- . Special assistance funds to help needy schools obtain food service equipment.
- . Administrative funds to partially reimburse states for the additional costs of administering the program.
- . Funds for education, training, studies, and surveys that are related to nutrition.

The act has three operating standards: (1) school lunches must conform to nutritional guidelines established by the U.S. Department of Agriculture (USDA); (2) the program must be operated on a nonprofit basis; and (3) free or reduced-price lunches must be provided to children unable to pay the regular price.

Over the years, other food service programs have been added to the basic program. For example, the Child Nutrition Act of 1966 (Public Law 89-642) added a breakfast program to the National School Lunch Act. This program is now an integral part of most food service programs. The 1966 revisions also established

a special program to encourage milk consumption in the schools.

The Food and Nutrition Service (FNS) of the U.S. Department of Agriculture is responsible for administering the school lunch program. Participation is voluntary, but all 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, and the Northern Mariana Islands participate. The program is usually administered at the state level by state departments of education.

At the federal level the FNS supervises the states' administration of the program, reviews operations in the schools, distributes commodities to the states, provides technical and administrative assistance, and sets nutritional standards.

At the state level, departments of education administer the food programs through food services offices. The duties of these offices include submitting an annual state plan on child nutrition operations to FNS for approval, establishing an accounting system to report program information, maintaining records and accounts of program funds, and ensuring that the matching requirements of the program are met. They also assist local schools, provide them with monthly information on USDA food supplies, and investigate complaints.

At the local level, schools or school districts are responsible for operating the program on a nonprofit basis, serving meals that meet minimum USDA nutritional requirements, and providing free and reduced-price meals to eligible students.

Schools must determine which students are eligible for these meals, comply with the Civil Rights Act and other related program regulations, use commodities designated as being in abundance or donated by the USDA, and maintain complete and accurate records.

According to USDA data, participation and costs of child nutrition programs increased in the first quarter of fiscal year 1988. Cash payments for these programs rose to \$1.15 billion. Average participation per school day in the school lunch program rose to approximately 25 million children nationwide. The schools served approximately 12 million free or reduced-price lunches or 47 percent of the total number of lunches served. Paid lunches numbered approximately 13 million or about 53 percent.¹

A 1987 USDA audit of a sample of schools found that 71 percent of them had inaccurate meal counts and were claiming more reimbursement than they were entitled to. The free and reduced-price meals were identified as the primary problem.²

In response, the FNS adopted new rules, effective July 1989, to improve the accuracy of meal counting. The FNS also initiated the "AccuClaim" Project, which is designed to improve meal counting and claiming. Under this system, schools must count lunches served by type--free, reduced, or paid--at the point where the lunch is served. The state food service authority must conduct annual reviews at each school to evaluate the meal counting and claiming procedures and also do "edit checks" to compare school counts against data such as the number of eligible children. State food authorities are responsible for the accuracy of claims for reimbursement.

Hawaii's School Food Services Program

Section 296-43, *Hawaii Revised Statutes*, requires the Department of Education to ensure

that "school lunches will be made available under the school lunch program in every school where the students are required to eat lunch at school." The school lunch program can be traced back to 1912 when a cafeteria opened at the Territorial Normal and Training School and provided students with five-cent lunches.

Throughout its history, the school lunch program has remained a remarkable bargain. A school lunch cost 5 cents from 1912 until 1943 when the price went up to 10 cents. Four years later it was raised to 15 cents. The price stayed between 15 and 20 cents until 1953 when it increased to 25 cents. It remained there for almost three decades until it was raised to 45 cents in 1981. Today, students still pay only 45 cents for a regular-price meal and 20 cents for a reduced-price meal even though the cost of each lunch was \$1.87 in fiscal year 1988-89. All school lunches are therefore subsidized by state and federal funds.

The school food services program includes breakfast, lunch, and supplementary food such as sandwiches and desserts. The program is administered by the department's School Food Services Branch. The branch has a staff of over 800, including support staff, food service managers, cafeteria workers, cooks, bakers, and kitchen helpers.

In addition to preparing and serving meals, the branch develops short- and long-range plans for the food services program, and formulates and develops relevant policies and regulations. It plans menus, maintains fiscal records and inventory records of food supplies and cafeteria equipment, supervises and trains cafeteria staff, maintains health and sanitary standards, inspects cafeteria operations, and stores and distributes commodities.

Of the students who get a school lunch, about 66 percent pay the regular price and 32 percent receive their lunches free or for a reduced-price. Table 2.1 shows the types of lunches served in fiscal year 1988-89.

Table 2.1. Number and Percentage of Lunches Served Fiscal Year 1988-89		
Type of Lunch	Number	Percent
Regular price	14,424,670	66%
Free	5,396,136	25%
Reduced price	1,692,943	7%
Free, student help	451,643	2%
TOTAL	21,965,392	100%
Source: School Food Services Branch, December 1989.		

The State received a federal cash reimbursement of \$0.1650 for every regular-price lunch, \$1.3125 for every reduced-price lunch, and \$1.7125 for every free lunch that was served.³

The branch expended almost \$45 million in fiscal year 1988-89. Federal reimbursement was almost \$20 million or about half of this amount; cafeteria receipts from paid lunches were about \$11 million or about a quarter; and general fund appropriations made up the remainder.

The Free and Reduced-Price Lunch Program

To help schools implement the free and reduced-price lunch program, the branch in August 1988 issued a guidance manual that includes "Standards and Procedures for Free and Reduced Price Meals." The manual tells schools how to promote the program, take applications for free and reduced-price lunches, determine eligibility, distribute and sell lunch tickets, collect tickets or cash, serve lunches, and prepare reports.

Schools use different combinations of school officials to perform these various functions. The mix of school personnel depends on other

administrative workload requirements and the availability of clerical staff and adult supervisors. Schools with vice principals usually assign them administrative responsibility for the school lunch program. Schools without vice principals usually use counselors or some administrative staff for this purpose.

Promoting the program. The department, prior to each school year, issues a press release announcing eligibility guidelines for free and reduced-price lunches, explaining the basis for determining eligibility, and informing the public of the application form and letter that each student will be given to take home. Eligibility is based on family size and income. Classroom teachers hand out applications to each student on the first school day along with a letter explaining the free and reduced-price lunch program.

Applying for the program. Applications for free and reduced-price meals are reviewed by vice principals or other administrators to determine eligibility. Documentation is not required and verification of eligibility is based on a focused sampling method recommended by the USDA.

Eligible households must file a new application each year. Only one application is needed for households with more than one student in the same school. Students who transfer from another public school after September may continue to receive free and reduced-price meals at the new school without filing a new application. Students who participated in the program the preceding school year may receive free and reduced-price meals during a ten-day grace period while their applications for the current year are being reviewed.

All households must be notified of their eligibility status. If a household is denied benefits, there must be written notification of the reason for denial and of appeal rights and procedures. The principal normally acts as the hearings official in appeals.

Distributing and selling lunch tickets. Most schools use the school food service tickets provided by the branch. The tickets are identical for all students, with a coding system to indicate whether they are for a free meal, reduced-price meal, or regular-price meal. A few schools have the Accu-Tab system, which cuts a strip off a ten-strip ticket for each lunch served and records the type of lunch it was.

Tickets are sold and distributed daily. Generally, the elementary schools sell and distribute tickets in the cafeteria; the intermediate and especially the high schools do this at a central location such as the business office or the attendance window in the administration building. Usually clerical personnel or part-time helpers distribute and sell the tickets. At some schools, this is done by the cafeteria staff.

Students may purchase tickets on a daily, weekly, or monthly basis, but daily tickets are used almost exclusively. To protect the anonymity of students receiving free and reduced-price benefits, the guidance manual specifies that they be given privacy when getting their tickets. Improper methods include allowing everyone to see who pays and who doesn't or requiring only free and reduced-price recipients to use tickets and allowing everyone else to use cash.

The manual suggests using a bank line system to provide students with privacy in making these transactions.

Collecting tickets and cash and serving lunches. At high schools, there are usually multiple serving lines for hot lunches and one or more serving lines for snack or salad meals. The cashiers for these serving lines are cafeteria personnel, part-time helpers, student helpers, or various combinations of these. The cashiers collect the tickets and cash, usually very close to the point of service or where the student picks up the meal. At some schools tickets and cash are collected before the meal is picked up or just after the meal is picked up.

Preparing Reports. After completing lunch service, the cafeteria managers, with input from the cafeteria staff and adult supervisors, prepare a summary report of the lunch transactions, including totals for cash and tickets collected. This report, "Computation of Daily/Monthly School Food Services Transactions" (SL-5 Report) is taken to the school administration office with the cash boxes containing the cash and tickets collected. Administrative personnel count the cafeteria cash receipts, add the ticket sale receipts, and prepare a bank deposit slip. Finally, the cash overage or shortage is computed and the principal signs the SL-5 reports.

Chapter 3

ASSESSMENT OF THE FREE AND REDUCED-PRICE LUNCH PROGRAM

This chapter evaluates the implementation of the free and reduced-price lunch program and recommends improvements to the process.

Summary of Findings

- The free and reduced-price lunch program does not appear to be reaching all children who are entitled to it for two main reasons:*
- The Department of Education's promotion of the program meets federal requirements but can be improved.*
- The department is not having schools comply with federal and state requirements to protect the anonymity of recipients.*

Need to Promote the Free and Reduced-Price Meal Program

Participation in Hawaii is lower than the national average--32 percent compared with 47 percent nationally. It is in the State's interest to promote participation in the program. First and most important, the program is a way to ensure that all school children, regardless of their means, receive a nutritious meal. For some children, the school lunch is the only meal of the day. Second, the program is financially advantageous to the State. There is a significant differential in federal reimbursement for a free and reduced-price meal when compared to a regular-price meal. Federal reimbursement during the 1988-89 school year was \$1.3125 for

each reduced-price lunch, \$1.7125 for each free lunch, but only \$.1650 for each regular-price lunch.

The data clearly show that participation should be higher. As seen in Table 3.1, there is a sharp decline in participation in the free and reduced-price lunch program as students advance from elementary to intermediate and through high school. Participation is highest in elementary school, probably because lunch is mandatory and students would be noticed if they skipped lunch. At the secondary level, especially in high school, students are not required to eat lunch. Participation drops off dramatically, both the number of students applying for the benefit and the number picking up their tickets.

The greatest decline is seen in the Central District where participation drops from 61 percent in elementary schools to 22 percent in intermediate schools to 7 percent in high schools. A decline is also seen in the other school districts. Although there are various reasons for this decline, such as increasing income levels as households become more established, the reason most often cited by school personnel is that as students get older, they become ashamed of receiving free and reduced-price lunches. They associate this with being identified as welfare recipients.

Publicizing the program. The department complies with the U.S. Food and Nutrition Service (FNS) rules on minimum requirements for public announcements about the program. It issues a public release to the news media about eligibility criteria and application requirements. Each student receives an application and a letter to take home explaining who is eligible and how to apply.

Table 3.1. Percent Participating in Free and Reduced Price Program by District and School Level, October 1988*

District	Elementary	Intermediate	High
Honolulu	38	33	11
Central	61	22	7
Leeward	49	32	10
Windward	38	20	14
Hawaii	51	35	20
Maui	35	21	6
Kauai	36	12**	--

Source: Data compiled from enrollment figures in 1988-89 in Department of Education *Directory* and School Food Services Participation Count as of October 31, 1988.

* Excludes schools that combine elementary and secondary levels.

**Includes one high school and two combination intermediate and high schools.

Beyond meeting these minimum requirements, the department does not have a program to encourage participation. It has not identified the target population that could be eligible, and it has not followed up on participation by those who have been approved.

Targeting eligible students. The department has a great deal of information that could be used systematically to target eligible students and promote participation, but it has not put this information to good use.

The department does not: (1) contact the families of students who were eligible during the prior school year but are not currently participating, and (2) monitor whether students whose applications have been approved are picking up their tickets.

In intermediate schools and particularly in high schools, many of the students who participated during the previous year do not turn in applications. The department, however, does not systematically contact the families of these students even though it has reports and other student records that identify students who participated the previous year.

Many secondary school students who have been approved for the benefit choose not to pick up their tickets. The department does not follow up on these cases and check on them regularly. Department officials believe that monitoring serves no purpose. They say the reason students do not pick up their tickets is because they are sensitive to being overtly identified as recipients.

Need to Protect the Anonymity of Participating Students

The department is not adequately protecting the anonymity of students receiving free and reduced-price benefits. It requires participating students to use meal tickets but allows schools to permit and even encourage other students to use cash in the cafeteria. Participating students are readily identifiable because they are often the only ones using lunch tickets. School officials acknowledge that being overtly identified is the main reason for the drop in participation at intermediate and high schools.

The National School Lunch Act prohibits discrimination of any kind against eligible students. This includes overtly identifying them as recipients of free or reduced-price lunches. Participating schools must agree to comply with a number of nondiscriminatory practices, such as restricting the use of special tokens or tickets that identify students who participate in the program.

A federal court found that a system which limits tickets for obtaining free or reduced-price lunches almost exclusively to needy students violated prohibitions against segregation and other forms of discrimination. The fact that some children who paid for their lunches also used tickets was no justification for stigmatizing eligible children by pointing them out as recipients of public largesse.¹

A Food and Nutrition Service (FNS) manual specifically instructs schools not to limit ticket use to children receiving free or reduced-price benefits. It explains: "Without publicity, no or only a few students who pay full price may utilize the tickets/tokens. This makes it easy to distinguish the children eligible for free or reduced-price meals who used tickets/tokens from the children paying full price in cash in the line."²

In the "Standards and Procedures for Free and Reduced Price Meals Agreement," the department requires schools to avoid discrimination of any kind against any child because of an inability to pay for the meal. It requires schools to ensure that children will not be identified by the use of special tokens, tickets, or other means.³

The branch's guidance manual explicitly lists 17 examples of improper distribution and collection procedures that violate federal regulations and are potentially discriminatory. This list includes an item specifying that it is improper that "only free and reduced-price meal recipients use tickets; others use cash."

In the elementary, intermediate, and high schools that were surveyed, we found recipients of free and reduced-price benefits being overtly identified in two ways: (1) when they pick up their lunch tickets, and (2) when they use them.

Distributing and selling lunch tickets. Some schools distribute and sell their tickets in ways that easily identify participating students. One school had color-coded folders for students of different eligibility status. At one elementary school, the homeroom teachers distributed the free lunch tickets, while students eligible for reduced-price tickets had to purchase them in the cafeteria each morning. Almost all other students paid cash for lunch.

At some schools the free and reduced-price participants had to line up daily before school or at recess at the business office or some other area near the administration building. These lines are near the main thoroughfare of the campus, and the participating students are clearly visible to other students arriving at school or walking around during recess.

Several of the high schools surveyed did not sell regular lunch tickets but encouraged students

to use cash. Only students participating in the free and reduced-price lunch program used tickets.

At one high school, participating students had to stand in line at the business office window before the start of school for their lunch tickets. Only 8 percent of the total student body at this school participated in the program and only 50 percent of those participating picked up their tickets during April 1989.

At another school, students had to stand in line at the attendance window in the main office building during the morning recess for their lunch tickets. They were clearly visible to other students walking around during recess. The school did not encourage other students to buy prepaid tickets because of the paperwork. The number of participants was only 12 percent of the enrollment, and during April 1989, only 55 percent of the eligible students picked up their free tickets and only 34 percent picked up their reduced-price tickets. School officials acknowledge that the students are overtly identified. They say, however, that a system that protects the identity of participants would be prohibitive in terms of administrative workload and costs.

Secondary schools that distribute tickets in the cafeteria may appear to be better, but eligible students are still overtly identified because they must go to the cafeteria to pick up their tickets every day before the lunch period.

At the elementary school level more students buy prepaid tickets, and so the possession of a ticket will not automatically identify a participating student. However, other types of overt identification take place. Many elementary schools serve breakfast and distribute and sell meal tickets in the cafeteria. Very few schools use "bank line" systems where each student is allowed some privacy. School staff usually work behind a table in open view of anyone in or around the cafeteria.

Collecting lunch tickets in the cafeteria. The department's procedures for collecting meal tickets do not protect a student's anonymity. In secondary school cafeterias, the majority of students pay for their lunches with cash. Students can easily distinguish those who use tickets and identify them as recipients of free and reduced-price lunches. Many participating students crumpled the tickets and "palmed" them, as if trying to hide them.

At the secondary schools, especially the high schools, everyone was aware that for the most part only eligible students were using lunch tickets. The schools offered no incentives to other students that made purchasing tickets more attractive than using cash.

Using prepaid tickets. In secondary schools, protecting the anonymity of participants had a lower priority than minimizing the administrative workload and costs associated with the program. Encouraging all other students to use prepaid tickets in lieu of cash would help avoid the segregation of participating students. Officially, prepaid tickets were available for purchase at the secondary schools, but it was not always clear how or to what extent schools made parents aware of this option. Some secondary schools announced the availability of prepaid tickets in school newsletters or bulletins. However, none of the secondary schools that were visited actually promoted the use of prepaid tickets. A staff person at one high school stated that he would not sell a regular-price ticket because it served no purpose.

School administrative staff would often comment about the excessive workload resulting from the sale of prepaid tickets. Concern about increased clerical workload seemed to be the most important consideration. Administrators at the secondary schools condoned, if not encouraged the use of cash in the cafeteria by students who paid regular prices, primarily to keep paperwork and accountability records at a minimum.

Daily cafeteria reports show the extent of the problem. Table 3.2 shows data from four of the high schools that we visited. Prepaid tickets were not used by regular paying students. Of the three students who had prepaid tickets, two were guests of the school for the day and the third was a special education student. At these four schools, a daily average of about 50 percent of the students approved for free and reduced-price lunches actually picked up their tickets during April 1989.

Table 3.2. Number of Students Paying Cash and Using Tickets at Four High Schools	
Form of Payment	Number
Cash	3,836
Free ticket	398
Reduced-price ticket	58
Prepaid \$.45 ticket	3

A similar situation is found in intermediate schools. At one intermediate school, an average of eight prepaid \$.45 tickets were used daily during April 1989. Six of these were for special education students. At another intermediate school, 279 students paid cash for lunch and only two used a prepaid ticket on the day the school was surveyed.

School administrators acknowledged the problem but offered no solution because of their concern about the administrative workload. Most schools had at least one official who had anecdotal accounts of students who could have benefited from the free and reduced-price lunch program but refused to participate. Administrators and staff handle these on an informal case-by-case basis. At one school, the lunch ticket was cut in size so that it was less

visible. In other cases, the solution was to find some work project for the students so they could be seen earning their lunch.

Some Alternatives

The free and reduced-price lunch program is not, and should not be, the prime concern of school administrators. The program is important, however, because it promotes the health of Hawaii's school children. The department should ensure that needy students do not go hungry. This will mean putting greater efforts into encouraging participation and taking steps to end practices that overtly identify those whom the program is supposed to help.

Since recipients are identified by their use of lunch tickets, the solution is either to increase the use of lunch tickets among *all* students or eliminate their use among beneficiaries of the program.

Increasing the use of lunch tickets. The department reports that it does not have the authority to require all students to purchase a meal ticket. However, it could require schools to offer and promote this alternative and it could make sure that parents are informed of this option.

The FNS suggests that the prepayment option should be given widespread and continuing publicity. It also suggests offering such incentives as lowering the meal price for those who prepay, allowing students who prepay to enter the serving line first, or giving every tenth student a free food item or promotional item.⁴

The department could consider using some of these incentives. It could request additional funding so students using prepaid tickets could get a discount; for example, ten tickets for the price of nine.

Both approaches, however, would result in increases in workload, especially in high schools.

High schools sell few prepaid tickets because of the added paperwork and clerical tasks. If more students use tickets, the volume of work would expand. For tickets purchased daily, schools would have to reconcile the beginning and ending inventory of tickets by type with the cash count every day. For weekly or monthly tickets, although the number of sales each day would be reduced, schools would still have to reconcile ticket sales and cash each day. In addition, schools would need a control ledger of some type to show the number of tickets sold, the number of tickets collected, and the outstanding ticket balances.

Even though these alternatives would increase administrative workload, schools are required by federal rules and departmental policies and procedures to do their best to prevent discriminatory practices. The department should make sure that schools publicize the option of purchasing prepaid tickets and that they encourage students to buy them. The department should also require schools to distribute and sell tickets at more convenient times and in less public locations.

Eliminating the use of tickets. The department could reduce overt identification of program recipients by changing the ticket system.

Cash to participating students. It could give cash to recipients so that they could buy meals like everyone else. No one likes this idea because there is no assurance that students will in fact spend the money for a school lunch. Cash distribution would also have to be implemented in a way that would avoid overt identification.

Identification cards. The department is thinking of installing computers with card readers in all the cafeterias. The identification cards would be inserted into a reader as students pick up their lunches. A bar code on the cards would show whether the lunch is free, or priced at reduced or regular rates. The paying students

and the reduced-price students could be billed either in advance or after-the-fact.

This alternative, however, would be costly in terms of new equipment and clerical staff. In addition, the department does not plan to make the use of identification cards mandatory because officials believe many parents would complain. Thus even with this new system the same problem of overt identification would recur if other students could use cash.

Universal free lunch. As a final alternative, serious consideration should be given to providing a universal free lunch to all students. Such a program would have untold benefits for the health of school children. It would eliminate the problem of overt identification as well as the problem of workload.

Regulations of the National School Lunch Act and the Food and Nutrition Service allow schools to serve free lunches to all students with schools paying for the costs in excess of federal reimbursements. A number of mainland school districts have a universal free lunch program. The FNS has rules specifically for Puerto Rico and the Virgin Islands, which provide free meals to all children in schools under their jurisdiction. These jurisdictions need not make individual eligibility determinations. Instead, they may use a statistical survey to determine the number of children eligible for free or reduced-price meals for reimbursement purposes.⁵

A universal free-lunch program would probably cost less than expected and would be welcomed by the department because it would be able to avoid the costs of meeting new federal requirements for accountability.

The FNS will be requiring states to comply with the AccuClaim project and to claim reimbursements on the basis of accurate counts of each type of meal served--free, reduced, or regular-priced. This is going to be costly. The department estimated in August 1989 that to

comply statewide, it would need 188 clerk typists and additional equipment. The clerk typists would be needed to verify the food portions and types of meals being served and to maintain auditable records. Personnel costs were estimated at about \$4.6 million for the first year. To this must be added costs of computers, software, and other equipment, which were estimated at approximately \$1.6 million.⁶

The department's School Food Services Branch estimates that a universal free lunch program would not cost substantially more. The loss of revenue from paying students would be offset by the savings from not having to comply with new federal requirements for AccuClaim. A detailed cost analysis should be made of this alternative.

A universal free lunch program should not be viewed as a giveaway. It is an extension of what the State is already doing. The State currently subsidizes all school lunches. In 1988-89, the cost of each lunch was \$1.87, but the department charged paying students only \$.45, thereby giving them a subsidy of \$1.42 from state and federal funds.

3. *The department should require all schools to inform students and parents of the availability of prepaid tickets for free, reduced-price, or regular-price meals, and to encourage all students to use them. The department should consider offering incentives for purchasing prepaid tickets.*

4. *The Legislature should seriously consider a universal free lunch program for all students and require the department to develop a detailed cost analysis and plan for implementing such a program.*

Recommendations

1. *The Department of Education should require schools to comply with the antidiscrimination provisions of the National School Lunch Act. It should ensure that schools protect the privacy of recipients of free and reduced-price lunches when tickets are distributed and sold and when lunches are served.*

2. *The department should evaluate current participation levels in the free and reduced-price lunch program and take steps to promote participation.*

Chapter 4

FINANCIAL AUDIT

This chapter presents the results of the financial audit of the School Food Services Program, Department of Education, for the year ended June 30, 1989. It contains our comments on the program's monitoring of cafeteria cash receipts and the report of Coopers & Lybrand regarding the fairness of the program's financial statements. It also displays financial statements of the program's general fund accounts and special revenue funds administered by the department, together with explanatory notes, and supplemental information presented for analysis purposes only.

Summary of Findings

- 1. The School Food Services Branch is not adequately monitoring cafeteria cash receipts.*
- 2. In the opinion of Coopers & Lybrand, the program's financial statements present fairly, in all material respects, the financial position of the program's special revenue funds as of June 30, 1989, and the results of operations of the program's general fund accounts and special revenue funds for the year then ended.*

Inadequate Monitoring of Cafeteria Cash Receipts

The School Food Services Branch is responsible for monitoring cafeteria cash receipts, which total over \$10 million annually.

Such monitoring is necessary to safeguard cafeteria operations from financial loss and improper use of funds. Ideally, the monitoring process begins with the detection of irregularities and is followed by an investigation and corrective action.

To provide a mechanism for detecting irregularities, the branch developed form SL-5 (Computation of Daily/Monthly School Food Services Transactions) on which the schools report, among other items, cafeteria cash variances. A cafeteria cash variance is the difference between cash collections and computed cash sales. Cash collections are the actual amounts of money collected at the cafeteria for meals served. Cash sales are computed by taking the value of total meals served (based on actual meal count) and subtracting the value of student meal tickets collected. If cafeteria cash collections exceed computed cash sales, the difference represents a cash overage. Conversely, if cafeteria cash collections are less than computed cash sales, the difference represents a cash shortage.

Form SL-5 is prepared by the school food service manager and certified by the school principal. The schools submit a completed monthly form SL-5 to the appropriate district supervisor of the School Food Services Branch. These district supervisors, as part of their monitoring responsibilities, should review the form for accuracy and propriety.

All seven district supervisors indicated that they review the monthly form SL-5s, but our examination found that this review has not been adequate. In many instances, cafeteria cash variances were erroneously reported on the monthly form SL-5. A careful review of the

forms would have detected the errors, some of which recurred regularly.

In a sample of 50 monthly form SL-5s, 18 or 36 percent had cash variances that were incorrectly computed. On 4 of these, the cafeteria cash variance was incorrect because cash collections from meal ticket sales were erroneously included in the computation. Eight had addition and subtraction errors in computing the cafeteria cash variance. The remaining 6 forms had both types of errors.

The monitoring process is seriously weakened when cafeteria cash variances are reported improperly and inaccurately. This increases the likelihood of irregularities going undetected.

Recommendation

District supervisors should strengthen their monitoring of cafeteria cash receipts by taking the steps necessary to ensure that cafeteria cash variances are accurately and properly reported.

Independent Auditor's Report

Coopers & Lybrand's report filed with the Legislative Auditor is as follows:

Independent Auditor's Report

To the Legislative Auditor
State of Hawaii

We have audited the following financial statements of the School Food Services Program, Department of Education, State of Hawaii:

Combined balance sheet - special revenue funds - June 30, 1989 (Exhibit A);

Combined statement of revenues, expenditures and changes in fund balance - general fund accounts and special revenue funds - for the year ended June 30, 1989 (Exhibit B); and

Combined statement of revenues and expenditures - budget and actual - general fund accounts and special revenue funds - for the year ended June 30, 1989 (Exhibit C).

These financial statements are the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the notes to the financial statements, the program's general fund accounts are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund, is limited to only the transactions of the School Food Services Program, Department of Education.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue funds of the School Food Services Program, Department of Education, State of Hawaii as of June 30, 1989, and the results of operations of the program's general fund accounts and special revenue funds for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements referred to above, taken as a whole. The combining financial statements (Exhibits D and E) and Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ COOPERS & LYBRAND

Honolulu, Hawaii
August 7, 1989

Descriptions and Definitions

Descriptions of financial statements and schedules. The following is a brief description of the financial statements and schedules audited by Coopers & Lybrand. The financial statements and schedules are attached at the end of this chapter.

1. *Combined balance sheet--special revenue funds (Exhibit A).* This statement presents assets, liabilities, and fund balance of the combined special revenue funds used by the program on an aggregate basis.

2. *Combined statement of revenues, expenditures, and changes in fund balance--general fund accounts and special revenue funds (Exhibit B).* This statement presents revenues, expenditures, and other financing sources for the general fund accounts and combined special revenue funds used by the program on an aggregate basis. Revenues include other additions of state appropriations mandated by the General Appropriations Act of 1987 (Act 216, SLH 1987, as amended by Act 390, SLH 1988). This statement also presents changes in fund balance for the program's combined special revenue funds.

3. *Combined statement of revenues and expenditures--budget and actual--general fund accounts and special revenue funds (Exhibit C).* This statement presents a comparison of budgeted and actual revenues, expenditures, and other financing sources for the general fund accounts and combined special revenue funds used by the program.

4. *Combining balance sheet--special revenue funds (Exhibit D).* This statement presents the balance sheet for the individual special revenue funds used by the program.

5. *Combining statement of revenues, expenditures, and changes in fund balance--special revenue funds (Exhibit E).* This statement presents the revenues, expenditures, and changes in fund balance for the individual special revenue funds used by the program.

6. *Schedule of expenditures--budget and actual--general fund account (Schedule I).* This schedule presents a comparison of the budgeted and actual expenditures for the general fund accounts, classified by function, within the program.

7. *Schedule of expenditures--budget and actual--special revenue funds (Schedule II).* This schedule presents a comparison of the budgeted and actual expenditures for the combined special revenue funds, classified by function, within the program.

Definition of terms. Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

1. *Appropriation.* An authorization granted by the Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are of two types: (a) funds which are available for use until completely expended, and (b) funds which lapse if not expended by or encumbered at the end of the fiscal year.

2. *Allotment.* An authorization by the director of finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the Legislature.

3. *Encumbrance.* An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

4. *Expenditure.* The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

5. *Reserve.* An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

6. *Transfers.* The transactions between funds, departments, and/or programs which are approved by the appropriate authority.

7. *Lapse of appropriated balance.* The balance of funds authorized, which is unexpended and uncommitted at the end of the prescribed time period. The balance reverts to the designated fund and is available for appropriation by the Legislature in the ensuing fiscal year.

Notes to Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the program are discussed in this section:

Reporting entity. The School Food Services Program is a program of the Department of Education which is a department of the State of Hawaii.

Basis of accounting. The accounts of the funds maintained for the program and the accompanying financial statements have been prepared on a modified accrual basis of accounting. Under this method, revenues are generally recognized in the period in which they become available and measurable, and expenditures are recorded when liabilities are incurred.

The accounting procedures generally provide for the recording of commitments at the time contracts are awarded, and orders for equipment, construction, services, and supplies are placed. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations. General fund appropriations that are not expended or encumbered by the end of the fiscal year generally lapse. Appropriations for special revenue funds generally do not lapse until completely expended or the purpose for which the appropriations were established have been completely satisfied.

Inventory of food and supplies are valued at cost, which approximates market, using the first-

in, first-out (FIFO) method. The cost of inventory is recorded as expenditures when consumed.

Capital assets constructed for or purchased by the program are recorded as expenditures in the year in which the cost is incurred. These assets are not reflected as assets in the accompanying financial statements, but are reflected in the general fixed assets account group of the State. Depreciation of these assets is not recorded by the State.

Costs for pension, health, and social security benefits of State employees are allocated to the respective fund from which the employee is paid. The costs allocated to general fund employees are expended by the Department of Budget and Finance and are not reflected in the program's general fund financial statements. The costs allocated to special revenue funds are included in the accompanying financial statements.

Fund categories and description. Moneys to finance the department's programs are accounted for in several different funds. These funds have been established by legislative actions, and each fund has a specific purpose or objective to fulfill. Each fund is an independent fiscal and accounting entity and a separate group of accounts is maintained for each to show its revenues and expenditures. There are two categories of these funds. The categories and the funds within each are described briefly here.

1. **General fund.** The general fund accounts for all resources not otherwise accounted for in other funds. Any activity not financed through another fund is financed through this fund. The budget as adopted by the Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the program is a part of the State's general fund and the accompanying general fund financial statements are limited to and reflect only the appropriations, expenditures, and obligations of the general fund accounts used by the program, and the

general fund revenues collected by the program. There were no general fund revenues collected by the program for the year ended June 30, 1989.

2. **Special revenue funds.** Special revenue funds are operated to account for revenues and expenditures designated for specified purposes. A description of the program's special revenue funds is presented here.

School food services--cafeteria receipts. This special revenue fund is used to account for moneys received by the public school cafeterias from the sale of meals.

School food services--federal assistance. This special revenue fund is used to account for cash assistance and the value of commodities received from the federal government to subsidize the cost of public school cafeteria meals.

Commitments and contingencies. Commitments are obligations to expend funds at some time in the future. Contingencies refer to obligations that may arise as a result of past transactions or events.

1. **Accumulated vacation and sick leave.** State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the General Long-Term Obligations Account Group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

Employees are credited with vacation at rates of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be

taken only in the event of illness. A State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the employees' retirement system.

2. *Employees' retirement system.* All full-time employees of the program are required by Chapter 88 of the Hawaii Revised Statutes to participate in the Employee Retirement System (ERS) of the State of Hawaii, a cost sharing multiple-employer public employee retirement plan covering eligible employees of the State and Counties. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan was only a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under social security. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were given the option of remaining in the contributory plan or joining the new noncontributory plan and receiving a refund of employee contributions. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the program. The disclosure required by Governmental Accounting Standards Board Statement No. 5 are presented in the State of Hawaii Comprehensive Annual Financial Report (CAFR). The following data is provided as of June 30, 1987 for the entire ERS from the disclosure contained in the CAFR for the year ended June 30, 1988, the most recent available:

Total pension benefit obligation	\$3,875,218,800
Net assets available for benefits (cost)	<u>3,127,749,219</u>
Pension benefit obligation in excess of assets	<u>\$ 747,469,581</u>

The entire ERS actuarially determined employer contribution requirements were met as of June 30, 1987.

The program's general fund share of the retirement system expense for the year ended June 30, 1989, was included in the General Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the program's general fund financial statements. The program's special revenue funds' share of the retirement expense for the year ended June 30, 1989, was approximately \$148,000 and is included in the funds' financial statements.

3. *Post-retirement health care and life insurance benefits.* In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired State employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The program's general fund share of the expense for post-retirement benefits for the year ended June 30, 1989, has not been separately computed and is not reflected in the program's general fund financial statements. The program's special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 1989, was approximately \$218,000 and is included in the funds' financial statements.

4. *Insurance coverage.* The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation are appropriated annually and are not considered material.

Budgeting and budgetary control. Amounts reflected as budgeted revenues in the combined statement of revenues and expenditures--budget and actual are estimates as compiled by the director of finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 1987 (Act 216, SLH 1987 as amended by Act 390, SLH 1988) and from other authorizations contained in other specific appropriations acts in various Session Laws of Hawaii, and transfers instituted by the Department of Budget and Finance. To provide for comparability, actual expenditures in this statement have been adjusted to include encumbrances and continuing appropriations at year end and exclude current year expenditures for liquidation of prior year encumbrances and continuing appropriations.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Combined balance sheet
Special revenue funds
June 30, 1989

	<u>Governmental</u> <u>Fund Type</u> <u>Special Revenue</u> <u>(Exhibit D)</u>
<u>ASSETS</u>	
Cash	\$1,722,974
Receivables	772,005
Inventory of food and supplies	<u>1,156,792</u>
	<u>\$3,651,771</u>
<u>LIABILITIES AND FUND BALANCES</u>	
Vouchers and contracts payable	\$ 410,241
Fund balances:	
Reserved for encumbrances	132,380
Reserved for receivables	772,005
Reserved for inventory of food and supplies	1,156,792
Unreserved	<u>1,180,353</u>
	<u>3,241,530</u>
	<u>\$3,651,771</u>

The accompanying notes are an integral part of the financial statements.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Combined statement of revenues, expenditures and changes in fund balances
General fund accounts and special revenue funds
for the year ended June 30, 1989

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u> (Exhibit E)
Revenues and other additions:		
State appropriations	\$ 10,499,862	\$ -
Intergovernmental	-	19,882,263
Charges for current services	-	10,753,033
Other	-	849
	<u>10,499,862</u>	<u>30,636,145</u>
Expenditures - lower education	<u>12,365,053</u>	<u>32,366,237</u>
Excess of expenditures over revenues	<u>(1,865,191)</u>	<u>(1,730,092)</u>
Other financing sources (uses):		
Operating transfers in	2,211,510	-
Operating transfers out	<u>(341,000)</u>	<u>-</u>
	<u>1,870,510</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 5,319</u>	<u>(1,730,092)</u>
Fund balance:		
Beginning of year		<u>4,971,622</u>
End of year		<u>\$ 3,241,530</u>

The accompanying notes are an integral part of the financial statements.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Combined statement of revenues and expenditures - budget and actual
General fund accounts and special revenue funds
for the year ended June 30, 1989

	General Fund Accounts			Special Revenue Funds		
	Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues and other additions:						
State appropriations	\$10,499,862	\$10,499,862	\$ -	\$ -	\$ -	\$ -
Intergovernmental	8,000	-	(8,000)	18,693,851	16,402,341	(2,291,510)
Charges for current services	-	-	-	13,337,000	10,724,351	(2,612,649)
Other	-	-	-	1,000	849	(151)
Expenditures - lower education	10,507,862	10,499,862	(8,000)	32,031,851	27,127,541	(4,904,310)
Excess of revenues over (under) expenditures	10,499,862	12,365,596	(1,865,734)	31,654,633	27,739,327	3,915,306
Other financing sources (uses):	8,000	(1,865,734)	(1,873,734)	377,218	(611,766)	(234,548)
Operating transfers in	-	2,211,510	2,211,510	-	2,104,308	2,104,308
Operating transfers out	-	(341,000)	(341,000)	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	\$ 8,000	\$ 4,776	\$ (3,224)	\$ 377,218	\$ 1,492,522	\$ 1,115,304

The accompanying notes are an integral part of the financial statements.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Combining balance sheet
Special revenue funds
June 30, 1989

	School Food Services		
	Cafeteria Receipts	Federal Assistance	Total
<u>ASSETS</u>			
Cash	\$1,442,727	\$ 280,247	\$1,722,974
Receivables	298,576	473,429	772,005
Inventory of food and supplies	715,248	441,544	1,156,792
	<u>\$2,456,551</u>	<u>\$1,195,220</u>	<u>\$3,651,771</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Vouchers and contracts payable	\$ 299,510	\$ 110,731	\$ 410,241
Fund balances:			
Reserved for encumbrances	-	132,380	132,380
Reserved for receivables	298,576	473,429	772,005
Reserved for inventory of food and supplies	715,248	441,544	1,156,792
Unreserved	1,143,217	37,136	1,180,353
	<u>2,157,041</u>	<u>1,084,489</u>	<u>3,241,530</u>
	<u>\$2,456,551</u>	<u>\$1,195,220</u>	<u>\$3,651,771</u>

The accompanying notes are an integral part of the financial statements.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of revenues, expenditures and changes in fund balances
Special revenue funds
for the year ended June 30, 1989

	<u>School Food Services</u>		
	<u>Cafeteria</u>	<u>Federal</u>	
	<u>Receipts</u>	<u>Assistance</u>	<u>Total</u>
Revenues:			
Intergovernmental	\$ -	\$19,882,263	\$19,882,263
Charges for current services	10,753,033	-	10,753,033
Other	653	196	849
	<u>10,753,686</u>	<u>19,882,459</u>	<u>30,636,145</u>
Expenditures - lower education	<u>11,512,512</u>	<u>20,853,725</u>	<u>32,366,237</u>
Excess of expenditures over revenues	(758,826)	(971,266)	(1,730,092)
Fund balance:			
Beginning of year	<u>2,915,868</u>	<u>2,055,754</u>	<u>4,971,622</u>
End of year	<u>\$ 2,157,042</u>	<u>\$ 1,084,488</u>	<u>\$ 3,241,530</u>

The accompanying notes are an integral part of the financial statements.

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of expenditures - budget and actual
General fund accounts
for the year ended June 30, 1989

<u>Function</u>	<u>Actual Expenditures</u>	<u>Carryover Appropriation</u>	<u>June 30, 1988</u>	<u>June 30, 1989</u>	<u>Lapse Of Prior Appropriation</u>	<u>Expenditures Adjusted For Carryover Appropriation</u>	<u>Budgeted Appropriation</u>	<u>Variance Unfavorable</u>	<u>Transfers</u>	<u>Lapse Of Current Appropriation</u>
Lower education	<u>\$12,365,053</u>	<u>\$26,444</u>	<u>\$23,199</u>	<u>\$3,788</u>	<u>\$12,365,596</u>	<u>\$10,499,862</u>	<u>\$1,865,734</u>	<u>\$1,870,510</u>	<u>\$4,776</u>	

SCHOOL FOOD SERVICES PROGRAM
DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of expenditures - budget and actual
Special revenue funds
for the year ended June 30, 1989

<u>Function</u>	<u>Actual</u> <u>Expenditures</u>	<u>Nonbudgeted</u> <u>Expenditures</u> <u>(Actual)</u>	<u>Budgeted</u> <u>Expenditures</u> <u>(Actual)</u>	<u>Encumbrances</u>	<u>Expenditures</u> <u>Adjusted For</u> <u>Encumbrances</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Variance</u> <u>Favorable</u>
Lower education	<u>\$32,366,237</u>	<u>\$4,740,007</u>	<u>\$27,626,230</u>	<u>\$113,097</u>	<u>\$27,739,327</u>	<u>\$31,654,633</u>	<u>\$3,915,306</u>

NOTES

Chapter 2

1. Masao Matsumoto, "Recent Trends in Domestic Food Programs," *National Food Review*, Vol. 11, Issue 3, July-September 1988, pp. 31-32.
2. 53 FR 35083.
3. 53 FR 25357, 25358.

Chapter 3

1. *Justice v. Board of Education*, 351 F. Supp. 1252.

2. U.S. Department of Agriculture, Food and Nutrition Service, Midwest Regional Office, *Collection Procedure Guidance*, Chicago, Ill., 1988, pp. 6-9, 25.
3. Hawaii, Department of Education, *Standards and Procedures for Free and Reduced Price Meals*, pp. 22, 23.
4. *Collection Procedure Guidance*, p. 25.
5. 7 CFR 245.4.
6. Cost estimate data provided by the School Food Services Branch, Department of Education, August 1989.

RESPONSES OF THE AFFECTED AGENCIES

COMMENTS ON AGENCY RESPONSES

We transmitted a preliminary draft of this report to the Board of Education and the Department of Education on December 21, 1989. A copy of the transmittal letter to the Board is included as Attachment 1 of this Appendix. A similar letter was sent to the Superintendent of Education. The response from the Board is included as Attachment 2 and the response from the Superintendent is included as Attachment 3.

Both the Board and the Superintendent of Education responded that they concur with the findings and recommendations in the report and will take appropriate measures to improve the operations of the School Food Services Program.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813



(808) 548-2450
FAX: (808) 548-2693

December 21, 1989

C O P Y

Mr. Francis McMillen
Chairperson
Board of Education
1390 Miller Street
Honolulu, Hawaii 96813

Dear Mr. McMillen:

Enclosed are three copies, numbers 9 to 11 of our draft report, *Operations and Financial Audit of the School Food Services Program*.

If you have any comments on our recommendations, please submit them in writing to us by January 9, 1990, so that they can be included in the final report.

Since the report is not in final form and there could be changes to the report, access to it should be restricted to those persons whom you might wish to call upon to assist you in reviewing the report. Please do not reproduce the report. Should you require additional copies, please contact our office.

The only other parties who have been provided with copies of this draft report are the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Superintendent of Education. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

We appreciate the assistance and cooperation extended to us during the course of the audit.

Sincerely,

Newton Sue
Acting Legislative Auditor

Enclosures

ATTACHMENT 2



STATE OF HAWAII
BOARD OF EDUCATION

P. O. BOX 2360
HONOLULU, HAWAII 96804

January 9, 1990

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King St., Rm 500
Honolulu, HI 96813

RECEIVED
JAN 11 3 14 PM '90
STATE OF HAWAII

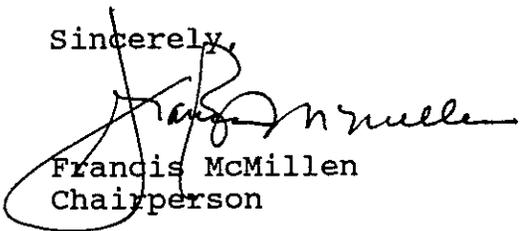
Dear Mr. Sue:

Thank you for your letter of December 21, 1989 under which you transmitted draft copies of the "Operations and Financial Audit of the School Food Services Program."

We concur with the findings and recommendations of the report, and will take appropriate measures to improve the operations of the School Food Services Program.

Thank you again for your courtesies during the audit as well as in providing us the opportunity to comment on this report.

Sincerely,


Francis McMillen
Chairperson

cc: Superintendent



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

OFFICE OF THE SUPERINTENDENT

January 12, 1990

RECEIVED

JAN 16 3 14 PM '90

OFFICE OF THE AUDITOR
STATE OF HAWAII

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King St., Room 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for your letter of December 21, 1989 under which you transmitted draft copies of the "Operations and Financial Audit of the School Food Services Program."

We concur with the findings and recommendations of the report, and will take appropriate measures to improve the operations of the School Food Services Program.

Thank you again for your courtesies during the audit as well as in providing us the opportunity to comment on this report.

Sincerely,

Kenzo Takata
For Charles T. Toguchi
Superintendent

CTT/EEK

cc School Food Services Branch
Office of Business Services

