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

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

Report No. 99-15
March 1999

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Foreword

This is a report of our procurement audit of food purchases and related inventory controls of the Department of Public Safety and the Department of Education. The audit was conducted pursuant to Section 23-4, HRS, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. Additionally, Chapter 103D, HRS, the Hawaii Public Procurement Code, requires the Office of the Auditor to periodically audit procurement practices within government for compliance with the law and all applicable rules.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Public Safety and the Department of Education.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

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

Since the procurement of food products and goods at schools and correctional facilities accounts for a significant amount of their respective food services budgets, an examination of their food purchasing practices and related inventory controls is essential. In our *Management Audit of the Department of Corrections of the State of Hawaii*, Report No. 89-16, we noted allegations of the misuse and/or theft of food supplies and other materials from several facilities. In our *Financial Audit of the Department of Public Safety*, Report No. 92-26, we also found that inventory controls at the Halawa Correctional Facility needed improvement. Moreover, the department's recent investigation into a guard's practice of cooking meals for selected inmates at the Halawa Correctional Facility has raised concerns over the inappropriate use of food inventory in the prison.

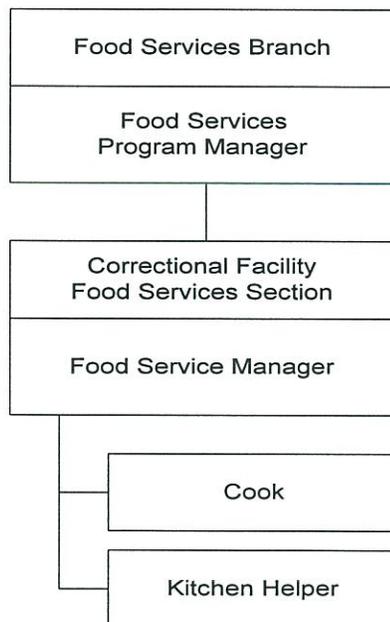
Some of our previous reports and financial audits by independent CPA firms identified deficiencies in the Department of Education's purchasing systems. Our *Financial Audit of the Public School System*, Report No. 96-8, found that the department had poor internal controls over school cafeteria collections and inadequate segregation of duties. Additionally, the department's prior financial audit reports found cases of potential parceling, lack of quotation documentation required by the Hawaii Public Procurement Code, and unauthorized purchasing practices at schools. These past audit findings, coupled with public complaints regarding poor inventory controls within government agencies, prompted our office to initiate this audit.

Background on the Food Services Program of the Department of Public Safety

The Food Services Branch within the Corrections Division administers the statewide correctional food services program. This branch is responsible for central menu planning, purchasing, and training. The food services program manager is responsible for planning standard cycle menus, budgeting, approving purchases, and monitoring fiscal management. The department's Procurement Office is responsible for bidding and awarding contracts for food products and goods, and the Fiscal Office is responsible for pre-auditing and processing payments.

Food service managers along with kitchen workers prepare and serve three meals a day, seven days a week for over 4,000 inmates and staff at eight state correctional facilities. Under the employee meal program, guards, nurses, and kitchen workers receive free meals while all other workers pay \$1.50 per meal. As displayed in Exhibit 1.1, kitchen workers include state employed cooks and kitchen helpers. In addition, the food services program hires inmates to work in the kitchen and on the food serving line. Food service managers are responsible for overall day-to-day kitchen operations that include ordering and receiving food items, producing meals, maintaining sanitation, managing inventory, record keeping and reporting to the Food Services Branch. In addition to standardized five-week menus, each kitchen provides vegetarian meals to meet religious preferences and therapeutic diet menus as prescribed by a physician.

Exhibit 1.1
Typical Correctional Facility Food Service Organization



Increase in inmate population

Overcrowding has been and continues to be a major issue for the department. At the end of FY1997-98, total inmate population exceeded facilities' operational bed capacity by 47 percent. Exhibit 1.2 displays the increase in the in-house inmate population, excluding the inmates transferred to the mainland facilities. As of July 29, 1998, 536 males and 64 females were housed in Texas facilities; 128 males were housed in Tennessee facilities; and 180 males were housed in Oklahoma facilities. Additionally, another transfer of 302 inmates to a Minnesota facility was implemented on October 15, 1998.

Exhibit 1.2 FY1994-98 Total In-House Inmate Population

	FY1993-94	FY1994-95	Annual % Increase	FY1995-96	Annual % Decrease*	FY1996-97	Annual % Increase	FY1997-98	Annual % Increase
Total Head Count	2,834	3,107	10%	3,026	-3%	3,640	20%	4,280	18%
Overall Capacity	2,608	2,646	1%	2,650	0%	2,760	4%	2,912	6%
Over-capacity	226	461	104%	376	-18%	880	134%	1,368	55%
% Over-capacity	9%	17%		14%		32%		47%	

* Transfers to Texas facilities were made on December 28, 1995, for 300 male inmates and on May 27, 1997 for 236 male and 64 female inmates. These transferred inmates are excluded from the above counts.

Source: Department of Public Safety, End of Month Population Report - FY1994-98.

Financing and costs

In FY1993-94, the Food Services Program's budget was centralized under Program I.D. PSD 420, Corrections Program Services. For FY1997-98, the total appropriation for the Corrections Program Services was \$14.8 million, of which \$9 million was allocated for the Food Services Program. Exhibit 1.3 displays the FY1997-98 allotment of the Food Services Program by cost elements.

Exhibit 1.3
FY1997-98 Allotment for the Food Services Program

Cost Element	FY1997-98
Personal Services	\$2,467,682
Operating	\$6,397,240
Equipment/ Vehicles	\$145,001
Total	<u>\$9,009,923</u>

Source: Department of Public Safety, Initial Allotment for FY1997-98
(Revised)

Total food services program operating costs for FY1997-98 were approximately \$9.1 million. Of that total, \$2.6 million was for personal services, \$5.9 million for food provisions, \$.5 million for other operating expenses, and \$51,000 for equipment and vehicles. Currently, the budgeted food cost per meal calculated by the Food Services Branch is approximately \$1.30.

**Background on
the School Food
Services Program
of the Department
of Education**

The School Food Services Branch of the Department of Education is responsible for budgeting, central menu planning, statewide procurement, and training cafeteria staff for the School Food Services Program. The branch also administers the Federal Commodity Distribution Program, National School Lunch Program, Child and Adult Care Food Program, Summer Food Service Program, and Special Milk Program. The branch also provides food to some child care centers and lunches for the Elderly Feeding Program.

Branch food services supervisors monitor and provide technical assistance to their assigned districts, complexes, and schools for menu planning, food preparation and serving, purchasing and storing, sanitation, and monthly reporting. In addition to their district assignments, each supervisor has a different function such as statewide procurement coordination, training, and menu planning. The branch consolidates food orders from the schools and forwards them to the department's Procurement Office which bids and contracts for food purchases. The Vouchering Section within the Administrative Services Branch processes payments to vendors supplying food orders based on invoices received from the schools.

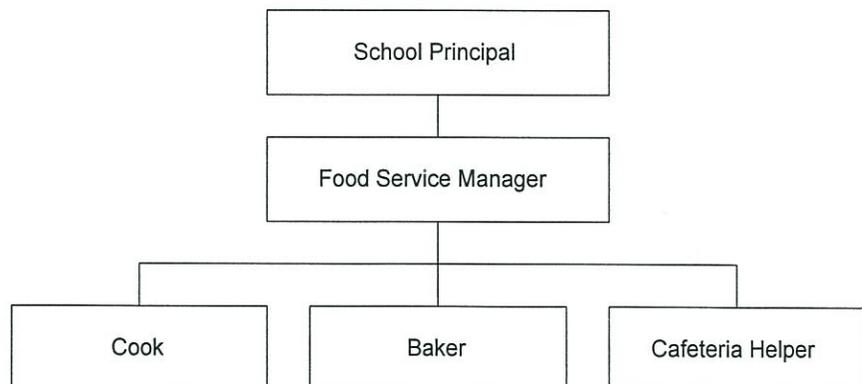
For FY1997-98, the School Food Services Program served two meals each day to students at approximately 250 public schools. Breakfast was served to about 15 percent, and lunch was served to 85 percent of the students. About three-fourths of those schools function as preparation kitchens for nearby schools without kitchens. A standardized five-week menu and an alternative menu are provided for each cafeteria. Annual meal counts show that approximately 6.3 million breakfasts and 24.5 million lunches were served. Exhibit 1.4 lists cafeteria prices for breakfast and lunch. Under the employee meal program, kitchen workers, including voluntary student helpers, receive free meals. All other school staff pay \$1.25 for breakfast and \$2.75 for lunch. Act 311, 1998 Session Laws of Hawaii, set a ceiling of \$1.00 on the school lunch price for students.

Exhibit 1.4 School Cafeteria Meal Price List

	<u>Breakfast</u>	<u>Lunch</u>
Students	\$.35	\$.75
Students (Reduced Price)	\$.20	\$.20
Adults	\$1.25	\$2.75

School principals are responsible for the daily school meal services. They must account for the moneys collected for the meals and hire and evaluate cafeteria workers. As displayed in Exhibit 1.5, cafeteria workers include food service managers, cooks, bakers, and cafeteria helpers. The food service manager is responsible for the daily cafeteria operations that include ordering and receiving food items, producing meals, maintaining sanitation, managing inventory, keeping records, and preparing monthly reports to the school principal and the Food Services Branch.

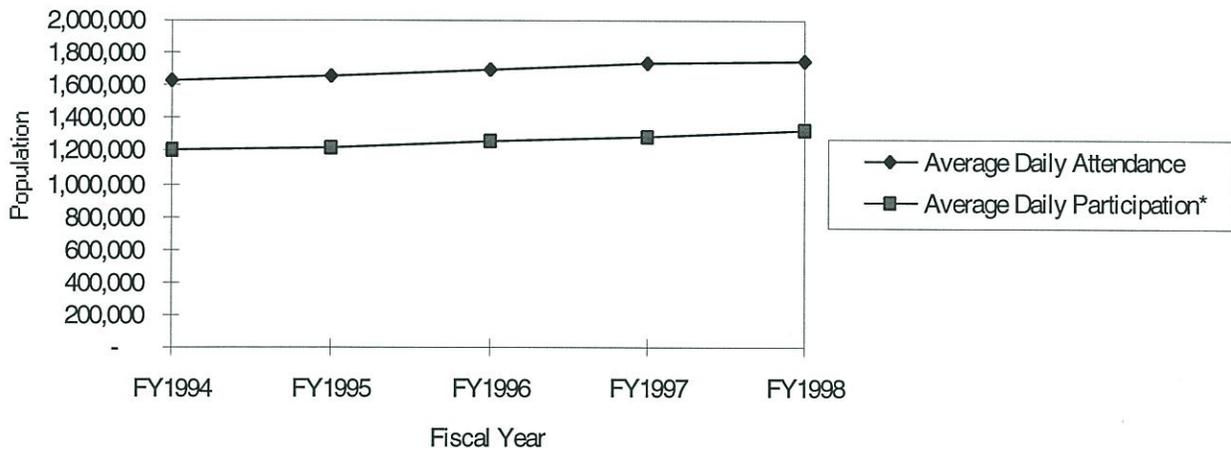
Exhibit 1.5 Typical School Food Service Organization



Increase in student participation

Over the past five years, student participation in the School Lunch Program has grown steadily as displayed in Exhibit 1.6. In comparison with the increased student attendance at school from FY1993-94 to FY1997-98 (7 percent), the increased student participation in the lunch program (10 percent) outgrew attendance by 3 percent at the same period.

**Exhibit 1.6
FY1994-98 Average Daily Attendance and Daily Participation in the School Lunch Program (Cumulative)**



* Breakfast and lunch are combined.

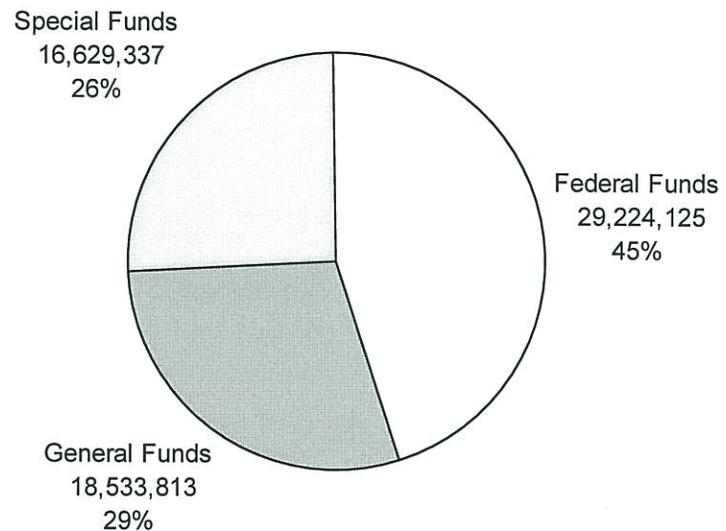
Source: Department of Education, Feedback Report, Form SL-19, Cumulative Statement of Federal Reimbursement for FY1994-98.

Financing and costs

The School Food Services Program is budgeted under Program I.D. EDN 400, School Support. For FY1997-98, the program received an appropriation of \$64.3 million. Of this amount, \$18.5 million were general funds, \$29.2 million were federal funds, and \$16.6 million were special funds. In addition, the program received about \$3.5 million in federal food commodities donated by the U.S. Department of Agriculture (USDA). Exhibit 1.7 displays the appropriations to the School Food Services Program for FY1997-98.

Total program operating costs, including encumbrances for FY1997-98, were approximately \$61.9 million. Of this total, \$31 million was expended for personal services, \$22.5 million for food provisions, \$7.4 million for other current expenses, and \$923,000 for equipment and vehicles. During FY1997-98, the actual food cost to serve a meal as reported by the department was \$.91. However, this figure does not reflect the number of breakfast meals and supplemental items served.

Exhibit 1.7 FY1997-98 Appropriations for the School Food Services Program



Source: Department of Education, Budget Office.

Objectives of the Audit

1. Assess whether the food purchasing practices of the Department of Public Safety and the Department of Education comply with the provisions of the Hawaii Public Procurement Code.
2. Assess the adequacy of the controls over food inventory in the Department of Public Safety and the Department of Education.
3. Make recommendations as appropriate.

Scope and Methodology

This audit focused on food purchasing practices and inventory controls of the Food Services Branch of the Department of Public Safety and the School Food Services Program of the Department of Education from FY1996-97 to FY1997-98.

We reviewed the departments' purchasing and payment systems that were applicable to food services and assessed the adequacy of internal controls over food purchasing. In addition, we reviewed a sample of

contracts and related documentation to determine whether the contracts were awarded as prescribed by law and rules, and whether contracts have been adequately monitored and evaluated.

We judgmentally selected and visited four correctional facilities and seven schools for testing purposes. We reviewed a sample of food purchases made by food service managers to determine whether the purchases were in compliance with the Hawaii Public Procurement Code, 103D, HRS, and the departments' policies and procedures. We also interviewed food service managers and principals, and expanded our test procedures for some questionable food purchases.

Additionally, we observed storage facilities and staff dining rooms, test-counted physical inventory, conducted interviews, and reviewed inventory records to determine whether the departments have adequate internal controls in place to ensure that inventories are properly safeguarded, accurately counted/recorded, and accounted for.

We also visited a major Waikiki hotel and one of the state's larger hospitals to examine their controls over food purchasing and inventory.

Our work was performed from July 1998 through November 1998 in accordance with generally accepted government auditing standards.

Chapter 2

The Department of Public Safety's Program Needs Guidance and Controls

This chapter assesses the Department of Public Safety's compliance with the Hawaii Public Procurement Code, Chapter 103D, HRS, relative to its food purchasing practices. It also assesses the adequacy of the department's controls over food inventory.

Summary of Findings

1. The Department of Public Safety's failure to provide adequate guidance, procedures, and resources has resulted in non-compliance with the procurement law and rules, and has compromised operational efficiency.
2. The department's poor inventory controls and poor record keeping system result in unnecessary costs to the State.

Inadequate Guidance and Procedures Resulted in Non-compliance

Clear policies and procedures, proper planning for the use of resources, clear authorization guidelines, and proper management oversight of the competitive selection process for vendors all contribute to a good internal control structure. Policies outline an organization's expectations of its employees and managers and promote consistency and coordination within and between organizations.

The department does not have clear written procedures and adequate guidelines for the purchase of food. As a result, correctional facilities violated the procurement code's small purchase and competitive sealed bidding provisions in purchasing non-bid food items. Procedures for purchasing produce are inconsistent among facilities, and the intra-departmental meat purchasing program incurs additional costs to the State. Limited financial and staffing resources have also contributed to questionable purchases and operational inefficiencies.

Non-bid milk purchases violated the small purchases provision

Under the small purchase provision of the Hawaii Public Procurement Code, agencies are not required to purchase items through a competitive bid or negotiation process if the item's cost falls below a certain dollar threshold. The Food Services Branch allowed Maui Community Correctional Center and Hawaii Community Correctional Center to

routinely purchase milk without competitive bidding. This resulted in their annual non-bid milk purchases exceeding the small purchase dollar thresholds for FY1996-97 and FY1997-98 (see Exhibit 2.1).

**Exhibit 2.1
Annual Milk Purchases Exceeding Small Purchase Dollar Thresholds**

Facility	FY1996-97 Annual Milk Purchases	Small Purchase Threshold	FY1997-98 Annual Milk Purchases	Small Purchase Threshold
Maui Community Correctional Center	\$39,600	Up to \$10,000	\$59,500	Up to \$25,000*
Hawaii Community Correctional Center	\$20,900	Up to \$10,000	\$26,900	Up to \$25,000*

* Section 103D-305, HRS, Small purchases; prohibition against parceling, was amended by Act 352, SLH 1997, to increase the small dollar threshold from \$10,000 to \$25,000, effective, October 1, 1997 (FY1998). However, the relevant Hawaii Administrative Rules (HAR), Section 3-122-74, became effective as of November 17, 1997 (FY1998).

Source: Facilities' Purchase Orders and Purchase Order Logs

Currently, the State Procurement Office (SPO) issues a price list for milk only for Oahu facilities. The Maui correctional facility food service manager has requested that the neighbor island milk purchases be placed on a department's bid list. However, the department's Procurement Office has neither pursued competitive sealed bidding nor requested the SPO to include neighbor island milk purchases on its price list. Consequently, the Maui and Hawaii correctional facilities' milk purchases violated the small purchase provisions of the procurement code.

Food service managers at the Maui and Hawaii correctional facilities have been purchasing milk from their only local vendor. However, such a non-bid purchase can result in higher costs to the State because the lowest price and best value have not been assured. This non-bid purchase is contrary to the intent of the procurement code that encourages broad-based competition and equitable treatment to all persons interested in selling goods and services to the State.

The department's procurement officer is responsible for: 1) developing purchasing policies and procedures, and monitoring and overseeing their implementation, 2) coordinating formalization and execution of contracts, and 3) reviewing purchasing. However, this position has been vacant since 1996. The acting administrative services officer currently oversees procurement activities and should aggressively request the State to include the neighbor island facilities on the State's price list. If this is not possible, the department should develop its own price list through a competitive bid process. To further strengthen compliance with the procurement rules, the department should fill the procurement officer's position as soon as practicable.

Facilities failed to retain price quotations for small purchases

The department has used the competitive sealed bidding process for frozen food and a majority of grocery items. However, purchases of small quantity items such as condiments and spices are left to the facilities' discretion. For example, Oahu Community Correctional Center purchases more than a \$1,000 worth of spices each month. Section 3-122-75, Hawaii Administrative Rules (HAR), and procurement circulars require the department to obtain price quotations for items even if purchased within the small purchase dollar threshold. However, there was no documentation that price quotations were obtained and that the vendor selected for purchases of those spices offered the lowest prices.

In our testing, we could not determine whether the facilities obtained price quotations for other small purchases and provided proper justification if an award was made to other than the lowest bidder. Three out of four facilities we tested claimed that they obtained quotations for small purchases, but we found no supporting evidence to document their claims.

The Fiscal Office pre-audit clerk does not check purchases for compliance with the small purchase quotation requirements. In fact, facilities are not even required to attach quotation sheets to the small purchase orders and invoices. Therefore, the department has no mechanism to ensure that facilities are obtaining the lowest prices under the small purchases requirements.

The department also applies the small purchases requirements to fresh produce. The department's total annual purchase of produce was \$450,000 and \$538,279 for FY1996-97 and FY1997-98, respectively. Section 103D-102, HRS, and its administrative rules exempt fresh meat and produce from the procurement code, but government agencies are still encouraged to apply the code and rules. The department has adopted the small purchase provision that requires an agency to obtain at least three price quotations for small purchases over \$1,000.

While the branch obtains weekly quotations from more than three produce vendors for its Oahu facilities, it allows neighbor island facilities to follow their own procedures when purchasing produce. This creates inconsistent policies and procedures within the branch. For example, the Hawaii correctional facility claimed that the facility purchased produce from two local vendors four times a week based on weekly quotes. The Maui correctional facility obtains weekly bid quotes from three local vendors and selects the lowest bidder. However, neither facility retained quotes or bid lists for FY1996-97 and FY1997-98 as supporting evidence.

We noted that weekly quotations for fresh produce were missing from June 1997 to November 1997 at the Halawa Correctional Facility. Also, purchase orders and related invoices were missing for July 1997 to December 1997 for the Hawaii correctional facility, and most of FY1996-97 for the Oahu correctional facility. The department's lack of clear written procedures contributes to the facilities' non-compliance with the procurement rules. The department has no assurance that non-bid small purchase or exempt items purchased by the facilities were of the best value for the State.

Purchase of meat from Correctional Industries Program is costly

The department's practice of purchasing fresh meat from the Correctional Industries Program is costly to the State. Since 1996, the Hawaii and Kulani correctional facilities were required to purchase fresh beef and pork from the Correctional Industries farm located in the Kulani correctional facility. The Kulani meat prices are determined by the Correctional Industries Program and do not reflect the cost to slaughter/trim the meat purchased. The additional slaughtering fee makes the total cost of the meat higher than that of commercial vendors who reflect slaughtering fees in their total meat prices.

Our calculation of adjusted prices reflecting the trimming loss and slaughtering fees showed that both facilities' purchases of pork from the Kulani site resulted in approximately \$20,000 of added annual expenditures. This added amount represents 30 percent of the total pork meat costs for both facilities. Also, the amount is still conservative since the calculation excludes the additional labor cost required to trim the pork. Exhibit 2.2 displays the unit price comparison of pork purchases.

Exhibit 2.2

Price Comparison of Pork Purchases

Selected Purchase Order Date	Adjusted Unit Price Per Correctional Industries Program *	Unit Price Per Department's Bid List	Cost Difference
12/16/97	\$1.74/lb.	\$1.29/lb.	\$.45/lb.
3/12/98	\$1.74/lb.	\$1.14/lb.	\$.60/lb.

* Adjusted Unit Price = Invoice Unit Price + slaughtering fee + trimming loss

Source: Selected purchase orders of the Hawaii Community Correctional Facility and related frozen food bid list.

While the department intends to be self-sufficient in producing meat to support the inmate population, the department needs to carefully assess whether purchasing from the Correctional Industries Program is in the best interest of the State.

Limited guidance and resources allowed unauthorized purchases

In our review, we found that three out of four facilities made unauthorized purchases. This resulted primarily from the preparation and approval of purchase orders after actual receipt of goods and invoices. The Hawaii correctional facility prepares purchase orders for the program manager's approval after the goods and invoices are received. This practice violates department policies and weakens the internal controls that protect against unauthorized purchases of goods and services. In addition, essential purchase order and invoice records for five months (July 1997 to December 1997) were missing. The facility's food service manager has been in the position for two years but was not properly trained on purchase order procedures. She did not receive the Food Service Manual until August 1998. Inadequate training by the Food Services Branch may have contributed to these unauthorized purchases.

The Halawa correctional facility also made unauthorized purchases for fresh produce by failing to use authorized blanket purchase orders prior to the receipt of goods and invoices. The facility had performed these procedures under an assistant food service manager who was preparing the purchase orders. With this position now vacant and without adequate resources, training, and management oversight, the efficiency of operations and compliance with requirements are at risk.

Food service managers are struggling with paperwork

Food service managers are finding it difficult to keep up with required paperwork. Four facilities have limited or no computer resources, limited access to copy or fax machines, and no clerical support. The absence of automated office tools and adequate staffing hampers timely and efficient communication and the flow of required paperwork between the facilities, vendors, and the Food Services Branch.

The Halawa and Oahu correctional facilities manually prepare purchase order drafts and the Maui and Hawaii correctional facilities use a typewriter. Food service managers have no clerical support. Thus, they must use inmates to help with the paperwork. Food service managers at the Oahu and Maui facilities spend about five days each month preparing purchase orders, while the food service manager at the Women's Community Correctional Facility uses a personal computer to prepare purchase orders in approximately two hours. Manual preparation of purchase orders is time consuming, and is more likely to result in errors and unauthorized purchases.

Certain monthly reports have not been regularly prepared and submitted to the Food Services Branch as required. The Hawaii correctional facility has only a typewriter available to prepare these reports, and the Oahu correctional facility food service manager prepares the monthly reports on his personal home computer. The Hawaii correctional facility food service manager has to drive to another location to use a copy or fax machine. Despite the facility having a copy machine, the facility's warden has requested that the food services branch provide its staff with their own copy machine. At the Halawa and Oahu facilities, staff walk to the administrative office to use a copy machine. Without sufficient automated office tools, the food service managers' operational efficiency is hampered.

To enhance operational efficiency, a computerized food services management system may be a solution. A major hospital in Hawaii has used such a computerized system for the past eight years and praises its versatility. The system evaluates menus for nutritional content and cost and also generates relevant, useful, and timely reports, including daily menus, physical inventory worksheets, inventory receipt reports, order guides, and purchase orders. The department's Correctional Industries Program that sells computer hardware and technical services to government and nonprofit agencies should be able to advise and assist in designing and installing such a system for the prison facilities.

Untimely vendor payments continue to persist

For the past several years, the department has been continuously late in paying its vendors. This results in additional interest payments to vendors from the department. The department's financial audits reveal that interest payments incurred by the Corrections Program Services have decreased from \$27,861 in FY1994-95 to \$11,000 in FY1996-97. Of the \$23,746 for late vendor interest payments for FY1995-96, \$22,000 was attributed to the Food Services Branch. According to the department's fiscal officer, the shortage of clerical help at the facilities was a major cause for the late vendor payments.

Food Inventory and Cost Controls Need Improvement

Budgeting and cost controls are essential for food service operations. Our testing revealed that the department failed to establish adequate and effective internal controls to ensure accountability over food inventory. Specific weak controls that we found were: an inconsistent record-keeping system, inaccurate meal counts, inadequate supervision of meals served, and ineffective monitoring of food costs. These weaknesses result in additional costs to the State and create opportunities for fraud, waste, and abuse of public assets.

Facilities lack standard record-keeping system

Standard forms and procedures help ensure consistency in obtaining and retaining information for the organization. The Food Services Branch has not established a standard perpetual inventory system to record goods received, record quantities issued, and verify accuracy through periodic physical inventory counts. At the Oahu Community Correctional Center, we found that staff did not maintain perpetual inventory records. Inventory was not updated for quantities issued. Instead, the quantities issued is manually calculated by subtracting the month-end physical inventory count from the total of the beginning inventory plus quantities received. The department's *Food Service Manual* requires that perpetual inventory records include the quantity on hand, received, and issued. The branch should strictly enforce these existing procedures so that accurate accounting for food and supplies is performed.

During our testing of inventory practices, we found several weaknesses that we report as follows. The food service manager at the Hawaii Community Correctional Center did not maintain inventory records from September 1997 through September 1998. The food service manager who was temporarily assigned to the position claims that he did not receive adequate instructions and training regarding duties of the position. As a result, he was unaware of the policy on maintaining perpetual inventory records. Our inventory test counts at the Halawa Correctional Facility and Maui Community Correctional Center revealed

discrepancies between records and physical inventories. The discrepancies resulted primarily from improperly updating inventory records of quantities issued or received. We could not resolve some of these discrepancies. Since the food services program manager does not supervise the physical inventory counts or perform independent reviews of the facilities' inventory records, the accuracy of the physical inventory is questionable.

Inaccurate projection of meal requirements increases food costs

Most facilities generally over-estimate the daily meal count projection to insure that sufficient food is available for inmates and staff. This practice results in unnecessary preparation of extra food and additional costs and seriously impacts on the quantity of food ordered and prepared. For example, the Halawa correctional facility prepares meals based on the total inmate population resulting in approximately 60 leftover meals per day or 21,900 extra meals a year. The facility uses the extra meals as an incentive for inmate workers working in the kitchen, but we estimate that the leftover meals cost the State about \$34,000 each year. To avoid complaints from inmates, the Hawaii correctional facility also prepares meals using the total head count rather than actual attendance. This practice results in extra meals and unnecessary costs.

ACOs do not always sign in for meals

Adult correctional officers who fail to sign in for their meals also contribute to the inaccurate projection. Correctional officers rarely sign in for meals as required by departmental policies. On occasions, they have even recorded false information such as inappropriate language on the sign-in sheets in staff dining rooms. At the Halawa facility staff dining room, we observed that none of approximately 10 officers signed in for lunch. Failure to follow sign in policies and procedures also contributes to the inaccurate daily meal count which, then, affects projected food requirements. Because of an inaccurate meal count, the Maui facility's food service manager may prepare as many as 30 extra meals per day. This variance equals 5,475 to 10,950 extra meals annually.

The department's Standards of Conduct require administrators and supervisory personnel to enforce its policies and procedures. Procedures prohibit employees from falsifying official records or entering inaccurate, false, or improper information on any department record. It is the warden's responsibility to ensure that correctional officers sign in for free meals pursuant to its procedures. We recommend that the wardens enforce the departmental sign-in procedures.

Inadequate supervision results in over-feeding

Correctional officers accompany inmates to modules but are not responsible for supervising the serving of meals. Under these conditions, kitchen inmates can serve extra food to fellow inmates. This extra food portion served at the Oahu correctional facility is costing the State about \$144,000 annually. The facility adds an additional ten percent to the food portions to avoid rioting and complaints from prisoners. Because the facility does not have a centralized dining room, meals are served by inmates at 12 different modules from bulk food trays and at another 5 locations from pre-plated trays. Due to a limited number of kitchen staff, inmates are not adequately supervised when food is served in the modules.

Food cost is not effectively monitored

The department cannot effectively monitor food cost because of inconsistent monthly reporting formats and an outdated cost per meal budget amount. Useful cost information is available at the branch but is under-utilized. A private sector hospital has effectively utilized a computerized food service management system to produce useful management reports and evaluate food costs.

Inconsistent reporting format makes monitoring difficult

The branch has not established standardized monthly reporting forms and procedures to ensure consistent monthly data from all facilities. As a result, monthly reports present different formats and types of information. The food services program manager reviews monthly reports to evaluate each operation's performance, including meal costs, inventory balances, and number of meals served. However, the different reporting formats are confusing to review and it is difficult to make performance comparisons among various managers and between facilities. A common report format based on all eight food service managers' monthly reports would be a more useful management tool.

Not all facilities submit monthly reports

The department's *Food Service Manual* requires that certain monthly reports be submitted to the branch. These reports include a monthly meal count, management control record, and weekly cost recap. In addition, the department's Standards of Conduct stipulate that employees promptly submit reports required by their duties or competent authority.

Despite these requirements, the facilities' food service managers have not consistently submitted monthly reports. The Hawaii correctional facility food service manager was unaware of the monthly reporting responsibilities for approximately two years.

Timely reports are essential to effectively manage operations. Such reports enable management to quickly identify areas for improvement and evaluate the operations for efficiency. The branch has failed to enforce this. Consequently, the branch cannot adequately assess the operational effectiveness and financial performance of the facilities.

Cost per meal budget figure is unrealistic

The Food Services Branch's budgeted food cost amount of \$1.30 per meal has been updated by only one cent since 1995. The program manager indicated that the actual cost, based on the current menu, is probably greater than \$1.30. However, the branch could not provide us with details on the actual cost per meal nor show us documentation to support how the \$1.30 budget figure was calculated. Thus, the branch cannot evaluate the reasonableness of the actual food cost against the department's budgeted amount. Without comparative information, the branch cannot determine whether the actual food costs are reasonable and correspond to the budgeted amount. To improve its cost control, the branch should update the budgeted amount and re-evaluate the menu to ensure that the actual costs are reasonable.

Cost information is not verified

Correctional facilities' food service managers must purchase food within their allocated expenditure plans. They are required to prepare monthly Management Control Records, which show the actual and budgeted meal costs of their facilities. The department's food services program manager reviews the Management Control Records to evaluate whether monthly purchases fell within the allocated amount. However, the department's program manager does not independently verify the report to ensure accuracy, completeness, and reasonableness of the information.

Also, the branch does not utilize a monthly Department of Accounting and General Services Expenditure Report, No. MBPD08, that provides monthly and year-to-date expenditure and encumbrance information by facility. This report provides expenditure information that can be used to verify the accuracy of the Management Control Record submitted by the food service managers. Without verification, the numbers reported can be contrived for other than factual purposes.

Conclusion

The Department of Public Safety does not provide adequate guidance, procedures, and resources to the staff responsible for food purchasing and related inventory management at the various facilities. The department is in violation of the procurement law and rules, has compromised internal controls, and impedes operational efficiency. The

department's controls over food inventory and food costs need improvement. Lack of a standard inventory record-keeping system creates an environment vulnerable to fraud, waste, and abuse. Inaccurate meal count information increases the cost of food and wastes public funds. To effectively monitor food cost, the department needs to ensure that the cost information is properly reported, verified, and compared against a budgeted amount that is updated to reflect cost changes.

Recommendations

1. The Department of Public Safety should improve food purchasing practices by:
 - a. Requesting the inclusion of neighbor island facilities into the milk price list produced by the State Procurement Office;
 - b. Enforcing the small purchase provision of the Hawaii Public Procurement Code;
 - c. Filling the procurement officer's position as soon as practicable;
 - d. Establishing clear written procedures and reporting requirements on non-bid and exempt purchases;
 - e. Enforcing state record retention guidelines that are applicable to purchasing documents and inventory records;
 - f. Assessing and discontinuing the intra-departmental meat purchasing program if competitive market prices for similar meat items are more cost-effective; and
 - g. Providing food service managers with necessary administrative tools (computers, fax machines, copy machines) to increase their operational efficiency. A computerized food services management system may be a solution.
2. The department should improve food inventory controls by:
 - a. Establishing and enforcing a standardized inventory recording system and monthly reporting format;
 - b. Observing physical inventory taking and spot checking food inventory and its related records;
 - c. Ensuring that wardens enforce sign-in procedures for correctional officers' meals;

- d. Updating the budgeted food cost per meal figure and re-evaluating the menu to align actual cost to budget; and
- e. Utilizing the Department of Accounting and General Services' expenditure reports to determine accuracy, completeness, and reasonableness of the cost information reported in the food service managers' monthly report.

Chapter 3

The Department of Education's Program Lacks Controls

This chapter assesses the Department of Education's compliance with the Hawaii Public Procurement Code, Chapter 103D, HRS, relative to its food purchasing practices. It also assesses the adequacy of the department's controls over food inventory.

Summary of Findings

1. The Department of Education has failed to implement adequate management controls over food purchases in the schools. This has allowed for inconsistent and questionable purchasing practices that in some cases have violated the procurement code and rules.
2. The department's inadequate food inventory and cost controls offer opportunities for fraud, misuse, or abuse of public assets.

The Department Lacks Management Controls Over Food Purchasing

Management has a duty to develop and maintain a structure of internal control that helps management protect resources against waste, fraud, or inefficient use. Our testing of the department's food services program revealed the lack of an adequate control structure. Deficiencies were noted in the following areas: 1) lack of segregated duties, 2) failure to provide adequate documentation, 3) lack of clear authorization policies and procedures, and 4) limited monitoring and evaluating of food purchasing practices. These departmental deficiencies have resulted in questionable or unauthorized purchases and non-compliance with the procurement law and rules at schools.

Fundamental internal controls are lacking

The department lacks adequate internal controls regarding the proper segregation of duties—no single individual or department should handle all aspects of a transaction from beginning to end. This deficiency is exacerbated by the lack of independent monitoring by supervisory staff. In the absence of proper documentation and clear authorization procedures, the department exposes the State to the risk of waste, fraud, and abuse of State resources.

Segregation of duties is ignored

At schools we visited, we noted a lack of proper internal controls which mandate that separate individuals are assigned the responsibilities for

authorizing, initiating, approving, executing, and recording transactions. No single employee should initiate and complete ~~unauthorized~~ transactions. Such a concept was ignored by school level personnel.

The department's accounting policies require the principal or administrator to compensate for controls when low staffing levels prevent separation of duties. However, controls such as periodic unannounced reviews of accounting documents have not been instituted by the department. At the schools we visited, most of the food service managers singularly authorize the purchase, place the order, receive the goods, record items into the inventory, and authorize invoices for payment. Without an adequate monitoring system over the food service operations, unauthorized food purchasing, waste, and abuse of public resources can easily go undetected.

No independent monitoring of food purchases

We found that no independent party is monitoring food service managers' food purchasing practices and vendors' performance. As a result, contract monitoring is pretty much left to food service managers. Monitoring, a routine on-going review of a contractor's operations and performance, should assess performance against the scope of services specified in the contract and ensure compliance with contract requirements.

While the School Food Services Branch admits its responsibility for contract monitoring, it does not have any formal written monitoring procedures and takes no action against vendors unless it receives complaints. The branch director claims that food service managers report to school principals; thus, the branch can only provide technical assistance and cannot enforce policies and procedures.

At the school sites, principals are responsible for the supervision of food service managers and oversight of their operations, including food purchases and inventory management. However, the principals generally consider the cafeteria to be a separate, quasi-independent entity with the food service managers primarily responsible for food purchasing, inventory and vendor performance. The principals also believe that the Food Services Branch is responsible for monitoring food service managers' purchasing and vendor payments. This division of responsibilities between the principal and the branch remains unclear.

In addition to the vague monitoring responsibilities, the department's Vouchering Section does not audit the food purchases of schools for compliance with the approved bid lists and the procurement code. The process of matching invoices and purchase orders for accuracy prior to vendor payment is impossible because purchase orders are not required

for food purchases. The department can offer no assurance that food service managers are properly purchasing food, and that vendors are providing the goods and prices as specified in the contracts. Yet payments to vendors are processed despite the lack of verification procedures.

Matching invoice with purchase requisition is not always performed

Purchases should be documented with records that can be independently audited. These records should include: 1) a requisition signed by authorized personnel and 2) a vendor invoice that is matched against the original purchase order to verify pricing and the receiving document to verify receipt of the purchased item.

The food service managers at three schools we visited claimed that they used purchase requisition forms but did not retain them as is required by the *School Food Services Handbook*. Therefore, we were unable to determine whether purchase requisition forms were matched against invoices. Purchase requisition forms should be used to place orders, verify orders upon delivery, and should be matched against vendors' invoices to ensure proper payment for the goods ordered and received.

Disbursement policies are ambiguous

The department's disbursement policies and the *School Food Services Handbook* do not specify exactly who can certify and approve invoices for payment. The policies indicate that the principal or supervisor can designate authorized personnel. We found that several persons perform invoice authorizations. Not only food service managers but also a clerk, bakers, cooks, and kitchen helpers at some schools sign and authorize invoices for payment. At a Maui District elementary school, the cook orders food and receives delivery. The same cook authorizes invoices for payment in the absence of the food service manager and baker. The food service manager found instances where the cook purchased food items from an unapproved vendor.

Furthermore, the department's Vouchering Section does not have a listing of authorized food service managers or designees who sign invoices for payment. Unauthorized purchases can easily go undetected without a list of authorized persons and a verification process for invoices.

Non-compliance with procurement law is of concern

Schools are in non-compliance with the small purchases provision of the procurement law and rules. The School Food Services Branch does not have clear written procedures and reporting requirements for non-bid and

exempt purchases. This fosters inconsistent purchasing practices. Additionally, questionable or unauthorized purchases can easily go undetected without appropriate monitoring by an independent party.

Non-bid purchases are inconsistent and violate procurement rules

The branch has not provided written procedures and reporting requirements for non-bid purchases. Although branch food services supervisors are required to monitor non-bid purchases for compliance with state and federal rules and regulations, this duty is not vigorously pursued. Food service managers use their own discretion for food purchasing. They consider not only the lowest price but also availability, deliverability, service, and quality when selecting vendors. The food service manager at a Hawaii District high school does not always obtain quotes for non-bid purchases and tries to split orders between two major local vendors to promote local business.

Furthermore, the food service managers at a Kauai high school and a Maui elementary school purchased bid items from non-approved vendors claiming that items from the approved vendors were not available. These purchases violated the procurement rules regarding purchasing from authorized price lists. The special conditions of the price list contract require that substitutes be provided by the contract provider at the same price.

Non-bid purchases violate the small purchases provision

The Procurement Code's administrative rules require all quotes received to be recorded and placed in a procurement file. Written justification must be prepared and filed when an award is made to a vendor whose price quotation was not the lowest.

The School Food Services Branch did not strictly enforce the requirement for food service managers to retain quotations nor did it provide scheduled training on food purchasing practices to ensure compliance with the procurement law. Sporadic training is provided primarily for nutrition and enhancement.

Four out of six schools we sampled violated the small purchases provision of the Hawaii Public Procurement Code by "parceling" purchases into small purchases to avoid competitive bidding. The food service managers at those schools routinely purchased non-bid groceries or frozen food items from non-bid vendors that exceeded the small purchase dollar thresholds when totaled. Exhibit 3.1 lists those food items that should have been purchased through a competitive bidding process. Careful monitoring of expenditure reports of the food service managers' actual purchases could have avoided these violations.

Exhibit 3.1 Non-Bid Annual Purchases Exceeding Small Purchase Dollar Thresholds

Location	Type of Purchase (non-exempt items)	FY1996-97 Total Annual Purchases (small purchase threshold = up to \$10,000)	FY1997-98 Total Annual Purchases (small purchase threshold = up to \$25,000)*
McKinley High School	Grocery	\$17,400	-
McKinley High School	Grocery and Frozen	\$15,400	-
Mililani High School	Grocery	\$12,300	-
Mililani High School	Grocery and Frozen	\$22,600	-
Kihei Elementary School	Grocery	\$29,500	\$27,900
Kapa'a High School	Grocery	\$26,300	-

* Act 352, SLH 1997, increased the small purchase dollar threshold from \$10,000 to \$25,000.

Source: Department of Education, accounting records

Questionable purchases could go undetected

During our fieldwork, we were informed by officials of a Kauai District high school about an ongoing investigation of its food service manager's questionable purchases.

We were informed that the food service manager purchased over \$15,000 worth of cleaning disinfectant from a vendor in order to receive a free lap-top computer. However, once the school became aware of this irregularity, it recovered most of the items and returned them to the vendor. Payment for the \$15,000 order was not processed.

Due to these concerns, we expanded our test procedures and followed up on other purchases made by the food service manager. Our work found evidence of other possibly questionable purchases. While the school

intends to pursue this matter further, the department had not reported the situation to the Department of the Attorney General at the end of our field work. As a result and as required under government auditing standards, we informed the attorney general of this situation and the possibility of illegal acts.

A prudent and diligent approach is needed for exempt food purchases

Although the Procurement Code exempts certain items from the purchasing law, agencies are still encouraged to purchase exempt items according to procurement provisions as appropriate. Food exemptions include fresh meats and fresh produce.

The School Food Services Branch has not been diligent in its purchase of these exempt items. The branch has neither reported exemptions annually to the State Procurement Office as required by law nor provided schools with written procedures and reporting requirements for exempt purchases. Like purchasing non-bid items, purchasing exempt items is left to the discretion of each food service manager.

At a Hawaii District high school, the food service manager purchases fresh meat from a local vendor even though that price is sometimes higher than frozen meat. The food service manager at a Central District high school purchases certain types of fresh meats (teri beef and stew meat) rather than frozen meat. She claims that the price is comparable; however, there was no evidence of price comparisons.

Fresh produce is another item exempt from the procurement law. Currently, the department can purchase fresh fruits and vegetables from the U.S. Department of Defense's purchasing program. Schools have the option of purchasing produce from the defense department's program or from local vendors. Approximately 75 to 80 percent of the schools participate in the defense department's program while the remainder purchase produce from local vendors.

The branch has not developed written procedures or reporting requirements for the purchase of produce from local vendors. As a result, food service managers are inconsistent in their purchasing practice and provide limited assurance that the best prices are obtained. For example, a Honolulu District high school purchases produce from two vendors, mainly based on price; however, serviceability, quality, and delivery are also considered. The food service manager obtains weekly price lists from one vendor, and retains the most current one. A Kauai high school's food service manager claims that he purchases produce from three vendors based on quotes and selects the lowest bidder; however, price quotes were not retained. A Maui elementary school

purchases produce from a local vendor as well as from the defense department's program. Without written procedures, price quote retentions, and consistent criteria for exempt purchases, the department cannot determine if purchases were prudent.

The Department's Management Over Food Inventory Does Not Insure Protection of State Resources

The importance of adequate internal controls over inventories and goods cannot be over-emphasized. Proper internal controls help safeguard assets and provide a basis for accurate financial reporting.

The department failed to establish adequate internal controls over food inventory. Weak controls over the safeguarding of food inventory, lack of segregation of duties, and poor inventory record keeping provide opportunities for fraud, waste, and abuse of public resources.

Hawaii's Public Procurement Code holds the heads of the departments responsible for maintaining an adequate system of internal control. In addition, the department head must verify that its established internal control system continues to function effectively as designed. Since the department has a fiduciary duty to the public, it has a serious responsibility to safeguard assets.

Control over safeguarding of food inventory is inadequate

The department's control over food inventory is inadequate. The *School Food Services Handbook* does not provide for controls over access to school storerooms. The manual does not describe which authorized personnel should have access to school storerooms besides the food service managers. The food service manager at a Kauai high school claimed that anyone with a master key, such as athletic department and school office personnel and custodians, has access to the food inventory. He recalled incidents of missing food after weekend periods and the kitchen being left unlocked. At a Maui elementary school, the food service manager suspects that food is being pilfered but cannot prove it. He is not certain who else has access to the kitchen. Even though the kitchen and dining room are locked at the end of the day, we noted that the kitchen's refrigerator and freezer locks were broken. The food service manager said that the locks could not be repaired.

We also noted that many kitchen staff had access to food inventory in addition to the food service managers. As listed in Exhibit 3.2, numerous individuals, including student helpers and van drivers at some schools, have access to the food inventory. The *School Food Services Handbook* does not provide procedures for safeguarding food inventory except for some general procedures on controls over the keys to the storeroom.

Exhibit 3.2
Kitchen Personnel Who Have Access to Food Inventory

Location	Food Service Manager	Cook	Baker	Helper*	Clerk	Total
Kapa'a High School	1	2	1	7	0	11
Kihei Elementary School	1	2	1	9	0	13
Konawaena High School	1	2	1	10	0	14
Kahuku High School	1	1	1	19	0	22
McKinley High School	1	1	1	8	0	11
Mililani High School	1	2	1	19	1	24

* Includes full-time and part-time kitchen helpers, and van drivers.

Since safeguarding food inventory is key in any well-run food service facility, we visited a major Waikiki hotel and one of the State's larger hospitals to examine their controls.

The private sector appears to place a high priority on controls to safeguard food inventory. A major Waikiki hotel has installed cameras at the storeroom's entrance and exit so that the food and beverage director can monitor the storeroom from his office. The director also minimizes the number of personnel who have access to food inventory and maintains a list of authorized personnel.

Control over food inventory is a concern at one of the State's larger hospitals. The food and nutrition manager tries to lock up the freezer even during the day. She limits access to the food inventory to the storekeeper and other personnel as needed. The manager is the only person who has a key to the kitchen from the outside. The keys, which the kitchen personnel use, are locked up at the end of the day and re-distributed at the beginning of the next day. To strengthen controls over food inventory, the branch should establish policies and procedures to clearly identify a limited number of authorized personnel with access to food inventory at each school.

Segregation of duties is lacking

A fundamental concept of internal control is that no one individual or department should handle all aspects of a transaction from beginning to end. At some schools we visited, the food service manager performs all aspects. He or she not only performs the physical inventory count but

also records the information into and maintains the perpetual inventory records. School principals who oversee their food service operations do not perform physical inventory counts of food items and goods.

Branch supervisors do not perform independent monitoring of food inventory at schools. They inform schools in advance of their site visits and do not consistently check inventory.

In comparison, the food service operations at the local major hotel visited performs physical inventory counts with staff from both the storeroom operations and the food and beverage director's office. The storeroom staff count items while the director's staff observe and record the counted items. Also, the food and beverage director and his staff perform unannounced inventory checks at various times during the day.

Inventory record keeping is lacking

The School Food Services Branch has not developed standardized record-keeping policies and procedures for inventory. Consequently, schools use various procedures and forms that result in inconsistency. The branch has not enforced the federal National School Lunch Program's record retention guideline of three years. One food service manager was not sure how long meal count sheets should be retained. At a Kauai District high school, the food service manager could not locate perpetual inventory cards for FY1996-97.

Procedures and forms vary by schools

Each school uses different forms and procedures to record meal counts and food items used because the department has not developed standardized ones. Most of the schools manually record the meal count each day and then summarize counts in a monthly report. One school also prepares a weekly summary. This manual process is time consuming and increases the possibility of human error.

The *School Food Services Handbook* provides inadequate guidelines on how to record inventory items used and how to maintain a perpetual inventory balance. The use of standardized forms in which staff record food issued from the storeroom and indicate the remaining inventory balance of the item would enable the food service manager to easily identify and investigate discrepancies between the storeroom inventory and the perpetual inventory records. The lack of standardized forms and the use of time-consuming manual operations present a greater risk for discrepancies.

Test counts resulted in unresolved discrepancies

Perpetual inventory records can discourage theft and waste through the accurate accounting of the goods received, issued, and on hand. However, to be effective, this inventory control system must be verified periodically for accuracy by physically counting the inventory.

In our test counts at six schools we sampled, we found unresolved discrepancies between the physical counts and perpetual inventory records. Exhibit 3.3 lists those discrepancies. Other discrepancies were found but resolved by the food service managers during our fieldwork. Some of discrepancies were due to not recording food items on the sign-out sheets when food was issued or not updating the perpetual inventory cards as balances changed. At a Maui District elementary school, the perpetual inventory cards were updated with information from the menu planning worksheets. These worksheets list food items that should be used rather than items that were actually used. The inappropriate information resulted in inaccurate inventories.

Exhibit 3.3
Unresolved Inventory Discrepancies at Six Schools

Location	Food Item	Measurement Unit	Physical Count	Inventory Card Count	Total Discrepancy	Unresolved Discrepancy
Kapa'a High School	Eggs	15 dozen (= 1 case)	38 dozen	30 dozen	8 dozen	8 dozen
Kihei Elementary School	White Rice	Bag	45	41	4	4
Konawaena High School	Mozzarella Cheese	Pound	274.29	128.32	145.97	145.97
Kahuku High School	Pineapple Tidbits	Case	16	7	9	3
Kahuku High School	Sugar	Bag	6	12	-6	-2
McKinley High School	Salt	Bag	0	2	-2	-1
Mililani High School	Flour	bag	37	24	13	17

Source: Per our test counts at the respective schools.

Cost control needs improvement

The department's Accounting Section generates a monthly feedback report that provides food service managers with information on meal costs, food purchases, and meal counts. However, the report's deficiencies prevent food service managers, branch supervisors, and the branch accountant from accurately monitoring costs.

Feedback reports based on the food service managers' monthly reports may not always be accurate and complete. As an example, we noted that the new food service manager at a Maui District elementary school submitted incorrect monthly reports for one year. The same school's kitchen staff sometimes did not record overages and shortages of food as required. Thus, the ending inventory amount reported on the manager's monthly reports was distorted and unreliable.

Feedback report is not useful for monitoring

The feedback report is misleading, confusing, and deficient. The inventory section of the feedback report is in a cumulative format and incorrectly presents the beginning and ending inventory balances at the end of each month. To identify current balances, the reader needs to subtract prior month balances from the current month cumulative balances. Exhibit 3.4 displays those inventory balance discrepancies in the feedback report using hypothetical numbers.

Exhibit 3.4

Example of Inventory Balance Discrepancy in Feedback Report, Form SL-12, Statement of Cost of Goods Used, Using Hypothetical Figures

Description	Beginning Food Inventory (A)	Food Purchases (B)	Goods Used (C)	Ending Food Inventory (A)+(B)-(C)
Cumulative Balance as of January month-end	\$100	\$50	\$40	\$110
Cumulative Balance as of February month-end	\$210*	\$100	\$80	\$230**

* The February beginning food inventory balance should be January's ending food inventory balance of \$110.

** The February ending food inventory balance should be \$130 if it properly reflects the accurate beginning inventory balance of \$110, the monthly food purchased, and the goods used ($\$110 + \$100 - \$80 = \130).

Furthermore, the calculation of the actual food cost per meal in the feedback report does not include the number of breakfast and supplementary items served. The total number of breakfasts served during FY1997-98 was about 6.3 million, or about 25 percent of the total

lunches served. The inclusion of breakfast counts impacts the calculation of the cost per meal. Therefore, the food cost per meal calculated using only the number of lunches served fails to accurately reflect the true cost.

These report deficiencies distort operational costs. The food services branch, branch supervisors, and food service managers cannot analyze and evaluate the operations based on such erroneous information.

Budgeted food cost of \$1.02 per meal is not accurate

The department's budgeted food cost of \$1.02 per meal for FY1997-98 is not accurate. Although the cost is based on historical data and an inflation factor, it fails to include other variables in its calculation such as: 1) grade level (elementary schools at lower cost), 2) cost factor by district (neighbor islands at higher cost) and 3) breakfast or supplementary items sold.

Questionable information on budgeted cost per meal, coupled with the misleading information from the feedback report, reflect the department's general lack of control over food costs. Branch and food service managers cannot properly evaluate and assess the reasonableness of actual food costs against the department's inaccurately budgeted figure.

The department cannot make necessary adjustments in its operations to maintain costs within its budget when cost information and data are inaccurate.

Conclusion

The Department of Education lacks fundamental internal controls over food purchasing and inventory management. The department failed to segregate duties, perform independent monitoring and verification of data, and develop standardized policies and procedures. As a result, some schools are violating the Hawaii Public Procurement Code. In addition, the control deficiencies have allowed questionable or unauthorized purchases. Finally, the department has not established an adequate inventory management system to safeguard, record, and account for food inventory, and provide accurate cost information. Until the department establishes adequate controls over food purchasing and related inventory, the State's exposure to the waste, fraud and inefficient use of its resources continues.

Recommendations

1. The Department of Education should monitor food purchasing practices on a regular basis. More specifically:
 - a. School personnel assigned to cafeteria management and district supervisors should routinely review purchasing documents for compliance with applicable law, rules, and procedures. Any non-compliance should be reported to the branch and the principal; and
 - b. District supervisors should take an active role in scrutinizing food service managers' actual purchases by using the expenditure report and feedback report for verification. Unusual purchases should be investigated and reported to the branch and the principal.
2. The department should require its Procurement Office to establish and enforce standard contract monitoring procedures.
3. The department should require the principal to designate personnel authorized to approve invoices for payment. The Vouchering Section should obtain a listing of authorized personnel's signatures for invoice payments and verify signatures on invoices.
4. The department should require the School Food Services Branch to:
 - a. Strictly enforce the small purchase provision of the Hawaii Public Procurement Code;
 - b. Identify non-bid menu items, include them on the department's price list, and also establish clear written procedures and reporting requirements for small quantity, non-bid items excluded in the list;
 - c. Report exempt food purchases annually to the State Procurement Office as required by the procurement code;
 - d. Establish written procedures and reporting requirements for exempt food purchases outside of the Department of Defense purchasing program;
 - e. Enforce the effective use of the standard purchase requisition; and
 - f. Establish and implement a training program for food service managers on food purchasing and recordkeeping.

5. The department should monitor food inventory and its related records on an on-going basis. School personnel assigned to cafeteria management and district supervisors should routinely review food inventory and perpetual inventory records, including unannounced audits. Any unresolved discrepancies should be reported to the branch and the principal.
6. The department should require the School Food Services Branch to:
 - a. Establish standard inventory record keeping procedures and related forms, and enforce stricter key and access control policies and procedures to identify and document authorized personnel who have access to the key and/or food inventory;
 - b. Enforce federal record retention guidelines;
 - c. Provide food service managers with adequate training and written instructions on the use of the feedback report; and
 - d. Adjust the budgeted food cost per meal to properly reflect cost variables for grade level, districts, and for breakfast and supplementary items.
7. The department should require its Accounting Section to revise the monthly feedback report format to:
 - a. Properly present monthly inventory balances; and
 - b. Properly present actual food cost per meal by reflecting the number of breakfast and supplemental items served and weighted cost variables.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the Department of Public Safety and the Department of Education on March 8, 1999. A copy of the transmittal letter to the Department of Public Safety is included as Attachment 1. A similar letter was sent to the Department of Education. Responses of the Department of Public Safety and Department of Education are included as Attachments 2 and 3 respectively.

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

The Department of Education generally concurs with most of our findings and recommendations. It acknowledges that improvements can be made in food purchasing and food inventory procedures. The department commented that it will take actions, as best it can within budgetary constraints, to follow our recommendations.

With regard to our recommendation that the department establish standard inventory record keeping procedures and related forms, the department stated that it has an inventory control system in its Business Office Handbook. While we acknowledge the existence of guidelines concerning the food service manager's use of perpetual inventory cards in the handbook, we found the standard inventory record keeping procedures and forms on the withdrawal of food from the storeroom to be inadequate. The guidelines are too general and do not address any related internal procedures in detail.

The department also believes that the methodology used to determine the budgeted food cost per meal is adequate to measure the effectiveness of the cafeteria operation. However, the department also stated that it will review its current methodology using the cost variables noted in our report. If significant variances occur, the department stated that it will make adjustments as necessary.

Finally, we made some minor adjustments in our draft report for the purpose of clarity.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

March 8, 1999

COPY

The Honorable Ted Sakai
Director
Department of Public Safety
919 Ala Moana Boulevard
Honolulu, Hawaii 96814

Dear Mr. Sakai:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Procurement Audit of Food Purchases and Related Inventory Controls of the Department of Public Safety and the Department of Education*. We ask that you telephone us by Wednesday, March 10, 1999, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Wednesday, March 17, 1999.

The Department of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures



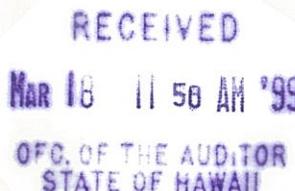
STATE OF HAWAII
DEPARTMENT OF PUBLIC SAFETY
919 Ala Moana Boulevard, 4th Floor
Honolulu, Hawaii 96814

March 15, 1999

No. 99-1260

Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street
Honolulu, Hawaii 96813

PREVIOUSLY FAXED



Dear Ms. Higa,

Thank you for allowing us the opportunity to respond to your audit findings and recommendations. Your audit provided us with useful information that we are using to improve our food services program. Specifically, we are taking the following actions:

- The department is submitting a request to the State Procurement Office (SPO) to include the neighbor island facilities on the SPO price list for milk. If the State Procurement Office is unable to do this, then the Department will issue a competitive bid for milk products for neighbor island correctional facilities by April 15, 1999.
- The department will be issuing a vacancy announcement for the procurement officer's position by the end of March 1999.
- The department does have clear written procedures and reporting requirements for small and exempt purchases that are in accordance with guidelines set forth by the Hawaii Public Procurement Code. The food services' manager will train statewide institutional food service managers to ensure that written procedures are followed. In addition, the food services' manager will monitor purchase orders for non-bid and exempt purchases and the branch chief will conduct random checks of the food services' units.
- The department will assess the intra-departmental meat-purchasing program to determine its appropriateness under the guidelines of the exempt purchasing procedures of the Hawaii Public Procurement Code. The branch office will obtain two quotations from statewide meat suppliers in addition to that of Correctional Industries. The department will then make a selection based on the quotation that is most advantageous to the State.
- The department recognizes the importance of operating an efficient food services' management system. In light of the department's financial limitations, we are taking into consideration the upgrade of our food services' office and computer equipment.

- The department is establishing a standardized perpetual inventory system. A perpetual inventory system is a more effective method of inventory control that requires a continuous update of product quantities. In addition food services' staff conducts a monthly physical inventory and submits to the branch office, a report that explains any discrepancies. Finally, the branch office will require the following reports from food service managers statewide on a monthly basis: Management Control Record, Weekly Cost Recap, Meal Count for the month, Measurement of Performance Report, Perpetual and Physical Inventory Forms.
- To ensure proper internal controls, the staff member who is responsible for maintaining the perpetual inventory will not be responsible for taking the physical inventory. The program's manager will conduct periodic checks of all perpetual inventories at all food service units statewide.
- The food services' program manager will evaluate menus as compared to current food contract bid price lists to update food cost-per-meal budgets.
- The department will better utilize the Department of Accounting and General Services' expenditure reports to validate its own cost records.

The director has instructed the Food Services' Program manager to draft policies in response to your findings and recommendations. Those policies are found in the attachments to this letter and we ask that you include them in your report.

Thank you for your time and consideration.

Very truly yours,



TED SAKAI
Director

**FOR PURCHASING NON-BID ITEMS - FOLLOW SUBCHAPTER 8, SMALL
PURCHASES OF THE HAWAII PUBLIC PROCUREMENT CODE, CHAPTER
103D OF HRS, TITLE 3, SUBTITLE 11, HAR**

Hawaii law does not require purchasers to use a competitive bid or conduct negotiation on purchases which fall within the threshold of less than \$25,000. for goods, services or construction.

If there are no bid price lists, the small purchases procedures are to be followed:

1. Purchasers should make every effort to obtain three (3) quotations (written or verbal) from suppliers for the goods, service or construction needed.
2. Purchasers should attempt to get written confirmation or quotation from the successful supplier.
3. Purchasers must use SPO Form-10(Rev.11/97) and SPO Form-10A (Rev.11/97). Forms are in PUBLIC PROCUREMENT MANUAL, State Procurement Office, June 1998.
4. Considering all factors, including but not limited to quality, warranty and delivery, award shall be made to the vendor with the most advantageous quotation.
5. Copies of quotations received must be attached to your purchase order for small purchase that is submitted to the central branch office for approval.
6. All original quotations received shall be recorded and placed in a procurement file.
7. When three (3) quotations are required but are not obtained, e.g., insufficient sources, sole sources, emergencies, the reason shall be recorded and placed in the procurement file.
8. The file shall also include a written justification when award is made to other than the vendor submitting the lowest quotation.

**FOR PURCHASING PROCUREMENTS EXEMPT (FRESH PRODUCE) FROM
CHAPTER 103D, HRS**

Hawaii law list fresh meats and produce under *Exemption Number 15 for Procurements Exempt From Chapter 103D, HRS*. Corrections Program Services, Food Service Units are to follow the Procurements Exempt procedures:

1. The Branch Office will obtain three (3) quotations from statewide produce suppliers.
2. The Branch Office will attempt to get written confirmation or quotation from the successful supplier.
3. The Branch Office will distribute weekly price quotations to each statewide food service unit.
4. The Purchaser considering all factors, including but not limited to quality, warranty and delivery, award shall be made to the vendor with the most advantageous quotation.
5. All original quotations received shall be recorded and placed in a procurement file.
6. When three (3) quotations are required but are not obtained, e.g., insufficient sources, sole sources, emergencies, the reason shall be recorded and placed in the procurement file.
7. The file shall also include a written justification when award is made to other than the vendor submitting the lowest quotation.

**FOR PURCHASING PROCUREMENTS EXEMPT (FRESH MEATS) FROM
CHAPTER 103D, HRS - INTRA-DEPARTMENTAL PURCHASES**

Hawaii law list fresh meats and produce under, *Exemption Number 15 for Procurement Exempt From Chapter 103D, HRS*. Corrections Program Services, Food Service Units on the Big Island (Hawaii) participate and purchase fresh beef and pork from the Correctional Industries Program. Corrections Program Services, Food Service Units on the Big Island are to follow the Procurements Exempt procedures:

1. The Branch Office will obtain three (3) quotations from statewide meat suppliers (Correctional Industries will be part of the three).
2. The Branch Office will attempt to get written confirmation or quotation from the successful supplier.
3. The Branch Office will distribute monthly price quotations to each food service unit.
4. The Purchaser considering all factors, including but not limited to quality warranty and delivery, award shall be made to the vendor with the most advantageous quotation.
5. All original quotations received shall be recorded and placed in a procurement file.
6. When three (3) quotations are required but are not obtained, e.g., insufficient sources, sole sources, emergencies, the reason shall be recorded and placed in the procurement file.
7. The file shall also include a written justification when award is made to other than the vendor submitting the lowest quotation.

Physical Inventory Form

Type of Product _____

Month _____

Month _____

Product	Unit	Amount in Storage	Purchase Price	Total Price	Amount in Storage	Purchase Price	Total Price



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

OFFICE OF THE SUPERINTENDENT

March 17, 1999

The Honorable Marion M. Higa, State Auditor
State of Hawaii
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

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STATE OF HAWAII

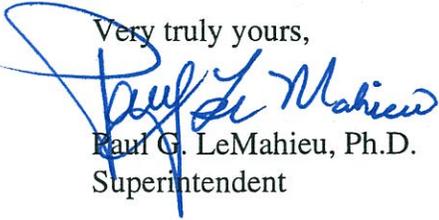
Dear Ms. Higa:

We appreciate the opportunity to respond to the recommendations pertaining to the Department of Education in your report entitled *Audit of Food Purchases and Related Inventory Controls of the Department of Public Safety and the Department of Education*.

Dwindling resources and increasing needs in the Department have made it necessary to prioritize and make difficult decisions about how to make the best use of available resources, and identify what is strategically important. We recognize that we cannot do all that we should be doing, such as providing staffing to allow for sufficient segregation of duties in school cafeterias, due to budgetary constraints and our primary focus of allocating resources to the classroom for the direct benefit to our students.

However, we do acknowledge that improvements can be made in the areas of food purchasing and food inventory procedures. Therefore, we will take actions, as best we can within budgetary constraints, to comply with the recommendations in this report. Specific comments on the recommendations are on the following pages.

Very truly yours,


Paul G. LeMahieu, Ph.D.
Superintendent

PLeM:EK

Enclosure

PROCUREMENT AUDIT OF FOOD PURCHASES AND RELATED INVENTORY CONTROLS OF THE DEPARTMENT OF EDUCATION

The following are responses to the recommendations:

1. The Department of Education should monitor food purchasing practices on a regular basis. More specifically:
 - a. School personnel assigned to cafeteria management and district supervisors should routinely review purchasing documents for compliance with applicable law, rules, and procedures. Any non-compliance should be reported to the branch and the principal; and
 - b. District supervisors should take an active role in scrutinizing food service managers' actual purchases by using the expenditure report and feedback report for verification. Unusual purchases should be investigated and reported to the branch and the principal.

Department's Response: (1a. 1b.)

The Department will conduct an annual purchasing review of the schools' purchasing procedure by the school food services (SFS) supervisors. Unannounced purchasing reviews may also be conducted during the school year on a random basis and when necessary. Discrepancies will be reported to the principal and SFS manager for corrective action.

2. The Department should require its Procurement Office to establish and enforce standard contract monitoring procedures.

Department's Response:

The issue to the problems cited was compliance to the procurement and expenditure rules. Such rules currently exist. However, from the compliance perspective the Department will review existing procedures, improve, disseminate, and retrain as required.

1. ***The Procurement Section will continue to be responsible for Department Procurement Rules.***
2. ***The SFS branch will be charged with determining their own internal SFS procedures to comply with the Department Procurement Rules and will coordinate corrective action with school principals on all procurement violations.***
3. ***The Operations Section will not only be charged with processing SFS invoices and auditing but also for citing SFS violators.***

4. SFS supervisors will take a more active role in monitoring SFS manager's purchases and will advise both the SFS director and principals.

3. The Department should require the principal to designate personnel authorized to approve invoices for payment. The Vouchering Section should obtain a listing of authorized personnel's signatures for invoice payments and verify signatures on invoices.

Department's Response:

The SFS branch will expand the established guidelines and instructions to include the SFS manager and/or the temporary assigned SFS manager authorized to approve payments for purchases.

The principals do not have purchase approval authority over the SFS account and Vouchering does not audit for authorized signatures, since the signature on the purchase order worksheet is maintained at the cafeteria office as part of their procurement file.

The Department will review the recommendation that a list of individuals be forwarded to the Vouchering Section to verify signatures on invoices.

4. The Department should require the School Food Services Branch to:
- a. Strictly enforce the small purchase provision of Hawaii Public Procurement Code;
 - b. Identify non-bid menu items, include them on the department's price list, and also establish clear written procedures and reporting requirements for small quantity, non-bid items excluded in the list;

Department's Response: (4a. and 4b.)

The Department will monitor and enforce the small purchase provision. Written procedures will be provided. The Department will monitor the invoices and inform the SFS branch of any discrepancies and will take corrective action.

Please note: Exhibit 3.1 "Processed Produce." We believe produce, whether processed or in bulk, should be considered exempt under the Procurement exemption for fresh produce and therefore the entry in Exhibit 3.1, "processed produce" for McKinley High School should be deleted.

- c. Report exempt food purchases annually to the State Procurement Office as required by the procurement code;

- d. Establish written procedures and reporting requirements for exempt food purchases outside of the Department of Defense purchasing program;

Department's response: (4c. 4d.)

The Department will report the exempt food purchases as required. The Department will establish written procedures and reporting requirements for exempt food purchases.

- e. Enforce the effective use of the standard purchase requisition; and

Department's response:

The Department will continue to use the Form SL-2 and the Purchase Requisition Book. The written instructions will be reviewed and amended to include more specific instructions and guidelines.

- f. Establish and implement a training program for food service managers on food purchasing and record keeping.

Department's Response:

The Department will establish and implement purchasing procedure and record keeping training for SFS managers and one-on-one training sessions when requested. The training sessions will be conducted by SFS branch staff and may include persons from the Procurement and Vouchering Sections of the Department when appropriate.

5. The Department should monitor food inventory and its related records on an on-going basis. School personnel assigned to cafeteria management and district supervisors should routinely review food inventory and perpetual inventory records, including unannounced audits. Any unresolved discrepancies should be reported to the branch and the principal.

Department's Response:

The Department will review the inventory procedure. The inventory review will include a review of the perpetual inventory card system currently in place. Written instructions and guidelines will be done to clarify the procedure. In addition, unannounced inventory reviews will be conducted during the school year on a random basis and when necessary. Discrepancies will be reported to the principal and the SFS manager for corrective action.

6. The Department should require the School Food Services Branch to:

- a. Establish standard inventory record keeping procedures and related forms, and enforce stricter key and access control policies and procedures to identify and document authorized personnel who have access to the key and/or food inventory;

Department's Response:

Inventory Record keeping

Contrary to the findings, the Department does have an inventory control system, (see Business Office Handbook School Food Services Volume IV Section I pages 41-42). Additional guidelines, training and stricter enforcement to implement the system will be part of the inventory review previously described in recommendation 5.

Key and Access Controls

The Department will review the current written guidelines and amend, make clearer and/or add, if necessary, additional instructions to control the distribution of keys and restrict the unauthorized personnel from accessing the kitchen storeroom inventory. The Principal with the acknowledgement and agreement of the SFS manager will decide the distribution and add it to the school's key distribution list.

- b. Enforce federal record retention guidelines;

Department's Response:

The Department distributes memos on a regular basis informing the schools when and which records may be disposed. The Department will instruct all schools to retain all SFS records until notified.

- c. Provide food service managers with adequate training and written instructions on the use of the feedback report; and

Department's Response:

The Department will provide training for SFS managers on the use of the feedback report as a management tool to monitor controllable costs.

- d. Adjust the budgeted food cost per meal to properly reflect cost variables for grade level, districts and for breakfast and supplementary items.

Department's Response:

The Department believes the methodology to determine the food cost budget is adequate to measure the effectiveness of the cafeteria operation. However, the

Department will review the methodology currently in use to determine the food cost budget for the different grade levels, districts (neighbor islands) for the breakfast and supplementary items. If the review reveals a significant variance, the Department will provide instructions and guidelines and if necessary, formulas for the school to use to adjust for their circumstance.

The variances for the different grade levels will be further defined and sent to the schools. The \$1.02 budgeted food cost is for the secondary schools. For the kindergarten through sixth grade schools, \$.92 is the budgeted food cost and \$.97 is the budget food cost for kindergarten through eighth grade schools.

7. The Department should require its Accounting Section to revise the monthly feedback report format to:
 - a. Properly present monthly inventory balances; and
 - b. Properly present actual cost per meal by reflecting the number of breakfast and supplemental items served and weighted cost variables.

Department's Response: (7a. and 7b.)

The Department will review all school food services feedback reports to determine which reports are relevant, which need to be reprogrammed and what kinds of reports are needed currently to be an effective management tool in analyzing and evaluating the SFS operations.