Department of Education

Internal Audit

School Food Services Review

Issue Date: January 2013

Report Number: 2013-01

Department of Education
School Food Services Review
Executive Summary

REVIEW OF:	DATE:	REIVEW RATING:
School Food Services	Fieldwork performed October 2012 – December 2012	Acceptable [ ] Marginal [ ] Unacceptable [X]

INTRODUCTION:
In connection with the Department of Education's (DOE) Approved Risk Assessment & Audit Plan dated April 17, 2012, Internal Audit (IA) performed a *"School Food Services Review."* The purpose of this review was to assess and evaluate the design and operating effectiveness of the DOE's internal controls over the school food service processes and provide efficiency and effectiveness recommendations.

BACKGROUND:
The DOE's School Food Services Branch (SFS Branch) assists 256 schools with feeding approximately 100,000 students and school staff daily, ranking in the top ten largest districts in the nation. The DOE participates in the School Breakfast Program (SBP), the National School Lunch Program (NSLP), After-School Snack Program (ASP), Summer Food Service Program (SFSP) and the Department of Defense Fresh Fruit and Vegetable Program (DODFFVP). All schools serve breakfast and lunch with 20 percent of all students participating in breakfast and 61 percent of all students participating in lunch. The goal of the School Food Services program is to provide nutritious and attractive meals to the maximum number of students at a minimum charge.

During School Year 2010-2011, it cost approximately $4.70 to produce a lunch. This includes food, labor and supplies. Food cost alone was approximately $1.55 for a lunch. The DOE receives no federal or state subsidies for adult meals or for meals contracted by approved government related organizations such as public charter schools, child and adult care programs and summer food service programs. As such, charges for these programs are set to recover the costs of the meal. Effective September 1, 2011 full price breakfast is $2.20 (20 cent increase) and full price lunch is $5.00 (30 cent increase). For breakfast, an elementary student will pay $1.00, a secondary student will pay $1.10, and a reduced-price student $0.30. Any adult or second and subsequent student will pay the full price of $2.20. A similar discounted table exists for lunch, in which an elementary student will pay $2.25, a secondary student will pay $2.50, and a reduced-price student will pay $0.40. Second student entrees are $1.85, and second and subsequent students and adults will pay the full price of $5.00. According to the School Food Services Director (SFS Director), a little less than half of all students qualify for free or reduced price meals.

The annual budget for the School Food Services program is $92 million. The federal government funds 36 percent; 4 percent is in federal commodity foods; 33 percent is funded by the State; and 27 percent comes from student and adult cash sales. The United States Department of Agriculture (USDA) donates federal commodities to schools for use in the lunch program. These commodities represent about 9 percent of all food used by the schools. The remaining food is provided by the DODFFVP or is purchased by the school cafeterias from local vendors.

The SFS Branch under the Office of School Facilities and Support Services (OSFSS) is the office that handles the majority of matters relating to the school food service program. The SFS Director reports directly to the Assistant Superintendent of OSFSS. One Training Supervisor, two Office Assistants, an Accountant, seven School Food Services District Supervisors (SFS Supervisor) and a Commodity Clerk assist the SFS Director in carrying out her responsibilities. The staff of the food services division is responsible for managing funds and budgets, providing training and assistance, ensuring federal compliance and regulations are met, as well as implementing wellness policies. They also respond to audits, reviews and inspections from the Department of Health, State Agency, USDA, as well as DOE

external audits. SFS Branch staff work closely with the Office of Hawaii Child Nutrition Program (OHCNP) as they are the State Agency that administers the funding agreement with the USDA. The DOE is the State's largest School Food Authority (SFA), representing 98% of the States funding.

SFS Branch has a SFS Supervisor assigned to each of the DOE's seven districts. Each SFS Supervisor is responsible for monitoring operations in approximately thirty-five schools varying from high schools, intermediate/middle schools and elementary schools. There are three types of kitchens at schools: conventional, preparation (prepares meals for feeder school's serving kitchens), and serving/satellite. There are 72 serving/satellite kitchens. The SFS Supervisors also conduct required annual USDA "On-Site Reviews" at all of the 256 schools. The purpose of these reviews are to ensure the integrity of the meal counts and claims for reimbursement, that the Statewide Cycle Menus are followed, and that the programs are in accordance with USDA Food and Nutrition Service regulations and policies.

SFS Branch also employs eight Limited Term Appointment (LTA) Office Assistants to process approximately 60,000 household applications for *Free and Reduced-price Meal Benefits* annually. The information obtained from the applications is entered into the Student Management System (SMS) to determine eligibility. A child can qualify for free meals, reduced-price meals, or full-price meals. The information collected is also used to determine Title I funding.

Annually, SFS Supervisors recommend levels of staffing for all of the school cafeterias in their district. The foundation of this recommendation is the *School Food Services Staffing Formula* (staffing formula) which was developed in 1964. The staffing formula is based on each school's average daily participation (ADP) of breakfast and lunch for the month of September. Additional positions are also granted for centralized kitchens serving a satellite kitchen, van or cart drivers, and unusual situations. The School Food Service Managers series is determined with a similar calculation using the ADP of October. SFS Branch funds the payroll of all school level cafeteria staff. Any deviations from normal work hours must be reported to SFS Branch. Although SFS Branch funds the payroll of the approximately 1,000 cafeteria staff, the cafeteria staff is considered school staff and is required to report to the principal. The principal is also responsible for proper handling of cafeteria accounts and delegating the appropriate staff to ensure proper internal controls.

Each conventional and preparation kitchen has a School Food Services Manager (SFS Manager). These individuals are in charge of the day-to-day operations at the school. They supervise all the cafeteria employees, purchase and receive food and equipment items, prepare daily and monthly reports summarizing the meals served, revenues collected, inventory levels, and cost per meal. A Statewide Menu Planning Committee that consists of SFS Managers meet during the beginning of the school year to develop five week cycle menus for breakfast, lunch, alternate meals and after-school snacks using factors such as cost, use of federal commodities and centralized procurement. At the school level, the SFS Managers use these five week cycle menus to plan purchases of commodity items, DODFFVP, price list items and other products. For commodity items, the SFS Manager submits an electronic order to SFS Branch who compiles the various schools' orders and submits a master order to OHCNP. OHCNP will then notify the third party warehouse vendor to distribute the requested goods. Each SFS Manager purchases non-commodity items directly from the vendor. Products are delivered to the cafeteria where they are inventoried and used in daily production. Effective February 1, 2011, SFS Manager issue direct payments for all invoices under $5,000. Invoices over $5,000 are sent to SFS Branch for review, and a purchase order (PO) is created to authorize payment to the vendor. All inventory items over $50 per item are also reviewed by SFS Branch prior to payment.

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Payments from students/guardians for the various School Food Service programs are collected by the school offices. According to SFS Supervisors, most schools implement a drop box system in which payments are placed in pre-labeled student envelopes and put into a drop box in the school office.   Each day, between breakfast and lunch, the payments are entered in the school's point of sale (POS) system. There are currently four different POS systems at the school level, however the SFS Branch is working towards 100% of the school's using the MealTracker system by fiscal year 2013. During a meal service period, student identification cards or barcodes are scanned and their respective accounts are charged. At the end of the day, the meals served per the POS system are compared to the plates distributed in the cafeteria, as well as the deposit made to the bank.

The *School Food Services Handbook, Volume IV, Business Office Handbook Series* (SFS Handbook) is the main guidance for the School Food Program. Policies and procedure updates are issued through Lotus Notes and revised manuals are distributed during bi-annual SFS Manager meetings. Updated procedures have been created via Standard Practices (SP), but over one-hundred SPs are pending issuance. Through research and discussion with Management, IA identified the Hawaii Administrative Rules (HAR) Title 8 Chapter 37 – *School Lunch Program* as the main regulatory influence. However, many other regulations apply such as Board of Education (BOE) Policy 6810 – *Competitive Food Sales,* USDA, etc.

The main information system used by SFS Branch is the SMS. Four (4) POS systems are used at the school level to manage lunch collections. SFS Branch is moving towards standardizing all schools to the Meal Tracker POS and eventually move to a web-based system. Both the school level and SFS Branch use FMS.

SCOPE and OBJECTIVES:
The scope of this review focused on the School Food Services, which is in OSFSS. We reviewed the design and operating effectiveness of the existing control procedures. The scope of our review specifically focused on the processes related to the following subcategories:

- ➢ School Level Purchases
- ➢ School Level Collections
- ➢ Staffing Recommendations

Within cafeteria purchases the review included: procurement, receipt, inventory, and payment. Within collections the review included: receipt of monies, recording in the POS system, and depositing funds. For staffing, the review tested whether the staffing recommendations were implemented, and if the formula was based on representative data.

This review excluded processes related to Free and Reduced Applications and USDA Compliance as they are frequently monitored by the School Food Authority (SFS Branch) and the State Agency (OHCNP). IA will ensure that a copy of the FY13 SFS Branch Coordinated Review Effort (CRE) report issued by OHCNP is presented to the Board of Education (Board) such that the Board has a holistic view of all high risk processes identified during this review.

The scope of the detailed testing covered the period from July 1, 2011 through June 30, 2012.

Executive Summary

The objectives of this review included the following:
1. To review, evaluate, and test the design and operating effectiveness of the DOE's purchasing process at the school cafeterias.
   a. Ensure that there is adequate oversight of purchases
   b. Ensure that there is accountability of purchases
   c. Ensure purchases are reasonable and proper
2. To evaluate the cafeteria's compliance with internal disbursement policies and procedures, and Federal and State laws, rules and regulations, where applicable.
3. To review, evaluate, and test the design and operating effectiveness of the DOE's collection process of school meal payments at the school offices.
   a. Ensure that there is accountability of collections
   b. Ensure that collections are properly recorded in the POS system
   c. Ensure that collections are deposited timely into the School Lunch Collection Account
4. To evaluate the school's compliance with internal collection policies and procedures when receiving school food payments.
5. To review, evaluate, and test the design and operating effectiveness of the DOE's cafeteria staffing formula.
   a. Ensure staffing recommendations are implemented
   b. Ensure data used to determine staffing is representative
6. Provide recommendations to enhance the efficiency and effectiveness of school food service processes.

OBSERVATIONS:

Based upon our review, we found the DOE's controls related to the School Food Service operations are functioning at an "unacceptable" level. An unacceptable rating indicates that significant deficiencies exist which could lead to material financial loss to the auditable area and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

Please refer to the Risk Ratings section of this report for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

We discussed our preliminary findings and recommendations with management and they were receptive to our findings and agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations that will help to ensure that control gaps are addressed and, if enforced and monitored, will mitigate the control weaknesses. In summary, our review observations are as follows:
1. Ownership of the food purchasing and meal payment collection processes is unclear
2. Lack of oversight, monitoring, and accountability of purchases
3. Insufficient controls in the collection process
4. Lack of current and comprehensive School Food Services purchasing policies and procedures
5. Lack of technology in menu planning, ordering, and inventory
6. Required forms and supporting documents are not always completed and/or retained and procedures are not always followed
7. The method of staffing school kitchens is not clearly defined and is prone to manipulation

PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL AUDIT:

IA will follow up with management on their progress of completion for their action plans, and report accordingly through the audit committee quarterly updates.

Rating Scale Definitions

OVERALL RATING SCALE	
Acceptable	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
Marginal	Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
Unacceptable	Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

OBSERVATION RATING SCALE	
High (1)	1 – The impact of the finding is <u>*material*</u>[1] and the likelihood of loss is probable in one of the following ways: ➢ A material misstatement of the DOE's financial statements could occur; ➢ The DOE's business objectives, processes, financial results or image could be materially impaired; ➢ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE's financial performance, operations or image. *Immediate action is recommended to mitigate the DOE's exposure*
Moderate (2)	2 – The impact of the finding is <u>*significant*</u>[1] and the likelihood of loss is possible in one of the following ways: ➢ A significant misstatement of the DOE's financial statements could occur; ➢ The DOE's business objectives, processes, financial performance or image could be notably impaired; ➢ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE's financial performance, operations or image. *Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.*
Low (3)	3 – The impact of the finding is moderate and the probability of an event resulting in loss is possible. *Action is recommended to limit further deterioration of controls.*

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[1] The applications of these terms are consistent with the guidelines provide by the Institute of Internal Auditors.

Observations

The detailed observations noted herein were based on worked performed by IA through the last date of fieldwork and are generally focused on internal controls and enhancing the effectiveness of processes for future organizational benefit.

Obs. No.	Description	Page #
1	Ownership of the food purchasing and meal payment collection processes is unclear	7-8
2	Lack of oversight, monitoring, and accountability of purchases	9-10
3	Insufficient controls in the collection process	11-13
4	Lack of current and comprehensive School Food Services purchasing policies and procedures	14-16
5	Lack of technology in menu planning, ordering, and inventory	17
6	Required forms and supporting documentation are not completed and/or retained and procedures are often not followed	18-22
7	The method of staffing school kitchens is not clearly defined and is prone to manipulation.	23-24

Observation Number: 1	
Observation: Ownership of the food purchasing and meal payment collection processes is unclear	**Rating: High**
Based on the review performed and discussions with SFS Branch, it appears that there is no clearly defined owner for the food purchasing and meal payment collection processes. For any process to be successful there must be clearly defined roles and responsibilities for all major components of the process. Policies and procedures must be comprehensive and up to date, training must be consistent and systematically rolled out, and monitoring must be thorough. In the case of the food purchases and meal payment collections processes we were unable to identify the ultimate owner. The policies and procedures have not been updated, training is ad hoc, and monitoring is limited. See the effects of the lack of policies and procedures and limited monitoring in Observations #2, #3, #4 and #6.	
Impact	

Unclear ownership of the purchasing and collection processes may lead to:
  ➥ Outdated and non-comprehensive policies and procedures.
  ➥ Lack of oversight, monitoring, and accountability of the purchasing and collection processes.
  ➥ Noncompliance with existing policies and procedures.
  ➥ Duplication of efforts, confusion, and delays causing financial loss to the DOE.
  ➥ Reputational exposure for DOE.	

Recommendation	
In order to improve controls and procedures over the purchasing and collection processes, we recommend that the Office of Fiscal Services (OFS) and SFS Branch determine which branch owns these processes. Once ownership is determined, policies and procedures need to be updated. Management should determine who will make these updates, train the field, and monitor compliance.	
Management Plan	
SFS Branch management appreciates the thorough IA Report review, and will use the observations and recommendations as opportunities to improve DOE fiscal accountability procedures. Management concurs with the findings, and will work collaboratively with all stakeholders to remedy the deficiencies. This response serves as the broad plan of action, with the corrective action plan on individual findings to follow. Projected completion of corrective action plan templates will be between four to six months. In addition to OSFSS, stakeholders will include OFS (Accounting and Procurement Branches), Office of Human Resources (OHR) (Personnel Regional Officers) for cafeteria staffing and the Office of Information Technology Services (OITS) for data storage support for new modules. SFS Branch is the state level office with purview over the federal meal programs, but has no line authority to school level staff, functions, or fiscal accountability. To mitigate fiscal liability for the DOE, specifically federal funds from USDA, SFS Branch in partnership with stakeholders will continue to update Standard Practices (SP). SFS Branch will also develop a school level fiscal monitoring review template, conduct the fiscal reviews, and work with leadership to establish a line of authority for corrective action. To ensure effective, timely corrective action of the subcategories reviewed, SFS Branch management plans to: • Upon approval, begin working immediately with a contractor who has expertise with DOE school level internal control policies and procedures for cash collections, deposits and administrative staff responsibilities.	

- Together, work towards these desired outcomes:
    o clarify administrative domain and oversight of school level processes
    o work with all stakeholders responsible for implementation of corrective action
    o continue updating SFS Branch SP, which serves as the platform for policies and procedures
    o coordinate SP updates with OFS accounting personnel to ensure procedures for lunch accounts are clearly defined and uniform statewide
    o work to develop cash collection training modules through the use of asynchronous training tools
    o help identify current, standardized DOE forms or templates for school level administrative staff to ensure statewide uniformity and use
    o define school level administrative accountability for school lunch account transactions
    o develop a SFS Branch fiscal monitoring form for site reviews similar to the federal forms currently required by USDA for on-site reviews (frequency of reviews and depth to be determined)
    o have the appropriate line authority follow up on corrective action plans

The following responses address the specific observations as noted:

Observations #1, #2, #4, & #6

- School Level Purchases - Coordinate procurement training for SFS Managers with DOE procurement office. DOE procurement rules apply to all DOE employees, SFS Branch management believes uniform training is best served by the subject matter expert.

- Continue working with vendors to standardize on-line ordering details, with extensions, so ordering and invoice transactions match.

Observations #3, 5, & #6

- IT-Continue implementation of web-based POS system project, standardize non-cash adjustment procedures, determine timeline and budget to procure inventory and menu-planning modules, currently available from Meal Tracker.

Observation #7

- Staffing Recommendations-Continue updating staffing SP, define exceptions to the meal count/staffing formula, standardize authority for approval of exceptions, standardize staffing review guidelines for supervisors, align guidelines with OHR management to assist Personnel Regional Officers.

Contact Person: Glenna Owens
                        School Food Services Director
                        Office of School Facilities and Support Services

Anticipated Completion Date: July 31, 2013

Responsible Office
SFS Branch

Observation Number: 2	
Observation: Lack of oversight, monitoring and accountability of purchases	**Rating: High**

As discussed in Observation #1, the ownership of the purchasing process is unclear which has contributed to the lack of oversight, monitoring, and accountability of this process. The following are internal control weaknesses related to the purchasing process:

1. **SFS Managers are responsible for conflicting tasks in the purchasing process.**
   Some SFS Managers place all orders, process all payments, receive all goods, and maintain all inventory records by themselves. Five (5) of the 19 SFS Managers that completed the purchasing questionnaire stated that the SFS Manager is solely responsible for these activities. The remaining fourteen (14) SFS Managers stated that multiple staff members were responsible for these duties; however, there is no clear segregation of duties.

2. **SFS Branch does not consistently review purchases and does not have electronic access to review the detail of what items are purchased.**
   A review of purchases is not included on the annual on-site reviews. Based on the testing of cafeteria purchases, IA noted nine (9) instances out of the 60 samples where the SL-2 "Purchase Requisition" did not include costs of the items ordered, had calculation errors, or the unit price stated was not the price charged. See Observation #6 for further details on purchasing procedures not followed.

3. **Price List changes are poorly communicated.**
   Price Lists are frequently updated for change in prices or change in allowable items. Only updated items are included in price list change announcements, and previous changes are not brought forward to create a cumulative document. Changes that are "in effect immediately" do not address how to handle orders already placed but not received and/or paid. IA noted that two (2) price list changes were released after their respective effective dates.

   IA noted that milk price lists were unique by geographic area, making it difficult to assign to schools near geographic boarders. IA also noted that the milk price list for Maui/Molokai/Lanai did not properly reflect the contract. The contract stated that additional delivery fees would be assessed for all deliveries to the island of Molokai, however the price list did not.

Impact

The lack of oversight, monitoring, and accountability of purchases may lead to:
- ➢ Increased risk of potential unauthorized or improper purchases and/or fraudulent transactions resulting in financial loss to the DOE.
- ➢ Terms not clearly defined on purchasing forms may lead to miscommunication and unintended results and could lead to loss of funds to the DOE.
- ➢ Inconsistency between practice and policies and procedures.
- ➢ Reputational exposure for DOE.

Recommendation

Recommendations for the lack of oversight, monitoring and accountability of purchases include:
- ➢ Segregation of duties within the purchasing process.
- ➢ More efficient and user friendly communications of price list changes.
- ➢ Mandatory training required for all staff handling these functions.
- ➢ Periodic spot checks should be conducted by someone outside the schools.

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Observations

➢ Management should consider an implementation of a Task Force specifically to assist with these functions.
➢ Management should consider including the performance of purchasing functions in evaluations to ensure this area is properly monitored.
Management Plan
Please see Management's Plan in Observation #1
Responsible Office
SFS Branch

Observation Number: 3	
Observation: Insufficient controls in the collection process	**Rating: High**

SFS Branch has not released any policies and procedures over collections. Schools are currently relying on non-comprehensive and outdated policies and procedures from OFS for school food collections. As discussed in Observation #1, the ownership of the collection process is unclear.

In order to perform the detailed testing over collections, IA used the "*Basic Procedures for Meal Tracker*" however this document does not hold the same authority as policies and procedures. Due to the design of the process and the lack of comprehensive collection procedures, there are multiple collection processes at the school level which contain numerous internal control weaknesses. Some key control weaknesses inherent in the design of the process are:

1. **Insufficient controls in Meal Tracker, the POS system**
    Meal Tracker is the POS system that is used by schools to record the meals served and the collections made. A Meal Count Assistant, a casual employee at the school level, enters collections and meals served into Meal Tracker. IA noted that Meal Tracker allows the user to:
    - Make non-cash adjustments within the system
    - Change the status of child between free, reduced, or full price
    - Customize the system to modify report field outputs which leads to a lack of standardization
    - Have a cash shortage or overage without requiring additional approval.
      One (1) out of the 60 days tested, IA noted an E-trition All Location Reconciliation Report showed a $300.00 cash shortage. The E-trition report agreed to the validated deposit slip; the school did not have an explanation for the shortage.

2. **Meal Tracker, the POS system, does not consolidate at SFS Branch**
    - SFS Branch does not have electronic access to the detail recorded in Meal Tracker.
    - SFS Branch cannot verify the student refund balance requests submitted using the FMS C-1 Revenue Refund Form at the end of the school year.
    - Student eligibility for free and reduced price meals is determined by the SMS application at SFS Branch and are then faxed to and manually entered into Meal Tracker by the school.

3. **Procedures are not in place to hold schools accountable when monthly deposit reconciliations are not submitted to Central Accounting**
    Central Accounting does not keep a list of what schools submitted their Form DAFR4520A *School Lunch Monthly Revenue Collection Activity Reconciliation Report* or Form 442 *Report of Discrepancies School Lunch Monthly Revenue Collection Activity Verification* nor when they were received. Further, there is no follow-up to schools that did not submit their DAFR4520A. See Observation #6 for further details on testing performed.

Additional control weaknesses exist due to the lack of comprehensive collection policies and procedures. The review identified that multiple payment methods are used at the school (including: traditional, drop box, and online payments), various information is included with drop box payments, and schools use different type of receipts and issue them at varying frequency. The daily collection reconciliation procedures also vary by school as do the reports printed from MealTracker. Some key control weaknesses due to the lack of comprehensive collection policies and procedures are:

Observations

1. **Procedures for tracking lunch loans are not consistent and often involved a side "kitty" fund**
   - During the collection testing, twelve (12) of the thirty (30) schools showed evidence of administering loans. Five (5) methods used for recording and tracking lunch loans were identified, three (3) of which side loan activity was funded by a separate kitty.
   - The collections questionnaire showed that twelve (12) of the thirty (30) schools stated that they have a separate "kitty" fund to administer lunch loans.

2. **Treatment of unclaimed lunch balances (refunds) vary by school**
   The collections questionnaire showed that the procedures for managing unclaimed lunch balances, such as, the number of attempts to contact and the method of notification, are not consistent. Out of the 30 collection questionnaires received:
   - Five (5) schools indicated that unclaimed funds may be donated to local school fund accounts.
   - Three (3) schools indicated that unclaimed funds are used to fund outstanding lunch loans either directly or through a "kitty" fund.
   - One (1) school stated that unclaimed funds are re-deposited to SFS Branch.
   - Two (2) schools stated that unclaimed funds are kept in an "unclaimed" account.

3. **Inability to verify funds received**
   Supporting documentation for school food collections was not properly maintained making it difficult to verify the funds received. Out of the sixty (60) days tested:
   - Seventeen (17) days the school did not maintain payment slips/envelopes and/or Meal tracker receipts. For fifteen (15) of these days, the schools replied that all payment slips/envelopes and/or Meal Tracker receipts are shredded periodically (quarterly or annually).
   - Fifty (50) days the total of the payment slips/envelopes and/or receipts did not agree to the amount on the validated deposit slip. There was only support for approximately half of the amount deposited.

   See Observation #6 for further details.

4. **Daily collection reconciliation procedures are inconsistent**
   - For five (5) of the 60 days tested the total collections per the Meal Tracker Cash Report did not agree to the validated deposit slip. For three (3) of these, IA was able to agree the difference to ala cart sales or adult payments reflected on other Meal Tracker reports. In total, more funds were deposited than recorded in Meal Tracker.
   - The results of the collections questionnaire showed that procedures are not consistent for the reconciliation of daily deposits. Five (5) schools stated that they follow the prescribed basic procedure for MealTracker, and use the MealTracker "Cash Report" to compare collections to the deposit slip. Seventeen (17) schools indicated that they use some other type of MealTracker report to reconcile deposits; five (5) schools indicated that they use other methods such as receipts, adding tape, or manual forms. One (1) school stated that they do not compare daily collections to the deposit slip.

Impact

Insufficient controls in the collection processes may lead to:
- ➢ Manipulation of funds.
- ➢ Improper recording of collections.
- ➢ Improper use of funds and financial loss to the DOE.
- ➢ Inability to verify funds received or disbursed.
- ➢ Lack of standardization, which may cause inability to monitor consistently.
- ➢ Reputational exposure for DOE.

Recommendation

Recommendations relating to insufficient controls in the collection processes include:
⮞ OFS and SFS Branch policies and procedures should be updated. Standardized policies and procedures should be created to cover the entire process and address control weaknesses such as:
    o Retention of supporting documentation,
    o Additional approval for cash overages and shortages,
    o Removal of side "kitty" funds,
    o Consistent treatment of unclaimed lunch balances (refunds) and lunch loans, and
    o Standardized daily and monthly collection reconciliation procedures.
⮞ Controls should be established within Meal Tracker to only allow non-cash adjustments within the system and status changes of child (between free, reduced, or full price) upon additional approval. Further, schools should not have the ability to customize reports or modify report field outputs as this leads to lack of standardization.
⮞ Consolidation features for Meal Tracker should be developed such that SFS Branch can:
    o Have electronic access to the detail recorded in Meal Tracker,
    o Verify the student refund balance requests submitted using the FMS C-1 Revenue Refund Form at the end of the school year, and
    o Enter the student's eligibility for free and reduced price meals.
⮞ Mandatory training should be required for all staff handling school food collection functions.
⮞ Periodic spot checks should be conducted by someone outside the schools to ensure that proper collection procedures are followed.
⮞ Management should consider an implementation of a Task Force specifically to assist schools and offices with the school food collection function.
⮞ Management should consider including the performance of collection functions in evaluations to ensure that this area is properly monitored.

Management Plan
Please see Management's Plan in Observation #1
Responsible Office
SFS Branch

Observations

Observation Number: 4	
Observation: Lack of current and comprehensive School Food Services purchasing policies and procedures	**Rating: Moderate**

School Food Services is operating with conflicting, outdated, and non-comprehensive policies and procedures. Purchasing procedures are covered by both OFS and SFS Branch. This overlap creates confusion on what policies and procedures should be followed. Also, great inefficiencies exist due to the duplication of effort when requirements of both offices are met. The following are some of the key weaknesses in the SFS purchasing policies and procedures:

1. **Inadequate training and documentation for direct payments by SFS Managers.**
   a. **OFS and SFS procedures not updated for SFS Managers making direct payments.**
      On February 1, 2011, SFS Managers began processing cafeteria purchases under $5,000 as direct payments. The SFS Handbook and OFS policies and procedures have not been updated to reflect this transition.

   b. **Non-descriptive language is used**
      In accordance with the *Overview of SFS Direct Payments*: "The policies and procedures that SFS managers apply in paying invoices may differ from school office procedures."
   c. **SFS direct payment training and training material varied from district to district.**

2. **Inadequate Guidelines**
   a. **Commodity items can be purchased on the open market**
      There is no documentation stating that federal commodities must be ordered, if available, prior to purchasing the item on open market. During our testing we identified one (1) instance in which a commodity item was available for no cost to the school, but rather than order the commodity item, the school purchased the item from a local vendor.

   b. **Inventory**
      Some schools are keeping their inventory records electronically, however no template or instructions have been distributed and a policy to allow for this has not been put in place. Also, there is no linkage between the individual Form SL-4 Perpetual Inventory Cards and the Form SL-6 Monthly Inventory Report.

   c. **Produce exception for Form SL-4 Perpetual Inventory Cards is not documented**
      Per discussion with SFS Branch and review of questionnaires and supporting documentation, a Form SL-4 Perpetual Inventory Card is not required for produce items; however this exception is not documented.

   d. **No guidelines for purchases initiated at the school and processed by SFS Branch**
      There is no documentation stating what the school level procedures are for purchases processed by SFS Branch. As such, the procedures applied for these purchases are not consistent.

3. **Lack of clarity**
   a. **No specific number of quotes are required for non-price list purchases**
      In accordance with the SFS Handbook, "To ensure 'best available price and source' SFS

Managers should call <u>various vendors</u> for price quotes on 'like' goods and purchase from the reasonably priced, reliable vendor." "SFS Managers should note the <u>various prices</u> on the SL-2 Purchase Requisition."

b. Weak language is used
- In accordance with the SFS Handbook, "To enable the SFS Manager to readily acquire the current inventory valuation, SFS Branch <u>recommends</u> that the value of each item be written on the next line, under the balance column and underscored."
- The instructions in the SFS Handbook, for the Purchase Requisition SL-2 are unclear. The instructions state "the SFS Manager shall complete the SL-2 with all <u>pertinent information</u> and place orders with vendors…" During our testing we identified multiple instances in which the price, quantity, or item was not included on the SL-2. These fields should be required as they are imperative to know that what was ordered was received at the quoted price.

See Observation #6 for the impact of the lack of current and comprehensive SFS purchasing policies and procedures on the detailed testing. See Observation #5 for further discussion on inventory procedures.

Impact
The lack of current and comprehensive School Food Services purchasing policies and procedures may lead to:

- ➤ Unauthorized purchases and improper purchases may result in a financial loss to the DOE.
- ➤ Lack of competitive pricing may lead to financial loss to the DOE as well as present negative publicity for DOE.
- ➤ Terms not clearly defined on purchasing forms may lead to miscommunication and unintended results and could lead to loss of funds to the DOE.
- ➤ Inconsistency between practice and policies and procedures.
- ➤ Reputational exposure for DOE.

Recommendation
Recommendations for the lack of current and comprehensive School Food Services purchasing policies and procedures include:

- ➤ OFS and SFS Branch policies and procedures should be updated to create more detailed policies and procedures to create consistent application and supporting documentation. Updated policies and procedures should be:
  - o Created to remove ambiguity,
  - o Systematically disseminated to the field,
  - o Reflective of the SL-4 Perpetual Inventory Card exception for produce, and list a separate requirement for tracking produce,
  - o More definite and not 'recommend' but 'required,' and
  - o Created for commodities with language similar to the price list, stating it is mandatory to order federal commodities prior to purchasing the same item on the open market.
- ➤ Create a form to link the Form SL-4 Perpetual Inventory Cards to the Form SL-6 Monthly Inventory Report or consider automation of inventory.
- ➤ Review practicality of electronic inventory files, and if determined to have a positive impact, create policies and procedures for the new method of tracking inventory, and distribute the file that should be used to track inventory.
- ➤ Mandatory training should be required for all staff handling school food collection and purchasing functions.

Observations

Management Plan
Please see Management's Plan in Observation #1

Responsible Office
SFS Branch

Observations

Observation Number: 5	
Observation: Lack of technology in menu planning, ordering, and inventory	**Rating: Moderate**
Menu planning, ordering, and inventory are manual processes. Each SFS Manager is responsible for reviewing the upcoming menu, accounting for what inventory will be on hand at the time of production, placing an order for the ingredients without sufficient supply, receiving those goods and placing them on inventory, and then accounting for their use. Every SFS Manager is required to maintain a manual Form SL-4 Perpetual Inventory Card for each item in their kitchen. The Form SL-4 Perpetual Inventory Card should state the price of the item and be updated daily to reflect the items received and used as well as the balance on hand. Our review indicated that current inventory policies and procedures are not being followed consistently. Great efficiencies and accountability could be gained by interconnecting and automating this process. See Observation #6 for detailed observations noted in the current manual process.	
Impact	
The lack of technology in menu planning, ordering, and inventory may lead to: ➢ Improper purchases which may result in improper use of funds and a financial loss to DOE. ➢ Inefficient use of employee time. ➢ Inaccurate inventory records could lead to over purchasing and waste.	
Recommendation	
The DOE should consider the benefits of automating this process and interconnecting the menu planning, ordering, and inventory processes.	
Management Plan	
Please see Management's Plan in Observation #1	
Responsible Office	
SFS Branch	

Observation Number: 6	
Observation: Required forms and supporting documentation are not completed and/or retained and procedures are often not followed	**Rating: Moderate**

Schools are required to follow purchasing and collection policies and procedures. Various forms and supporting documents are required to be completed, filed, and/or submitted in a timely manner for both purchases and collections. As discussed in Observation #1, the ownership of the purchasing and collection processes is unclear. As such, there is a lack of current and comprehensive school food service purchasing policies and procedures as discussed in Observation #4. There is also a lack of oversight, monitoring, and accountability of purchases as discussed in Observation #2.

OFS and SFS Branch have different procedures and required forms for the purchasing process. Our review indicated that OFS purchasing forms were not completed and SFS purchasing and inventory forms were completed haphazardly. For the samples tested, the following OFS forms were not completed when required: Purchasing Worksheet, Record of Small Purchase (Form 10-B), Request for Exemption from Civil Service (Form 4), Certificate of Exemption from Civil Service, and Request for Exception from Purchasing from the Price List (Form 5). The following table summarizes the frequency in which SFS purchasing and inventory forms were completed and/or retained. Further detail on each of the procedures is provided in the Reference column below.

Purchasing Forms Required by SFS:

Reference(s)	Summary of Observations Noted
DOE Form SL-2 – Purchase Requisition	
➢ *SFS Handbook - Purchase Requisition SL-2* states that SFS Manager shall complete this form with all pertinent information and place orders with vendors. It also states that the SL-2 and a file copy of the invoice will be retained until notified by SFS Branch to destroy.	➢ Thirty one (31) out of the 60 samples, the SL-2 was not completed. ➢ In addition, four (4) out of the 60 samples, the SL-2 was not used, but a custom order form was used in its place.
DOE Form SL-4 – Perpetual Inventory Card	
➢ *SFS Handbook - Perpetual Inventory Card SL-4* states that the SFS Managers are required to maintain the SFS inventory by recording on Form SL-4 the quantity and value of each item received and used on a daily basis to determine the value and balance on hand. ➢ As noted in Observation #4, SFS Branch stated that Form SL-4 is not required for purchases of produce. As such, IA agreed the purchase to the production records.	➢ Twenty five (25) out of the 211 samples, the SL-4 was not completed. ➢ In addition, seven out of the 211 samples, the SL-4 was not used, but a custom inventory form was used in its place. ➢ Twenty nine (29) out of the 211 samples, related to produce, and the SL-4 was not completed. For seven of these items IA was unable to substantiate the validity of the purchase based on the production records provided.

As discussed in Observation #3, OFS collection policies and procedures are non-comprehensive and outdated and SFS Branch has not released any policies and procedures over this area. Our review indicated that OFS collection forms were completed haphazardly. The following table summarizes the

Observations

frequency in which OFS collection forms were completed and/or retained. Further detail on each of the procedures is provided in the Reference column.

Collection Forms Required by OFS:

Reference(s)	Summary of Observations Noted
Monthly DAFR4520A - School Lunch Monthly Revenue Collection Activity Reconciliation Report	
➢ Chapter 7 of the *FMS User Guide*, states that the DAFR4520A must be verified with the School Lunch deposit slips and debit and credit memos on file at the school, signed and dated, and submitted to Central Accounting by the 20th calendar day of the following month.	➢ Twenty three (23) out of the 60 days tested, the monthly DAFR4520A was not on file at the Central Accounting Office. ➢ Twelve (12) out of the 60 days tested, the monthly DAFR4520A was not submitted timely. ➢ Four (4) of the 30 schools that responded to the Collections Questionnaire stated that the DAFMR453A (same as DAFR4520A) is not always verified monthly with the validated deposit slips and debit/credit memos.
Validated Deposit Slip	
➢ Chapter 7 of the *FMS User Guide* states that the validated deposit slip and credit/debit memos should be kept on file for verification with the DAFR4520A.	➢ Four (4) out of the 60 days tested, the validated deposit slip was not on file at the school.
DOE Form 239 -WIZ receipt	
➢ Chapter 7 of the *FMS User Guide* states that whenever moneys are collected for any function or purpose, an official receipt, Form 239, WIZ, must be issued to acknowledge receipt of payment.	➢ One thousand four hundred thirty one (1,431) of the 1,489 individual collections tested, no Form 239, WIZ, receipt was issued. For 698 of these collections, there was no supporting documentation available for the collection. ➢ Seven (7) of the 30 schools that responded to the Collections Questionnaire stated that neither WIZ receipts nor Meal Tracker receipts were issued. An additional 12 schools stated that receipts are only issued if requested by the payee.

In addition to OFS and SFS purchasing and collection forms not being completed and/or retained, our review of the forms on file indicated that procedures were not always followed.   The following table summarizes the observations of non-compliance noted during our review. Further detail on each of the procedures is provided in the Reference column below.

OFS and SFS Procedures not completed:

Reference(s)	Summary of Observations Noted
DOE Form SL-2 – Purchase Requisition	
➤ *SFS Handbook - Purchase Requisition SL-2* states that the current DOE price list number should be noted orders and invoices against the price list.	➤ Ten (10) out of the 41 Price List purchases, the SL-2 did not contain the Price List number. ➤ Twenty three (23) out of the 41 Price List purchases, IA was unable to determine if the price list was documented on the SL-2 because the SL-2 was not submitted for the respective purchase. ➤ Three (3) of the 41 Price List purchases, the price list number indicated on the SL-2 was expired.
➤ *SFS Handbook - Purchase Requisition SL-2* states that to ensure "best available price and source", SFS Managers should call various vendors for price quotes on "like" goods and purchase from the reasonably priced, reliable vendor. SFS Managers should note the various prices on the SL-2 "Purchase Requisition" to substantiate purchases made at the best available price and source.	➤ Eleven (11) out of the 20 Small Purchases, the SL-2 did not contain various quotes. ➤ Nine (9) out of the 20 Small Purchases, IA was unable to determine if the SL-2 contained various quotes because the SL-2 was not submitted for the respective purchase.
➤ *SFS Handbook - Purchase Requisition SL-2* states that the SFS Manager or designated authority must check the delivery of goods against the SL-2 immediately upon receipt to ensure that what was ordered was delivered. ➤ Chapter 6 of the *FMS User Guide*, states that the schools should check off items as they are received on the school's copy of the PO or PO worksheet.	➤ Eighteen (18) out of the 60 samples, items were not checked off as received on the SL-2. ➤ Thirty two (32) out of the 60 samples, IA was unable to determine if items were not checked off as received on the SL-2 because the SL-2 was not submitted for the respective purchase.
DOE Form SL-4 – Perpetual Inventory Card	
➤ *SFS Handbook - Perpetual Inventory Card SL-4* states that the SFS Managers are required to maintain the SFS *inventory* by recording on Form SL-4, the quantity and value of each item received and used on a daily basis to determine the value and balance on hand	➤ Three (3) out of the 211 samples, the SL-4 did not accurately record the activity for the day.
➤ *SFS Handbook - Perpetual Inventory Card SL-4* states that the SFS Branch recommends that the value of each item be written on the next line, under the balance column and underscored.	➤ Eighteen (18) out of the 211 samples, the SL-4 did not state the month end balance.

Observations

Reference(s)	Summary of Observations Noted
Invoice	
➤ Chapter 6 of the *FMS User Guide*, states that the invoice should show the school or office name and address it is being billed to. It also states, the invoice must be itemized.	➤ Twenty two (22) out of the 60 samples, the invoice was billed to SFS Branch Koko Head or the State of Hawaii DOE rather than the school. ➤ Two (2) out of the 60 samples, the invoice was billed to a school other than the school in which payment was made. ➤ One (1) out of the 60 samples, the invoice was not itemized. 　➤ One (1) out of the 60 samples, the supporting documentation was a receipt rather than an invoice.
➤ *SFS Handbook - Purchase Requisition SL-2* states that the current DOE price list number should be noted on orders and invoices issued against the price list	➤ Thirty nine (39) out of the 41 Price List purchases, the price list number was not stated on the invoice.
➤ Chapter 6 of the *FMS User Guide*, states that invoices require approval in order for the vendor to receive payment. Approval procedures include affixing the approval to pay (ATP) stamp on the original invoice.	➤ Seven (7) out of the 60 samples, the invoice did not have the ATP Stamp, or the ATP Stamp was not completed properly.
➤ Chapter 6 of the *FMS User Guide*, states that specified invoices must by processed as invoice with check which means that the original invoice and a copy must be attached to the ATP summary and submitted to vendor payment.	➤ Three (3) out of the 60 samples, should have been processed as Invoice with Check, but it was not designated as such.

The above results indicate a general disregard for the purchasing and collection process procedures.

Impact

Purchasing and collection procedures were designed with certain internal controls to ensure that risks related to the process were reduced to an acceptable level. There is an increase in risk exposure when specifically designed procedures are not being followed. Specifically:

➤ Unauthorized purchases and improper purchases may result in a financial loss to the DOE.
➤ Lack of competitive pricing may lead to financial loss to the DOE as well as present negative publicity for DOE.
➤ Terms not clearly defined on purchasing forms may lead to miscommunication and unintended results and could lead to loss of funds to the DOE.
➤ Without retaining itemized receipts and other support, the DOE is unable to substantiate whether purchases were for allowable DOE business purposes or that the collections received were accounted for, thus increasing the DOE's risk exposure to fraud.
➤ Lack of monitoring purchases and collections could increase the risk of potential unauthorized or improper purchases and/or fraudulent transactions resulting in financial loss to the DOE.
➤ Improper completion of the Request for Exemption from Civil Service (Form 4) and/or the Certificate of Exemption from Civil Service could lead to penalties from the IRS and loss of

Observations

funds to the DOE.
➢ Inconsistency between practice and policies and procedures.
Recommendation
Recommendations for situations where required forms and supporting documentation are not completed and/or retained and procedures are often not followed include:
➢ Mandatory training should be required for all staff handling school food collection and purchasing functions.
➢ Periodic spot checks should be conducted by someone outside the schools.
➢ Management should consider an implementation of a Task Force specifically to assist schools and offices with the school food collection function.
➢ Management should consider including the performance of collection and purchasing functions in evaluations to ensure that this area is properly monitored.
Management Plan
Please see Management's Plan in Observation #1
Responsible Office
SFS Branch

Observation Number: 7	
Observation: The method of staffing school kitchens is not clearly defined and is prone to manipulation.	**Rating: Moderate**

In 1963 and 1964 SFS Branch conducted a study to address the concern of equitably staffing school cafeterias. The result of this study was the staffing formula which was accepted for use in September of 1964. In reviewing the staffing formula IA noted the following internal control design issues:

1. **The staffing formula is prone to manipulation.**
   At the beginning of each school year SFS Branch sends out a memo to the field to address a wide range of information related to School Food Services. On July 21, 2011, SFS Branch sent out a DOE Memo titled, *Information on School Food Services.* Included in this memo was a section titled, *Information for Staffing Requirements* which states "The average daily participation (ADP) in the month of September for breakfast and lunch will be used to determine staffing."

   IA applied the staffing formula to the month of September 2011 as well as the SY11-12. Based on the testing, IA noted that meal participation in September (the month when staffing is determined) was greater than the average for the school year, causing inflated staffing statewide of twenty seven (27) full-time Equivalent (FTE) positions and thirty five (35) 0.5 FTE positions. Note that the SY11-12 was defined as August 2011 through May 2012 for purposes of this testing.

   In discussion with the SFS Director, it was identified that adult participation was the primary driver for the difference in ADP. As such, IA calculated the ADP of adult meals in September and compared it to that of the school year. IA found that statewide 3,950 adult meals were served on an average day in September compared to 2,220 adult meals served per day for all other months, a difference of 1,730 adult meals served per day.

2. **Approval of additional positions granted for unusual situations could not be verified.**
   In accordance with the staffing formula, the SFS Director may grant an additional 0.5 FTE position for unusual situations that create undue hardship. During testing, IA noted that there is no formal documentation showing approval of additional 0.5 FTE positions for unusual situations. IA further noted that the SFS Director was unable to confirm that she had approved all additional 0.5 FTE positions granted for unusual situations in SY11-12.

3. **The staffing formula is out of date and lacks clarity.**
   - There is a lack of clarity on when to combine meal participation at centralized kitchens with its satellites to calculate staffing.
   - There is a lack of clarity on when schools receive a van or cart driver.
   - There is a lack of clarity on when schools receive an additional 0.5 FTE position.
   - The staffing formula states that satellite serving areas should be staffed only with 0.5 FTE employees. This policy is not in practice.
   - The staffing formula does not address how to staff schools with ADP greater than 2,600 meals.
   - Multiple supervisors stated there is an unspoken minimum of one (1) FTE Baker and one (1) FTE Cook; however this minimum is not consistently applied.
   - There is a lack of clarity on how to account for participation of programs outside the DOE, such as public charter schools and alternative learning programs.

- Many SFS Supervisors convert two (2) 0.5 FTE positions to one (1) FTE position. The ability to do such a conversion is not documented.

IA applied the staffing formula to the SY11-12 meal participation at each school. Due to the discrepancies noted above, and in #4 below, IA noted that actual staffing statewide was greater than the staffing determined when using the staffing formula, causing inflated staffing of seventy nine (79) FTE positions and deflated staffing of eighty nine (89) 0.5 FTE positions. The result of IA's testing is evidence that the staffing formula, as it is currently written, is not being adhered to.

4. **Results of the staffing calculation are not clearly communicated to Personnel Regional Officers (PRO) for execution.**
   In accordance with staffing formula "it is the considered opinion of SFS staff that judicious scheduling of half-time helpers will increase efficiency by providing labor at peak workload hours. The guidelines for half-time help establish the number of positions to be full time and half-time in each school based on the workload as determined by the lunch and lunch equivalents served." However, in discussion with SFS Branch, only the number of permanent and limited term appointment (LTA) positions is given to the PRO. The PRO then determines the number of 1.0 FTE positions and 0.5 FTE positions based on the staffing at the school for the previous year, and any requests by the respective SFS Manager.

   Due to the lack of communication, between the SFS Supervisor and the PRO regarding the number of 1.0 FTE positions and 0.5 FTE positions, the value of the staffing formula is lost.

Impact
Unclear staffing guidelines may lead to inconsistencies in following policies and procedures, create inequitable working conditions, and could also result in wasted resources and financial loss to the DOE. Also, announcing the period in which staffing is calculated could lead to manipulation resulting in financial loss to the DOE.

Recommendation
Recommendations to improve the clarity of the staffing formula and reduce manipulation include: ➢ Update the staffing calculation to reflect the current practice. ➢ Document SFS Director's approval for unusual situations. ➢ Train SFS Supervisors on how to apply the staffing formula. ➢ Clearly communicate the results of the staffing formula to PROs. ➢ Monitor the application of the staffing formula. ➢ Consider methods to reduce manipulation to the staffing formula.

Management Plan
Please see Management's Plan in Observation #1

Responsible Office
SFS Branch

Acknowledgements

We wish to express our appreciation for the cooperation and assistance afforded to Internal Audit by management and staff during the course of this review.