



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

OFFICE OF THE SUPERINTENDENT

September 5, 2017

TO: The Honorable Nolan Kawano
Chairperson, Audit Committee

FROM: Dr. Christina M. Kishimoto
Superintendent

A handwritten signature in blue ink, appearing to read "C. Kishimoto".

SUBJECT: **Committee Action on School Food Services Follow-Up Review**

1. RECOMMENDATION

Approval of the School Food Services Follow-Up Review.

2. RECOMMENDED EFFECTIVE DATE

September 5, 2017

3. RECOMMENDED COMPLIANCE DATE

Same as effective date

4. DISCUSSION

a. Conditions leading to the recommendation:

Internal Audit has discussed our findings (observations) and recommendations with Management and they have submitted their management plans for inclusion in the report.

b. Previous action of the Board on the same or similar matter – N/A

c. Other policies affected – N/A

d. Arguments in support of the recommendation:

If the review is approved, Internal Audit will follow up with Management on their progress of completion for their action plans, and report accordingly through the audit committee quarterly updates.

e. Arguments against the recommendation – N/A

f. Other agencies or departments of the State of Hawaii involved in the action – N/A

g. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendations – N/A

h. Educational implication – N/A

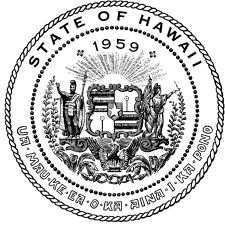
i. Personal implications – N/A

j. Facilities implications – N/A

k. Financial implications – N/A

CMK:DY: jy
Attachment

c: Internal Audit Office



Department of Education

Internal Audit

School Food Services Follow-Up Review

Issue Date: August 2017

Report Number: FY2017-03

Department of Education
School Food Services Follow-Up Review

Executive Summary

AUDIT OF: School Food Services Follow-up Review	DATE: Fieldwork performed May 2017 – July 2017	AUDIT RATING: Acceptable [X] Marginal [] Unacceptable []
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INTRODUCTION:

In connection with the Department of Education’s (DOE) Updated Risk Assessment and Internal Audit Plan approved on August 16, 2016, Internal Audit (IA) performed a “*School Food Services Follow-Up Review*.” The purpose of this review was to assess the implementation of Management’s Plans as described in the “*School Food Services Review*” issued in January 2013.

BACKGROUND:

The DOE’s School Food Services (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. All schools serve lunch, with 57% of all students participating. Currently, 100% of the schools serve breakfast to 20% of all students. The goal of the SFS program is to provide nutritious and attractive meals to the maximum number of students at a minimum charge. The actual cost of a school lunch is approximately \$5.80, which includes food, labor, and supplies. The following chart shows the student pricing for both lunch and breakfast based on grade levels. It also includes prices for students whose families qualify for reduced-price meals.

	Meal	Student Prices	Reduced-Prices
Pre-K through 8	Lunch	\$2.50	\$0.40
High School	Lunch	\$2.75	\$0.40
Pre-K through 8	Breakfast	\$1.10	\$0.30
High School	Breakfast	\$1.20	\$0.30

The annual budget for the SFS Program is approximately \$108 million. The federal government funds 45%, 5% is in federal commodity foods, 25% is funded by the State, and 25% comes from student and adult cash sales. To receive federal assistance, the DOE agrees to serve meals that meet Federal requirements, offer free and reduced price meals to eligible students, and provide an application process to determine eligibility.

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 SFS Program. SFS Branch has a SFS Supervisor assigned to each of the DOE’s seven districts. Each SFS Supervisor is responsible for monitoring operations in their respective schools. The SFS Branch also funds the payroll of approximately 800 cafeteria staff. Staffing level for each school is recommended by the SFS Supervisors based on a staffing formula. The cafeteria staff is considered school staff and is required to report to the principal.

There are 3 types of kitchens at schools: conventional, preparation (prepares meals for feeder school’s serving kitchens), and serving/satellite. Each conventional and preparation kitchen has a 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; and summarize the meals served, revenues collected, inventory levels, and cost per meal. Each SFS Manager makes purchases directly from vendors. Products are delivered to the cafeteria where they are inventoried and used in daily production. Generally, direct payments are issued for invoices.

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Payments from students/parents/guardians for SFS Programs are collected by the school offices. There are various methods of collections at the school, including over the counter payments, drop boxes, and pay stations in the cafeteria. Payments are entered in the school's point of sale (POS) system and a receipt is issued. 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. In early 2017, PrimeroEdge was the main information system used by SFS Branch. It is a web-based POS system. Prior to PrimeroEdge's implementation, SFS Branch was using Meal Tracker POS system and eTriton POS system.

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. Through research and discussion with Management, IA identified the Hawaii Administrative Rules (HAR) Title 8 Chapter 37 – *School Lunch Program* as the main regulatory governance.

SCOPE and OBJECTIVES:

The scope of our review included an examination of management's corrective action plans. In addition, we reviewed the design and operating effectiveness of the existing control procedures in place over the school level purchases, school level collections, staffing recommendations for school food service processes, and the SFS Branch monitoring process. We also performed detailed testing on a sample of school food service transactions from each of the 15 complex areas.

The objectives of our review included the following:

1. To ensure that Management adequately addressed and resolved the audit findings that resulted from the "*School Food Services Review*" issued in January 2013.
2. To perform detailed test work to determine the operating effectiveness of the procedures put into place to remediate the findings from the prior year report.

OBSERVATIONS:

Based upon our review, we noted that four (4) out of the seven (7) prior audit findings from the previous review are still recurring. However, we did notice significant improvements to the SFS process. Therefore, we found the DOE's controls related to the school food service operations are functioning at an "acceptable" level. An acceptable rating indicates that no significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.

The following is a status summary of the prior audit findings from the "*School Food Services Review*" along with the corrective action plans by Management and the related current observations.

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	Prior Audit Finding	Prior Audit Rating	Prior Audit Management's Corrective Action Plan Status	Current Observation Testing Results
1	Ownership of the food purchasing and meal payment collection processes is unclear	High	<p>Completed:</p> <ul style="list-style-type: none"> • SFS Branch has declared ownership of the food purchasing and meal payment collection processes with Office of Fiscal Services' (OFS) input and review of updated procedures. • Updated the Policies and Procedures for: <ol style="list-style-type: none"> a) Purchasing Guidelines; b) Collection of Cafeteria Revenue. • Updated Standard Practices (SP) regarding Lock Box Collections. • SFS Branch continues to administer mandatory annual training to SFS Managers. SFS Managers are trained at the mandatory meetings effective July 2013. • Training for meal payment collection was held from March 2014 - April 2014 for implementation during SY14-15. SFS Branch continues to administer mandatory annual trainings. • SFS Branch assigned a SFS Supervisor to conduct annual fiscal reviews of approximately 22 schools a year as part of the compliance and monitoring component to this corrective action. 	No finding noted
2	Lack of oversight, monitoring, and accountability of purchases	High	<p>Completed:</p> <ul style="list-style-type: none"> • Segregation of duties are in place within the purchasing process where school cooks, bakers, or helpers may be responsible to receive deliveries depending on cafeteria staffing. • SFS Managers are notified by Procurement and Contracts Branch (PCB) with Price List changes. Price List updates are no longer 'in effect immediately'; rather they are effective within 5 days of the date on the price list. • SFS Managers are trained at the mandatory meetings every year. 	No finding noted

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	Prior Audit Finding	Prior Audit Rating	Prior Audit Management's Corrective Action Plan Status	Current Observation Testing Results
2	Lack of oversight, monitoring, and accountability of purchases (continued)	High	<p>Completed:</p> <ul style="list-style-type: none"> SFS Supervisors review and monitor that SFS Managers follow SFS Branch purchasing guidance during their annual on-site review. 	No finding noted
3	Insufficient controls in the collection process	High	<p>Completed:</p> <ul style="list-style-type: none"> Management updated policies and procedures for the Collection of Cafeteria Revenue. Training for meal payment collection was held from March 2014 - April 2014 for implementation during SY14-15. SFS Branch continues to administer mandatory annual trainings. Accounting Services Branch (ASB) monitors school's submittal of the School Lunch Monthly Revenue Collection Activity Reconciliation Report (DAFMR453A) to ensure that it is submitted in a timely manner. SFS Supervisors review and monitor that employees follow SFS Branch revenue collection guidance during their annual on-site review. SFS Branch has contracted a prime vendor to streamline purchases by SFS Managers. Through this vendor, SFS Branch can access data to oversee each school's purchases. Future upgrades to the new POS system will also allow data to be consolidated for review. 	Parts of the finding still exist, see Observation 2

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	Prior Audit Finding	Prior Audit Rating	Prior Audit Management's Corrective Action Plan Status	Current Observation Testing Results
4	Lack of current and comprehensive School Food Services purchasing policies and procedures	Moderate	<p>Completed:</p> <ul style="list-style-type: none"> • Management updated policies and procedures for: <ol style="list-style-type: none"> 1) Form SL-4 Perpetual Inventory Card; 2) Purchasing Guidelines. • SFS Managers are trained at the mandatory meetings every year. • SFS Branch determined that efile inventory is not practical for audit/review purposes and will retain the SL-4 Perpetual Inventory Cards until upgrades to a new POS system incorporates the menu planning and inventory automated features. SFS Supervisors review and monitor that SFS Managers follow SFS Branch inventory guidance during their annual on-site review. 	Parts of the finding still exist, see Observation 2
5	Lack of technology in menu planning, ordering, and inventory	Moderate	<p>Completed:</p> <ul style="list-style-type: none"> • SFS Branch has contracted a prime vendor to streamline purchases by SFS Managers. Through this vendor, SFS Branch can access data to oversee each school's purchases. <p>Future upgrades to the new POS system will allow data to be consolidated for review. With the upgrade, SFS Branch will also have the ability to purchase a module to automate the menu planning and inventory processes.</p>	Finding still exist, see Observation 3

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	Prior Audit Finding	Prior Audit Rating	Prior Audit Management's Corrective Action Plan Status	Current Observation Testing Results
6	Required forms and supporting documentation are not completed and/or retained and procedures are often not followed	Moderate	<p>Completed:</p> <ul style="list-style-type: none"> • SFS Managers are trained at the mandatory meetings every year. • SFS Supervisors review and monitor that SFS Managers follow SFS Branch purchasing guidance during their annual on-site review. Fiscal reviews are also performed annually to monitor compliance with collection procedures. Also, ASB monitors school's submittal of DAFMR453A to ensure that it is submitted in a timely manner. 	Finding still exist, see Observation 1
7	The method of staffing school kitchens is not clearly defined and is prone to manipulation	Moderate	<p>Completed:</p> <ul style="list-style-type: none"> • Updated the Staffing Guidelines: <ol style="list-style-type: none"> a) Staffing Criteria; b) Meal Points Staffing Guide. • Guidance updated to state: <ol style="list-style-type: none"> 1. Realizing that this guidance does not address unusual situations that create hardship to the food service operation, the SFS Supervisor may submit a written request for staffing considerations/deviations to the SFS Director and must have written approval prior to making staffing changes. 2. Labor hours resulting from unapproved staffing changes will be charged back to the school or district office. • SFS Supervisors review and monitor that SFS Managers follow SFS Branch purchasing guidance during their annual on-site review. • SFS Director or designee review each district's staffing prior to submission to the district Personnel Regional Officer. • SFS Supervisors were trained on new staffing guidance prior to implementation in October 2013. 	No finding noted

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Please refer to the Risk Ratings section of this report (page 8) for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

Although there were improvements in the field on following school food service policies and procedures, IA still noted some repeat 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 observations are as follows:

1. Required forms and supporting documentation are not completed and/or retained
2. Procedures are not always followed at the school level
3. Lack of technology in menu planning, ordering, and inventory leads to inefficiencies

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.

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Rating Scale Definitions

OVERALL RATING SCALE	
<i>Acceptable</i>	No significant deficiencies exist and improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
<i>Marginal</i>	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.
<i>Unacceptable</i>	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	
<i>High (1)</i>	<p>1 - The impact of the finding is <i>material</i>¹ and the likelihood of loss is probable in one of the following ways:</p> <ul style="list-style-type: none"> • 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. <p><i>Immediate action is recommended to mitigate the DOE’s exposure.</i></p>
<i>Moderate (2)</i>	<p>2 - The impact of the finding is <i>significant</i>¹ and the likelihood of loss is possible in one of the following ways:</p> <ul style="list-style-type: none"> • 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. <p><i>Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p>
<i>Low (3)</i>	<p>3 - The impact of the finding is moderate and the probability of an event resulting in a loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p>

¹ The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

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Observations

The detailed observations noted herein were based on work 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. Many of these findings are repeat findings from the January 2013 Internal Audit “*School Food Services Review.*”

Obs. No	Description	Page #
1	Required forms and supporting documentation are not completed and/or retained	10
2	Procedures are not always followed at the school level	15
3	Lack of technology in menu planning, ordering, and inventory leads to inefficiencies	18

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Observations

Observation Number: 1	
Observation: Required forms and supporting documentation are not completed and/or retained	
Rating: Moderate	
<p>This current observation is a repeat finding from the January 2013 Internal Audit “<i>School Food Services Review</i>.” Based on IA’s review, we found that required forms and supporting documentation are not completed and/or retained. The following table references the exceptions noted during our review. Further details are provided in the ‘Summary of Observations Noted’ column. Reference information was obtained from the <i>School Food Services Handbook IV</i> and the <i>FMS User Policy and Process Flow Guide</i>.</p>	
Purchasing Forms required by SFS:	
Reference(s)	Summary of Observations Noted
SL-2 Purchase Requisition or DOE Form 10-B Record of Small Purchase	
<ul style="list-style-type: none"> ➤ All purchases must have a completed SL-2 Purchase Requisition with all pertinent information included before placing orders with vendors. For all non-bid small purchases, schools are to complete the DOE Form 10-B Record of Small Purchase prior to the purchase. 	<ul style="list-style-type: none"> ➤ Three (3) of the 30 samples where the SL-2 Purchase Requisition or DOE Form 10-B Record of Small Purchase were not submitted. ➤ One (1) of the 30 samples where the DOE Form 10-B Record of Small Purchase was not signed by the Administrator. (There was a 42% decrease in findings compared to the prior audit.)
SL-4 Perpetual Inventory Cards	
<ul style="list-style-type: none"> ➤ SFS Managers must maintain daily inventory transactions that include all inventory received and inventory used and balances obtained from the Food Based Production Records through Form SL-4 - Perpetual Inventory Card. 	<ul style="list-style-type: none"> ➤ SL-4 Perpetual Inventory Cards were not submitted for three (3) items purchased. (There was an 11% decrease in findings compared to the prior audit.)
Approval to Pay Report	
<ul style="list-style-type: none"> ➤ The Approval to Pay Report should be signed by the designee and submitted to Vendor Payment for payment. 	<ul style="list-style-type: none"> ➤ One (1) of the 30 samples, where the Approval to Pay Report was not submitted.
Non-submittals	
<ul style="list-style-type: none"> ➤ Schools should follow the DOE procedural guidance in the <i>School Food Services Handbook IV</i>. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where schools did not submit school cafeteria purchasing/inventory documents to IA as of fieldwork date. For one (1) of the two (2) schools, the box, and its contents, containing the school year 2015-16 documents got wet and damaged. The staff workers had discarded the whole box. Therefore, IA was unable to determine if proper procedures were followed.

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Collection Forms Required by SFS:

Reference(s)	Summary of Observations Noted
DAFMR 453A Monthly Revenue Collection Activity Reconciliation Report	
<ul style="list-style-type: none"> ➤ Schools should submit the signed original DAFMR453A School Lunch Monthly Revenue Collection Activity Reconciliation Report to the OFS – Accounting Services Branch by the 20th day of the following month. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where the DAFMR453A School Lunch Monthly Revenue Collection Activity Reconciliation Report were not submitted. ➤ Eight (8) of the 30 samples where the DAFMR 453A School Lunch Monthly Revenue Collection Activity Reconciliation Report were signed after the 20th day of the following month. ➤ Three (3) of the 30 samples where the DAFMR453A School Lunch Monthly Revenue Collection Activity Reconciliation Report were not signed or signed with the wrong date. (There was a 32% decrease in findings compared to the prior audit.)
Receipts	
<ul style="list-style-type: none"> ➤ Receipts must be issued for all SFS revenues. A file copy of all receipts shall be retained for reconciliation of daily deposits and fiscal reviews, and must be retained for seven (7) years. 	<ul style="list-style-type: none"> ➤ Three (3) of the 30 samples where receipts, payment slips, or envelopes were not submitted. (There was an 86% decrease in findings compared to the prior audit.)
Refund Receipts	
<ul style="list-style-type: none"> ➤ Schools must print the refund receipt, have parent/guardian sign it, and retain the original for reconciliation and audit purposes. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where refund receipts were not submitted.
SL-5 Computation of Monthly/Daily School Food Service Transaction Report	
<ul style="list-style-type: none"> ➤ The SL-5 Computation of Monthly/Daily School Food Service Transaction Report should be signed and filed for record retention. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where the SL-5 Computation of Monthly School Food Service Transaction Report were not submitted. ➤ Seven (7) of the 30 samples where the SL-5 Computation of Monthly School Food Service Transaction Report were not signed by the SFS Manager and the Principal. ➤ Two (2) of the 30 samples where the SL-5 Computation of Daily School Food Service Transaction Report were not submitted. ➤ Two (2) of the 30 samples where the SL-5 Computation of Daily School Food Service Transaction Report were not signed by the Principal.

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Observations

Collection Forms Required by SFS (continued):

Reference(s)	Summary of Observations Noted
Validated Deposit Slips	
<ul style="list-style-type: none"> ➤ Upon the receipt of the validated deposit slips, schools should verify the deposit slip amount against the retained school/business copy. If amounts reconcile, destroy non-validated office copy and file the validated copy in its place. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where the validated deposit slips were not submitted. (The percentage of findings remained the same compared to the prior audit.)

Based on inquiries with SFS Branch and detailed testing, IA noted significant improvements in compliance with DOE SFS policies and procedures since IA’s last review. IA noted that SFS Branch performs fiscal reviews for a sample of schools annually. In addition, SFS Branch also performs on-site reviews for all schools in the DOE annually. SFS Branch also began using a document library located within Lotus Notes that started in 2013. The library contains policies, procedures, forms, as well as various training that is held throughout the school year.

Impact

Required forms and supporting documentation not completed and/or retained may possibly lead to:

- Unauthorized and improper purchases which may result in a financial loss to the DOE.
- Potential misappropriation of assets, as deposits may not be properly recorded by the bank, which may result in financial loss to the DOE.
- Lack of competitive pricing which may lead to financial loss to the DOE as well as present negative publicity for the Department.
- Inaccurate financial reporting of SFS inventory on hand.
- Lack of compliance and consistency with DOE policies and procedures.
- Inabilities to verify that collections received were accounted for, thus increasing the DOE’s risk exposure to fraud.
- Lack of monitoring for purchases which could increase the risk of potential unauthorized or improper purchases, fraudulent transactions, and loss of funds to the DOE.

Recommendation and Management Plan

Recommendations for required forms and supporting documentation not completed and/or retained include:

- **Recommendation:** Management should continue the mandatory training that is required for all staff handling school food collection and purchasing functions. In addition, continuous assistance should be provided to the field.

Management Plan: Management will continue to provide annual training to all office staff who handle school food collections. In addition, management will provide training to all SFS Managers annually at the beginning of year. Furthermore, management will continue to offer technical assistance to all schools throughout the school year. Lastly, management will incorporate PowerPoint and handouts to all participants as well as provide these documents to school staff upon request.

Anticipated Completion Date: June 2018

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Observations

- **Recommendation:** Management should continue with the annual on-site reviews and fiscal reviews to ensure that schools are following DOE policies and procedures.

Management Plan: Management will continue to complete annual on-site reviews of all schools. The annual on-site reviews will be completed by February 1, 2018. Fiscal Reviews will be finalized once management can hire additional staff. Currently, the branch is short on personnel making the completion of fiscal reviews difficult. Thus, fiscal reviews will be completed once staff is adequate.

Anticipated Completion Date: June 2018

- **Recommendation:** SFS Managers should ensure that the following forms are completed and retained:
- SL-2 Purchase Requisition or DOE Form 10-B Record of Small Purchase are completed properly.
 - SL-4 Perpetual Inventory Cards are completed properly.
 - All Approval to Pay Reports should be signed by the approver and submitted to Vendor Payment for payment.
 - DAFMR453A School Lunch Monthly Revenue Collection Activity Reconciliation Report is completed, signed, and submitted to Accounting by the 20th day of the next month.
 - Receipts, payment slips, or envelopes are completed and retained.
 - Refund receipts are completed and retained.
 - The SL-5 Computation of Monthly and Daily School Food Service Transaction Report should be signed and retained.
 - Validated deposit slips reconcile to the school's copy and retained.

Management Plan: Management shall review and update current policies. The SL-5 has been phased out and SFS Branch has begun to phase out the SL-4 as SFS Branch has started transitioning to a new computerized system. Management will provide training at the annual beginning of the year meetings for all office staff. Furthermore, management will continue to offer technical assistance throughout the year. Once policies have been updated, management will provide training to all staff and SFS Manager on the updated policies and procedures.

Anticipated Completion Date: August 2017 phase out of SL-5, SL-4 phase out will be June 2018

- **Recommendation:** Management should review and update SFS policies and procedures for applicability and practicality. Changes made to policies and procedures should be communicated to the field and training should be provided.

Management Plan: Management has begun to review all policies and procedures. The goal of this policy review is to better align policies and procedures with state and federal regulations and current practices. This task is complicated as SFS Branch is still acquiring technology, which will influence some of the policies. Once policies have been updated, management will provide training to all staff and SFS Manager on the policies and procedures.

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Anticipated Completion Date: June 2018
<u>Contact Person:</u> Albert Scales, School Food Program Administrator
Responsible Party
School Food Services Branch, OSFSS

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Observations

Observation Number: 2	
Observation: Procedures are not always followed at the school level	
Rating: Moderate	
<p>This current observation is a repeat finding from the January 2013 Internal Audit “<i>School Food Services Review.</i>” Based on IA’s review, we found that procedures are not always followed at the school level. The following table references the exceptions noted during our review. Further details are provided in the ‘Summary of Observations Noted’ column. Reference information was obtained from the <i>School Food Services Handbook IV</i> and the <i>FMS User Policy and Process Flow Guide</i>.</p>	
Purchasing Requirements by SFS:	
Reference(s)	Summary of Observations Noted
Approval to Pay (ATP) Stamp	
<ul style="list-style-type: none"> ➤ The ATP stamp should be affixed on the original invoice. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where the invoice was not stamped with the ATP stamp. ➤ One (1) of the 30 samples where the ATP stamp was not filled out. (There was a 1% decrease in findings compared to the prior audit.)
Price List Number	
<ul style="list-style-type: none"> ➤ The completed SL-2 Purchase Requisition must contain the current price list number. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where the price list number was not on the SL-2 Purchase Requisition. (There was an 18% decrease in findings compared to the prior audit.)
Check Off Items	
<ul style="list-style-type: none"> ➤ SFS Manager should check off items received on the SL-2 Purchase Requisition upon receiving goods and/or services. 	<ul style="list-style-type: none"> ➤ Six (6) of the 30 samples where the SL-2 Purchase Requisition showed no indication that the items ordered were compared to those received. (There was a 13% decrease in findings compared to the prior audit.)
SL-4 Perpetual Inventory Card	
<ul style="list-style-type: none"> ➤ SFS Manager must assign two food service staff to take physical count of food and supplies in storage on the last serving day of the month. 	<ul style="list-style-type: none"> ➤ The month end valuation was not stated on the SL-4 Perpetual Inventory Card for three (3) items purchased. (The percentage of findings remained the same compared to the prior audit.)

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Observations

Collection Requirement by SFS:	
Reference(s)	Summary of Observations Noted
Receipts	
<ul style="list-style-type: none"> ➤ A delegated office staff or staff member, other than the SFS Manager will reconcile the daily receipts against the POS system reports. Schools need to reconcile all receipts and refunds against reports before preparing the daily deposit. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where receipts were not recorded as a transaction within two (2) days of collection.
Deposits	
<ul style="list-style-type: none"> ➤ Monies collected by the school must be deposited in the bank by the next business day or the next scheduled courier pickup. 	<ul style="list-style-type: none"> ➤ Two (2) of the 30 samples where collections were not deposited within the next courier pick up or within one week.
Impact	
<p>Procedures not always followed at the school level may possibly lead to:</p> <ul style="list-style-type: none"> ➤ Unauthorized and improper purchases which may result in a financial loss to the DOE. ➤ Potential misappropriation of assets which may result in financial loss to the DOE. ➤ Lack of competitive pricing which may lead to financial loss to the DOE as well as present negative publicity for the Department. ➤ Lack of compliance and consistency with DOE policies and procedures. ➤ Inaccurate financial reporting of SFS inventory on hand. 	
Recommendation and Management Plan	
<p>Recommendations for procedures not always followed at the school level include:</p> <ul style="list-style-type: none"> ➤ Recommendation: Management should continue the mandatory training that is required for all staff handling school food collection and purchasing functions. In addition, continuous assistance should be provided to the field. <p>Management Plan: Management will continue to conduct annual mandatory training for all office staff. This training will include PowerPoint presentations and handouts. Technical assistance will be provided to all schools throughout the year as needed.</p> <p>Anticipated Completion Date: Ongoing</p> <ul style="list-style-type: none"> ➤ Recommendation: Management should continue with the annual on-site reviews and fiscal reviews to ensure that schools are following DOE policies and procedures. <p>Management Plan: Management will continue to complete annual on-site reviews of all schools. The annual on-site reviews will be finalized by February 1, 2018. Fiscal Reviews will be completed once management hires additional staff; currently, the completion of fiscal reviews is difficult due to a personnel shortage.</p> <p>Anticipated Completion Date: June 2018</p>	

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Observations

- **Recommendation:** SFS Managers should ensure that the following procedures are performed:
- All invoices should be stamped with the ATP stamp to show that invoices are approved and ready for payment.
 - All SL-2 Purchase Requisitions should contain the current price list number prior to purchase.
 - All goods and/or services should be checked off against the SL-2 Purchase Requisition upon receiving of goods and/or services.
 - Proper procedures are performed for the inventory of SFS purchases.
 - All receipts should be recorded within two days of collections.
 - School collections must be deposited in the bank by the next business day or the next scheduled courier pickup.

Management Plan: Management will continue to provide training as recommended.

Anticipated Completion Date: Ongoing

- **Recommendation:** Management should review and update SFS policies and procedures for applicability and practicality. Changes made to policies and procedures should be communicated to the field and training should be provided.

Management Plan: Management has begun to review all SFS policies and procedures. The goal of the review is to update all policies and procedures that do not align with current practice and state and federal regulations. Training will be provided at the annual School Food Service Management (SFSM) meetings. Furthermore, technical assistance will be given throughout the year to ensure compliance.

Anticipated Completion Date: December 2018

Contact Person: Albert Scales, School Food Program Administrator

Responsible Party

School Food Services Branch, OSFSS

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Observations

Observation Number: 3
Observation: Lack of technology in menu planning, ordering, and inventory leads to inefficiencies Rating: Low
<p>This current observation is a repeat finding from the January 2013 Internal Audit “<i>School Food Services Review</i>.” Based on IA’s review, menu planning, ordering, and inventory are still manual processes. Each SFS Manager is responsible for reviewing the upcoming menu, placing orders for ingredients and supplies, receiving goods, and accounting for inventory on hand. Every SFS Manager is required to maintain a manual Form SL-4 Perpetual Inventory Card for every item in their kitchen. The Form SL-4 Perpetual Inventory Card contains the following information: item, vendor, unit price, date, number of items received, number of items used, running balance on hand, and total balance at each respective month end. During our review, we noted that current inventory policies and procedures are not being followed consistently. Refer to Observations #1 and #2 for details noted in the current manual process.</p> <p>During 2016, Cybersoft Technologies PrimeroEdge was awarded through the competitive bid process, a contract to provide the new meal application and POS programs, replacing Meal Tracker and eTriton. PrimeroEdge went live at all schools in early 2017 with the POS module. Additional modules to be implemented include: online inventory, menu planning, ordering, and nutrient analysis. SFS Branch is currently using some of the modules at the state level.</p>
Impact
<p>The lack of technology in menu planning, ordering, and inventory may possibly lead to:</p> <ul style="list-style-type: none"> ➤ Improper purchases which may result in improper use of funds and financial loss to the DOE. ➤ Inaccurate inventory records which may lead to over purchasing and waste. ➤ Inconsistencies and inefficiencies between practices and procedures. Such inconsistencies could result in wasted resources. ➤ Non-compliance with DOE requirements for inventory.
Recommendation and Management Plan
<p>Recommendations for the lack of technology in menu planning, ordering, and inventory include:</p> <ul style="list-style-type: none"> ➤ Recommendation: SFS Branch should continue the implementation of PrimeroEdge modules to automate the inventory process and interconnect the menu planning, ordering, and inventory. Training and continuous assistance should be provided to the field once modules are implemented. <p>Management Plan: Management will continue to leverage technology by acquiring menu planning, ordering, and inventory modules. This process will include training and continuous technical assistance throughout the life of the modules. The intent is to ensure that purchases, inventory records, and menu planning meet all policies and procedures. Furthermore, leverage of such technology will help with the reduction of waste and reduce accounting errors.</p> <p>Anticipated Completion Date: December 2018</p>
Contact Person: Albert Scales, School Food Program Administrator
Responsible Party
School Food Services Branch, OSFSS

Department of Education
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