

PERFORMANCE AUDIT
OF
STATE FACILITIES' FOOD SERVICE, CLOTHING,
AND TIME REPORTING PRACTICES

February 1999

47-700-97

EXECUTIVE DIGEST

STATE FACILITIES' FOOD SERVICE, CLOTHING, AND TIME REPORTING PRACTICES

INTRODUCTION

This report, issued in February 1999, contains the results of our performance audit* of State Facilities' Food Service, Clothing, and Time Reporting Practices.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* .

BACKGROUND

The State of Michigan maintains ninety-five 24-hour facilities, 15 in the Upper Peninsula and 80 in the Lower Peninsula. These facilities provide housing for over 45,000 prisoners, juveniles, mentally ill and developmentally disabled individuals, and veterans and their family members. The facilities are staffed 24 hours a day, 7 days a week.

Food Service and Clothing

To feed and clothe residents of the 24-hour facilities, the State spends approximately \$80 million annually. The departments responsible for ensuring that residents

* See glossary on page 34 for definition.

receive nutritional meals and are properly clothed are the Department of Corrections (DOC), Family Independence Agency (FIA), Department of Community Health (DCH), and Department of Military and Veterans Affairs (DMVA). The Department of Management and Budget (DMB) is responsible for contracts that enable the facilities to obtain quality food, clothing, and other products at the best possible price.

The food service cost varies depending on the type of facility and the practices employed at the facility. Following are the range of resident food costs for department-provided and contracted services:

	<u>Annual Food Cost Per Resident</u>
DOC	\$ 874 - \$1,988
FIA	\$2,045 - \$5,703
DCH	\$3,437 - \$9,317
DMVA	\$3,358 - \$4,128
Contracted Services	\$1,494 - \$6,484

The State purchases, or facilitates residents' purchase of, clothing and linen for residents and selected employees. DOC requires its facilities to purchase clothing and linen for residents and corrections officers from Michigan State Industries (MSI). Clothing for other DOC employees, such as maintenance staff, is purchased from private vendors. FIA and DCH facilities purchase resident personal clothing and linen from private vendors and occasionally from MSI. DMVA does not purchase resident personal clothing but does purchase hospital-type clothing from private vendors and linens from MSI.

Time Reporting

Employees prepare and submit a time sheet to report their time worked and leave usage for a pay period. Facilities have large numbers of employees entering and exiting the facility at the same time during shift changes. Most facilities use time clocks to record employees' arrival and departure.

AUDIT OBJECTIVES, CONCLUSIONS, AND NOTEWORTHY ACCOMPLISHMENTS

Audit Objective: To assess the efficiency of providing food service and clothing to residents of the State's 24-hour facilities.

Conclusion: We concluded that the State was efficient in providing clothing to residents of its 24-hour facilities. We also concluded that the State was generally efficient in providing nutritional meals to the residents. However, we noted reportable conditions* related to food service practices, food supply contracts, inventory levels, and federal breakfast and lunch reimbursement (Findings 1 through 4).

Noteworthy Accomplishments: Several facilities have improved their food service efficiency by using automated dietary programs (Mt. Pleasant Center and Grand Rapids Home for Veterans); making special purchases (Riverside Correctional Facility, Chippewa Correctional Facility, and Western Wayne Correctional Facility); and making, rather than purchasing, menu items (Chippewa Correctional Facility and Western Wayne Correctional Facility). Especially notable was Western Wayne Correctional Facility's low costs and ability to supply bakery products to the Robert Scott Correctional Facility.

* See glossary on page 34 for definition.

Audit Objective: To assess the efficiency of the time reporting practices of the State's 24-hour facilities.

Conclusion: We concluded that the time reporting practices at the State's 24-hour facilities were moderately efficient. We noted a reportable condition regarding the need for an automated time reporting system (Finding 5).

Noteworthy Accomplishments: DCH's Mt. Pleasant Center and DMVA's Grand Rapids Home for Veterans currently use manual time reporting systems. These facilities have researched automated time reporting systems, and both have determined that adopting such a system would result in a reduction of manual effort involved in time reporting. The Mt. Pleasant Center's request to purchase an automated system was deferred by DCH pending evaluation and determination of the proposed system's compatibility with the known implementation of the Data Collection and Distribution System. The Grand Rapids Home for Veterans had purchased hardware and created its own software for an automated system.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the food service, clothing, and time reporting practices at selected 24-hour facilities operated by the Department of Corrections, Family Independence Agency, Department of Community Health, and Department of Military and Veterans Affairs. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

To accomplish our objectives, our methodology included analyses of costs incurred by the State's 24-hour facilities

for fiscal years 1994-95, 1995-96, and 1996-97 (through June 1997). We selected 18 of 95 facilities to visit based on costs, type of facility, and whether the facilities had contracted or State-provided services. At the facilities visited, we interviewed facility personnel and conducted tests of selected food service, clothing, and time reporting records.

AGENCY RESPONSES

Our audit report contains 5 findings and 6 related recommendations. DOC agreed with the 5 recommendations that applied to it. FIA agreed with all 6 recommendations. DCH agreed with the 5 recommendations that applied to it. DMVA agreed with the 5 recommendations that applied to it. DMB agreed with the 2 recommendations that applied to it.

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Dear Mr. Martin, Mrs. Hammons, Mr. Haveman, General Stump, and Ms. Phipps:

This is our report on the performance audit of State Facilities' Food Service, Clothing, and Time Reporting Practices.

This report contains our executive digest; description of program; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us by the staff of the departments and the facilities visited during this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

STATE FACILITIES' FOOD SERVICE, CLOTHING, AND TIME REPORTING PRACTICES

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Description of Program	10
Audit Objectives, Scope, and Methodology and Agency Responses	12

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

Food Service and Clothing	14
1. Food Service Practices	15
2. Food Supply Contracts	22
3. Inventory Levels	25
4. Federal Breakfast and Lunch Reimbursement	27
Time Reporting	28
5. Automated Time Reporting System	29

GLOSSARY

Glossary of Acronyms and Terms	34
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Description of Program

State Institutions

The State of Michigan maintains ninety-five 24-hour facilities, 15 in the Upper Peninsula and 80 in the Lower Peninsula. The facilities operate under the direction of the Department of Corrections (DOC), Family Independence Agency (FIA), Department of Community Health (DCH), and Department of Military and Veterans Affairs (DMVA). These facilities provide housing for over 45,000 prisoners, juveniles, mentally ill and developmentally disabled individuals, and veterans and their family members. The facilities are staffed 24 hours a day, 7 days a week.

Food Service and Clothing

The facilities are responsible for ensuring that residents receive nutritional meals and are properly clothed. DOC, DCH, and DMVA have adopted Statewide menus for their facilities. DOC's menu is on a four-week cycle and, on any day, the same meal items are generally available to each resident regardless of which facility the resident is assigned to. The menu allows for some flexibility in that the facility food service directors have two meals of choice each week. DCH and DMVA allow their facilities to modify the menus to meet the needs of their residents and to take advantage of cost-saving opportunities. FIA allows each facility to develop its own menu.

Facilities that provide meals and education to their school-age residents are eligible for federal reimbursement of a portion of their breakfast and lunch expenditures. The State receives federal reimbursement under the School Breakfast Program and the National School Lunch Program for eligible meals served at DOC, FIA, and DCH facilities that report their breakfast/lunch expenditures. Reimbursement is based on meals served.

DOC requires its facilities to purchase clothing and linen for residents and corrections officers from Michigan State Industries (MSI). Clothing for other DOC employees, such as maintenance staff, is purchased from private vendors. FIA and DCH facilities purchase most resident personal clothing and linen from private vendors and occasionally from MSI. DMVA does not purchase resident personal clothing but does purchase hospital-type clothing from private vendors and linens from MSI. The Department of Management and Budget (DMB) is responsible for contracts that enable

the facilities to obtain quality food, clothing, and other products at the best possible price.

Time Reporting

The State's general time reporting system requires employees to prepare and submit a time sheet to report their time worked and leave usage for a pay period. A timekeeper summarizes the time sheets on the biweekly time and attendance summary report. This report is forwarded to the facility or department personnel office for final review and entry into the Personnel-Payroll Information System for Michigan (PPRISM) to generate payments to the employees.

The 95 facilities perform time reporting functions for their approximately 21,900 employees. We estimate the cost of this function at approximately \$3 million annually.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of State Facilities' Food Service, Clothing, and Time Reporting Practices had the following objectives:

1. To assess the efficiency of providing food service and clothing to residents of the State's 24-hour facilities.
2. To assess the efficiency of the time reporting practices of the State's 24-hour facilities.

Audit Scope

Our audit scope was to examine the food service, clothing, and time reporting practices at selected 24-hour facilities operated by the Department of Corrections (DOC), Family Independence Agency (FIA), Department of Community Health (DCH), and Department of Military and Veterans Affairs (DMVA). Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

To accomplish our objectives, our methodology included analyses of costs incurred by the State's 24-hour facilities for fiscal years 1994-95, 1995-96, and 1996-97 (through June 1997). We selected 8 DOC, 5 FIA, 4 DCH, and 1 DMVA facilities to visit based on costs, type of facility, and whether the facilities had contracted or State-provided services. Our facility visits were performed from May through November 1997.

To accomplish our first objective, we interviewed dietitians, food service directors, and contractors and visited food preparation areas at the facilities visited. In addition, we evaluated food service cost control measures relating to food procurement, menu planning, meal preparation, meals served, and food inventory. Also, we reviewed clothing and linen acquisition, distribution, and maintenance practices. To accomplish our second objective, we interviewed timekeepers and personnel office staff and

examined timekeeping practices related to time recording, verification, correction, and data entry at the facilities visited.

Agency Responses

Our audit report contains 5 findings and 6 related recommendations. DOC agreed with the 5 recommendations that applied to it. FIA agreed with all 6 recommendations. DCH agreed with the 5 recommendations that applied to it. DMVA agreed with the 5 recommendations that applied to it. DMB agreed with the 2 recommendations that applied to it.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

FOOD SERVICE AND CLOTHING

COMMENT

Background: To feed and clothe residents of the 24-hour facilities, the State spends approximately \$80 million annually. This equates to approximately \$1,800 per resident annually or \$5 per day.

The food service cost varies depending on the type of facility and the practices employed at each facility. Following are the range of resident food costs for department-provided and for contracted services:

	Annual Food Cost Per Resident	
Department of Corrections (DOC)	\$ 874	- \$1,988
Family Independence Agency (FIA)	\$2,045	- \$5,703
Department of Community Health (DCH)	\$3,437	- \$9,317
Department of Military and Veterans Affairs (DMVA)	\$3,358	- \$4,128
Contracted Services	\$1,494	- \$6,484

Audit Objective: To assess the efficiency of providing food service and clothing to residents of the State's 24-hour facilities.

Conclusion: We concluded that the State was efficient in providing clothing to residents of its 24-hour facilities. We also concluded that the State was generally efficient in providing nutritional meals to the residents. However, we noted reportable conditions related to food service practices, food supply contracts, inventory levels, and federal breakfast and lunch reimbursement.

Noteworthy Accomplishments: Several facilities have improved their food service efficiency by using automated dietary programs (Mt. Pleasant Center and Grand Rapids Home for Veterans); making special purchases (Riverside Correctional Facility,

Chippewa Correctional Facility, and Western Wayne Correctional Facility); and making, rather than purchasing, menu items (Chippewa Correctional Facility and Western Wayne Correctional Facility). Especially notable was Western Wayne Correctional Facility's low costs and ability to supply bakery products to the Robert Scott Correctional Facility.

FINDING

1. Food Service Practices

The State had not assessed the food service practices at its facilities to identify the most efficient practices in order to incorporate these practices at other State facilities.

We analyzed food costs by facility and noted significant per resident cost differences. We found that some cost variation among facilities exists because of different resident nutritional needs in DCH and DMVA facilities and the security levels associated with DOC and FIA facilities (meals are delivered to residents in segregation or detention). However, a significant amount of variation may be attributed to the food service process used:

a. Automated Dietary Program

The Mt. Pleasant Center and the Grand Rapids Home for Veterans use an automated dietary program, in conjunction with the software system provided by the prime vendor* , to plan meals and determine that minimum nutritional standards are met.

The program provides substitutions to Statewide menus for special nutritional needs, incorporates commodity prices for meal costing by item, and prescribes quantities to be prepared based on information entered. These features have resulted in improved efficiencies and cost savings at the two facilities.

For example, the Grand Rapids Home for Veterans estimates that the program has resulted in reducing the leftovers to less than 4%. Sixty-two percent of Mt. Pleasant Center's resident population has special nutritional

* See glossary on page 34 for definition.

needs. The Center entered each resident's nutritional needs and the menu into the program and software system.

DCH's two highest annual resident cost facilities are not using the program and software system. If the program and the software system were as effective at those facilities, we estimate that the State could annually save approximately \$1.2 million.

b. Standard Menu

DOC, DCH, and DMVA provide their facilities with a standard menu. On any day, the same meal items are generally available to each resident regardless of which facility the resident is assigned to.

FIA, with facility populations ranging from 9 to 400, had not developed a standard menu for all of its facilities. FIA allows each facility to develop its own menu. One FIA facility that we visited developed a seven-week menu and, at another FIA facility, where residents learn to prepare their own meals as part of their program, the menu is based on the wants of the residents and the food supply on hand. A comparison of menus among the 5 FIA facilities that we visited disclosed significant variances in items prepared and quantities being served. The quantity of food prepared and served at some facilities was 2 times FIA's established nutritional needs for the residents. These facilities' annual resident food costs were significantly higher than the costs of the facility with the seven-week menu. If the 3 FIA facilities with highest per resident food costs reduced their costs to the level of the facility with the seven-week menu, we estimate that the State could annually save approximately \$600,000.

c. Making Versus Purchasing of Menu Items

Some facilities purchase prepared meal items, generally at a higher cost than facilities that make menu items from raw ingredients. An example of a prepared item that is purchased is bread.

One DOC facility did a cost comparison of baking versus purchasing bakery products and determined that baking saves an average of \$.019 per meal per resident. Although this might not appear to be a significant cost savings, the

difference between the remaining DOC facilities baking bread or purchasing bread would be approximately \$400,000 annually. The DOC facilities, in particular, can produce bakery items at a lower cost because of the use of resident labor in the food service area.

d. Number of Meals Ordered

At some facilities that contract with private vendors for meals, we noted that an excess number of meals were ordered and paid for. One FIA facility continued to order 120 meals, three times per day, for two consecutive months without adjusting to the actual number of residents, which had decreased from 97 to 64. Generally, FIA and DCH facilities ordered meals based on daily census and not on expected meal participation. Food service staff at FIA and some DCH facilities did not maintain records of meal participation. At some DOC facilities that we visited, less than one half of the facilities' resident population participated in breakfast.

e. Meals Provided to Other State Facilities

The State contracts with private vendors for meals at some facilities which could be served by nearby DOC facilities.

Following are the annual resident food costs for two DCH facilities that contracted for meals (facility A and facility B) and a DOC facility that is separated from facility A by a parking lot and is within one mile of facility B:

	<u>Total Annual Food Service Cost</u>	<u>Resident Population</u>	<u>Annual Food Service Cost Per Resident</u>
DCH facility A	\$ 1.1 million	268	\$ 4,255
DCH facility B	\$.8 million	246	\$ 3,437
DOC facility	\$.8 million	457	\$ 1,742

Some DOC facilities do prepare and distribute meals and bakery products to other facilities. For example, DOC established a centralized food preparation facility in Jackson to distribute food to its other area facilities. DOC informed us that meals for the additional 500 residents, as shown in the table, could be provided, but additional capital costs would be incurred. DOC also informed

us that it once provided meals to facility B. If the DOC facility provided the meals to facility A and facility B, we estimate that the State could save approximately \$1 million annually. This does not include the costs associated with DOC transporting of the meals.

f. Food Service Staffing

Food service cost and staffing varies considerably among institutions, as shown in the following table:

Facility	Average Resident Population	Number of Food Service Staff	Annual Food Service Cost Per Resident
<u>DOC</u>			
Robert Scott Correctional Facility	810	12	\$1,393
Standish Maximum Correctional Facility	454	10	\$1,897
Baraga Maximum Correctional Facility	414	10	\$1,981
Riverside and Ionia Temporary Correctional Facilities	1,696	15	\$1,415
Chippewa Correctional and Temporary Correctional Facilities	2,073	21	\$1,233
Western Wayne Correctional Facility	749	10	\$ 874
Charles Egeler Correctional Facility and Duane L. Waters Hospital	1,002	11	\$1,521
Grand Rapids Correction Center	147	Contracted	\$1,494
<u>FIA</u>			
Adrian Training School	122	7	\$2,772
Genesee Valley Regional Center	92	6	\$4,528
Shawono Center	40	2	\$3,716
Wayne/Metro Residential Services	170	3(a)	\$4,576
Flint Residential Care Center	12	0	Not Available
<u>DCH</u>			
Mt. Pleasant Center	153	13	\$4,327
Hawthorn Center	104	17	\$9,317
Walter Reuther Psychiatric Hospital	152	Contracted	\$6,484(b)
Huron Valley Center	325	Contracted	\$4,255
<u>DMVA</u>			
Grand Rapids Home for Veterans	599	51	\$4,128

(a) - This facility has two centers; one center contracts for food services.

(b) - This cost does not include three dietitians' salaries.

The food service staffing, use of resident food service workers, number of employee meals, and items recorded as food service costs varied among facilities.

DOC paid resident food service workers \$.32 per hour and food service staff are paid an average of \$22.53 per hour (including benefits). Therefore, the use of resident food service workers greatly impacts DOC's costs to provide meals to residents.

By identifying those facilities with the most efficient practices and adopting these practices at other facilities where practical, the State could further decrease its food service costs.

RECOMMENDATION

We recommend that DOC, FIA, DCH, and DMVA assess food service practices at their facilities to identify the most efficient practices in order to incorporate these practices at other State facilities to the maximum extent practical.

AGENCY PRELIMINARY RESPONSE

DEPARTMENT OF CORRECTIONS

DOC concurs and has taken steps to comply. Regarding item a., DOC has automated dietary programs at many of its institutions; however, these systems have not been standardized throughout DOC. A committee has been formed to address standardization of the automated dietary programs. Regarding item c., DOC plans to make future facilities capable of baking bread. DOC will also evaluate existing facilities that cannot bake bread products and determine the cost effectiveness of installing the needed equipment and incurring the additional staffing costs. Regarding item e., DOC has been, and is, willing to prepare meals for DCH facilities A and B. However, the existing physical plant would require modification. DCH should bear the capital outlay and additional operating costs. Regarding item f., DOC continually reviews its food operation costs. Items b. and d. did not require action by DOC.

FAMILY INDEPENDENCE AGENCY

FIA agrees with the item b. During the audit period, FIA facilities did not have budget allocations to utilize in monitoring costs. Corrective action was

implemented on October 1, 1997. Costs and budgets are monitored at the centers and Office of Juvenile Justice central office on a monthly and quarterly basis respectively, and this has resulted in greater management accountability for food service practices.

FIA agrees with the item c. Corrective action has been implemented. The Office of Juvenile Justice began implementing the prime vendor computerized purchasing system in January 1997 to correct this problem. In addition, the proportions of food served and the number of meals served in FIA facilities has been addressed. The Burton Center contract has been amended to provide for appropriate size and proportions of the population. The prime vendor software is expected to assist in achieving greater consistency across other facilities.

FIA agrees with the item f.

FIA agrees with the recommendation and has complied as noted in its preceding comments.

DEPARTMENT OF COMMUNITY HEALTH

DCH agrees in principle with the recommendation and will assess food service practices, as the finding indicates, at hospitals and centers to incorporate the most efficient practices to the extent practical. However, DCH does not necessarily agree with each item in the finding or that each item is applicable to its operations. The following addresses DCH's position for each item in the finding:

Item a: DCH agrees with the finding and will review and assess the current "prime vendor software system" by March 31, 1999 to determine the practicality of utilizing the system at all of the hospitals and centers.

Item b: This item is not applicable because DCH currently utilizes a standard menu.

Item c: DCH does not agree that this item is applicable to its operations. Low-cost resident labor is not a viable option at DCH facilities, and the finding fails to consider the capital outlay, such as equipment costs and the additional

overhead, that would be required in order to make, rather than purchase, menu items.

Item d: DCH disagrees with the finding that DCH facilities do not maintain any records of meal participation. DCH also takes exception to the suggestion that meals should be ordered based on previous participation rather than based on the actual number of residents. DCH is required to provide meals to each of its residents in order to ensure an appropriate level of care. Because DCH is required to provide meals for all residents, meals must be ordered based on the actual number of residents.

Item e: DCH does not agree that purchasing meals from other State facilities is a viable alternative for its operations. Meals must be provided in a timely and consistent manner at the hospitals and centers. Other State facilities cannot guarantee this consistency. Purchasing meals from other State facilities also hinders DCH's ability to monitor and evaluate the quality of the meals served to its residents.

Item f: DCH does not agree that this item is particularly applicable to its operations. As pointed out in the example, labor is by far the single largest element of cost incurred to provide food service to residents. The use of very low-cost resident labor is not an available option for DCH operations. Other than using resident labor costs as an example, the finding did not attempt to address or evaluate the reasons for the differences in the annual food service costs per resident. Cost differences are not necessarily indicative that facilities' food service practices are inefficient. Nevertheless, DCH will assess its food service practices at hospitals and centers to incorporate the most efficient practices to the extent practical.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

The Grand Rapids Home for Veterans does not have the capability to assess Statewide food service practices to identify the most efficient practices. DMVA would be pleased to provide data to an agency that engages in any such endeavor.

DEPARTMENT OF MANAGEMENT AND BUDGET

This recommendation is not applicable to the Department of Management and Budget (DMB).

FINDING

2. Food Supply Contracts

The State had not performed a comprehensive evaluation of the food supply contracts to identify the most efficient approaches and implement those approaches Statewide.

Our review of the food supply contracts and their implementation identified these issues:

a. Contract Evaluation

The State changed, in 1996, from a system in which each facility purchased food items directly from various vendors to a system in which two contracted (prime vendor) vendors supply most food items for all facilities. The facilities still purchase some items directly from other vendors.

The State's rationale for changing the system was that the savings from individual institutions' reduced costs for ordering, warehousing, and handling would exceed any higher per unit price of items purchased under the prime vendor contract. Some facilities that we visited informed us that they had experienced considerably increased per unit costs. For example, one facility that had been able to buy an item for \$1.64 per pound had to pay \$2.37 per pound for the same item on the prime vendor contract.

Two facilities did evaluate their food cost under the prime vendor contract. Both indicated a cost savings from reduced ordering and storage cost. However, the State had not determined if the current contract system resulted in the best overall outcome.

b. Rebates

FIA, DCH, and DMVA facilities are members of an association that uses a prime vendor contract negotiated by the association. FIA, DCH, and DMVA

facilities receive vendor rebates ranging from 0.5% on average weekly purchases totaling less than \$3,000 to 3.5% on purchases over \$20,000. The State contracts with the same vendor to supply food to DOC facilities, and the vendor charges the same prices charged FIA, DCH, and DMVA facilities, except for the camp facilities (which generally pay higher prices). However, DOC does not receive rebates. DOC annual food costs exceed \$36 million. An average rebate of 2.0% would result in savings of approximately \$720,000 annually.

c. Computer Software

FIA, DCH, and DMVA facilities used the vendor's computer software to compare item prices, to substitute less costly items in the standard menu, and to calculate meal cost. Similar programs are also available from other vendors. We were informed that DOC owns similar software but was only using the software at its Jackson facilities.

DOC facilities that we visited manually maintain food production work sheets that account for menu items, bulk quantity of raw food items prepared, the size of the individual portions to be served, the number of meals to prepare, leftovers, and the proposed disposition of the leftovers. These historical records are used along with the inventory on hand to determine the quantity of food to purchase for the planned menu. Although the facilities employ prisoners to record this information, computer software would provide more timely and accurate information to help improve the efficiency of food service operations. DOC facilities serve meals to over 35,000 residents. A \$.01 per meal per resident savings would result in savings in excess of \$380,000 annually.

Also, the State's accounting system requires DOC facilities to enter individual commodity items and prices with the original purchase orders. When the payments to vendors are processed, the invoiced quantities and prices must match the original order or the payment is rejected. A special review and approval process is required on rejected payments. Facilities that are part of the prime vendor program have fewer rejected payments because only a

commodity number and the total cost of the order are entered into the system. Payment is approved as long as the total cost is within the DMB-established tolerance level.

d. Price Changes

The State contracts allow vendors to price items as of the delivery date rather than the date ordered. This decreases the facilities' ability to comparatively price substitute items.

e. Special Purchases

One method used by DOC facilities to control food cost is to take advantage of "special purchases" offered by manufacturers and suppliers. However, DOC facilities do not take advantage of some special purchase offers because the quantities offered exceed an individual facility's needs and a process is not in place to coordinate purchasing among facilities. Coordinating special purchases among facilities could result in additional costs savings.

RECOMMENDATION

We recommend that DMB, in conjunction with DOC, FIA, DCH, and DMVA, perform a comprehensive evaluation of the food supply contracts to identify the most efficient approaches and implement those approaches Statewide.

AGENCY PRELIMINARY RESPONSE

DEPARTMENT OF CORRECTIONS

DOC is willing to work with the identified agencies. DOC recommends that DMB reconvene the Food Purchasing Advisory Committee to assist in evaluating State contracts, the competitive bid process, and the prime vendor process.

FAMILY INDEPENDENCE AGENCY

FIA agrees with item b. FIA facilities have been participating in the rebate program since its inception and expect to continue.

FIA agrees with item c. related to the computer software, as noted in its response to Finding 1.

FIA agrees with the recommendation and will comply.

DEPARTMENT OF COMMUNITY HEALTH

DCH agrees in principle with this recommendation and would participate in providing assistance in the performance of such an evaluation.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

The Grand Rapids Home for Veterans would be willing to participate in a Statewide review of food supply contracting practices.

DEPARTMENT OF MANAGEMENT AND BUDGET

DMB worked with FIA, DCH, and DMVA to find the best food procurement program to meet the needs of each of these departments and the clients each serves. It is up to these operating departments to assess how well the program is working and to measure the efficiencies and benefits that the program has made to their operations. DMB is currently working with DOC to explore various food procurement options and how the options will meet the needs of DOC. There is not one approach for procuring food that will work Statewide because of the difference in needs, missions, and budgets of each of the departments.

FINDING

3. Inventory Levels

The State could reduce warehouse costs by combining warehouse operations when additional facilities are constructed and by reducing food inventory levels.

Our analysis of food inventory and warehouse operations disclosed:

- a. Facilities in close proximity to each other maintained separate warehouses. DOC has locations in Ionia and Kinross with multiple facilities and multiple warehouses. DOC and DCH have facilities in Ypsilanti, and DOC and FIA have facilities in Adrian, each with individual warehouse operations. Although consolidation of currently existing warehouse operations does not appear worthwhile, the State could reduce staffing and building construction requirements by combining warehouse operations when additional facilities are constructed.

- b. Six DOC facilities that we visited had from a 22- to 78-day supply of food in their warehouse. If this is representative of all DOC facilities, we estimate that DOC had approximately \$2.7 million of food inventory beyond a 10-day supply. If that \$2.7 million had been available for investment, the State would have realized approximately \$150,000 annually in additional investment earnings.

DCH and DMVA facilities that we visited had reduced their food inventory levels to a 10-day or less supply.

- c. FIA facilities did not maintain inventory records to support their estimate of a two-week supply of food on hand. Without inventory records, facilities did not have assurance they were maintaining appropriate inventory levels.

RECOMMENDATION

We recommend that the State reduce warehouse costs by combining warehouse operations when additional facilities are constructed and by reducing food inventory levels.

AGENCY PRELIMINARY RESPONSE

DEPARTMENT OF CORRECTIONS

DOC plans to evaluate the cost-effectiveness of consolidating warehouses by piloting a central warehouse in St. Louis for an existing facility and two future prisons.

DOC will also compare its food operations to DCH and DMVA operations to determine if DOC can reduce its food inventory levels.

FAMILY INDEPENDENCE AGENCY

FIA agrees with items a. and c. of the finding. However, with the new prime vendor software, FIA believes that the Adrian Training School will not need to use a warehouse and that satisfactory inventory levels can be maintained in all of its FIA facilities. The new system will provide "just-in-time" inventory control for the FIA institutions. Any use of the warehouse would result in the need for additional staff to transport food and space for storage. Both would result in added costs.

FIA agrees with the recommendation.

DEPARTMENT OF COMMUNITY HEALTH

DCH agrees with the recommendation and will evaluate combining warehouse operations when additional facilities are constructed, if practical and appropriate.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

DMVA has complied with this recommendation to the extent that it is able. Consolidation with other State agencies would be a matter for further discussion at higher levels of authority.

DEPARTMENT OF MANAGEMENT AND BUDGET

This recommendation is not applicable to DMB.

FINDING

4. **Federal Breakfast and Lunch Reimbursement**

FIA did not ensure that its facilities reported breakfasts and lunches served for reimbursement under the federal School Breakfast Program and National School Lunch Program.

The Department of Education is the agency responsible for reporting breakfasts and lunches served for federal reimbursement. FIA facilities report breakfasts and lunches served directly to the Department of Education. The Department of Education obtains the federal reimbursement and transfers the funds to FIA or its facilities.

Two facilities that we visited did not report their breakfasts and lunches served to the Department of Education. The facilities were not aware of the federal programs or that their meals served could be eligible for federal reimbursement. If these facilities' programs are comparable to the other FIA facilities, we estimate that the State lost approximately \$160,000 annually in federal revenue.

RECOMMENDATION

We recommend that FIA ensure that its facilities report breakfasts and lunches served for reimbursement under the federal School Breakfast Program and National School Lunch Program.

AGENCY PRELIMINARY RESPONSE

DEPARTMENT OF CORRECTIONS

This recommendation is not applicable to DOC.

FAMILY INDEPENDENCE AGENCY

FIA agrees with the finding. FIA had implemented the federal reimbursement program for breakfasts and lunches at all eligible facilities except the Burton Center, which began participation in spring 1998.

FIA agrees with the recommendation and informed us that it has complied.

DEPARTMENT OF COMMUNITY HEALTH

This recommendation is not applicable to DCH as it already participates in the cited federal programs.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

This recommendation is not applicable to the Grand Rapids Home for Veterans.

DEPARTMENT OF MANAGEMENT AND BUDGET

This recommendation is not applicable to DMB.

TIME REPORTING

COMMENT

Background: Employees prepare and submit a time sheet to report their time worked and leave usage for a pay period. Facilities have large numbers of employees entering and exiting the facility at the same time during shift changes. Most facilities use time clocks to record employees' arrival and departure.

Audit Objective: To assess the efficiency of the time reporting practices of the State's 24-hour facilities.

Conclusion: We concluded that the time reporting practices at State 24-hour facilities were moderately efficient. We noted a reportable condition regarding the need for an automated time reporting system.

Noteworthy Accomplishments: DCH's Mt. Pleasant Center and DMVA's Grand Rapids Home for Veterans currently use manual time reporting systems. These facilities have researched automated time reporting systems, and both have determined that adopting such a system would result in a reduction of manual effort involved in time reporting. The Mt. Pleasant Center's request to purchase an automated system was deferred by DCH pending evaluation and determination of the proposed system's compatibility with the known implementation of the Data Collection and Distribution System (DCDS). The Grand Rapids Home for Veterans had purchased hardware and created its own software for an automated system.

FINDING

5. Automated Time Reporting System

The State had not developed an automated time reporting system for most employees at the State's 24-hour facilities. An automated system should reduce the amount of manual effort involved in reporting and processing timekeeping information for most employees. Such a system should also eliminate duplicate recordkeeping and manual time records, as well as incorporate security functions as needed by facilities.

Our visits to 18 facilities disclosed that they use various methods to record and report time worked. Seven facilities used manual time sheets; 6 facilities used both timecards generated by a punch time clock and manual time sheets; and 5 DOC facilities used both computerized time sheets generated by an automated time reporting system and manual time sheets. Regardless of the timekeeping method used, most facilities maintained duplicate records to verify the accuracy of employee time sheets or timecards.

DCDS should reduce the amount of manual effort involved in reporting and processing timekeeping information. However, the facilities cannot fully use DCDS

because most employees do not have access to a computer to enter their time reporting information.

Research by the Mt. Pleasant Center and the Grand Rapids Home for Veterans indicates that there are viable automated systems available to electronically record and verify time worked that could create automated time records. Following are examples of practices which could be performed more efficiently with an effective automated timekeeping system:

- a. All facilities manually transferred timekeeping information from the manual time sheets, timecards, or automated time sheets to a manually prepared biweekly time and attendance summary report. We estimate that timekeepers annually spend 84,000 hours performing these functions.
- b. Five of the 8 DOC facilities that we visited used an automated time reporting system; however, payroll information was still manually entered into the Personnel-Payroll Information System for Michigan (PPRISM). Also, all 5 facilities continued to require manual time sheets that they used to verify the accuracy of the automated system.
- c. Most facility employees submit time sheets on the Monday following the end of the pay period; however, 2 FIA facilities required employees to submit time sheets 3 to 5 days prior to the end of the pay period. Early submission of time sheets was required to ensure sufficient time to verify the information before submitting it to the department's central payroll unit for entry into PPRISM. This practice results in subsequent pay period adjustments because the actual time worked frequently varies from the employees' projections. This practice also occurs at other facilities when a holiday shortens the number of days available to process the payroll.
- d. Personnel office staff annually spend approximately 33,500 hours Statewide auditing biweekly time and attendance summary reports. This is a duplication of the timekeeper and supervisor efforts.

- e. Personnel office staff annually spend approximately 7,600 hours Statewide entering information from the biweekly time and attendance summary reports into PPRISM.
- f. Facilities maintained manual records for overtime equalization, work rotation schedules, and daily staffing records.

We estimate that, through reduced manual effort involved in reporting and processing timekeeping information, there would be an annual Statewide impact of at least \$1.4 million by adopting a fully automated system at the facilities. Because the reduced manual effort would be a relatively small part of each of the many affected employees' duties, the impact would not be a direct cost savings but rather increased time to perform other duties.

An automated system could also enhance other operations of the facilities by:

- (a) Providing an integrated level of security into sensitive areas and monitoring of staff movements within the facility. This would provide for a quicker determination of who is present and where they are in the event of a facility disturbance. One facility that we visited was using an automated system to monitor staff movement within the facility.
- (b) Documenting that periodic cell or bed checks were made in a timely manner. One facility that we visited was instituting a separate automated system for monitoring cell checks in its segregation unit.

We commend those facilities that took the initiative to obtain an automated monitoring system to improve the security of their facilities. However, before all facilities independently obtain automated monitoring systems, we believe that it would be more efficient for the State to centrally determine the most appropriate automated system for the 24-hour facilities.

RECOMMENDATIONS

We recommend that DMB, in conjunction with DOC, FIA, DCH, and DMVA, develop an automated time reporting system for most employees at the State's 24-hour facilities.

We also recommend that the automated time reporting system incorporate security functions as needed by facilities.

AGENCY PRELIMINARY RESPONSE

DEPARTMENT OF CORRECTIONS

DOC, in conjunction with DMB-MAIN* and the DMB Purchasing Office, has taken steps to procure an automated time reporting system for DOC and to interface it with DCDS.

FAMILY INDEPENDENCE AGENCY

FIA agrees with the finding and fully supports an automated timekeeping system that does not require a duplicate manual backup system, if such a system was currently available. Most FIA centers do not have the required hardware or software to participate. FIA does not support any timekeeping system that requires a duplication of effort with automated and manual timekeeping. One facility is researching adoption of an integrated timekeeping and security system that will be the prototype of all other FIA facilities.

FIA agrees with the recommendation and will comply when resources are available.

DEPARTMENT OF COMMUNITY HEALTH

DCH agrees in principle with this recommendation and would participate in providing assistance toward the development or purchase of such a system. However, DCH disagrees that the auditor's \$1.4 million Statewide estimate would have a uniform impact on DCH operations if a fully automated system were implemented. The estimate is overstated because the average salary and fringe benefits for DCH timekeepers are lower than the average for all State employees. In addition, DCH believes that the estimated time spent by each timekeeper per employee per time period may be overstated.

* See glossary on page 34 for definition.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

The Grand Rapids Home for Veterans would be willing to engage in a study of automated systems. However, it has already purchased a system and made modifications for its use, with an expected implementation date of fall 1998.

DEPARTMENT OF MANAGEMENT AND BUDGET

DMB will identify the standard interface requirements for the "any time" recording system to be purchased by an institution. In this way, each institution chooses the system that best meets its program needs and the interface specifications of the Statewide time reporting system. DMB believes this approach to automating the time recording process of institutions is more efficient and productive than the approach recommended by the Auditor General.

Glossary of Acronyms and Terms

DCH	Department of Community Health.
DMVA	Department of Military and Veterans Affairs.
DMB	Department of Management and Budget.
DMB-MAIN	The entity within DMB that administers the Michigan Administrative Information Network, which is a fully integrated automated financial management system for the State of Michigan.
DOC	Department of Corrections.
DCDS	Data Collection and Distribution System.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
FIA	Family Independence Agency.
MSI	Michigan State Industries.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

PPRISM	Personnel-Payroll Information System for Michigan.
prime vendor	A vendor that provides 90% of a facility's food supply.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.