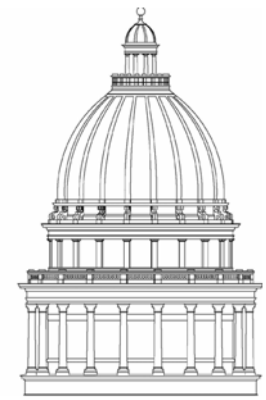

Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

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A Review of the Use of Vending Machines In Public Schools

Utah's schools earned an estimated $3.25 to $3.75 million in vending revenues in fiscal year 2005. We have concerns about contracting practices at some schools and found that some financial controls over vending revenues can improve.

In response to a legislative request, we reviewed the use of vending machines in Utah's public schools. Accounting inconsistencies among schools and the lack of centralized record-keeping made it difficult to accurately determine statewide total revenues. However, we estimate that secondary schools with vending machines earned about $3.25 to $3.75 million in total vending revenues in fiscal year 2005; total revenues and revenue on a per student basis varied widely among schools. We believe that vending operations in schools can be improved, particularly procedures for contracting with vendors and financial controls. This report provides descriptive information and identifies some areas of concern. The report's main sections cover topics as follows:

- The $3.25 to $3.75 million in statewide revenues were estimated for middle, junior, and senior high schools that have student-accessible vending machines; vending revenues are generally used at principals' discretion to benefit students, but we found that little policy exists to provide guidelines on how vending revenues may be spent.

- We are concerned that some schools rely on inadequate contract documents or oral agreements for vending services; we also found that a number of schools have not conducted competitive public procurement processes when seeking vending services.

- Financial controls over vending revenues can improve with better procedural guidelines and record-keeping for vending revenues.

- Recent changes in industry guidelines and federal (and state) regulation will bring changes to school vending programs.

Beverage and/or snack vending machines accessible to students are present in secondary schools in all but two of Utah's 40 school districts. Elementary schools were not included in our review, since only a few elementary schools have vending machines. The use of vending machines is a local or school-based activity, with relatively little oversight from school districts. Revenue is considered to be discretionary income to be used as deemed appropriate by school principals. As such, only a few school districts regularly obtain or review vending revenue and expenditure records from schools.

Our review looked at financial aspects of vending machines in the schools.

The audit request included identifying the revenues generated from vending machines and assessing the adequacy of controls over the collection and distribution of these funds. In part, this request was generated by legislators' growing concerns over the connection between student use of vending machines and childhood obesity. This review, however, focused on the financial aspects of vending machines in public schools.

In conducting this review, we initially requested data and oversight information, particularly policies and procedures, from all 40 school districts through phone, on-site interviews, and email contacts. For the most part, district staff referred us to their individual schools for data. We then contacted secondary schools via phone, email, and on-site visits to request records of vending revenues and expenditures as well as information on financial controls. From those schools which provided revenue data, we developed a sample of 71 schools in Wasatch Front and non-Wasatch Front school districts and requested revenue and expenditure records for fiscal year 2005. From the vending revenue reported by this sample of schools, we developed the estimate of statewide vending revenue discussed below.

With so many schools contracting separately for beverage and snack vending services, it was difficult to gather reliable data. Because Pepsi-Cola holds most of the beverage contracts with Utah schools, we contacted Pepsi to request vending data for the schools. However, the

Beverage revenues totaled about 70% of all vending revenues for schools that provided beverage vs. snack data.

company declined to cooperate with us and would not provide data or answer specific questions about contracts. Since most school districts had little information, and we could not get information from the largest vendor, we had to contact individual schools to obtain information on both beverage and snack vending. Beverage revenues from Pepsi and Coca-Cola were about 70 percent of schools' vending revenue. Snack vending and occasionally milk or refrigerated foods (sandwiches, fruit) make up the remaining 30 percent. There are several commonly used snack vendors, including Hansen, Premier, T & B, Healthy Choice, and Winder Dairy.

Vending Revenues Vary Widely, Generally Used for Students

From a sample of schools with vending, we estimated revenue at $3.25-3.75 million for fiscal year 2005.

Because of some difficulties encountered in gathering statewide vending revenue data, we developed an estimate of how much schools earn from their vending operations. Fiscal year 2005 beverage and snack vending machine profits were estimated at between $3.25 and $3.75 million for the secondary schools (middle, junior, and senior high schools) that have vending machines. This estimate includes two major sources of cash revenue: first, commissions on sales, and second, any signing bonuses or other lump-sum payments to schools.

Though we initially contacted school districts to obtain vending revenue data, we found that the needed data were generally not available from district offices. Most districts' staff referred us to the individual schools. However, with more than 200 secondary schools housing vending machines, a methodology was needed to determine the amount of revenue in an efficient manner. Therefore, we requested data from a sample of schools in Wasatch Front and non-Wasatch Front school districts with the intent to project statewide totals and to assess the adequacy of financial controls over the funds. As we obtained schools' records, we observed not only significant inconsistencies in schools' accounting records but also a wide range of revenues from school to school.

Our revenue projection is based on two sources of cash revenues but does not include the value of non-monetary promotional items.

The revenue estimate includes both major sources of cash revenue and the value of large items substituted for a portion of cash revenue. Not included is the value of the common non-monetary consideration provided to schools primarily as promotional items; most contracts did not identify the value of such consideration. Non-monetary consideration of various types (for example, free product or student awards) is offered by both beverage and snack vendors.

Figure 1 below presents the sample data and our estimate of statewide vending revenues for fiscal year 2005. The figure shows that both junior and senior high Wasatch Front schools get significantly more vending revenue per student than schools off the Wasatch Front. In addition, the middle/junior high schools earn less revenue than do the senior high schools. The sample includes 71 schools from 13 school districts with a total of 81,040 students. Based on information supplied by school districts, there are 223 secondary schools with vending machines in 38 school districts; the student population in the 223 schools totaled 215,570 in fiscal year 2004-05.

Figure 1. Estimated Statewide Revenue Data for Fiscal Year 2005. Wasatch Front schools generate more revenue per student than other schools. Senior high schools also generate more revenue than middle and junior high schools.

Schools (71 Total)	Sample # Students	Sample Revenue	Per Student	Projected Revenue*
Wasatch Front				
Mid/Jr HS (28)	29,590	$ 515,020	$ 17.40	$ 1,405,000
Senior HS (22)	39,120	832,080	21.27	1,689,300
Non-Wasatch				
Mid/Jr HS (9)	4,690	$ 29,350	$ 6.26	$ 150,730
Senior HS (9)	6,970	83,760	12.02	341,480
Jr-Sr HS (3)	670	5870	8.77	25,560
	81,040	**$1,466,080**		**$3,612,070**
		Range: $3.25- 3.75M.		

** FY05 vending revenues are projections based on sample schools' revenue per student applied to total enrollment (215,570) at all schools with vending.*

Note: After we ended fieldwork, some schools provided last minute information that faculty vending revenues were included in their data and one school reported that some operating costs were included. The schools could not immediately provide better data. We kept these schools in our sample after determining that dropping them would not significantly change our estimate.

Estimated statewide revenue was developed by multiplying sample schools' revenue per student by the total enrollment of all schools with vending.

The listed revenue per student was calculated from the sample schools' revenue and enrollment data, then multiplied by the total enrollment for those secondary schools (of the same type) known to have vending machines. Some data provided by schools were estimates or were provided without accompanying account reports, and some schools combine vending revenues with other revenues, making precise projections difficult. Thus we focus on a range instead of a specific revenue projection.

Several Factors Affect School Vending Revenues

A number of factors can have significant effect on a school's total vending revenues. Obviously, the specifics of a contract greatly affect earned revenues; payment terms and related factors will be covered in the contracting section of the report. Other factors that are independent of a contract's provisions may still have an impact on revenues. Figure 2 below illustrates the wide range in financial benefit to schools with vending machines.

Figure 2. Selected Schools' Revenue per Student Data Illustrate that Schools Vary Significantly in Financial Benefit Received from Vending Operations. Factors such as enrollment, student access to stores or fast food outlets, and the terms of an agreement can affect revenues.

School	Number of Students	FY05 Revenues	Per Student Revenue
Cottonwood High School (Granite School District)	1,390	$ 52,780	$ 37.97
Murray High School (Murray School District)	1,490	30,080	20.19
Grand County High School (Grand County School District)	480	6,320	13.17
East High School* (SLC School District)	2,000	13,390	6.70
Kennedy Jr. High School (Granite School District)	1,240	36,480	29.42
Butler Middle School (Jordan School District)	1,070	18,370	17.17
Canyon View Jr. High School (Alpine School District)	1,180	15,930	13.50
Willow Valley Middle School* (Cache School District)	430	2,840	6.61

** Salt Lake City School District runs its snack vending through District Food Services, so revenues for East High School include beverage revenue only; Willow Valley Middle School also reflects just beverage revenue.*

Numerous factors (such as enrollment and access to fast food or convenience stores) can affect a school's vending revenue.

Some school-specific factors affect revenue, including enrollment size, student purchase patterns, whether a campus is open (students can leave the grounds at lunchtime) or closed (students must stay on campus), and students' ages (ability to drive). Principals noted that some external factors also affect how much their machines are used. These include the proximity of fast food restaurants and convenience stores to the school and the use of vending machines by school visitors or community groups. The principal of East High School commented that the 7-Eleven convenience store close to the school draws many students who might otherwise use school vending machines. Cottonwood High School's principal mentioned specifically that attendees at numerous community events held at the school make many purchases from the school vending machines.

Revenues are significantly affected not only by the factors just discussed but also, of course, by contract terms; these influences will be discussed in the contracting section.

Some Expenditures Do Not Directly Benefit Students

We frequently heard that these discretionary funds are spent for student benefit, but we noted expenses that were not clearly student-related.

Because vending revenues are discretionary funds, schools can and do use them in a variety of ways. In general, the funds are used for unbudgeted expenses or to add funds to existing budget areas. We observed that some expenses are not clearly student-related, though many principals told us vending revenues are used to benefit students. As discussed later, little policy direction is provided on how vending revenues should be used or how to account for them. If school districts intend that vending revenues be used for student benefit, we believe that schools should be given guidelines on the use of these funds. Specifically, districts lacking such policy should clarify the purposes for which these discretionary funds may be used.

Vending Revenues Tended to Be Used for Unbudgeted Items. Available records show that expenditures often were made for items or activities that were not funded through the school budget and expenses that supplemented funding in existing budget areas. According to principals, school expenses that are not included in the regular budget include recognition awards for students, faculty, and staff. Vending funds have also been used to help pay for somewhat larger items that principals told us were not funded in the regular budget; these were mostly one-time expenditures. Examples provided by principals included baseball field bleachers, an ice machine, and a stage backdrop called a cyclorama.

A number of principals also emphasized the importance of vending revenues for expenditures made to supplement funding in existing budget categories. For example, two principals mentioned that their schools' transportation budgets for athletics, field trips, and other student activities are usually depleted partway through the school year; they then use vending revenues for these transportation costs for the rest of the year. Another principal said he uses vending revenues to supplement budgets for student groups and clubs (such as drama and cheerleading) that are not self-supporting as are many athletic programs.

Common purchases with vending revenues included the following:

- Awards, parties, and meals for students
- Classroom supplies or equipment
- Athletic supplies and equipment
- Assemblies (for example, speakers)
- Cell phone bills
- Staff appreciation items, meals, and treats
- Facility improvements

Little policy direction exists to guide how vending revenues may be spent.

A Few Expenditures Are Not Clearly Student-Related. As noted, we found little policy direction that guides how vending revenues may be used, but some expenditures do not appear to be clearly student-related. For example, schools in at least two sampled school districts used vending revenues to pay cell phone or long-distance phone bills, several schools bought cakes or other treats, flowers, and meals for teachers or staff, and several paid for Mt. Olympus or Rocky Mountain Water service. Vending revenues also paid for memberships in professional organizations or warehouse stores, postage, and accreditation-related expenses (meals, meetings). We also found that one school paid for a set of portraits of the principal with vending revenues.

In the absence of policy guidance for expending vending revenues, determining whether an expense is student-related or not is open to interpretation, as is the question of whether these expenditures even need to be for student benefit. To some extent, this flexibility is an advantage of discretionary funds. However, a number of principals told us they use vending revenues for the benefit of students. In fact, some stated they were required to use the funds for student-related expenses. If it is indeed the intent that all or part of these revenues be used for the direct benefit of students, then policy should be developed to define acceptable uses of the funds. We will discuss guidelines in more detail in the section of the report that deals with controls.

Some Contracting Activities Fall Short of Best Practices

46% of 71 sampled schools have entered into at least one vendor agreement without the protection of a signed contract document.

While many schools have formal, written contracts in place with beverage and snack vendors, some schools do not have adequate written agreements in place. Instead of a contract, 33 schools (46 percent) in our sample use vendors' proposals in place of at least one contract or operate with an oral agreement in place of at least one vendor contract. These practices are concerning. For example, even though an oral agreement may be a valid contract, these schools lack the protection provided by written documentation of the specific terms of the contractual agreement. We believe schools should put written, signed contracts in place to ensure that the agreed-upon terms and conditions are adequately documented. In a related area, we found that schools do not always solicit competitive bids from vendors prior to entering into an agreement; schools should obtain multiple bids to receive the best terms possible.

Vending Programs May Be Run By Vendor or School

There is no one standard way of setting up a vending machine operation in public schools. Most frequently, schools with vending machines enter into full-service contracts where vendors own, stock, and service the machines, and schools receive monthly or yearly revenue of various types. Some schools, however, do all or part of the work themselves, avoiding the need to share revenue with a vendor. The figure below shows the number of agreements of various types among the 71 schools in our sample. The "Unknown" data represents schools with vending who did not provide requested documentation.

The 71 schools have a total of 153 vendor agreements, some of which have not been formalized as written, signed contracts.

Figure 3. The 71 Schools in Our Sample Have 153 Vending Agreements of at Least 3 Types Among Them. Though the majority of vendor agreements are written, signed documents, we are concerned at the number of informal agreements. We found some schools using unsigned bids or proposals or just oral agreements in place of a formal contract.

Type of	Beverage		Snack	
Contractual Agreement	Number	Percent	Number	Percent
Written, signed contract	59	69.4%	50	73.5%
Unsigned bid document	18	21.2	4	5.9
Oral agreement	5	5.9	11	16.2
Unknown	3	3.5	3	4.4
Total: 153	**85**	**100.0%**	**68**	**100.0%**

The total number of agreements seen in the figure above reflects the fact that most schools have multiple agreements (for example, both beverage and snack) with different vendors.

Full-service vending contracts may provide commission on sales, lump-sum payments, and non-monetary additional considerations as payment.

Full-Service Agreements Generally Provide Three Types of Payment. Schools with full-service agreements generally receive payment in the form of commissions on sales, lump-sum payments, and additional considerations. Commissions are a set percentage of sales revenues that are paid to schools on a monthly basis. Depending on the contract, there may be one percentage rate paid for all sales or varying commissions based on the product sold. Lump-sum payments are either one-time signing bonuses or annual payments made over the term of the contract. Whether signing bonus or annual payment, they usually provide a significant amount of revenue. Finally, additional consideration usually consists of non-monetary items that can differ from one contract to another.

To illustrate what non-monetary consideration includes, Pepsi-Cola and Coca-Cola often provide such items as sports drinks with cooler chests for school athletic teams, designated amounts of free beverages per student per year, wall calendars, or restaurant gift certificates for teacher appreciation awards. We also noted two contracts that provided for a vendor donation to the school district's education foundation. Some snack vendors provided machine tokens for schools to give as incentives or awards.

A small group of schools were provided with large items such as scoreboards in lieu of a lump-sum cash payment.

A subset of full-service beverage agreements are those providing a large item of significant value as a major portion of payment in lieu of lump-sum cash payments. We identified five non-Wasatch Front schools (three high schools and two middle schools) in our sample of 71 schools whose beverage contracts stated that the vendor would provide the funds to purchase the following items:

- Scoreboard and athletic equipment worth $10,750
- Football scoreboard (installed) valued at $10,000
- Bleachers valued at $18,090
- Scoreboard (middle school), worth $2,500
- $3,000 toward the cost of a school surveillance system (middle school)

These schools also received either commissions on sales or rebates paid on cases sold.

A Small Number of Schools Manage Vending Machines with Little or No Vendor Assistance. We identified 14 schools in the sample that manage at least part of their vending operations internally. Some of these schools lease their machines from the vendor, then buy beverages or snacks as needed from vendors or other sources. Other schools own the machines themselves. School staff and sometimes students fill the machines and collect the money. Though not splitting the revenue with a vendor, these schools incur direct costs for the drinks and snacks as well as indirect costs for the staff time involved in managing their vending machines.

Some Contracting Practices Fail To Meet Accepted Standards

Over half of the schools with outside agreements rely on oral agreements or unsigned bid proposals in place of at least one formal, signed contract.

Although the variety of vending agreements was beyond the scope of this review to evaluate, we did identify an aspect of schools' vending contracting that raised concern. For at least one of their agreements, 33 of the 64 schools with outside vendors have not entered into written, signed contracts that include each party's responsibilities and provide evidence of agreed-upon terms and conditions. As public entities, schools should comply with accepted standards when setting up vending contracts and formalize these agreements in writing. In fact, the state Director of Purchasing expressed concern that schools were entering into agreements without the protection of a written contract.

A Few Sampled Schools Rely on Oral Agreements Instead of Putting a Written, Signed Contract in Place. While the number of sampled schools in such informal arrangements is small, some risk is involved in going without the security of a written contract. Of the 64 sampled schools with outside vendor agreements, we identified 11 schools (17 percent) that had at least one oral agreement (rather than a written contract) with a vendor. We were surprised to find that one of the largest high schools in the state has an oral agreement with its snack vendor. Although this school's principal said he has not had any payment difficulties with the vendor, a written contract would serve as protection for both parties if problems were to arise.

A bid proposal lacks signatures and may not provide a clear definition of agreed-upon terms.

Other Schools Rely on Proposals Instead of Contracts. Another group of 22 schools (34 percent of the 64 working with outside vendors) rely on an unsigned bid proposal as a contractual agreement. This practice is concerning because the bid sheets or proposals we reviewed do not include the signatures of both parties and some present several service and pricing alternatives. Without an actual contract, there is no documentation of the final, agreed-upon terms. When asked about the necessity for a written contract, the purchasing director of Granite School District stated that written contracts were sound business practice and also that he would refer to state policy on this issue, which he interpreted as requiring written contracts.

Schools should be using adequately detailed, written and signed agreements with vendors.

Documentation of an agreement as seen in signed contracts helps protect schools in the event of problems or disputes. At a minimum, schools should have in place written, signed memoranda of agreement with vendors specifying the agreed-upon terms. In the absence of in-house legal advisors, schools and school districts can take advantage of other resources. For example, the state's Division of Purchasing website provides guidance including a template or "boilerplate" of standard terms and conditions and a checklist of required contract content. Also, it seems reasonable that schools and districts could share information and expertise.

Competitive Bidding Not Always Used

Our review of vending machines in public schools found that some schools did not use competitive bidding when setting up vendor agreements. The use of competitive bidding when seeking services is a generally accepted and widely recommended business practice that is in schools' best interests. Failure to solicit multiple bids may result in contract terms that do not provide the most beneficial arrangement for a school. Further, requesting bids or proposals allows interested businesses the opportunity to compete for a state contract, thereby meeting the intent of public procurement policy.

Sound business practices call for obtaining bids to ensure a school gets the best contract terms.

According to the Director of State Purchasing, a vending agreement differs somewhat from a regular procurement and might not fall within all procurement policy requirements because the state entity is not paying for services but instead receiving a financial benefit. Even though vending services may not fall under state procurement guidelines, he said it is simply sound business to obtain bids to ensure the school gets the best terms. Granite School District's purchasing director also emphasized the benefit of competitive bids, stating that schools should get at least three quotes in writing, evaluate the quotes based on the scope of work, and choose the vendor that will bring the highest revenue while fulfilling all requirements.

The next area of discussion indicates that improvements are possible in school district policy guidance and other controls over vending revenues.

Financial Controls Over Vending Funds Can Improve

School districts and schools can improve some of the financial controls over vending revenues.

The financial controls over Utah's public school vending funds can improve at both the district and school levels. School districts can increase the guidance provided to schools on how to account for and spend vending revenues. Just 21 percent of school districts have issued policies that deal with how vending funds should be recorded or how revenues may be spent. As already noted, we have concerns with some schools' contracting practices; only 34 percent of districts reported involvement in this process. In addition, schools use a variety of accounting procedures, and some records we reviewed did not show how the revenues were spent.

Few District-Level Financial Controls Are in Place

School districts have little oversight or involvement in vending operations in their schools.

As we contacted school districts to determine whether their schools have vending machines located in them, we also asked about district-level involvement through vending policies, contracting oversight, and accounting requirements. School district personnel indicated that vending revenues are local, discretionary funds and told us to contact individual schools directly.

District personnel explained that they are often only minimally involved in schools' vending operations since vending machine profits are earned, recorded, and spent at the school level. Figure 4 summarizes controls that the 38 districts reported having in place. Only three school districts had all three control categories in place.

Figure 4. There Are Relatively Few Controls Over School Vending at the District Level. The majority of the 38 school districts whose schools have vending machines have not implemented fiscal vending policies, are not involved in the contracting process, and do not obtain data on vending revenue.

District Control Mechanism	Districts with Control in Place	Percentage of Districts with Control
Vending policy* (accounting or reporting requirements, use of funds)	8	21.1%
District-level contracting OR review of school-level contract	13	34.2
District-level accounting OR data reported to district	13	34.2

* *Other than nationally required wellness policy.*

Administrative staff in a large school district commented to us that they had difficulty seeking a balance between ensuring there were financial controls over vending funds and allowing schools discretion over locally generated funds. Additionally, school personnel stressed the need to have some discretionary funds available that were not subject to the tight budget requirements of state and federal funds. In our opinion, some policy guidance can be provided to schools while allowing flexibility and discretion in the use of vending revenues.

Without district level records, it becomes more important for schools to maintain clear records on discretionary funds.

Eight School Districts Have Some Policy Guidance in Place for School Vending Operations. The districts' policies include some direction on how to account for the funds and/or how schools may spend them, rather than simply permitting vending machines to be placed in schools. At the same time, these policies are not restrictive, instead stating that vending revenues should be spent on "...in general, stuff beneficial to the student body" and "...any student purpose." Thus, with the school districts allowing schools a fair amount of latitude on record-keeping for vending funds, it is important that the schools maintain adequate financial records for these discretionary funds. Before discussing school record-keeping, we will present information on two other district-level control areas.

Thirteen School Districts Either Have a District-Level Contract or Provide a Review of Schools' Vending Contracts. For example, five districts negotiate soft drink or snack contracts at the district level, providing review and approval, and ensuring that participating schools are paid at the same rate since all schools use the same contract. Eight other districts indicated they provide review of the contract documents. In the majority of school districts, vending contracts are set up at the school level and can vary from school to school within a district.

To illustrate district level requirements, one Wasatch Front district negotiates and signs a district-wide beverage contract but allows the schools to set up the snack vending agreements. Another Wasatch Front district's purchasing office is involved with schools in choosing vendors; either the district or the school board approves contracts, and all contracts are signed by the business administrator on behalf of schools.

The majority of school districts told us we would need to get financial data directly from the schools.

About 34 Percent of Districts Regularly Obtain Financial Reports on School Vending. Four school districts indicated they have district-wide accounting and two provided vending reports to us; another school district began district-wide accounting in fiscal year 2006. Even though one district with a district-level accounting system provided its records to us, staff there still had to obtain additional, more detailed records from the schools because the district data included prior year carry-forward balances. Nine other districts stated they receive monthly or annual reports from schools and some provided these to us. The rest of the districts referred us to individual schools for data.

Of the school districts with district-wide accounting, we noted some policy requirements that deal with vending revenues. For example, one district's accounting manual included instructions on what accounts to set up for vending and provided some guidance on appropriate expenditures. This district also requires that schools receiving lump-sum signing bonuses deposit them into a central investment fund and limits the amount schools can spend each year. All other financial records on vending revenues in this district are kept at the schools.

Two practices (commingling vending with other funds and failing to indicate the purpose of an expenditure) made it difficult for us to track expenses from vending funds.

Schools' Accounting Practices Sometimes Result in Unclear Records

Vending revenue and expenditure data are usually kept at the school level and schools vary widely in their accounting procedures. While many schools' records provided adequate documentation on revenues and expenditures, some schools' reports did not show precisely how vending revenues were spent. Commingling of vending revenues with other types of revenues and data entry (primarily for expenditures) without details prevented us from determining in some cases how vending revenues were used. It was beyond the scope of this review to audit source documents, but the reports we were given were not always detailed enough to specify how vending revenues were spent.

While schools often deposited vending revenues into an account designated as Vending or Principal's Discretionary with the intent that only vending revenues belong there, other schools commingled vending with other revenues. For example, one Wasatch Front high school deposited vending revenues into a General Administrative account while a non-Wasatch Front high school put the funds into a Miscellaneous Athletic account. Thus, schools could document where vending revenues were deposited (though the financial secretary at one rural high school would not provide an account report because some vending deposits were not identified as such). Documenting how a given source of funds was used is somewhat difficult if revenues from multiple sources are combined or if the receiving account is a multi-purpose account like General Administrative.

Reports we reviewed did not always provide the purpose of an expense.

Even if vending revenues were put into one specific account, we found we could not always identify how the funds were spent. Several schools recorded the purpose of expenditures by listing names of employees or students. We also reviewed at least four school account reports for which the financial secretary did not indicate any reason for the expense. These practices considerably reduce the usefulness of the record and necessitate individual source document review to determine the purpose. As noted above, such review was not within the scope of our work.

One School District's Accounting Requirements Allow for School Flexibility. Schools in a large Wasatch Front school district maintained clear revenue recording in one or more vending accounts and, at year end, transferred 75 percent of account balances to a general school account for use the following year and 25 percent to the principal's discretionary account. The policy requires that only vending funds are to be put into the discretionary account; use of these funds includes "...whatever purposes the principal deems appropriate in supporting the students or staff" including faculty/staff appreciation expenses. The general school account has multiple sources; expenditures "must either directly or indirectly benefit the kids." This district has required a specific accounting process that still allows schools discretion in their use of vending funds.

Not all schools take steps to make sure they receive correct payment from vendors.

Finally, we noted that a number of schools did not regularly take steps to ensure that contract (or oral agreement) terms were being met. Several schools indicated their snack vendor simply sent them a commission check with no explanation or description of sales activity, reducing the ability of the school to check for accurate payment. Staff commented that they had no way to determine whether they were being paid fairly and one principal commented that he trusted that they were being paid accurately.

Changes Coming for School Vending

The presence of vending machines in schools is part of an ongoing national discussion about childhood obesity. During our review, major beverage manufacturers, including Pepsi-Cola and Coca-Cola, agreed to new industry guidelines for school vending, developed in conjunction with the Alliance for a Healthier Generation. The beverage companies have stated their intent to assist in limiting beverage portion sizes and providing only calorie-capped drinks in schools, including water, juice, and sports drinks.

A national level requirement for school wellness policies will likely affect school vending operations.

Prior to the beverage industry's announcement, federal and state governments had also taken action. 2004 federal legislation mandated that the United States Department of Agriculture (USDA) require schools to develop and implement wellness policies. Among other things, nutrition standards will be established for all food available in schools, including vending machine contents. At the state level, some of Utah's neighbors have placed statutory restrictions on school vending. In Utah, schools have been finalizing wellness policies for implementation at the start of the 2006-07 school year, and some schools have already implemented nutritional content requirements for vending machines.

As we worked with schools, staff often mentioned a concern that reducing the availability of foods of minimal nutritional value (FMNVs) in vending machines, while a positive step, will reduce earned revenues. They stated that the loss of revenues will adversely affect school programs that are being funded or supplemented from vending revenues. These topics and likely changes are presented to inform the reader that changes certainly appear to be coming for vending machines in schools; however, as long as the machines remain in the schools, good financial controls will be needed for the revenues.

Recommendations

1. We recommend that school districts provide their schools with written guidelines on how vending monies may be spent.

2. We recommend that schools put written vending contracts in place, ensuring that terms and conditions are adequately detailed therein.

3. We recommend that, when possible, schools obtain multiple bids to ensure getting the best available contract terms.

4. We recommend that school districts require schools to maintain clear, detailed accounting records for their discretionary funds and provide periodic reports to the districts as they do for appropriated funds.

Agency Response

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September 11, 2006

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Dear Mr. Schaff:

Thank you for allowing us to study a draft of the report, "A Review of Vending Machines in Public Schools." The Utah State Office of Education (USOE) has reviewed the draft carefully. We appreciate the time and deliberation you and your staff have taken on this study.

The Utah State Board and Office of Education are always concerned about the appropriate use and control of money in our public schools. We also believe that schools should continue to have wide latitude in determining the use of vending machine proceeds. Schools have a variety of needs that are best met with these non-taxpayer dollars. Nevertheless, we concur with the four recommendations of the audit and will encourage districts and schools to fully implement them with all due dispatch.

Thank you again for examining this matter and for the early review of the report.

Sincerely,

Patti Harrington

Patti Harrington, Ed.D.
State Superintendent of Public Instruction

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