Report To

#306

The Mississippi Legislature

THE GREAT SEAL OF THE STATE OF MISSISSIPPI

A Review of Pearl River Community College's Food Service Contract with Morrison's Custom Management

December 14, 1993

The Pearl River Community College (PRCC) Board of Trustees awarded its food service contract to Morrison's Custom Management in 1979 and then failed to exercise sufficient oversight. Trustees allowed college administrators to renew the contract for fourteen consecutive years without seeking competitive bids.

College administrators have not monitored the food service contract in an effective manner and have failed to:

- monitor Morrison's food purchases/inventory and vending operations;
- monitor the use of the college's cafeteria to provide catering and restaurant services to the general public; and,
- ensure recording and matching of all food service costs and revenues so that financial reports depict whether operations are self-supporting.

During the fall of 1991, the President of PRCC paid $193.87 for a personal social event catered by Morrison's, even though charges for the event amounted to $727.76 that the President eventually paid after PEER's investigation. While PEER has no evidence that the President used his position to receive a service below cost, he should have questioned the $193.87 charge from a college contractor.

The PEER Committee

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and the agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

A Review of Pearl River Community College's Food Service Contract

With Morrison's Custom Management

December 14, 1993

The PEER Committee

Mississippi Legislature

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Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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December 14, 1993

Honorable Kirk Fordice, Governor
Honorable Eddie Briggs, Lieutenant Governor
Honorable Tim Ford, Speaker of the House
Members of the Mississippi State Legislature

At its meeting of December 14, 1993, the PEER Committee authorized release of the report entitled **A Review of Pearl River Community College's Food Service Contract with Morrison's Custom Management**.

Representative Cecil McCrory, Chairman

This report does not recommend increased funding or additional staff.

Table of Contents

List of Exhibits

A Review of Pearl River Community College's Food Service Contract With Morrison's Custom Management

Executive Summary

December 14, 1993

Introduction

In response to allegations of mismanagement and theft within Pearl River Community College's (PRCC) food service program, the PEER Committee reviewed the college's food service contract with Morrison's Custom Management (hereafter referred to as "Morrison's"). The Committee conducted the review pursuant to MISS. CODE ANN. § 5-3-57 (1972).

PEER sought to determine whether PRCC and Morrison's personnel manage the college's food service program in a manner which ensures the financial and administrative integrity of the program. The Committee also sought to determine whether PRCC incurred expenses on behalf of Dr. Ted Alexander, PRCC President, for a personal social event.

The primary focus of PEER's review was the period of FY 1992 and FY 1993 (through December 31, 1992).

Findings

The Pearl River Community College (PRCC) Board of Trustees awarded its food service contract to Morrison's Custom Management on July 12, 1979. Since that time, the board has not exercised sufficient oversight of the contract to ensure that the agreement is accountable and cost-effective for PRCC.

The trustees have allowed college administrators to renew the contract annually for fourteen consecutive years without board review and without seeking competitive bids/quotes. Such actions have resulted in an abdication of board responsibilities to the president and other PRCC administrators. After continued citizen complaints, the board of trustees established an evaluation subcommittee in January 1992, but the subcommittee has been unresponsive to complaints about the college's food service operations.

Dr. Ted Alexander, as PRCC's chief administrative officer, and other PRCC administrators have failed to monitor the food service contract in an effective manner. College administrators do not monitor or review Morrison's food purchases/inventory and vending operations to ensure their accurate accounting. PRCC's cafeteria fund accounting system is not adequate to ensure that all food service program costs are reflected against revenue to determine whether the program is self-supporting. PRCC administrators do not monitor Morrison's use of the college's cafeteria facilities to provide catering and restaurant services to the general public, services which have no documented benefit to the college.

The result of the lack of oversight by the PRCC board and administrators is that funds expended by the college and its students may not be used in the most efficient and effective manner possible in providing daily meal services. Such a lack of controls provides students with no assurance that future food services fee increases are attributable to actual and documented need rather than to inadequate management controls and practices.

During the fall of 1991, Dr. Ted Alexander, PRCC President, paid $193.87 ($3.28 per person) for a personal social event catered by Morrison's even though charges for the dinner amounted to $727.76.

While PEER has no evidence that Dr. Alexander used his position as PRCC President to receive a reduced cost for the personal social event, he should have questioned the heavily discounted $193.87 charge. PEER suggests that the transaction would never have occurred had both Dr. Alexander and the contractor been mindful of the sensitivity of such dealings.

PRCC's Engagement of Private Legal Counsel

Prior to participating in an exit conference with PEER staff on October 8, Dr. Ted Alexander, PRCC President, engaged Watkins Ludlam and Stennis to assist college officials in responding to PEER's draft report. Dr. Alexander informed the PRCC Board of Trustees of the engagement during its regular board meeting on October 12. To date, Watkins Ludlam and Stennis has billed PRCC a total of $7,755 for representation of the college during the period of PEER's review.

While PEER does not question PRCC's basic right to legal representation, the Committee takes exception to the engagement of legal counsel in this particular matter. PEER's report on PRCC's food service contract is simply one of administrative and organizational inefficiencies. This report contains no allegations of criminal or civil violations which would necessitate the representation by private legal counsel. All issues raised in this report could have been handled more appropriately by PEER staff and PRCC's Board of Trustees and administrative staff, without the intervention of private legal counsel. Therefore, PEER considers PRCC's payments to its private legal counsel to be an inappropriate use of the college's public funds.

Recommendations

1. The Legislature should amend MISS. CODE ANN. Section 31-7-13 (1972) to require agencies and governing authorities to solicit competitive bids prior to contracting for food services. The amended section should require that food service contracts be effective for a maximum of three years without rebidding.

2. The Pearl River Community College Board of Trustees should seek competitive proposals for the provision of food services and vending operations upon the expiration of the college's current contract on June 30, 1994. The board should also adopt a policy statement which requires PRCC administrators to submit future food service and vending contracts to the board for its review and formal approval.

3. The Pearl River Community College Board of Trustees should require PRCC administrators to review monthly non-student food sales, such as private catering and Sunday lunch sales, to determine whether the college financially subsidizes such activities. Should the trustees determine that the college subsidizes such activities, the board should direct college administrators to terminate such food sales immediately.

4. The Pearl River Community College Board of Trustees should require its current (and any future) food service contractor to maintain adequate and complete accounting and operational records regarding the food service and vending operations. Specifically, the food service contractor should be required to maintain detailed records of sales and purchases of cafeteria and vending food items. The food service contractor should also be required to maintain a perpetual inventory of cafeteria and vending food items.

5. PRCC administrators should ensure that food service and vending accounting records properly reflect all direct and indirect costs of the food service program. Specifically, the records should accurately account for costs of utilities, building maintenance, and college administrative and operational overhead activities associated with the food service program.

6. PRCC administrators should actively and aggressively monitor the operations of the college's food service contractor by auditing quarterly the food service contractor's revenue and expense data and periodically performing unannounced inspections and audits of the food inventories.

7. The PRCC Board of Trustees should not increase student meal fees or any other food service user fees until the board has fully considered and implemented PEER's recommendations for improving the administrative and operational efficiency of the college's food service contract.

8. The Pearl River Community College Board of Trustees should carefully review the information contained in this report relative to the Alexander personal social event and determine whether Dr. Ted Alexander should be formally sanctioned for receiving a personal benefit in the form of a reduced cost from the college's food service contractor.

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A Review of Pearl River Community College's Food Service Contract With Morrison's Custom Management

Introduction

Authority

In response to allegations of mismanagement and theft within Pearl River Community College's (PRCC) food service program, the PEER Committee reviewed the college's food service contract with Morrison's Custom Management (hereafter referred to as "Morrison's"). The Committee conducted the review pursuant to MISS. CODE ANN. § 5-3-57 (1972).

Scope and Purpose

PEER sought to determine whether PRCC and Morrison's personnel manage the college's food service program in a manner which ensures the financial and administrative integrity of the program. The Committee also sought to determine whether PRCC incurred expenses on behalf of Dr. Ted Alexander, PRCC President, for a personal social event catered by Morrison's.

The primary focus of PEER's review was the period of FY 1992 and FY 1993 (through December 31, 1992).

Method

In conducting this review, PEER:

- reviewed Mississippi and federal statutes and regulations governing college food service programs;
- interviewed Pearl River Community College trustees, administrators, and staff;
- interviewed current and former management and staff personnel of Morrison's Custom Management;
- interviewed selected residents of Poplarville, Mississippi; and,
- analyzed financial, operational, and administrative records associated with PRCC's food service program.

Overview

The Pearl River Community College (PRCC) Board of Trustees awarded its food service contract to Morrison's Custom Management on July 12, 1979. Since that time, the board has not exercised sufficient oversight of the contract to ensure that the agreement is accountable and cost-effective for PRCC. The trustees have allowed college administrators to renew the contract annually for fourteen consecutive years without board review and without seeking competitive bids/quotes. Such actions have resulted in an abdication of board responsibilities to the president and other PRCC administrators. After continued citizen complaints, the board of trustees established an evaluation subcommittee in January 1992, but the subcommittee has been unresponsive to complaints about the college's food service operations.

Dr. Ted Alexander, as PRCC's chief administrative officer, and other PRCC administrators have failed to monitor the food service contract in an effective manner. College administrators do not monitor or review Morrison's food purchases/inventory and vending operations to ensure their accurate accounting. PRCC's cafeteria fund accounting system is not adequate to ensure that all food service program costs are reflected against revenue to determine whether the program is self-supporting. PRCC administrators do not monitor Morrison's use of the college's cafeteria facilities to provide catering and restaurant services to the general public, services which have no documented benefit to the college. The result of the lack of oversight by the PRCC board and administrators is that funds expended by the college and its students may not be used in the most efficient and effective manner possible in providing daily meal services. Such a lack of controls provides students with no assurance that future food services fee increases are attributable to actual and documented need rather than to inadequate management controls and practices.

During the fall of 1991, the PRCC President paid $193.87 for a personal social event catered by Morrison's even though charges for the event amounted to $727.76. While PEER has no evidence that Dr. Alexander used his position as PRCC President to receive a reduced cost for the personal social event, he should have questioned the heavily discounted $193.87 charge. PEER suggests that the transaction would never have occurred had both Dr. Alexander and the contractor been mindful of the sensitivity of such dealings.

Prior to participating in an exit conference with PEER staff on October 8, Dr. Ted Alexander, PRCC President, engaged Watkins Ludlam and Stennis to assist college officials in responding to PEER's draft report. Dr. Alexander informed the PRCC Board of Trustees of the engagement during its regular board meeting on October 12. To date, Watkins Ludlam and Stennis has billed PRCC a total of $7,755 for representation of the college during the period of PEER's review.

While PEER does not question PRCC's basic right to legal representation, the Committee takes exception to the engagement of legal counsel in this particular matter. PEER's report on PRCC's food service contract is simply one of administrative and organizational inefficiencies. This report contains no allegations of criminal or civil violations which would necessitate representation by private legal counsel. All issues raised in this report could have been handled more appropriately by PEER staff and PRCC's Board of Trustees and administrative staff, without the intervention of private legal counsel. Therefore, PEER considers PRCC's payments to its private legal counsel to be an inappropriate use of the college's public funds.

Background

The Pearl River Community College Board of Trustees entered into a contract with Morrison's Food Service of North Mississippi, Inc., (currently known as Morrison's Custom Management) on July 1, 1979, for the provision of food services for the 1979-80 school year. The original contract remains in effect, although it has been amended slightly over the years. On August 26, 1980, Ron Holmes, PRCC Business Manager, signed an amendment to the original contract which allows the contract to be "automatically renewed from year to year, subject to the right of termination." On June 11, 1984, Holmes signed another amendment which allows Morrison's to receive 10%, rather than 12% stated in the original contract, of cash sales generated by the food service operation.

The contract makes Morrison's responsible for managing the college's food service program and providing food for students and others approved by the college. The contract allows Morrison's to make all purchases associated with the food service program. PRCC is responsible for reimbursing Morrison's for all costs associated with the cafeteria operations. Such costs include food purchased for PRCC's use, payroll, insurance, equipment, utensils, linen, and other such items. The contract states that the college will receive all net profits from the food service program. However, if the program experiences a loss, such loss, including the payment of Morrison's monthly fees, must be borne by the college. For the period FY 1990 through FY 1993, PRCC incurred expenses totaling $3,243,727 for its food operations. Student meal ticket receipts and proceeds from cash food sales primarily provided the revenues to cover these expenses. (See Exhibit, page 5, for details regarding the food service contract's revenues and expenses for FY 1990 through FY 1993.)

PRCC pays Morrison's a management fee based on the number of students enrolled in the college's meal plan. The contract also allows Morrison's to be paid 10% of all cash sales (including student and non-student a la carte sales and special event sales) generated in the food service operations.

In 1985, Ron Holmes, PRCC Business Manager, signed, on behalf of the college, a letter of "mutual agreement" with Morrison's which requires the food service contractor to supervise and control the college's vending operations, with vending machines located in classroom and dormitory buildings. The agreement allows Morrison's to receive 10% of all vending collections.

Exhibit

Pearl River Community College
Cafeteria Fund
Receipts and Disbursements
For Fiscal Years 1990 through 1993

	FY 90	FY 91	FY 92	FY 93
Receipts				
Student Meal Tickets	$495,638	$552,282	$513,515	$460,688
Cash/Catering Sales	195,936	151,833	173,293	173,476
Vending Sales		45,671	53,857	50,304
Other Sales*		2,023	6,665	62,604
Interest Revenue	15,342	8,172	3,754	2,512
Total Receipts	**$706,916**	**$759,981**	**$751,084**	**$749,584**
Disbursements				
Management Fee	$37,581	$42,472	$43,429	$43,048
Food Purchases/Costs	363,231	390,189	376,175	357,306
Payroll - Morrison's	312,296	341,735	352,964	351,401
Supplies	45,840	37,284	43,364	36,899
Repairs	2,369	572	600	679
Insurance	2,984	3,766	3,683	3,647
Taxes	10,995	11,461	11,915	14,146
Student Labor	302			394
Maintenance Supplies	1,800	864	869	1,198
Other Supplies	1,551	2,202	1,935	1,128
Travel			40	
Equipment	6,777	1,709	1,583	217
Other	(481)	(574)	(956)	3,707
Total Disbursements	**$785,245**	**$831,680**	**$835,601**	**$813,770**
Excess Receipts Over (Under) Disbursements	**($78,329)**	**($71,699)**	**($84,517)**	**($64,186)**

* FY 1993 "Other Sales" includes $61,310 of sales to PRCC departments.

SOURCE: PEER staff analysis of information provided by PRCC Business Manager.

Findings

Pearl River Community College's Oversight of Food Service Operations

The Pearl River Community College Board of Trustees and administrators do not exercise sufficient oversight of the college's food service contract to ensure that the agreement is accountable and cost-effective for PRCC.

MISS. CODE ANN. Section 37-29-67 requires a community college's board of trustees to be responsible for the general government and administration of the college. In turn, a college's administrators are expected to implement the wishes and policies of the board and oversee day-to-day activities of the faculty, staff, and contractors.

However, regarding the college's food service operations, oversight by either the PRCC board or its administrators has been virtually non-existent since approval of the original contract with Morrison's Custom Management in 1979. For example:

-- PRCC administrators have renewed the college's food service contract with Morrison's for fourteen consecutive years without board review and without seeking competitive bids/quotes (see page 8).

-- PRCC administrators do not monitor or review Morrison's food purchases/inventory and vending operations to ensure their accurate accounting (see page 9).

-- PRCC's cafeteria fund accounting system does not ensure that all food service program costs are reflected against revenue to determine whether the program is self-supporting (see page 13).

-- PRCC administrators permit Morrison's to use the college's cafeteria facilities to provide catering and restaurant services to the general public with no documented benefit to the college, and the administrators do not monitor this use of the facility (see page 14).

The result of this lack of oversight is that funds expended by the college and its students may not be used in the most efficient and effective manner possible in providing daily meal services. Such a lack of controls provides students with no assurance that future food services fee increases are attributable to actual and documented need rather than to inadequate management controls and practices.

Board Oversight

- ***Despite complaints from former Morrison's employees and local citizens, PRCC's board of trustees has failed to address adequately concerns about the college's food service operations.***

During the summer and fall of 1991, PRCC trustees began receiving unsigned letters from "Concerned Citizens of Poplarville" which alleged the following with regard to PRCC's food service program:

-- unexplained disappearance of food from the cafeteria;

-- lack of records of non-student food sales;

-- unexplained shortages within vending collection deposits; and,

-- low morale among PRCC's instructors.

The board chose not to address formally the food service complaints because of their anonymous nature; however, the board, at the request of one of its members, eventually discussed the complaints.

The PRCC board, during its meeting of January 14, 1992, established a six-person subcommittee of trustees to evaluate operations of the college. Subcommittee members interviewed college instructors, PRCC staff, and Morrison's employees regarding the complaints. At the full board's May 12, 1992, meeting, the subcommittee presented a four-page report which addressed "communication between the administration and Board of Trustees, communication between the college and state agencies involved in the operations of the institution, and internal staff and college community morale matters." Nothing in the subcommittee's report discussed complaints regarding the college's food service program.

The subcommittee's chairman told PEER that the absence of comments in the report about the college's food service operations meant that the subcommittee did not "find anything serious." The subcommittee chairman acknowledged that there may have been "something" to the cafeteria complaints, but subcommittee members were satisfied with their findings that no major problems existed. The chairman also stated that any cafeteria problems which may have existed could be improved with better communications among all employees involved.

Given the findings noted on the following pages, PEER questions the board's conclusion that there were no serious problems within PRCC's food service program at the time of the subcommittee's evaluation. MISS. CODE ANN. Section 37-29-67 requires a community college's board of trustees to be responsible for the general government and administration of the college. Implicit in this section of law is the requirement for community college boards of trustees to be knowledgeable of their college's major financial and contractual obligations.

- ***PRCC administrators have renewed the college's food service contract with Morrison's for fourteen consecutive years without board review and without seeking competitive bids/quotes.***

During its June 12, 1979, meeting, the Pearl River Community College Board of Trustees approved a contract with Morrison's for the college's food service. According to the board's minutes, PRCC obtained bids from various food service contractors before selecting Morrison's to be PRCC's food service contractor. Since July 1979, PRCC administrators have automatically renewed the college's food service contract with Morrison's without submitting the annual renewals to the PRCC board for discussion and approval and without seeking competitive quotes from other contractors.

PRCC's Business Manager acknowledged that the college's administrators allow automatic renewals of the food service contract because they have been "satisfied" with Morrison's performance and because the board has delegated such responsibility to the administrators. While state purchasing laws (MISS. CODE ANN. Section 31-7-1 et seq.) do not require a community college to receive competitive bids for food service contracts or to submit such contracts to an entity's governing authority, state law does require a community college's board of trustees to be responsible for the general government and administration of the college.

The failure of PRCC administrators to obtain competitive food service quotes and periodically present information regarding the food service contract to the board of trustees for review has resulted in the following.

-- College trustees (and administrators) have no objective comparisons with which to determine whether the college's food service contract with Morrison's is the most cost-effective contract available.

-- As illustrated by other findings of this report, PRCC's board of trustees has failed to monitor Morrison's activities closely, knowing that the contract would be automatically renewed by PRCC administrators unless someone became "dissatisfied."

-- Morrison's contract with PRCC contains no incentives for unit managers to operate the college's food service in the most cost-effective and efficient manner. Even though either party had the option to terminate the contract with sixty days' notice, Morrison's PRCC unit managers knew that the college had automatically renewed it for the last fourteen years without competition from other contractors or approval of the college's board of trustees.

Administrative Oversight

- ***PRCC administrators do not monitor or review Morrison's food purchases/inventory and vending operations to ensure their accurate accounting.***

PRCC's food service contract with Morrison's states that the college has "the right, at reasonable times, to examine the records of Morrison's pertaining to the operation" of the college's food service program. The contract also requires Morrison's to provide regular written records for the college's auditors.

As stated on page 4, Morrison's initially pays all expenses of PRCC's food service program (payroll, food, supplies) and is reimbursed by the college on a monthly basis. The contract also requires Morrison's to collect monies from cash sales to non-students and deposit them into the college's cafeteria fund. Although Morrison's provides PRCC officials with monthly printouts and records documenting cash receipts and food service expenses, PEER found no evidence that PRCC administrators use this information to review and monitor Morrison's food sales to non-students, food purchases/inventory, and vending operations. College administrators told PEER that they do not actively monitor those particular aspects of the college's food service program because they consider them to be within Morrison's scope of responsibilities.

Accepted management principles and internal control standards dictate that management monitor and control an entity's assets. Assets such as cash and inventory require particular attention due to the fact that theft or conversion can occur and not be detected in a timely manner if adequate controls are not present.

-- *PRCC administrators do not monitor or review Morrison's food purchases and inventories.*

PRCC's food service contract makes Morrison's responsible for purchasing all food and supplies used in the college's food service program. Morrison's purchases most food items for PRCC from food distributors in Hattiesburg and Jackson, Mississippi, with some items being purchased from local suppliers in and near Poplarville, as requested in the food service contract. As previously stated, PRCC fully reimburses Morrison's for all food purchases used in the college's food service program.

PRCC administrators rely on Morrison's representatives to make purchases as needed without prior approval or review of college administrators. Even though it has a sixty-day termination provision, PRCC's contract with Morrison's does not provide Morrison's with any mandate or incentive to purchase food items at the lowest available cost, and even if Morrison's did so, PRCC's administrators would not know it. Except for monthly financial information which lists vendors from which Morrison's purchased food items and the related costs, PRCC administrators have no direct knowledge of food purchases. PRCC administrators also do not perform any unannounced audits or inspections of food purchases and inventories. PRCC's Business Manager told PEER that food inventories are Morrison's responsibility. He stated that he does not "spend my day in the cafeteria doing their [Morrison's] job."

At the time of PEER's review, Morrison's PRCC unit manager conducted weekly food inventories of items on hand but did not reconcile such inventories with food purchases or daily menus. As a result, neither PRCC nor Morrison's had assurance that all food items purchased on behalf of the college were properly accounted for and legitimately used in PRCC's food service program.

Morrison's auditors expressed concern about PRCC's food inventory procedures in an audit memorandum issued on May 6, 1991. The auditors stated:

> *Items in storeroom inventory are not identified by unit (i.e. pound, case, etc.). This would make it difficult for anyone else to take and price inventory.*

Morrison's auditors also noted that "food cost for the period (as of 4-24) was not within 2% of the food cost for the March period."

Many of the citizen complaints which precipitated PEER's review involved allegations that food items purchased by Morrison's and paid for by PRCC are sold to outside individuals or stolen by Morrison's cafeteria employees. Given PRCC's and Morrison's lax monitoring of food purchases and inventories, the possibility exits that PRCC's food items could be misappropriated. However, due to PRCC's and Morrison's lack of documentation and records, it would now be virtually impossible for PEER or anyone else to conclude and prove definitely that individuals associated with the college's food service program have misappropriated food items in the past. As detailed below, PEER obtained evidence of possible misappropriations of food.

Sales of Unprepared Food to Local Residents--Morrison's cafeteria policies state that employees may only sell prepared, rather than raw or unprepared, food to the general public. PEER obtained a sworn statement from a Poplarville resident who stated that he purchased a box of uncooked hamburger patties from David Whisnant, Morrison's PRCC Unit Manager, during PEER's review. PEER also obtained a sworn statement from another Poplarville resident who stated that his civic organization annually purchased approximately $500 worth of uncooked hamburger patties and wieners from Whisnant. PEER also obtained information from another Poplarville resident stating that Whisnant sold him a box of frozen catfish fillets, frozen hushpuppies, and slaw. Another Poplarville resident stated that he knew that Whisnant had sold ribeye steaks to three individuals on at least one occasion. Another Poplarville resident reported to PEER that he purchased candy from Whisnant.

Whisnant emphatically told PEER that he had never sold unprepared food from Morrison's inventory located at PRCC, despite sworn testimony and information testimony received by PEER to the contrary.

Unreimbursed Beverage Deliveries to PRCC Employees--PEER obtained a sworn statement from a former PRCC employee who stated that Whisnant occasionally delivered cases of soft drinks and coffee to various college employees and departments for employees' personal use. Due to the nature of her work responsibilities, the former employee stated that she knew recipients of the soft drinks and coffee did not reimburse or pay the college for the items.

Removal of Food Inventory Witnessed by Employees--Morrison's employees interviewed by PEER stated that they had witnessed at least six other Morrison's employees removing food items from the cafeteria, apparently for personal use. Because neither PRCC nor Morrison's has records to document the use of food inventory for events catered away from PRCC's campus (during the period of PEER's review), it is impossible to prove that the food items removed from inventory were used for legitimate purposes.

The effect of the possible misappropriations of Morrison's food inventories at PRCC is that the college's food service costs could be more expensive than necessary. PRCC's students do not receive benefit of all food items purchased on their behalf and paid for primarily by revenues from student meal tickets.

-- *PRCC administrators do not monitor or review the college's vending operations managed by Morrison's.*

On February 9, 1985, Ron Holmes, PRCC Business Manager, signed, on behalf of the college, a letter of "mutual agreement" with Morrison's making the food service contractor responsible for PRCC's vending machine operations, including machine placement, stocking, purchasing soft drinks and snacks, and removing money from machines. Currently, PRCC has twenty soft drink and fourteen snack machines located in various classroom and dormitory buildings. During the last three fiscal years, PRCC has received the following amounts from its vending machine operations.

FY 1991	$45,671
FY 1992	$53,857
FY 1993	$50,304

Even though Morrison's assumed responsibility for PRCC's vending operations in 1985, neither PRCC administrators nor Morrison's managers required Whisnant, Morrison's PRCC unit manager, to adhere to accepted internal controls and maintain accounting records for the vending operation. Whisnant told PEER that he did not utilize load-in sheets to document the number and types of items loaded into each machine. He also did not keep recap sheets to document amounts of money collected from each machine. Whisnant utilized PRCC and Morrison's employees to collect money on a regular basis from the machines, which he personally rolled and deposited into PRCC's cafeteria bank account on most occasions. Because Whisnant frequently commingled vending collections with other cafeteria cash sales collections when making deposits, PRCC had no accurate record as to the presumed profitability of its vending operations. In approximately 1989, Whisnant's immediate supervisor instructed him to adhere to Morrison's vending policies which require load-in tickets and other such controls to account accurately for the vending operations.

Some of the citizen complaints which precipitated PEER's review involved allegations that Morrison's employees did not properly account for and deposit into PRCC's cafeteria account all vending machine collections. Given PRCC's and Morrison's lax monitoring of the vending machine operations (primarily prior to 1989), the possibility exists that vending machine collections could be misappropriated. However, due to PRCC's and Morrison's lack of documentation and records, it would now be virtually impossible for PEER or anyone else to conclude and prove definitely that individuals associated with the vending operations misappropriated collections.

PEER compared PRCC's FY 1991 through FY 1993 vending machine collections with those collected by Jones County Junior College (JCJC). (PRCC and JCJC are located in the same region of the state, have a similar student population, and both employ Morrison's to handle their food services and vending operations.) PEER computed PRCC's expected vending machine collections using two methods of estimation. Under either method, PRCC collected less than the amount expected when compared with JCJC's experience. For example, in FY 1992, JCJC vending collections were approximately $31 per student enrolled. If PRCC had collected the same amount per student, the college's vending collections would have been $36,751 higher than the $53,857 PRCC actually collected. Using a regression technique, PEER calculated that if PRCC had collected the same amount per student, the college's vending collections would have been $4,487 higher than the $53,857 PRCC actually collected. Regardless of the technique used to compute the expected value, PRCC's vending collections are considerably lower than comparable vending machine sales at JCJC.

Morrison's auditors expressed concern about the reporting of PRCC's vending deposits in an audit memorandum issued on May 6, 1991. In a follow-up internal audit report dated September 18, 1991, Morrison's auditors gave the vending operations a score of fifty out of a possible ninety total points, which represents marginal compliance with Morrison's operating policies. The auditors primarily expressed concern about missing information on vending weekly collection recap reports, which are designed to ensure accurate collection and reporting of vending proceeds.

- ***PRCC's cafeteria fund accounting system is not adequate to ensure that all food service program costs are reflected against revenue to determine whether the program is self-supporting.***

According to the PRCC's food service contract, Morrison's is responsible for collecting all monies received from catering, vending and cash cafeteria sales and depositing them into PRCC's cafeteria fund. On a monthly basis, Morrison's provides PRCC administrators with a transaction report, which includes an itemized breakdown of all purchases, payroll hours and other expenses associated with the operation of the cafeteria.

PRCC's cafeteria fund accounting system does not categorize revenues and expenses of the food service program in a manner that permits analysis of the revenues and expenses. For example, PRCC administrators cannot match expenses of the college's vending operation with the related revenues because expense information for vending activities is combined with other food service expenses. PRCC administrators do not segregate recordkeeping for catering operations from regular cafeteria operations. Also, PRCC administrators do not reflect all costs of the food service program in the cafeteria fund accounting records. For example, PRCC pays telephone expenses and utilities from the college's general operating funds and not the cafeteria fund. Therefore, these costs are not reflected on the report and administrators cannot easily determine all direct and indirect costs associated with the college's food service program.

Generally accepted accounting principles require a proper matching of revenues and expenses in order to determine the true operating results of an entity, whether a profit or not-for-profit entity. A prudent manager monitors revenues and expenses by department or area to ensure that each department's revenues are sufficient to cover the related expenses.

PRCC administrators have not established an in-depth accounting system for the food service program because they have historically perceived the operation as self-controlling, since Morrison's manages the program. College administrators have relied on Morrison's financial and administrative controls and assumed such controls were sufficient for the college's purposes.

As illustrated in the Exhibit, page 5, the identifiable expenses of PRCC's food service program annually exceed available revenues. However, because PRCC's financial recordkeeping system does not match related revenues and expenses and fails to record adequately all expenses of the food service program, college administrators officials have no means to determine the origin of the annual losses. PRCC's Business Manager told PEER that college officials are considering an increase in fees (including student cafeteria fees) to offset the annual losses in the cafeteria fund. However, due to poor recordkeeping, college officials have no basis for such a decision because there is no evidence that cafeteria sales to students is the area from which the program is losing money.

- ***PRCC administrators permit Morrison's to use the college's cafeteria facilities to provide catering and restaurant services to the general public with no documented benefit to the college. PRCC administrators do not monitor this use of the college's cafeteria facility.***

PRCC's food service contract requires Morrison's to provide a la carte food service for students and others approved by the college at prices set by the college. The contract also requires Morrison's to serve food and beverages for college-related special events at prices mutually agreed upon for such events. According to the contract, Morrison's is to receive ten percent of all cash sales (including special event sales) generated by the college's food service program.

During the fourteen-year life of the college's food service contract, PRCC administrators have allowed Morrison's to provide catering and restaurant service to the general public. Morrison's has primarily catered events for civic groups, such as the Rotary Club and Chamber of Commerce, and private associations or businesses, such as the Lake Hillsdale Property Owners Association and Resort Management Services. Morrison's routinely provides cafeteria service to at least two Poplarville organizations, the Rotary Club and the Gideons, and to the general public through Sunday lunch sales. Because PRCC has no contractual or mandated obligation to provide catering and restaurant services to the general public and because such services do not contribute toward the overall educational objectives of the college, PEER questions whether such services are in the best interest of the college and its students.

PRCC administrators told PEER that they consider Morrison's catering and restaurant services to be a public relations tool of the college. PRCC's president told PEER that members of the local community had come to expect Sunday lunch sales because the service had been a "tradition" at PRCC for many years. College administrators state that Sunday lunch sales encourage many local citizens, who normally would have no interest in or association with PRCC, to visit the college's campus. The administrators contend that Morrison's catering and restaurant services contribute to goodwill between PRCC and the local community.

Morrison's provision of catering and restaurant services to the general public must be questioned because PRCC may be subsidizing the costs of the services, PRCC administrators cannot audit cash collected from such services, and the services unfairly compete with local food vendors and restaurants.

PRCC May Be Subsidizing Costs of the Activities--Given PRCC's inadequate method of accounting for and monitoring expenses of the college's food service program (as described on page 13), the possibility exists that PRCC incurs some expenses associated with Morrison's catering and restaurant services. Food items and other supplies used by Morrison's to cater and provide restaurant services come from the food inventories purchased by Morrison's for the PRCC food service program. Neither PRCC nor Morrison's maintains separate food and supply inventory records to document expenses associated with catering and restaurant services. In fact, Morrison's use of equipment and utensils purchased by PRCC to prepare foods for catering or restaurant service will hasten the need to repair or replace such items. Even though PRCC administrators believe that the college earns a "profit" from Morrison's catering and restaurant services, no records exist which document that revenues exceed expenses for those activities. Therefore, PRCC's food service program must absorb and fund from student meal fees and other related revenues any excess expenses resulting from Morrison's catering and restaurant services.

PRCC Administrators Cannot Audit Cash Collected From the Services--Morrison's managers assigned to the PRCC food service program collect cash associated with catering events and food sales to non-students and deposit such collections into the college's cafeteria fund. PRCC administrators cannot audit cash collected from such services because PRCC administrators have no involvement in setting prices for catered events; Morrison's managers complete invoices only sporadically to document catering events and other non-student food sales; and Morrison's managers do not always segregate non-student food sales on bank deposit slips. Therefore, college administrators have no assurance that all proceeds generated through non-student food sales are actually collected and deposited into the college's cafeteria fund.

At the time of PEER's review, citizens specifically complained about the handling of cash during Sunday lunch sales. Because Sunday lunch items were priced individually, someone had to total each customer's food items to arrive at a grand total to be paid by the customer. Whisnant, Morrison's PRCC unit manager at the time of PEER's review, utilized a calculator to total each person's food items even though the cafeteria had a cash register available. (Morrison's managers explained to PEER that the college's cash register was an older model which could not accommodate the flow of customers during Sunday lunches nor calculate sales tax on items purchased.) At the end of the serving period, Whisnant reportedly entered the grand total for all Sunday lunch sales into the cash register as a single transaction. Such an entry destroys an audit trail and prevents Morrison's and/or PRCC administrators from auditing Sunday lunch sales to ensure that all cash proceeds are actually collected and deposited into the college's cafeteria fund.

Morrison's auditors expressed concern about cash collection from Sunday lunch sales in an audit memorandum issued on May 6, 1991. The auditors stated the following.

> *On Sunday, the cafeteria is open to the public and items are sold a la carte. These sales are not being rung on the register and there is no trail at all as to what sales are. Per the manager amount to be collected from the customer is rung on a calculator which does not leave a sufficient audit trail. The manager, David Whisnant, turns cash over on Monday to be deposited. We are recording sales based on our deposit. We should be depositing money based on a documented sales figure.*

In the same memorandum, Morrison's auditors expressed concern regarding documentation of non-cash sales from catering events, as illustrated below.

> *Non-cash sales are not being rung on the register. If a special function is done and payment is received that day, neither a five-part invoice is prepared nor the sale rung on the register. Again, we are recording our sales based on the amounts to be deposited, not by sales documentation or trail.*

Despite such observations from their own auditors, Morrison's managers had not taken corrective action regarding collection of cash from Sunday lunch sales or accounting of catering events as of approximately eighteen months after issuance of Morrison's audit memorandum. (PRCC administrators installed a more modern cash register in the college's cafeteria in November 1992.)

Services Unfairly Compete With Local Food Vendors and Restaurants--Because Morrison's incurs no direct or indirect expenses from its catering and restaurant services, the food service contractor can charge a low price for catering and restaurant services and unfairly compete with other food service vendors and restaurants in Poplarville and the surrounding area. As a result of its contract with Morrison's, PRCC pays all of Morrison's catering and restaurant services expenses and provides Morrison's a ten percent commission from revenues generated from such services, despite whether or not the college makes a "profit" from the catering and restaurant services. Private sector food service vendors and restaurants have no such financial assistance and guarantees and must rely on their own ingenuity and cost-effectiveness to generate a profit.

PRCC's Business Manager acknowledged to PEER that the college's cafeteria operations compete with local food vendors and restaurants primarily due to the limited number of restaurants in the Poplarville area. He defended the practice by stating that neither Morrison's nor PRCC advertises or solicits business for the college's restaurant services. He also stated that most Poplarville restaurants cannot accommodate large numbers of people for meals.

President's Personal Use of Food Service Contractor

The PRCC President paid $193.87 for a personal social event catered by Morrison's even though charges for the event amounted to $727.76.

As previously stated in this report, PRCC's food service contract allows Morrison's to furnish and serve food and beverages for college-related special events at prices mutually agreed upon by Morrison's and the events' sponsors. PRCC administrators have also allowed Morrison's to provide food and other supplies for events sponsored by individuals and/or organizations which have no association with PRCC.

During the fall of 1991, David Whisnant, Morrison's Unit Manager at PRCC, agreed to cater a personal social event for Dr. Ted Alexander, PRCC President. Whisnant agreed to cater the event for forty guests (which Dr. Alexander later expanded to fifty-nine guests) for approximately $200. Morrison's charges actually were $727.76, yet Dr. Alexander was only billed for $193.87 ($3.29 per person), a difference of $533.89.

Ron Holmes, PRCC Business Manager, questioned Whisnant in November 1991 regarding a $533.89 food transfer from Morrison's-Mississippi College which appeared on Morrison's-PRCC's monthly transaction report. Whisnant explained the entry as a transfer of turkeys for Thanksgiving and Christmas meals. Given the time of year in which the entry appeared, Holmes considered Whisnant's explanation to be reasonable.

When PEER first inquired about the $533.89 charge, Whisnant again stated that the charge represented a food transfer of turkeys. He later acknowledged to Dr. Alexander that the amount represented additional costs associated with the social event. (Dr. Alexander corrected Whisnant's misrepresentation of the additional charges in a meeting with PEER staff on November 4, 1992.) Whisnant paid the remaining $533.89 due from his personal funds. Dr. Alexander, on October 21, 1993, wrote a check to David

Whisnant for $533.89 to repay Whisnant. Whisnant in turn contributed the funds to PRCC's foundation to fund student scholarships.

While PEER has no evidence that Dr. Alexander used his position as PRCC President to receive a reduced cost for the personal social event, he should have questioned the heavily discounted $193.87 charge. PEER suggests that the transaction would never have occurred had both Dr. Alexander and the contractor been mindful of the sensitivity of such dealings.

Recommendations

1. The Legislature should amend MISS. CODE ANN. Section 31-7-13 (1972) to require agencies and governing authorities to solicit competitive bids prior to contracting for food services. The amended section should require that food service contracts be effective for a maximum of three years without rebidding. (See Appendix, page 21, for proposed legislation.)

2. The Pearl River Community College Board of Trustees should seek competitive proposals for the provision of food services and vending operations upon the expiration of the college's current contract on June 30, 1994. The board should also adopt a policy statement which requires PRCC administrators to submit future food service and vending contracts to the board for its review and formal approval.

3. The Pearl River Community College Board of Trustees should require PRCC administrators to review monthly non-student food sales, such as private catering and Sunday lunch sales, to determine whether the college financially subsidizes such activities. Should the trustees determine that the college subsidizes such activities, the board should direct college administrators to terminate such food sales immediately.

4. The Pearl River Community College Board of Trustees should require its current (and any future) food service contractor to maintain adequate and complete accounting and operational records regarding the food service and vending operations. Specifically, the food service contractor should be required to maintain detailed records of sales and purchases of cafeteria and vending food items. The food service contractor should also be required to maintain a perpetual inventory of cafeteria and vending food items.

5. PRCC administrators should ensure that food service and vending accounting records properly reflect all direct and indirect costs of the food service program. Specifically, the records should accurately account for costs of utilities, building maintenance, and college administrative and operational overhead activities associated with the food service program.

6. PRCC administrators should actively and aggressively monitor the operations of the college's food service contractor by auditing quarterly the food service contractor's revenue and expense data and periodically performing unannounced inspections and audits of the food inventories.

7. The PRCC Board of Trustees should not increase student meal fees or any other food service user fees until the board has fully considered and implemented PEER's recommendations for improving the administrative and operational efficiency of the college's food service contract.

8. The Pearl River Community College Board of Trustees should carefully review the information contained in this report relative to the Alexander personal social event and determine whether Dr. Ted Alexander should be formally sanctioned for receiving a personal benefit in the form of a reduced cost from the college's food service contractor.

Appendix

Proposed Legislation Requiring State Agencies and Governing Authorities to Obtain Bids for Food Services

Mississippi Legislature Regular Session, 1994

BY:

<u>BILL</u>

AN ACT TO AMEND SECTION 31-7-13, MISSISSIPPI CODE OF 1972, TO REQUIRE THAT AGENCIES AND GOVERNING AUTHORITIES OBTAIN COMPETITIVE BIDS FOR FOOD SERVICES; AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

Section 1. Section 31-7-13, Mississippi Code of 1972, is amended as follows;

§ 31–7–13. Bid requirements and exceptions; public auctions.

All agencies and governing authorities shall purchase their commodities and printing; contract for fire insurance, automobile insurance, casualty insurance (other than workers' compensation) and liability insurance; and contract for public construction as herein provided.

(a) Purchases which do not involve an expenditure of more than Five Hundred Dollars ($500.00), exclusive of freight or shipping charges, may be made without advertising or otherwise requesting competitive bids. Provided, however, that nothing contained in this paragraph shall be construed to prohibit any agency or governing authority from establishing procedures which require competitive bids on purchases of Five Hundred Dollars ($500.00) or less.

(b) Purchases which involve an expenditure of more than Five Hundred Dollars ($500.00) but not more than Five Thousand Dollars ($5,000.00), exclusive of freight and shipping charges, may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two (2) competitive written bids have been obtained. Any governing authority purchasing commodities pursuant to this paragraph (b) may authorize its purchasing agent, with regard to governing authorities other than counties, or its purchase clerk, with regard to counties, to accept the lowest and best competitive written bid. Such authorization shall be made in writing by the governing authority and shall be maintained on file in the primary office of the agency and recorded in the official minutes of the governing authority, as appropriate. The purchasing agent or the purchase clerk, as the case may be, and not the governing authority, shall be liable for any penalties and/or damages as may be imposed by law for any act or omission of the purchasing agent or purchase clerk constituting a violation of law in accepting any bid without approval by the governing authority. The term "competitive written bid" shall mean a bid submitted on a bid form furnished by the buying agency or governing authority and signed by authorized personnel representing the vendor, or a bid submitted on a vendor's letterhead or identifiable bid form and signed by authorized personnel representing the vendor.

(c) Purchases which involve an expenditure of more than Five Thousand Dollars ($5,000.00), exclusive of freight and shipping charges, may be made from the lowest and best bidder after advertising for competitive sealed bids once each week for two (2) consecutive weeks in a regular newspaper published in the county or municipality in which such agency or governing authority is located. The date as published for the bid opening shall not be less than seven (7) working days after the last published notice; however, if the purchase involves a construction project in which the estimated cost is in excess of Ten Thousand Dollars ($10,000.00), such bids shall not be opened in less than fifteen (15) working days after the last notice is published and the notice for the purchase of such construction shall be published once each week for two (2) consecutive weeks. The notice of intention to let contracts or purchase equipment shall state the time and place at which bids shall be received, list the contracts to be made or types of equipment or supplies to be purchased, and, if all plans and/or specifications are not published, refer to the plans and/or specifications on file. In all cases involving governing authorities, before the notice shall be published or posted, the plans or specifications for the construction or equipment being sought shall be filed with the clerk of the board of the governing authority, and there remain. If there is no newspaper published in the county or municipality, then such notice shall be given by posting same at the courthouse, or for municipalities at the city hall, and at two (2) other public places in the county or municipality, and also by publication once each week for two (2) consecutive weeks in some newspaper having a general circulation in the county or municipality in the above provided manner. On the same date that the notice is submitted to the newspaper for publication, the agency or governing authority involved shall mail written notice to the main office of the Mississippi Contract Procurement Center that contains the same information as that in the published notice. In addition to these requirements, agencies shall maintain a vendor file and vendors of the equipment or commodities being sought may be mailed solicitations and specifications, and a bid file shall be established which shall indicate those vendors to whom such solicitations and specifications were mailed, and such file shall also contain such information as is pertinent to the bid. Specifications pertinent to such bidding shall be written so as not to exclude comparable equipment of domestic manufacture. Provided, however, that should valid justification be presented, the Department of Finance and Administration or the board of a governing authority may approve a request for specific equipment necessary to perform a specific job. Provided, further, that a registered professional engineer or architect may write specifications for a governing authority to require a specific item of equipment available only from limited sources or vendors when such specifications conform with the rules and regulations promulgated by an appropriate federal agency regulating such matters under the federal procurement laws. Further, such justification, when placed on the minutes of the board of a governing authority, may serve as authority for

that governing authority to write specifications to require a specific item of equipment needed to perform a specific job. In addition to these requirements, from and after July 1, 1990, vendors of relocatable classrooms and the specifications for the purchase of such relocatable classrooms published by local school boards shall meet all pertinent regulations of the State Board of Education, including prior approval of such bid by the State Department of Education. Nothing in this section shall prohibit any agency or governing authority from writing specifications to include life-cycle costing, total cost bids, extended warranties or guaranteed buy-back provisions, provided that such bid requirements shall be in compliance with regulations established by the Department of Audit.

(d) Purchases may be made from the lowest and best bidder. In determining the lowest and best bid, freight and shipping charges shall be included. If any governing authority accepts a bid other than the lowest bid actually submitted, it shall place on its minutes detailed calculations and narrative summary showing that the accepted bid was determined to be the lowest and best bid, including the dollar amount of the accepted bid and the dollar amount of the lowest bid. No agency or governing authority shall accept a bid based on items not included in the specifications.

(e) Any lease-purchase of equipment which an agency is not required to lease-purchase under the master lease-purchase program pursuant to Section 31-7-10 and any lease-purchase of equipment which a governing authority elects to lease-purchase may be acquired by a lease-purchase agreement under this paragraph (e). Lease-purchase financing may also be obtained from the vendor or from a third-party source after having solicited and obtained at least two (2) written competitive bids, as defined in paragraph (b) of this section, for such financing without advertising for such bids. Solicitation for the bids for financing may occur before or after acceptance of bids for the purchase of such equipment or, where no such bids for purchase are required, at any time before the purchase thereof. No such lease-purchase agreement shall be for an annual rate of interest which is greater than the overall maximum interest rate to maturity on general obligation indebtedness permitted under Section 75-17-101, and the term of such lease-purchase agreement shall not exceed the useful life of property covered thereby as determined according to the upper limit of the asset depreciation range (ADR) guidelines for the Class Life Asset Depreciation Range System established by the Internal Revenue Service pursuant to the United States Internal Revenue Code and regulations thereunder as in effect on December 31, 1980, or comparable depreciation guidelines with respect to any equipment not covered by ADR guidelines. Any lease-purchase agreement entered into pursuant to this paragraph (e) may contain any of the terms and conditions which a master lease-purchase agreement may contain under the provisions of Section 31-7-10(5), and shall contain an annual allocation dependency clause substantially similar to that set forth in Section 31-7-10(8). Each agency or governing authority entering into a lease-purchase transaction pursuant to this paragraph (e) shall maintain with respect to each such lease-purchase transaction the same information as required to be maintained by the Department of Finance and Administration pursuant to Section 31-7-10(13). However, nothing contained in this section shall be construed to permit agencies to acquire items of equipment with a total acquisition cost in the aggregate of less than Ten Thousand Dollars ($10,000.00) by a single lease-purchase transaction. All equipment and the purchase thereof by any lessor, acquired by lease-purchase under this paragraph and all lease-purchase payments with respect thereto shall be exempt from all Mississippi sales, use and ad valorem taxes. Interest paid on any lease-purchase agreement under this section shall be exempt from State of Mississippi income taxation.

(f) When necessary to insure ready availability of commodities for public works and the timely completion of public projects, no more than two (2) alternate bids may be accepted by a governing authority for commodities. No purchases may be made through use of such alternate bids procedure unless the lowest and best bidder, for reasons beyond his control, cannot deliver the commodities contained in his bid. In that event, purchases of such commodities may be made from one (1) of the bidders whose bid was accepted as an alternate.

(g) In the event a determination is made by an agency or governing authority after a construction contract is let that changes or modifications to the original contract are necessary or would better serve the purpose of the agency or the governing authority, such agency or governing authority may, in its discretion, order such changes pertaining to the construction that are necessary under the circumstances without the necessity of further public bids; provided that such change shall be made in a commercially reasonable manner and shall not be made to circumvent the public purchasing statutes.

(h) In the event any agency or governing authority shall have advertised for bids for the purchase of gas, diesel fuel, oils and other petroleum products and coal and no acceptable bids can be obtained, such agency or governing authority is authorized and directed to enter into any negotiations necessary to secure the lowest and best contract available for the purchase of such commodities.

(i) Any agency or governing authority authorized to enter into contracts for the construction, maintenance, surfacing or repair of highways, roads or streets, may include in its bid proposal and contract documents a price adjustment clause with relation to the cost to the contractor, including taxes, based upon an industry-wide cost index, of petroleum products including asphalt used in the performance or execution of the contract or in the production or manufacture of materials for use in such performance. Such industry-wide index shall be established and published monthly by the State Highway Department with a copy thereof to be mailed, upon request, to the clerks of the governing authority of each municipality and the clerks of each board of supervisors throughout the state. The price adjustment clause shall be based on the cost of such petroleum products only and shall not include any additional profit or overhead as part of the adjustment. The bid proposals or document contract shall contain the basis and methods of adjusting unit prices for the change in the cost of such petroleum products.

(j) If the executive head of any agency of the state shall determine that an emergency exists in regard to the purchase of any commodities or repair contracts, so that the delay incident to giving opportunity for competitive bidding would be detrimental to the interests of the state, then the provisions herein for competitive bidding shall not apply and the head of such agency shall be authorized to make the purchase or repair after obtaining verbal approval from the Department of Finance and Administration. Total purchases so made shall only be for the purpose of meeting needs created by the emergency situation. In the event such executive head is responsible to an agency board, at the meeting next following the emergency purchase, documentation of the purchase, including a description of the commodity purchased, the purchase price thereof and the nature of the emergency shall be presented to the board and placed on the minutes of the board of such agency. The head of such agency shall, at the earliest possible date following such emergency purchase, file with the Department of Finance and Administration (i) a statement under oath certifying the conditions and circumstances of the emergency, and (ii) a certified copy of the appropriate minutes of the board of such agency, if applicable.

(k) If the governing authority, or the governing authority acting through its designee, shall determine that an emergency exists in regard to the purchase of any commodities or repair contracts, so that the delay incident to giving opportunity for competitive bidding would be detrimental to the interest of the governing authority, then the provisions herein for competitive bidding shall not apply and any officer or agent of such governing authority having general or special authority therefor in making such purchase or repair shall approve the bill presented therefor, and he shall certify in writing thereon from whom such purchase was made, or with whom such a repair contract was made. At the board meeting next following the emergency purchase or repair contract, documentation of the purchase or repair contract, including a description of the commodity purchased, the price thereof and the nature of the emergency shall be presented to the board and shall be placed on the minutes of the board of such governing authority.

(*l*) The commissioners or board of trustees of any hospital owned or owned and operated separately or jointly by one or more counties, cities, towns, supervisors districts or election districts, or combinations thereof, may contract with such lowest and best bidder for the purchase or lease of any commodity under a contract of purchase or lease-purchase agreement whose obligatory terms do not exceed five (5) years. In addition to the authority granted herein, the commissioners or board of trustees are authorized to enter into contracts for the lease of equipment or services, or both, which it considers necessary for the proper care of patients if, in its opinion, it is not financially feasible to purchase the necessary equipment or services.

Any such contract for the lease of equipment or services executed by the commissioners or board shall not exceed a maximum of five (5) years' duration and shall include a cancellation clause based on unavailability of funds. If such cancellation clause is exercised, there shall be no further liability on the part of the lessee.

(m) Excepted from bid requirements are:

(i) Purchasing agreements, contracts and maximum price regulations executed or approved by the Department of Finance and Administration;

(ii) Repairs to equipment, when such repairs are made by repair facilities in the private sector; however, engines, transmissions, rear axles and/or other such components shall not be included in this exemption when replaced as a complete unit instead of being repaired and the need for such total component replacement is known before disassembly of the component; provided, however, that invoices identifying the equipment, specific repairs made, parts identified by number and name, supplies used in such repairs, and the number of hours of labor and costs therefor shall be required for the payment for such repairs;

(iii) Purchases of parts for repairs to equipment, when such repairs are made by personnel of the agency or governing authority; however, entire assemblies, such as engines or transmissions, shall not be included in this exemption when the entire assembly is being replaced instead of being repaired;

(iv) Raw unprocessed deposits of gravel or fill dirt which are to be removed and transported by the purchaser; provided, however, that the price thereof shall not exceed the lowest price to the general public, or the price listed with the Department of Finance and Administration, whichever is lower;

(v) Motor vehicles or other equipment purchased from an agency or governing authority at a public auction held for the purpose of disposing of such vehicles or other equipment;

(vi) Purchases by governing authorities of machinery, equipment or motor vehicles when such purchases are made by a private treaty agreement or through means of negotiation, from any federal agency or authority, another governing authority or state agency of the State of Mississippi, or any state agency of another state adjacent to the State of Mississippi, provided that the price agreed upon does not exceed the price listed in the Nielsen/Data Quest publication, applicable to the equipment being purchased. Nothing in this section shall permit such purchases through public auction except as provided for in paragraph (v) of this section;

(vii) Perishable supplies or foods purchased for use in connection with hospitals, the school lunch programs, homemaking programs and for the feeding of county or municipal prisoners;

(viii) Noncompetitive items available from one (1) source only;

(ix) Construction of incinerators and other facilities for disposal of solid wastes in which products either generated therein, such as steam, or recovered therefrom, such as materials for recycling, are to be sold or otherwise disposed of; provided, however, in constructing such facilities a governing authority or agency shall publicly issue requests for proposals, advertised for in the same manner as provided herein for seeking bids for public construction projects, concerning the design, construction, ownership, operation and/or maintenance of such facilities, wherein such requests for proposals when issued shall contain terms and conditions relating to price, financial responsibility, technology, environmental compatibility, legal responsibilities and such other matters as are determined by the governing authority or agency to be appropriate for inclusion; and after responses to the request for proposals have been duly received, the governing authority or agency may select the most qualified proposal or proposals on the basis of price, technology and other relevant factors and from such proposals, but not limited to the terms thereof, negotiate and enter contracts with one or more of the persons or firms submitting proposals;

(x) Supplies and equipment purchased by hospitals through group purchase programs pursuant to Section 31-7-38;

(xi) Purchases of data processing equipment made by governing authorities under the provisions of purchase agreements, contracts or maximum price regulations executed or approved by the State Central Data Processing Authority;

(xii) Energy efficiency services and equipment acquired by school districts, junior colleges, institutions of higher learning, and state agencies or other applicable governmental entities on a shared-savings, lease or lease-purchase basis pursuant to Section 31-7-14;

(xiii) Purchases of contracts for fire insurance, automobile insurance, casualty insurance and liability insurance by governing authorities;

(xiv) Purchases of coal and/or natural gas by municipally-owned electric power generating systems that have the capacity to use both coal and natural gas for the generation of electric power;

(xv) Purchases by libraries or for libraries of books and periodicals; processed film, video cassette tapes, filmstrips and slides; recorded audio tapes, cassettes and diskettes; and any such items as would be used for teaching, research or other information distribution; however, equipment such as projectors, recorders, audio or video equipment, and monitor televisions are not exempt under this paragraph;

(xvi) Purchases of unmarked vehicles when such purchases are made in accordance with purchasing regulations adopted by the Department of Finance and Administration pursuant to Section 31-7-9(2);

(xvii) Sales, transfers or trades of any personal property between governing authorities within a county or any such transaction involving governing authorities of two (2) or more counties;

(xviii) Purchases of ballots printed pursuant to Section 23-15-351;

(xix) From and after July 1, 1990, contracts by Mississippi Authority for Educational Television with any private educational institution or private nonprofit organization whose purposes are educational in regard to the construction, purchase, lease or lease-purchase of facilities and equipment and the employment of personnel for providing multi-channel interactive video systems (ITSF) in the school districts of this state;

(xx) From and after January 1, 1991, purchases made by state agencies involving any item that is manufactured, processed, grown or produced from the state's prison industries;

(xxi) Purchases of surveillance equipment or any other high-tech equipment to be used by narcotics agents in undercover operations, provided that any such purchase shall be in compliance with regulations established by the Department of Finance and Administration.

(xxii) Purchases by community or junior colleges of textbooks which are obtained for the purpose of renting such books to students as part of a book service system.

In connection with the purchase of noncompetitive items only available from one (1) source, a certification of the conditions and circumstances requiring the purchase shall be filed by the agency with the Department of Finance and Administration and by the governing authority with the board of the governing authority. Upon receipt of such certification the Department of Finance and Administration or the board of the governing authority, as the case may be, may, in writing, authorize the purchase, which authority shall be noted on the minutes of the body at the next regular meeting thereafter. In such situations, a governing authority is not required to obtain the approval of the Department of Finance and Administration.

(n)(i) All contracts for the purchase of commodities and equipment may be let for periods of not more than twenty-four (24) months in advance, subject to applicable statutory provisions prohibiting the letting of contracts during specified periods near the end of terms of office.

(ii) All purchases made by governing authorities, including purchases made pursuant to the provisions of subparagraph (i) of this paragraph (n), may be made upon one (1) purchase order issued per month to each individual vendor prior to delivery of such commodities provided that each individual delivery, load or shipment purchased is properly requisitioned and is properly received and receipted by signed ticket, receipt or invoice, indicating thereon the point of delivery, and provided that, with respect to counties, such commodities are properly accounted for by the receiving clerk or an assistant receiving clerk as provided by Section 31-7-109. Such purchase order shall be invalid on the first calendar day of the month immediately following the month in which it was issued. Purchases in such month immediately following may be made only if a purchase order is issued for such month. Each monthly purchase order shall be retained in the records of the governing authority. Agencies may make purchases as authorized under this subparagraph (ii) in accordance with such regulations, policies and procedures as are promulgated by the Department of Finance and Administration.

(o) No contract or purchase as herein authorized shall be made for the purpose of circumventing the provisions of this section requiring competitive bids, nor shall it be lawful for any person or concern to submit individual invoices for amounts within those authorized for a contract or purchase where the actual value of the contract or commodity purchased exceeds the authorized amount and the invoices therefor are split so as to appear to be authorized as purchases for which competitive bids are not required. Submission of such invoices shall constitute a misdemeanor punishable by a fine of not less than Five Hundred Dollars ($500.00) nor more than One Thousand Dollars ($1,000.00), or by imprisonment for thirty (30) days in the county jail, or both such fine and imprisonment. In addition, the claim or claims submitted shall be forfeited.

(p) When in response to a proper advertisement therefor, no bid firm as to price is submitted to an electric utility for power transformers, distribution transformers, power breakers, reclosers or other article containing a petroleum product, the electric utility may accept the lowest and best bid therefor although the price is not firm.

(q) The prohibitions and restrictions set forth in Sections 19-11-27, 21-35-27 and 31-7-49 shall not apply to a contract, lease or lease-purchase agreement entered pursuant to the requirements of this chapter.

(r) For the purposes of this section, the term "purchase" shall mean the total amount of money encumbered by a single purchase order.

(s) Alll agencies and governing authorities shall, prior to contracting for the provision of food services, solicit proposals for the provision of such services. Such solicitation for proposals shall be consistent with the bid requirements of Section 31-7-13(c). Such contracts for food service programs shall not be issued for a period in excess of three (3) years time. For purposes of this paragraph, a food service program represents the provision of cafeteria management or similar services including the purchasing, preparation and serving of meals on a regular basis.

(t) Notwithstanding any provision of this section to the contrary, any agency or governing authority, by order placed on its minutes, may, in its discretion, set aside not more than twenty percent (20%) of its anticipated annual expenditures for the purchase of commodities from minority businesses; however, all such set-aside purchases shall comply with all purchasing regulations promulgated by the Department of Finance and Administration and shall be subject to bid requirements under this section. Set-aside purchases for which competitive bids are required shall be made from the lowest and best minority business bidder. For the purposes of this paragraph, the term "minority business" means a business which is owned by a majority of persons who are United States citizens or permanent resident aliens (as defined by the Immigration and Naturalization Service) of the United States, and who are Asian, Black, Hispanic or Native American, according to the following definitions:

(i) "Asian" means persons having origins in any of the original people of the Far East, Southeast Asia, the Indian subcontinent, or the Pacific Islands.

(ii) "Black" means persons having origins in any black racial group of Africa.

(iii) "Hispanic" means persons of Spanish or Portuguese culture with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race.

(iv) "Native American" means persons having origins in any of the original people of North America, including American Indians, Eskimos and Aleuts.

(t) Nothing in this section shall be construed as authorizing any purchase not authorized by law.

Section 2. This act shall take effect and be in force from and after July 1, 1995.

PEARL RIVER COLLEGE
POPLARVILLE, MISSISSIPPI 39470-2298

MISSISSIPPI'S PIONEER COMMUNITY COLLEGE

M E M O R A N D U M

TO: MR. JAMES BARBER, CHIEF ANALYST
OPERATIONS DIVISION, **PEER COMMITTEE**

FROM: DR. TED J. ALEXANDER, PRESIDENT, PRCC Ted J. Alexander

DATE: DECEMBER 21, 1993

RE: **OFFICIAL RESPONSE TO AMENDED REPORT**

I have received your Fax of December 16, 1993, and December 20, 1993. Please note the attached revised responses from PRCC and Morrison's, Inc., which you requested be in your office no later than 12:00 PM on Wednesday, December 22, 1993.

Please do not hesitate to contact me at 795-6801 or 795-4654 if you have any questions relative to this matter.

JW
Attachments

PEARL RIVER COMMUNITY COLLEGE RESPONSE TO PEER COMMITTEE REPORT

Page 1

¶3: According to this paragraph the primary focus of PEER's review was the period of FY 1992 and FY 1993 but only through December 31, 1992. In fact the report makes frequent allusions and criticism concerning FY 1989 and 1990, and even though much of PEER's investigative activities took place in 1993, the report ignores the improvements that were made in PRCC's food service operations from and after December 31, 1992. Some of these improvements have come as a direct result of PEER's investigation. However, the implementation of most of these changes had already begun prior to the investigation. And the biggest change came with the replacement of Morrison's-PRCC unit manager, David Whisnant, at the end of December 1992, the putative end of PEER's review period.

Page 2

¶4: Dr. Alexander did not engage Watkins Ludlam & Stennis until after consulting with and receiving the approval of the Chair of the PRCC Board of Trustees. All fees paid Watkins Ludlam & Stennis have been unanimously approved by the PRCC Board of Trustees.

¶5: PRCC is pleased to have the PEER Committee confirm that its investigation found **NO** criminal or civil violations. However, originally there were unsubstantiated **allegations** of such criminal and civil violations and the College was then, and is now, of the opinion that it needed legal representation in connection with the PEER investigation.

Page 5

This Exhibit does not accurately reflect all revenues since it does not include non-cash sales. We have corrected the Exhibit to reflect such non-cash sales (see Attachment 1). The PEER staff has conceded that PRCC accounted for these non-cash sales in its general ledger starting with FY 1993 and have corrected the Exhibit to reflect such non-cash sales for 1993. However, the staff adamantly refuses to recognize the corrections PRCC has made for prior years, even though they acknowledge that there were in fact such non-cash sales during those years. PRCC has now made accounting adjustments to it's general ledger, following generally accepted accounting principles, to properly reflect the actual non-cash sales for FY 1990, 1991 and 1992 (See Attachment 2) and these changes should be made to the Exhibit.

Page 6

The errors, omissions and incorrect conclusions in each of the subparagraphs on page 6 are responded to in PRCC's response to each substantive area that follows.

Page 11

¶1: The persons who made these sworn and and unsworn statements to PEER never made such statements, sworn or unsworn, to either PRCC or to Morrison's.

¶4: While the food allegedly removed could have been used for personal consummation or resold for profit, it could also have been removed for legitimate purposes.

Page 12

¶3: PEER's comparison of PRCC and JCJC is without any factual basis. For the years in question JCJC's enrollment was approximately 1/3 more than PRCC's (see Attachment 3). JCJC's summer school attendance averages two to four times the size of PRCC's summer school, and unlike JCJC during the summer PRCC has no dormitory students. Furthermore, in addition to the regular summer school students PRCC has one or two band or cheerleader camps a year, compared to JCJC's which has many of such camps. Finally, PRCC in addition to its other meal programs allows students to purchase a lunch-only meal ticket. JCJC does not have a lunch-only meal program.

After all of these matters were called to the PEER staff's attention their only change to the report was to say that PRCC and JCJC have a similar student **"population"** instead of a similar student "enrollment." The continued use of this comparison between PRCC and JCJC in the face of the differences we have pointed out is ludicrous. This entire section is obviously an attempt to imply through innuendo that there have been thefts from PRCC's vending operations during these years. But PEER does **not** have any evidence to prove such allegations, and this whole section should therefore be deleted.

Page 13

¶1: Morrison's auditors did not rate PRCC's vending operation in the May 6, 1991 audit.

¶3: PRCC has only one meter for the entire campus and has therefore not separately allocated utilities in the past. With the occupation of the new cafeteria building in approximately January of 1994 future utility cost will be allocated because the new cafeteria will have a separate meter. PRCC's accounting system has never allocated telephone expenses to individual PRCC departments or to the cafeteria. Effective in October, 1993, PRCC began allocating telephone expenses to its food service operations.

Page 14

¶1: As set forth in Attachment 1 the identifiable expenses of PRCC's food service program do not always exceed available revenues. PRCC's Business Manager did not make the statement that college officials were considering an increase in **"student"** cafeteria fees to offset annual losses in the cafeteria fund. He believes that the PEER staff misunderstood his statements in this regard. No request has been made to the Board of Trustees to increase the student cafeteria fees and there is no intention to make such request. PRCC's Business Manager and President at the June 8, 1993, meeting of the Board of Trustees recommended, and the Board approved, an increase in the **non-student** meal charge from $2.50 to $3.00. This increase affects all faculty, staff, local patrons and those students not participating in PRCC's meal plans.

¶3: The PEER Report does not evidence an understanding of the contractual relationship between PRCC and Morrison's. The catering services provided at PRCC are **PRCC's** catering and restaurant services. PRCC is using its facility, equipment and utensils. All the catering revenues go to PRCC. Morrison's is simply paid a service fee of 10% to operate the catering services along with PRCC's regular food service operation.

Page 15

¶4: PRCC and its Board of Trustees has always been involved in setting prices for student and non-student meal charges. Additionally, since the replacement of David Whisnant as Morrison's unit manager, PRCC now approves all catering service prices as well.

Page 16

¶4: As is now noted in the Report in November of 1992, during the period of PEER's review, PRCC started using a more modern cash register in the cafeteria. Since then this cash register has been used to properly record and track all Sunday lunch sales. The replacement of this cash register was planned and initiated prior to the commencement of PEER's investigation.

Page 17

In the introductory title on this page the report states that the PRCC President paid $193.87 for a personal social event. This should be amended to reflect that Dr. Alexander subsequently reimbursed Mr. Whisnant for the $533.89 difference in the cost that Whisnant had paid to Morrison's.

¶6: This paragraph now acknowledges that it was Dr. Alexander who corrected David Whisnant's misstatement to PEER, however it does not acknowledge that as soon as Dr. Alexander learned that Whisnant's statement was not true, that same day he immediately contacted PEER and requested a meeting with its investigator to advise her of his newly acquired knowledge. Dr. Alexander, PRCC's Business Manager, and Leroy Taylor of Morrison's, then met with PEER's investigator at her earliest available time (November 4, 1992) and told her what they had learned about Mr. Whisnant's actions.

Response to Recommendations

1. No response.

2. PRCC will comply with all present and future statutory bid requirements concerning food services and vending operations. The PRCC Board approved the present contract that employed Morrison's, and all future food service and vending contracts, and amendments thereto, will be presented to the Board for review and approval.

3. Effective immediately PRCC is requiring Morrison's to provide PRCC with records of monthly non-student food sales including private catering and Sunday lunch sales. This information will be submitted to the Board for its review and consideration.

4. Since June 1993, Morrison's has been providing PRCC with adequate and complete accounting and operational records regarding the food service and vending operations. These records include detailed records of sales and purchases of cafeteria and vending food items. Morrison's does not utilize a perpetual inventory at PRCC because Morrison's believes that this cost of additional labor hours required to maintain a perpetual inventory exceeds the benefits. Beginning in January, 1993, Morrison's began using daily production sheets which list the items removed from the inventory on a daily basis. The production sheets are reconciled with weekly inventories conducted by the general manager. The cost of the food is reviewed by the district manager during his routine visits. The district manager can detect shortages or overages in the usage of food by comparing food cost for the prior periods.

5. PRCC intends to ensure that food service and vending accounting records properly reflect all direct and indirect costs of the food service program. Costs of building maintenance have always been accounted for and commencing in January 1994 with the opening of a new cafeteria PRCC will began accounting for utility

costs. Effective in October 1993, PRCC began allocating telephone expenses to the food service operations.

6. PRCC is in the process of developing internal audit procedures to provide quarterly review of Morrison's revenue and expense data and of their daily production sheets which list the items removed from Morrison's inventory.

7. PRCC has no present intention to increase student meal fees or any other food service user fees.

8. Dr. Alexander did not receive **any** personal benefit from "PRCC's food service contractor". He had no knowledge that the social event cost any more than he paid for it until October 26, 1992, when for the first time he learned that David Whisnant **(not Morrison's, PRCC's food service contractor)** had personally paid $533.89 of the cost of the event. That same day he attempted to repay the $533.89 to Mr. Whisnant but Mr. Whisnant refused to accept this payment. To avoid even the appearance of impropriety as perceived by PEER, Dr. Alexander on October 21, 1993, again attempted to pay David Whisnant by sending him a personal check in the amount of $533.89. Whisnant again refused to accept repayment for his gift and simply endorsed the check to the PRCC Development Foundation for a scholarship fund in memory of Dr. Alexander's mother.

The PEER report does not allege that Dr. Alexander committed any statutory violations, either criminal or ethical. Nor does any state law or any policy of PRCC provide for Dr. Alexander to be "formally sanctioned" (whatever that may mean). As the PEER report acknowledges, there is **no** evidence that Dr. Alexander used his position as PRCC's President to receive a reduced cost for the social event, therefore all references to this matter should be deleted from the PEER report.

Morrison's Hospitality Group's revised response to PEER Staff's Report concerning Pearl River Community College Food Service Contract

Morrison believes that internally originated activities on the part of both Morrison and PRCC, as well as review by PEER, have brought about improvement of the food service operation at PRCC. However, PEER Staff's (hereinafter PEER or PEER Staff) report includes numerous areas of opinion which are in error, as well as conclusions of fact which are slanted or prejudiced so as to undermine an objective review of the circumstances surrounding this report.

PEER has indicated its position that the food service operation is Morrison's, not PRCC's, which conclusion Morrison believes is wrong. Throughout the report, PEER offers the opinion that Morrison is "managing the college's food service program" (page 3), the college receives all "net profits from the food service program" (page 3), PRCC "incurred expenses... for its food operations." (emphasis added (page 3)), "PRCC pays Morrison a management fee" (page 3), all of which suggests it is PRCC's program. At the same time, PEER inconsistently reports in contrast that the "administrators do not monitor Morrison's use...to provide catering and restaurant services to the general public" (page 2), the services have "no documented benefit to the college" (page 2), PRCC reimburses Morrison for cost of "food purchases for PRCC's use" (page 3), "PRCC Administrator's permit Morrison to use the college's cafeteria facilities to provide catering and restaurant services to the general public..."(page 13), to cite a few examples, which suggests it is a Morrison operation. PEER chooses to offer their perceived logic that it is "Morrison's Operation" when it appears advantageous to them in their criticisms. To criticize PRCC or Morrison by suggesting that, for example, the Sunday meal is a Morrison operation, ignores an entire industry, undoubtedly hundreds of thousands of food service contracts, and the contract itself, which for example indicates that PRCC will "employ" Morrison. To suggest that it is "Morrison's operation" when we do not receive the profits from the operation, when the operation has a captive audience for the most part, when it is up to another party, i.e. PRCC, as to what to serve and when to serve it, and what prices can be charged, ignores insurmountable reality. The Sunday meals are not a matter of choice for Morrison, and to the best of Morrison's knowledge, existed even prior to Dr. Alexander's presence at the school. It should be remembered that Morrison's "fee" when we perform all of the work and preparation for the activity of the Sunday meal is the "huge fee" of, for example, $30 if sales are $300. Whether PEER's position that food service contractors should not do business at the college is true, whether Sunday meals should take place, whether there is "documented" proof that the Sunday meals should be provided (Morrison believes the reported sales themselves and the individuals who pay for the meals is documented proof of a benefit), are each different issues and should not be confused with this fundamental fault in the report.

The Executive Summary, Recommendation Number 8, states that Dr. Alexander received a personal benefit in the form of a reduced cost from the college's food service contractor. He received no benefit from the contractor. Morrison charged for, and received in behalf of its client, the full price for the meal. Any personal benefit was not from the contractor but on a personal basis from Whisnant.

Next PEER makes a comparison in the last paragraph on page 12 with Jones County Junior College where it discusses vending machine collections for the fiscal year. JCJC's food and vending operation are handled by Morrison. PEER draws the conclusion and makes the statement that PRCC collected less than the amount expected when compared with JCJC's experience. Morrison believes that this comparison, regardless of the methodology, ignores reality. PEER originally used the logic that the two schools should be similar because they had a similar student enrollment, but that was substantially wrong because the enrollment is approximately 1100-1200 students different. In addition, it ignores that fact that PRCC has only two summer camps and no summer student dorm population, but JCJC has numerous summer camps and a full summer session which substantially increases vending sales. It also ignores that PRCC had a lunch only meal plan and doesn't run as large a summer class program. And, in view of Morrison's prior comment as to PEER's error of comparable student enrollment, PEER Staff now changes the term "enrollment" to "population" and absurdly suggests that, because the general population for potential students in the geographical area of the PRCC is similar to JCJC, therefore all sales should be the same. This ignores the prior stated facts. Morrison believes the use of the term "population" doesn't change the meaning of the sentence but PEER Staff does. Morrison believes that suggesting, as PEER Staff did in its November 4, 1993 conference, two colleges with <u>substantially</u> different <u>actual</u> student enrollment and a <u>substantially</u> different <u>actual</u> scope of use, especially in the summer, should have similar vending revenues simply because the two colleges are in geographical areas with similar "populations" (and therefore similar "potential" student availability and "potential" vending usage) is ludicrous.

Below Morrison restates most of its prior comments to earlier drafts regarding errors or omissions in the staff report:

1. Morrison does not believe PEER's addition of language corrects clearly the error previously noted and set forth below: "In the second paragraph on page 4, the report incorrectly states that Pearl River Community College (PRCC) reimbursed Morrison for food purchases. Morrison is reimbursed only after the food is used. The inventory of food is owned by Morrison and not PRCC."

2. PEER suggests the possibility on page 6 that PRCC's contract with Morrison is not cost effective. It is also possible that it is! This type of half stated possibility exists throughout the report and offers some insight into the innuendo desired by PEER.

3. In the second to last paragraph on page 6, the report incorrectly states that Morrison is permitted to use the college's facilities to provide catering and restaurant services to the general public with no benefit to PRCC. This clearly shows that PEER does not understand the Agreement. The Agreement is a management fee. Morrison does not receive any of the profits from any of the food services it provides. Morrison only receives a management fee. Morrison is providing these services on behalf of PRCC. Morrison delivers the revenues from these services to PRCC. Therefore, PRCC receives all of the profits from services provided by Morrison.

4. In the last paragraph on page 8, the report incorrectly states that Morrison's managers had little incentive to operate PRCC's Agreement in the most cost effective and efficient manner because the Agreement is automatically renewable. Morrison's managers have several incentives to operate in such a manner. The Agreement has a provision which provides that PRCC can terminate the Agreement at any time upon 60 days prior written notice. In addition, managers will be removed if requested by any of Morrison's clients. In addition, managers' bonuses are based on food cost, budgets and income growth. All of these provide incentive for Morrison and its management.

5. In the first paragraph on page 10, the report states that PRCC should approve food invoices. However, food purchases are delegated to Morrison because of its expertise. It would be extremely impracticable for PRCC to review the numerous invoices for food purchases. Morrison purchases food at low prices without affecting quality because of its purchasing power. This is one of the reasons that entities contract with Morrison for food services. As stated, Morrison's managers do indeed have incentives to keep food costs down.

6. Morrison does not utilize a perpetual inventory at PRCC because Morrison believes that the cost of additional labor hours required to maintain a perpetual inventory exceeds the benefits. Beginning in January, 1993, Morrison began using daily production sheets which list the items removed from the inventory on a daily basis. The production sheets are reconciled with weekly inventories conducted by the general manager. In addition, the cost of the food is reviewed by the district manager during his routine visits. The district manager can detect shortages or overages in the usage of food by comparing food cost for the prior periods.

7. In the last paragraphs on page 10, the report states that the sale of uncooked food is evidence that food was misappropriated. However, PEER did not show any evidence that sales from any uncooked food were not delivered to PRCC.

8. Morrison believes that the former employee referred to on page 11, which stated that beverages were delivered to PRCC employees without reimbursement, is a former disgruntled employee of Morrison. Morrison believes that this individual made this statement because her job was eliminated when Morrison installed a computerized system which replaced some of her responsibilities. The computer was installed to reduce costs for the operation and improve efficiency. Also, the report does not state how the former employee knew the drinks were for personal use. It may have been for a business purpose if PRCC's employee even received any drinks and did not reimburse PRCC.

9. In the fourth complete paragraph on page 11, again the report states that there was misappropriation of food without showing any evidence. The facts as alleged in other statements from other persons do not establish the existence of misappropriation. As with the above, the motives or the truth or accuracy of the individuals cannot be established based on the information provided. The fact that employees removed food does not necessarily show evidence of misappropriation. Employees must remove food to take it to the snack bar, for catering events, for athletic events and other PRCC functions. The report does not state where the food was

going or if the employees or individuals who witnessed food being removed even knew where the food was going. Nor does it show whether income was deposited in favor of the operation. This is an allegation without any evidence.

10. In the fifth paragraph on page 11, the report incorrectly states that all food items are purchased on behalf of the students. The food is also purchased for faculty, employees and for catering events. It is incorrect to state that all of the food is purchased for students.

11. In the third paragraph on page 12, the report incorrectly states that PRCC and Jones County Junior College (JCJC) have similar enrollments. In 1992, PRCC had 2,871 students and JCJC had 4,082 students. In 1993, PRCC had 2,985 students and JCJC had 4,150 students. Also, JCJC has numerous summer camps which substantially increase vending sales. PRCC has a lunch only meal plan which decreases vending sales. These factors clearly show why the vending revenues are higher at JCJC, and this should be included in the report.

12. On page 14 and 15, the report states that Morrison is allowed to provide catering and restaurant services to the public, but Morrison is providing these services on behalf of PRCC. As stated, the Agreement is a management fee. PRCC receives all of the profits from these services, and Morrison receives a fee. The profits from these services are utilized in providing food services to the students.

13. The report should state that Morrison has maintained separate records for catering events since January, 1993 when it changed its manager at PRCC.

14. The report should state that individual food items for Sunday lunch sales have been entered into the cash register since November, 1992. The individual food items were added on a calculation prior to November, 1992, and the totals were entered into the cash register in order to keep up with the pace of customers in the line.

15. In the last paragraph on page 16 of the report incorrectly states that Morrison does not incur expenses in its catering and restaurant services. As stated, Morrison is operating the food services, including the catering and restaurant services, on a management fee basis. These are PRCC's services. Therefore, Morrison does not compete with anyone. Furthermore, the profits received from these services are used for the benefit of the food services provided to the students and faculty staff.

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