



# Dundee Central School District Food Inventories

## Report of Examination

Period Covered:

July 1, 2004 - November 30, 2005

2006M-45



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

June 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Dundee Central School District — Food Inventories.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the School District Board of Education.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*

# Introduction

## Background

The Dundee Central School District (District) is located in Yates County and has an enrollment of approximately 950 students. The District is governed by the Board of Education (Board), which is comprised of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has one educational building and a bus garage. During the 2004-05 school year, the District had operating revenues of approximately \$11.4 million. The major revenue sources for the District are real property taxes and State aid, and the major expenditures are employee salaries and related fringe benefits.

The District serves breakfast and lunch each school day. Approximately 650 students plus staff members eat breakfast and/or lunch daily. During the 2004-05 school year, the District spent approximately \$317,000 on its cafeteria operations.

## Objective

The objective of our audit was to evaluate the management controls over food inventories to ensure that District assets were properly safeguarded. Our audit addressed the following question:

- Are internal controls over food inventories appropriately designed and operating effectively?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the food inventory area and therefore, we examined internal controls over food inventories for the period July 1, 2004 to November 30, 2005.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

## Food Inventories

In order to safeguard food inventories, the Board and District management need to establish policies and procedures that clearly assign responsibility for inventory control and describe how officials should acquire, store, and use the food in day-to-day operations. In addition, the District should require that cafeteria officials maintain usage and perpetual inventory records. Perpetual inventory records are a vital control that provides managers with information about how much food the District should have on hand at any given point in time. The District should also require that physical inventories are conducted periodically, and the results compared to the perpetual inventory records. Any discrepancies should be promptly investigated and resolved. Further, the assistant superintendent for business, internal auditor, or someone designated by the Board, should conduct periodic analytical reviews of the food inventory records to disclose any unusual items or trends that might require investigation.

Our audit disclosed that District officials did not establish the controls and maintain the records necessary to safeguard food inventories. Our review of its inventory practices disclosed significant weaknesses in the recording, security, and maintenance of food inventories. When internal controls are not designed appropriately, it increases the risk that errors and irregularities may occur and not be detected and corrected.

The District has one cafeteria that provides meals to approximately 650 students and staff daily. The cafeteria manager performs virtually all of the administrative duties associated with the cafeteria with little or no oversight. The cafeteria manager prepares the monthly lunch menus and orders the majority of the food purchases through New York State contract providers. All goods are received at the cafeteria, where the cafeteria manager inspects the goods and compares the amounts to the packing slip. However, on some occasions, shipments arrive after she has left, so the custodial staff will check the shipment in and verify the goods received. The cafeteria manager stated that she verifies the shipment amounts the next day. During a tour of the cafeteria we noted that all food inventories were in freezers, coolers, or storage areas. The freezer, dry foods and supplies are all located in a back room that is locked. The cooler is kept locked and is not in the back room. However, custodial staff has access to the back room, cooler and inventories without managerial supervision in order to retrieve inventory for cafeteria staff for the next day's meal or to

receive shipments. We also found that the freezer was overstocked and unorganized. On four occasions we conducted inventory counts. We found that the volume of inventory made it difficult to maneuver in the freezer and it was necessary for us to organize the freezer to conduct our inventory counts.

The cafeteria manager stated that she maintained a perpetual inventory system on her computer. However, she ‘zeros out’ the ending inventory each month and replaces those numbers with the result of the physical counts that she conducts each month. Although a District physical inventory of cafeteria food and supplies is taken each month, the cafeteria manager could not tell us if her results are what should have been on hand. A true perpetual inventory system would involve the addition of purchases and the subtraction of usages to an initial inventory count (prior month inventory) to obtain an ending inventory. The resulting ending inventory amount would then be compared to the physical count to determine completeness. In addition, District officials did not perform analytical reviews of consumable inventory records.

We attempted to reconcile physical inventory balances for five judgementally selected items in the cafeteria to the inventory records that were available. We used the District inventory record for the months ended November 30, 2005 and December 31, 2005, the December 2005 vendor food invoice, and the December 2005 usage records to prepare a reconciliation of inventories for the five items and noted discrepancies (both shortages and overages) with the District’s inventory records. The following chart illustrates the inaccuracy of the District’s physical inventories at the cafeteria and the need for a perpetual inventory system.

<b>Item</b>	<b>Hamburgers</b>	<b>Hot Dogs</b>	<b>Chicken Patties</b>	<b>Beef Steakums</b>	<b>Mozzarella Sticks</b>
Inventory-11/30/05	345	640	0	0	2,160
Purchases	1,980	720	260	152	0
Recorded Usage	1,275	1,236	1,159	48	0
Calculated Inventory-12/31/05	1,050	124	(899)	104	2,160
Inventory-12/31/05	1,020	640	600	228	1,680
Discrepancy	(30)	516	1,499	124	(480)

These discrepancies may result from the recordkeeping and security weaknesses that we found and the freezer being overstocked and unorganized. As a result of these weaknesses, the few inventory records maintained by the District cannot be relied on to ensure that food inventories are safeguarded.

## Recommendations

1. The Board and District management should establish policies and procedures to address the acquisition, storage, and use of food inventories. The policies and procedures should address management oversight of the duties performed solely by the cafeteria manager.
2. The cafeteria manager should establish and maintain a perpetual inventory system which will completely and accurately capture all transactions. An initial physical inventory should be taken. To this inventory would be added any purchases and deliveries. Also posted to this record would be usage based on detailed usage reports such as daily production reports. The perpetual inventory records should be retained and reconciled on a monthly basis with physical counts of food items on hand. Any discrepancies should be resolved in a timely manner.
3. District officials should improve the physical security over stored food items, if possible. The freezer should remain locked unless employees are receiving a shipment or getting supplies out for meals. In addition, the cafeteria manager should lock doors and restrict access to other food inventories whenever possible. The freezer should be organized to enhance the ability to monitor food quantities and physically inventory the food items.
4. The assistant superintendent for business, or the District's internal auditor under the guidance of the Board's audit committee, should perform periodic analytical reviews to reveal any unusual food inventory items or trends that might require further investigation.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The district officials' response to this audit can be found on the following page.

# Dundee Central School

55 Water Street  
Dundee, New York 14837

June 12, 2006

Office of the State Comptroller  
Division of Local Government Services and Economic Development  
16 West Main Street, Suite 522  
Rochester, NY 14614

Dear [REDACTED]:

We wish to thank the Comptroller's office staff for the professional manner in which they conducted the audit. They made every effort to be as unobtrusive as possible while thoroughly reviewing District operations. The recommendations of the auditors address procedural issues which will better safeguard food inventories.

#### Response to Recommendations:

1. Policy regarding the establishment and maintenance of food inventories is being reviewed by the Board Policy Committee for adoption at the July re-organizational meeting.
2. Procedures to implement this policy are being developed by the Cafeteria Manager and the Business Manager. A perpetual inventory system, recording all transactions, i.e. purchases, usage and running balance, shall be maintained. A periodic inventory shall be taken every month and reconciled with the perpetual inventory. Any discrepancies shall be investigated immediately.
3. The Cafeteria Manager is charged with the task of reorganizing the freezer and general storage areas. The freezer and walk-in cooler will be locked and access strictly limited. Where feasible, access to the food storage area will be restricted to cafeteria personnel.
4. The business official and claims auditor will monitor purchases via invoices to track any unusual activity and investigate any instances of questionable inventory items.

Sincerely,



Nancy R. Zimar  
Superintendent

NRZ:wbr

Copy: Business Manager

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database(s). Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected food inventories for further audit testing.

Within food inventories, we conducted interviews with the cafeteria manager and a walk through of the cafeteria to determine the District's controls over food inventories. We noted the lack of a perpetual inventory system and custodial staff's unlimited, unsupervised access to the food inventories and assessed a high risk that the District's controls over food inventory were inadequate. We attempted to prepare a reconciliation of food inventory for five items to determine the ineffectiveness of the controls. We examined the District's inventory records for amounts on hand for the months ended November 30, 2005 and December 31, 2005. We also reviewed vendor food invoices for purchases and usage records prepared by the cafeteria during the above period.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to assess adequately those school district operations within our audit scope. Further, those standards require that we understand the school district's management controls and those laws, rules and regulations that are relevant to the school district's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

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