



Canaseraga Central School District

Internal Controls Over Cafeteria Cash Receipts

Report of Examination

Period Covered:

July 1, 2006 — November 21, 2007

2008M-10



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Canaseraga Central School District, entitled Internal Controls Over Cafeteria Cash Receipts. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Canaseraga Central School District (District) is located in the Towns of Almond, Birdsall, Burns, and Grove in Allegany County; Ossian in Livingston County; and Dansville in Steuben County. The District is governed by the Board of Education (Board) which comprises five 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.

There is one school in operation within the District, with approximately 300 students and 75 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$5.4 million, which were funded primarily with State aid, real property taxes, and grants.

The cafeteria manager oversees the daily operation of the District's one cafeteria, which offers breakfast and lunch to students and employees on school days. The Treasurer is responsible for preparing the cafeteria cash receipts for deposit. Cafeteria revenues for the 2006-07 fiscal year were \$114,609.¹

Objective

The objective of our audit was to evaluate internal controls over cafeteria cash receipts. Our audit addressed the following related question:

- Are internal controls over cafeteria cash receipts 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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. 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 cafeteria cash receipts area and, therefore, we examined internal

¹ Including State and Federal aid in addition to cafeteria sales. Cafeteria sales alone for the 2005-06 fiscal year were approximately \$47,700.

controls over cafeteria cash receipts for the period July 1, 2006 to November 21, 2007. Certain observations and lesser findings related to internal controls over other cash receipts were discussed with District officials.

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 that they are taking corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Cafeteria Cash Receipts

District officials are responsible for designing internal controls over cafeteria operations to ensure that the District receives the proper amount of revenue from cafeteria sales. Such controls include policies and procedures for the collection, verification, and deposit of cash receipts. Each employee must be properly identified as accountable for their specific activities within the cash management process; for example, by having separate cash drawers and unique passwords for access to the point-of-sale (POS) software. Effective policies and procedures help to ensure that no single individual controls all aspects of cash transactions. Having someone independent of cafeteria operations compare the daily cash deposits to the cafeteria sales reports each day can reduce the risk of errors or misappropriation of funds.

Internal controls over cafeteria cash receipts were not appropriately designed or operating effectively. District officials have not adopted written policies governing cafeteria cash receipts. The three cafeteria employees shared a common cash drawer and used the same password to access the POS software at the register, potentially preventing the identification of specific employees responsible in the event of a significant cash shortage or overage. The cafeteria manager counted the cash from meal sales, printed out sales reports identifying cash received, and brought the cash to the Treasurer daily. However, the Treasurer counted the cash without the cafeteria manager being present, and did not issue a receipt to the cafeteria manager as evidence of the amount remitted. Further, the Treasurer did not compare the deposit amount to the cafeteria sales report to verify that the amount collected and deposited each day was accurate. Instead, the cafeteria manager compared the deposit amount (based on a validated deposit slip from the Treasurer) to the cafeteria sales report, with no independent oversight – by the Treasurer or any other District official not involved in cafeteria operations – to verify that daily deposits represented all the cash collected. As a result, internal controls are weakened and there is an increased risk of errors or irregularities occurring without detection.

To address this risk, we compared 52 cafeteria deposits totaling \$9,018 over a three-month period to the supporting daily service reports. One or more reports (the breakfast sales report, lunch sales report, or combined cash sheet) were not available for 23 of the deposits, totaling \$7,632. Therefore, we were unable to determine if the proper amount was deposited. In addition, none of the sales reports supporting the other 29 deposits contained evidence (such as

initials) that the person responsible for the cash drawer compared the daily cash drawer total to the report.² Without procedures for verifying moneys collected against daily sales reports, District officials do not have adequate assurance that the cafeteria cash is properly accounted for.

The 29 deposits with supporting reports either agreed with the totals on the daily service reports or showed differences that were immaterial. All 52 cafeteria bank deposits tested were properly posted to the general ledger.

Recommendations

1. District officials should adopt detailed policies and procedures for collecting and accounting for cash received in the cafeteria operation.
2. Cafeteria employees who collect cash should use separate cash drawers and separate passwords to access the POS software.
3. The cafeteria manager and each cafeteria employee responsible for a cash drawer should initial the appropriate daily sales report to verify that the cash drawer total agrees with the report, and should fully document any overages or shortages.
4. The Treasurer should count the cash from cafeteria operations in the presence of the cafeteria manager and issue a duplicate receipt to the cafeteria manager for the amount received.
5. The Treasurer should compare the deposit amount to the daily cafeteria sales report to verify that the total amount collected and deposited each day is accurate.

² District officials said that these exceptions arose because staff were not fully trained in the computer program, which was new for the 2006-07 fiscal year.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

Canaseraga Central School

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Marie Blum
Superintendent

James Anderson
K-12 Principal

March 24, 2008

[REDACTED]
Office of the New York State Comptroller
Division of Local Government Services
295 Main Street, Ellicottville Square Bldg., Room 1050
Buffalo, New York 14203-2510

Re: Canaseraga Central School District

Dear [REDACTED]:

The following constitutes the Canaseraga Central School District's response to the Report of Examination issued by your office, which is entitled, "Internal Controls Over Cafeteria Cash Receipts". The Report of Examination covers the District's fiscal operations during the period July 1, 2006 through November 21, 2007, and is numbered 2008M-10.

The Canaseraga Central School District would first like to express its appreciation for the professionalism of both auditors in dealing with our staff and issues. We found the audit experience a positive one, as it not only allowed us to fully examine our financial procedures, but also provided guidelines to improve our protocol in preparing cafeteria cash receipts.

The District's School Board and Administration have reviewed the audit draft, as well as proposed recommendations. We are in agreement with all phases of the audit and are in the process of implementing revisions to our procedures, as identified. We consider the audit's results and recommendations as resources for our District to use in effectively managing operations.

Our responses to individual recommendations contained within the Advisory Draft are as follows:

Recommendation #1: District officials should adopt detailed policies and procedures for collecting and accounting for cash received in the cafeteria operation.

The District has adopted the following procedure, in order to comply with the auditors' recommendation that money be counted in the presence of both the cafeteria employee and the District Treasurer at the same time: Accounting for both breakfast and lunch receipts shall be verified by a cafeteria employee, who will document the proceeds and initial the figure. She will then bring the cash drawer to the District Treasurer, who will count the money again, document the proceeds, and initial for verification of the amount. This will provide documentation from both parties as to the amount in the cash drawer, and will immediately bring to the District's attention any potential discrepancy.

Recommendation #2: Cafeteria employees who collect cash should use separate cash drawers and separate passwords to access the POS software.

During the current school year, the Canaseraga Central School District implemented a new BOCES-created software program for the cafeteria. We have discussed this recommendation with the software creator, and have asked the programmer to create an option for different passwords. However, at this time, which is the first year of implementation of the program, we have been told the assignment of different passwords is something that is not yet part of the software. There is one cash drawer in the school's cafeteria, and only one person is assigned the role of cashier each day. The only occasion in which two people would be considered cashiers on the same day is in an event of the need for a substitute, when a different school cafeteria employee would be utilized in this position. With the change in software capabilities expected in the future, all employees will access the POS software through individual passwords.

Recommendation #3: The cafeteria manager and each cafeteria employee responsible for a cash drawer should initial the appropriate daily sales report to verify that the cash drawer total agrees with the report, and should fully document any overages or shortages.

This recommendation has been implemented. The cafeteria manager and each cafeteria employee responsible for the cash drawer currently initials the daily sales report to verify the total receipts agree with the reported amount, and that any discrepancies are documented.

Recommendation #4: The Treasurer should count the cash from cafeteria operations in the presence of the cafeteria manager, and should issue a duplicate receipt to the cafeteria manager for the amount received.

This recommendation has been implemented in that the treasurer counts the cash from cafeteria operations and issues a duplicate receipt to the cafeteria manager for the amount received. At this time, counting does not occur in the presence of the cafeteria manager - however, we are designing a schedule that will allow this accounting to take place in the presence of both employees.

Recommendation #5: The Treasurer should compare the deposit amount to the daily cafeteria sales report to verify that the total amount collected and deposited each day is accurate.

This recommendation has been implemented in order for the Treasurer to compare the deposit amount to the daily cafeteria sales report, verify the total amount collected is accurate, and deposit the verified amount.

It is the hope of the Canaseraga Central School District that we have appropriately addressed the concerns, suggestions, and recommendations contained within the draft report. We would like to take this opportunity to thank the audit team for their diligence in both bringing the areas of need to our attention, and in providing guidance towards rectifying these concerns.

Respectfully,



Marie Blum, Superintendent

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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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 databases. 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 our 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 cafeteria cash receipts for further audit testing. Certain observations and lesser findings related to internal controls over other cash receipts were discussed with District officials.

We reviewed cafeteria cash drawer reports for adequacy and traced a selection of reports, for three months, to bank deposits. We also compared the deposited amount to accounting entries in the general ledger.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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