



# Carthage Central School District

## Internal Controls Over Cafeteria Receipts

Report of Examination

Period Covered:

July 1, 2006 — October 31, 2007

2008M-40



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
<b>CAFETERIA RECEIPTS</b>	7
Recommendations	9
<b>APPENDIX A</b> Response From District Officials	10
<b>APPENDIX B</b> Audit Methodology and Standards	14
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	15
<b>APPENDIX D</b> Local Regional Office Listing	16

# 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 Carthage Central School District, Internal Controls Over Cafeteria 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 Carthage Central School District (District) is located in the Towns of Champion, LeRay, Rutland and Wilna in Jefferson County and the Towns of Croghan, Denmark and Diana in Lewis County. The District is governed by the Board of Education (Board) which comprises 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 Assistant Superintendent for Business oversees the day-to-day operations of the District's Business Office.

There are five schools in operation within the District, with approximately 3,020 students and approximately 715 full and part-time employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$44.9 million, which are funded primarily with State aid, real property taxes, and grants.

A food service manager is responsible for overseeing the operations of the District's food service program, including the collection of and accounting for cafeteria receipts. Cafeteria sales revenue (including vending machine sales) totaled about \$540,000 for the 2006-07 fiscal year.

## Objective

The objective of our audit was to examine the internal controls in place over cafeteria cash receipts. Our audit addressed the following related questions:

- Are internal controls over the District's collection and deposit of cafeteria receipts designed properly 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, payroll and personal services and information technology. 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 area of cafeteria receipts

and, therefore, we examined internal controls over cafeteria receipts for the period July 1, 2006 to October 31, 2007. We extended our review of adjustment and voided activity reports related to cafeteria sales through January 25, 2008.

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 planned to initiate 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 Receipts

An effective system of internal control over cafeteria receipts requires the separation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties such as cash handling, recordkeeping and cash reconciliations with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected. When it is not possible to adequately segregate these duties, mitigating controls such as supervisory review of work performed can help to reduce the risk associated with inadequate segregation of duties. For example, someone independent of the cash handling and recordkeeping functions should reconcile daily cash sales with deposits and review cash receipt adjustment reports and reports showing voided transactions.

The District has not established adequate internal controls over cafeteria and vending machine cash receipts. Specifically, the duties of cash handling, recordkeeping and cash reconciliations are not properly segregated, independent reconciliations of cash sales to deposits are not being performed and there is a lack of supervisory review of the key cash receipt duties being performed. As a result, there is an increased risk that cafeteria and vending machine receipts could be misappropriated and this misappropriation could go undetected by management.

Cafeteria Sales – The District uses a computerized point-of-sale (POS) system for its cafeteria cash collection and recording process. Each of the District's five cafeterias has two cash registers operated by cashiers who are responsible for moneys collected at their respective registers. One cashier in each building is designated as the head cashier. On a daily basis, all cashiers count their money and input their cash count into the POS system. After they set aside their start up money for the next day, the remaining money is then turned over to the head cashier at each building.

The head cashiers at the three elementary schools prepare and make their respective cafeteria's daily deposits. Then they forward a copy of their deposit slips to the Business Office and retain a copy of the deposit slip for their records. The secretary to the food service manager prints a daily sales report from the computer system for each cafeteria indicating each cashier's sales, pre-payments received, and cash count. However, no one compares the daily sales reports with the moneys deposited by the elementary school head cashiers to verify that all the moneys collected were deposited in the bank.

Rather than make deposits directly in the bank, the head cashiers at the high school and middle school bring their money to the food service manager's secretary each day. The secretary recounts the money, compares the amount received to the amount reported on the daily sales report, prepares the deposit slip and makes the deposit. The secretary does not count the money in front of the head cashier nor does she issue a receipt to the cashiers to document the transfer of funds. The secretary staples a copy of the deposit slip to the daily sales report, files the report, and forwards a copy of the deposit slip to the Business Office so it can be recorded in the central accounting records. No one outside of the cash handling process confirms that the secretary deposited all the funds she received from the high school and middle school cafeterias.

The food service manager has provided her secretary with full access to the POS system which gives her the ability to adjust daily sales reports and void sales. Such adjustments and voids are tracked by the computer system and will appear on adjustment and void reports, however, the food service manager stated that she never prints or reviews these reports. Because the secretary receives cash and makes deposits for the high school and middle school, does not issue receipts for the moneys she collects, and has the ability to make changes to the daily sales reports, it would be very difficult to establish individual accountability in the event of a cash shortage.

Vending Machine Receipts – The District has three vending machines located at both the high school and middle school cafeterias that dispense milk, snacks and ice cream. Each day, a cashier from each building stocks the vending machines, manually records the sales reading from each machine on a vending report, and collects the money from the machine. The cashiers do not count the money from each of the three machines individually. Instead, they count the total moneys collected from all three machines and compare the total to their calculated daily sales for the three machines combined. The cashiers then complete a deposit slip, retain one copy for themselves, and remit the money and duplicate deposit slips to the food service manager's secretary. The secretary recounts the money, makes the deposit and forwards a copy of the deposit slip to the Business Office. The secretary does not count the money in front of the cashier nor does she issue a receipt to the cashier remitting her the money. No one independent of the cash handling function verifies that the secretary deposited all of the vending machine moneys in the bank.

The failure of the food service manager to provide supervision over the cash depositing and record keeping duties performed by her secretary allowed the risks associated with the lack of segregation of duties over cafeteria and vending machine receipts to continue

though compensating controls were possible through closer oversight. The food service manager stated that she was not aware of the risk associated with her secretary performing these duties without supervisory review. During our fieldwork, the District took some steps to strengthen internal controls by requiring the elementary school head cashiers to forward a copy of their daily deposit slip to the secretary so the secretary can reconcile deposits with the daily sales reports. Also, the head cashiers at the middle and high school began issuing receipts to the food service secretary showing the amount of money each remitted to her for deposit.

As a result of the cash receipt control weaknesses discussed above, there is an increased risk that cash could be misappropriated and go undetected. To address this risk, we examined 32 days of cafeteria sales for each of the five cafeterias totaling \$89,503 and 32 days of vending machine sales at the high school and middle school totaling \$6,747. We compared the sales recorded and cash collected shown on daily sales reports and vending machine reports to deposits shown on District bank statements for the same period. In addition, we reviewed adjustment and voided sales reports for the period July 1, 2006 to January 25, 2008. While our testing did not identify any significant discrepancies between cash sales and deposits made, this does not diminish the need for District management to segregate the cash handling, recordkeeping and cash reconciliation duties and provide mitigating controls such as supervisory review of the work performed by the food service manager's secretary.

## **Recommendations**

1. District officials should ensure that the functions of cash handling and recordkeeping are adequately segregated.
2. Someone independent of the cash collection and depositing process should compare daily sales reports with bank deposits and periodically review cash receipt adjustment reports and void reports.
3. District officials should ensure that employees issue and retain duplicate receipts when cash changes hands from one employee to another.
4. Cashiers should count the money received from each individual vending machine prior to combining the sales from the machines for deposit.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Carthage Central School District

Administrative Offices  
25059 County Route 197  
Carthage, NY 13619  
Phone: 315-493-5000  
Fax: 315-493-6252  
www.carthagecsd.org

Michael G. Powers  
Assistant Superintendent for  
Business  
mpowers@carthagecsd.org

April 10, 2008

Office of the State Comptroller  
[REDACTED]

Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202

Dear [REDACTED]:

I am writing this letter to address the comments and recommendations that were made known to the District in a letter dated March 18, 2008. Also, these items were discussed on March 26, 2008 at the Great Bend Building, District Office, in an exit discussion conducted by [REDACTED].

In attendance at this meeting from the District were the following: John Peck, President-Carthage Central School District Board of Education, Tina Soukup, Vice President-Board of Education, Board Members Leo Keenan, Barbara Lofink, Paul Marolf. Also in attendance were Carl Militello, Superintendent, Michael Powers, Assistant Superintendent for Business, Joseph Catanzaro, Assistant Superintendent for Curriculum 7-12, Jan LaRock, Assistant Superintendent for Curriculum K-6 and Amy Marrocco, District Treasurer.

Our responses to your recommendations are as follows:

1) District officials should ensure that the functions of cash handling and recordkeeping are adequately segregated.

- The Food Service Director will review reports and print-outs on a weekly basis from the [REDACTED] being used by our Food Service Department. She will review printed reports of all voids and adjustments made in the system for accuracy and purpose.
- We are addressing recommendations 2, 3 and 4, which will also ensure that the functions of cash handling and recordkeeping are adequately segregated.
- We intend to begin these changes immediately and believe these actions will improve our system of checks and balances.

2) Someone independent of the cash collection and depositing process should compare daily sales reports with bank deposits and periodically review cash receipt adjustment reports and void reports.

- The Food Service Director will review deposit slips and reports on a daily basis from the high school and middle school cashiers. This will ensure that the deposits of funds from the cashiers given to the food service secretary are accounted for in an accurate manner.
- The Food Service Director will also review daily deposits and print-outs from each building, including the three elementary buildings.

3) District officials should ensure that employees issue and retain duplicate receipts when cash changes hands from one employee to another.

- We will begin immediately to have the cashier's money from the middle school and high school be counted by the food service secretary in front of the cashier and issue duplicate receipts signed by both parties. The cashier's receipt will be forwarded to the District Business Office and retained where it will be checked against the bank statement records on a monthly basis for accuracy. This will take effect immediately.

4) Cashiers should count the money received from each individual vending machine prior to combining the sales from the machines for deposit.

- The money from each vending machine will be counted separately. The money will be taken to the food service secretary where it will be counted again and a receipt signed by both parties will be issued. A copy of the receipt will be forwarded to the District Business Office where it will be compared monthly to the bank statement. The readings from each vending machine will be compared each month by the Business Office for accuracy.
- We will also alternate the food service workers daily who open the vending machines, record the machine count and count the money each day.

The District plans to put these procedures in place immediately and will present these items to the Board of Education for their information and formal approval at the next Board of Education business meeting scheduled for May 12, 2008.

We will forward a copy of the board resolution to your attention when acted upon for your records.

If you need additional information or have any questions, please contact me.

On behalf of the District I would like to state that we appreciate the constructive recommendations presented to us in the March 18, 2008 letter. We believe these added measures will result in better controls for our food service department.

Very Truly Yours,



Michael G. Powers  
Assistant Superintendent for Business

MP/td

C: Superintendent Carl H. Militello  
John Peck, Board of Education President  
Tina Soukup, Board of Education Vice President  
Leo Keenan, Board of Education Clerk  
Paul Marolf, Board of Education  
Chris Kamide, Board of Education  
Lori Habermann, Board of Education  
Barbara Lofink, Board of Education

## 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, payroll and personal services and information technology.

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 objective and scope by selecting for audit those areas most at risk. We selected cafeteria receipts for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We interviewed appropriate District officials and employees and observed cafeteria and vending machine operations in order to obtain an understanding of the District's cafeteria cash receipts process.
- We reviewed daily sales reports generated from the POS system and vending machine reports for 32 days during our audit period for all five cafeterias and compared recorded receipts to deposits on monthly bank statements.
- We reviewed adjustment and voided activity reports generated by the POS software for the period July 1, 2007 to January 25, 2008.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Steven J. Hancox, Deputy Comptroller  
John C. Traylor, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BUFFALO REGIONAL OFFICE**

Robert Meller, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates  
counties

**SYRACUSE REGIONAL OFFICE**

Eugene A. Camp, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence counties

**BINGHAMTON REGIONAL OFFICE**

Patrick Carbone, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins  
counties

**GLENS FALLS REGIONAL OFFICE**

Karl Smoczynski, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,  
Montgomery, Rensselaer, Saratoga, Warren, Washington  
counties

**ALBANY REGIONAL OFFICE**

Kenneth Madej, Chief Examiner  
Office of the State Comptroller  
22 Computer Drive West  
Albany, New York 12205-1695  
(518) 438-0093 Fax (518) 438-0367  
Email: [Muni-Albany@osc.state.ny.us](mailto:Muni-Albany@osc.state.ny.us)

Serving: Albany, Columbia, Dutchess, Greene,  
Schenectady, Ulster counties

**HAUPPAUGE REGIONAL OFFICE**

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau, Suffolk counties

**NEWBURGH REGIONAL OFFICE**

Christopher Ellis, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725  
(845) 567-0858 Fax (845) 567-0080  
Email: [Muni-Newburgh@osc.state.ny.us](mailto:Muni-Newburgh@osc.state.ny.us)

Serving: Orange, Putnam, Rockland, Westchester  
counties