



South Lewis Central School District Internal Controls Over District-Operated Vending Machine Receipts

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2008

2008M-212



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 South Lewis Central School District, entitled Internal Controls Over District-Operated Vending Machine 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 South Lewis Central School District (District) is located in the Towns of Turin, West Turin, Osceola, Leyden, Lyonsdale, Greig, Watson, and Martinsburg in Lewis County. The District is governed by the Board of Education (Board) which comprises nine 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 are four schools in operation within the District, with approximately 1,100 students and 230 employees. The District's budgeted expenditures for the 2007-08 fiscal year were \$22.3 million, which were funded primarily with real property taxes, State aid, and grants.

The school lunch manager is responsible for oversight and management of the District's school lunch program, which includes ensuring that District-operated vending machine cash receipts are collected and accounted for properly. Gross revenues for the 2006-07 and 2007-08 fiscal years totaled approximately \$14,000 annually.

Objective

The objective of our audit was to examine the internal controls in place over District-operated vending machine receipts. Our audit addressed the following related question:

- Are internal controls over the collection of District-operated vending machine 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 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 District-operated vending machine receipts and, therefore, we examined internal controls over District-operated vending machine receipts for the period July 1, 2006 to June 30, 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 is 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

District-Operated Vending Machine Receipts

An effective system of internal controls over vending machine receipts requires a system to monitor and reconcile total sales to items stocked and disbursed. One way this can be accomplished is to compare cash collected to counter readings that track vending machine sales. Additionally, when cash is transferred between District employees, a duplicate receipt should be submitted and retained by both parties. The failure to monitor and reconcile total sales to items stocked and disbursed and the absence of a duplicate receipt being submitted when cash from vending machines is turned in weakens internal controls and increases the risk that errors and/or irregularities might occur and go undetected.

District managers have not established adequate internal controls over District-operated vending machine cash receipts. Specifically, proper oversight of cash handling at the collection and initial submittal stage is not being performed and there is no duplicate receipt being submitted and retained when cash is turned in. As a result, there is an increased risk that vending machine receipts could be misappropriated and this misappropriation could go undetected by management.

The District has four vending machines located outside the library and at the middle/high school cafeterias that primarily dispense juice and water. The school lunch manager supervises the vending machine operations. A teacher's aide oversees a group of special education students who count, order, and restock the machines. The teacher's aide periodically collects the cash from the machines and places the money in a locked bank deposit bag with a note indicating the total. The following day, a food service helper recounts the cash and prepares the bank deposit slip. A copy of each deposit is included in a weekly summary sheet provided to the Treasurer. Another District employee brings the deposit bags to the bank for deposit. The bank sends a deposit receipt directly to the Treasurer. The teacher's aide does not count the cash in the presence of another District employee, nor does another District employee periodically compare vending machine counter records with corresponding bank deposits. Additionally, there is no process in place to effectively monitor and reconcile vending machine sales to items stocked and disbursed. Furthermore, a duplicate receipt is not issued to the teacher's aide by the food service helper.

The failure to provide proper supervision over the vending machine cash collection process increases the risk that vending machine collections could be misappropriated. The school lunch manager

indicated that she was not aware of the risk associated with the teacher's aide and the food service helper performing these duties without supervisory oversight and review. To address this risk, we examined the profitability of the District-operated vending machines for the 2006-07 and 2007-08 fiscal years, by comparing total vending machine receipts to total vending machine purchases for each fiscal year. We reviewed vending machine purchases and sales recorded in the District's financial system and compared them with total vending machine capacity for October 2007.

Additionally, we compared deposit slips to bank deposit receipts and bank statements for October 2007. Our testing disclosed that the District-operated vending machines were profitable, receipts were reasonable, and no irregularities were identified. However, this does not diminish the need for District management to provide proper oversight of the cash collection and submittal process.

Recommendations

1. The school lunch manager should ensure that either the teacher's aide count vending machine cash in the presence of another District employee, or that someone independent of the vending machine operation periodically compares bank deposits with corresponding vending machine counter records; any significant variance should be investigated.
2. The school lunch manager should ensure that someone independent of the vending machine operation periodically compares bank deposits with items stocked and disbursed; any significant variance should be investigated.
3. District officials should ensure that employees issue and retain duplicate receipts when cash is transferred from one employee to another.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

South Lewis Central School District

Mr. Frank C. House, Superintendent
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October 28, 2008

[REDACTED]
Division of Local Government and School Accountability
State office Building, Room 409
333 East Washington Street
Syracuse, NY 13202-1428

Dear [REDACTED]

The South Lewis School District agrees with the New York State Comptroller's audit findings.

Procedures Implemented As A Result Of Audit Findings

1. Two District employees count the cash removed from the vending machines. The counting is always witnessed by another employee. A newly designed vending machine deposit data sheet is used by employees for removing cash and restocking the machines. It utilizes the vending machine meter readings to compare the actual cash removed from each machine. It also lists the amount of product being replaced to fill the machine.
2. The vending machine deposit data sheet with a copy of the deposit slip is turned in to the District Treasurer regularly by the cafeteria office employee. The Treasurer compares the meter readings to the cash removed and deposited and also looks for any significant variance in the amount of product refilled.
3. A cash receipt is issued to the employee removing cash from the vending machine by the cafeteria office employee who deposits the cash.

Sincerely,



Frank C. House
Superintendent

cc: Board of Education
D. Premo, Deputy Superintendent
B. Yette, Business Manager
K. Watson, Treasurer

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 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 those areas most at risk. We selected District-operated vending machine 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 vending machine operations in order to obtain an understanding of the District's vending machine receipt process.
- We reviewed purchases and sales recorded in the District's financial application specifically for the vending machines for 2006-07 and 2007-08 fiscal years.
- We reviewed vending machine purchases and sales recorded in the District's financial application and compared them with total vending machine capacity for October 2007.
- We reviewed vending machine sales recorded in the District's financial application and compared them with prepared deposit slips, bank deposit receipts, District weekly summary reports and deposits on the monthly bank statements.

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.

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APPENDIX D

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

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