



**DATE:** August 8, 2013

**To:** Board Of Estimate & Taxation Audit Committee Members

**From:** The Internal Audit Department

**Subject** Internal Audit of Selected Activities of the Greenwich Board of Education's School Breakfast and Lunch Program.

Enclosed for your review is Internal Audit's report entitled: "Internal Audit of Selected Activities of the Greenwich Board of Education's School Breakfast and Lunch Program". The report contains observations and recommendations addressing internal control issues involving (1) segregation of functions, (2) processing, (3) hardware considerations for cash registers and cameras and (4) general administrative concerns.

The report's audit scope describes the time period for the review of audit records. The Opinion Section provides our overall summary. Background information, data and details have been disclosed through inserted tables and written explanations.

We have requested responses to our observations and recommendations from the Board of Education. These responses are listed after each recommendation in the body of the report. We would like to express our appreciation for the excellent cooperation extended to us by the personnel of the Greenwich Board of Education.

Enclosure  
cc.

B. Branyan, Managing Director of Operations  
J. Crary, Town Administrator  
J. Hopkins, Food Service Director  
P. Mynarski, Comptroller  
W. McKersie, Superintendent of Schools

**TOWN OF GREENWICH  
INTERNAL AUDIT**

**Internal Audit of Selected Activities of the Greenwich  
Board of Education's School Breakfast and Lunch  
Program.**

## **Audit Scope and Objectives**

The Internal Audit Department recently completed a review of the Greenwich Board of Education's School Lunch Program for the period of July 1, 2010 through June 30, 2013. The Board of Education's School Lunch Fund operates fifteen schools consisting of eleven elementary schools, three middle schools and one high school serving breakfast, lunch and a la carte items for all students, teachers and staff members. The initiation of this audit review was requested by the Managing Director of Operations of the Board of Education as a result of alleged malfeasance at the Julian Curtis elementary school.

The objective of this review was to determine if the internal controls in place were adequate to safeguard the cash and cash equivalent assets generated by the program. The entire Food Service Program generates approximately \$3.6M in revenue. Internal Audit determined that the revenue generated by the program was significant enough to perform a substantial number of audit tests. Tests were performed to discover abnormalities. Additional tests were performed to document the practices followed to allow us to determine if internal controls practiced were adequate. Analytical reviews were conducted to determine if trends disclosed allowing us to perform more extensive tests in specific areas. Physical inspections were conducted at six Board of Education facilities, Hamilton Avenue, Julian Curtis, Parkway, Riverside, Western Middle School and Greenwich High School. The facilities were selected based on the trend data disclosed from the analytical reviews conducted. The review of analytical data included historical trends for total revenue, cash received and the cost of produced goods expressed as a percentage of total revenue. The physical inspections conducted at each facility included observing the accumulation of an entire day's receipts and the reconciliation practices performed. Interviews were conducted with employees at the facilities as well as with administrative personnel at Havemeyer. As with any system wide internal controls review, oversight practices employed at the administrative level were reviewed to determine the effectiveness of management's review of operational data, a critical element of any internal control practice with oversight responsibilities for a process involving many small transactions.

## **Findings and Opinion**

It is Internal Audit's findings that internal controls over cash receipts for the program are not adequate. This is not due to lack of effort by management of the Food Service Division. It is our distinct opinion that most of the issues with internal controls are as a result of inadequate hardware and the need for an employee rotation policy. The Supplemental Nutrition Assistance Program software known as "SNAP" provides significant information to enable transactions to be monitored in an automated environment. Our first focus for "hardware" centers on the cash registers. The registers are obviously old but more importantly these machines do not have pop up display screens, do not issue paper receipts and are easy to physically open. The condition of the machines varies throughout the District but we think we are fair in characterizing the overall condition of these machines as poor. Some of the most basic tenets of internal controls over a cash register environment are not enforceable because of the inadequate hardware. Another major area where hardware is lacking is the use of cameras to monitor register transactions. Cameras are one of the most important devices to guard against non-recorded receipts. In a non-hardware impacted area of internal controls, it is our observation that internal control practices

would be greatly enhanced if the Program would consider a more aggressive policy for rotating Food Service employee's responsibilities. This tactic is commonly used in the cash receipts environment and internal controls over the Food Service Program would be well served by implementing such a policy. We would urge consideration of a plan that would include rotation on an interschool basis. These points and other recommendations are included in this report.

One of the methods that auditors and consultants use to mitigate the need to make recommendations that may be burdensome and costly is to review historical data. If the data shows smooth trends with little variation by school, some of the recommendations made could be eliminated. Another method to eliminate the need to implement recommendations is due to the value of the transactions. Still another reason to potentially eliminate the need to implement recommendations is that other variables enter into the "equation" which could lead to a conclusion that the strictly "cash recommendations" made in this report are not a priority necessity. The argument could be made that production costs expressed as a percentage of revenue by school could be influenced by production efficiency among the schools or inventory management practices. While this does not explain cash variances, it could explain production costs expressed as a percentage of revenue variances. We were not able to detect any discernible differences in production methodologies or inventory management among the schools. Therefore, we were not able to eliminate recommendations for any of the reasons noted in this paragraph.

It is also important to note that we did not detect any direct evidence that a potential malfeasance situation existed. Our surprise test counts did not provide any overwhelming evidence in this area. Observing fraudulent transactions is difficult for auditors due to our known presence on the day of a physical observation. Due to the weak internal control environment, the elements are in place for such activities.

## **Summary of Recommendations:**

### **Recommendation I:**

**The BOE should give serious consideration to replacing the cash registers at all facilities. If new machines are purchased, pop up read out transaction displays and the ability to produce receipts should be included features.**

### **Recommendation II:**

**Receipts should be provided to all customers at each cafeteria**

### **Recommendation III:**

**Control of the physical ability to access cash registers should be limited. Cashiers should be supplied keys only for the machine they operate.**

### **Recommendation IV:**

**Cashiers should be instructed not to use the delete key to erase previously entered transactions. The practice of not pressing the amount tendered key to clear previously entered transactions should be disallowed.**

### **Recommendation V:**

**Void and credit sales should be approved by supervisory personnel. A practical threshold should be established to make this recommendation operationally feasible.**

### **Recommendation VI:**

**The mechanical ability of the cashiers to process voids and credits transactions should be eliminated**

### **Recommendation VII:**

**For the elementary and middle schools, reconciliation documentation should be forwarded to Havemeyer on a daily basis. This should include the daily deposit tickets, SNAP correction forms, Cash Tally Form and the daily SNAP Sales and Meal Count Report.**

### **Recommendation VIII:**

**Prepayments at the elementary and middle schools should not be processed and receipted by cashiers. Preferably, administrative employees should be recording these transactions.**

### **Recommendation IX:**

**Where possible, security over receipts should be enhanced to provide for safe storage only accessible by the cashier and a limited number of official supervisors.**

### **Recommendation X:**

**The BOE Food Service's Division should conduct self-audits of cash register transactions.**

### **Recommendation XI:**

**The BOE should give very serious consideration to installing cameras to monitor cash register activities at all the cafeterias.**

### **Recommendation XII:**

**The BOE should seriously consider a rotation policy for employees who operate the cash registers.**

## Historical Trends

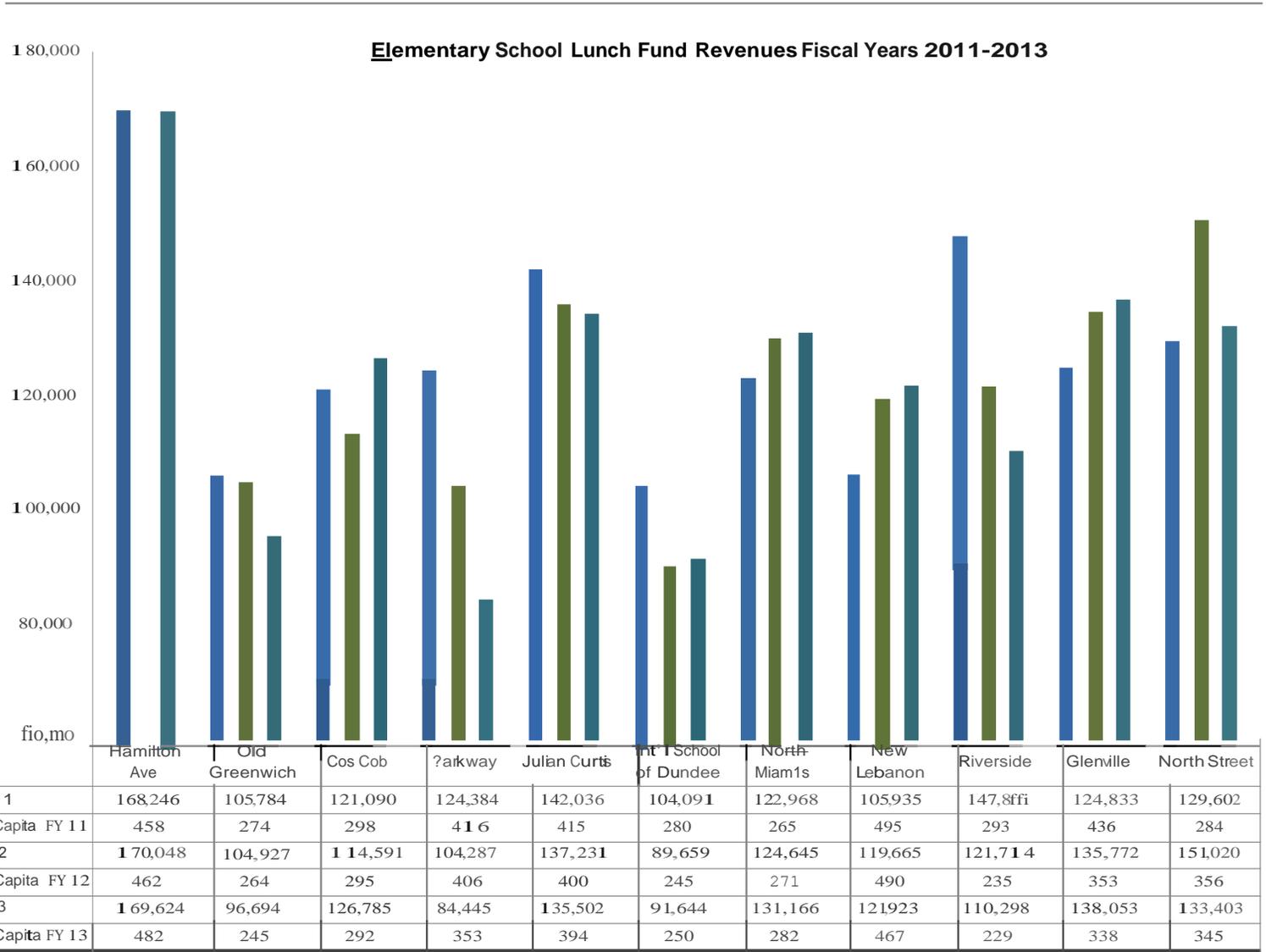
As noted in the Opinion Section above, Internal Audit performed numerous detailed tests and physical observations in an attempt to discover abnormalities. In addition to these tests, we analyzed historical data to attempt to identify areas of interest. Two areas of significant trend analysis for this Program, involve revenue received by individual school and the cost of production expressed as a percentage of revenue for each school. Revenue fluctuations can be used as a predictive tool for where potential problems may be occurring. Cost of production as a percentage of sales is a similar analytical tool. In a relatively controlled market with similar production operations and pricing models the cost of production expressed as a percentage of revenue can also be used as an effective tool to predict shortfalls in cash balances. Revenue fluctuation is, however, the strongest predicative tool as the cost of production percentages are influenced by operational factors (e.g. waste). What follows are charts on revenue and cost of production trends with analysis. The variation in the data indicates a pattern that does not provide management with an acceptable comfort level that the program is being consistently applied over all the schools. We use this as additional background information to support the internal control recommendations made in this report.

### Revenue Charts:

This Chart discloses little variation between years for some schools and significant variation for others. The menus are controlled with universal pricing throughout the system. School enrollment by facility is relatively stable. This is the almost perfect "controlled" financial model where little variation would be expected. In fact, for some of the schools there was virtually none. The problem for the Program is that some schools showed significant variation, which is difficult to explain. For revenue totals comparing Fiscal 2011 and 2012 results, the standard deviation for the sample is approximately 10% with three schools showing variations in excess of 15%. For the period comparing Fiscal 2012 and Fiscal 2013 the standard deviation was approximately 9% with five schools showing variation of approximately 10 % and one school at 23.5%. There was a small price increase for Fiscal 2013, which makes the downward variation for some schools even marginally less explainable.

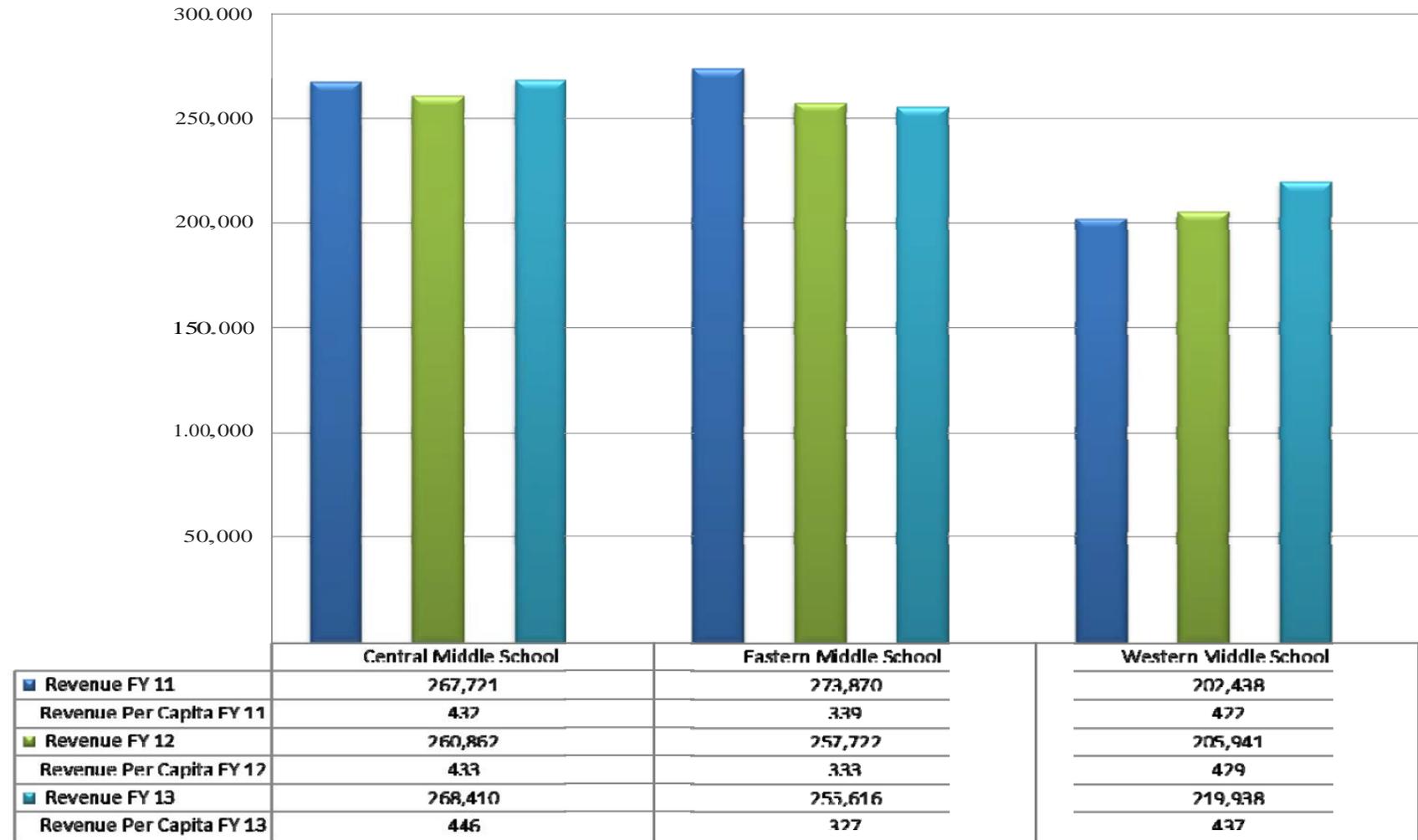
# Historical Revenue Chart

## Chart I



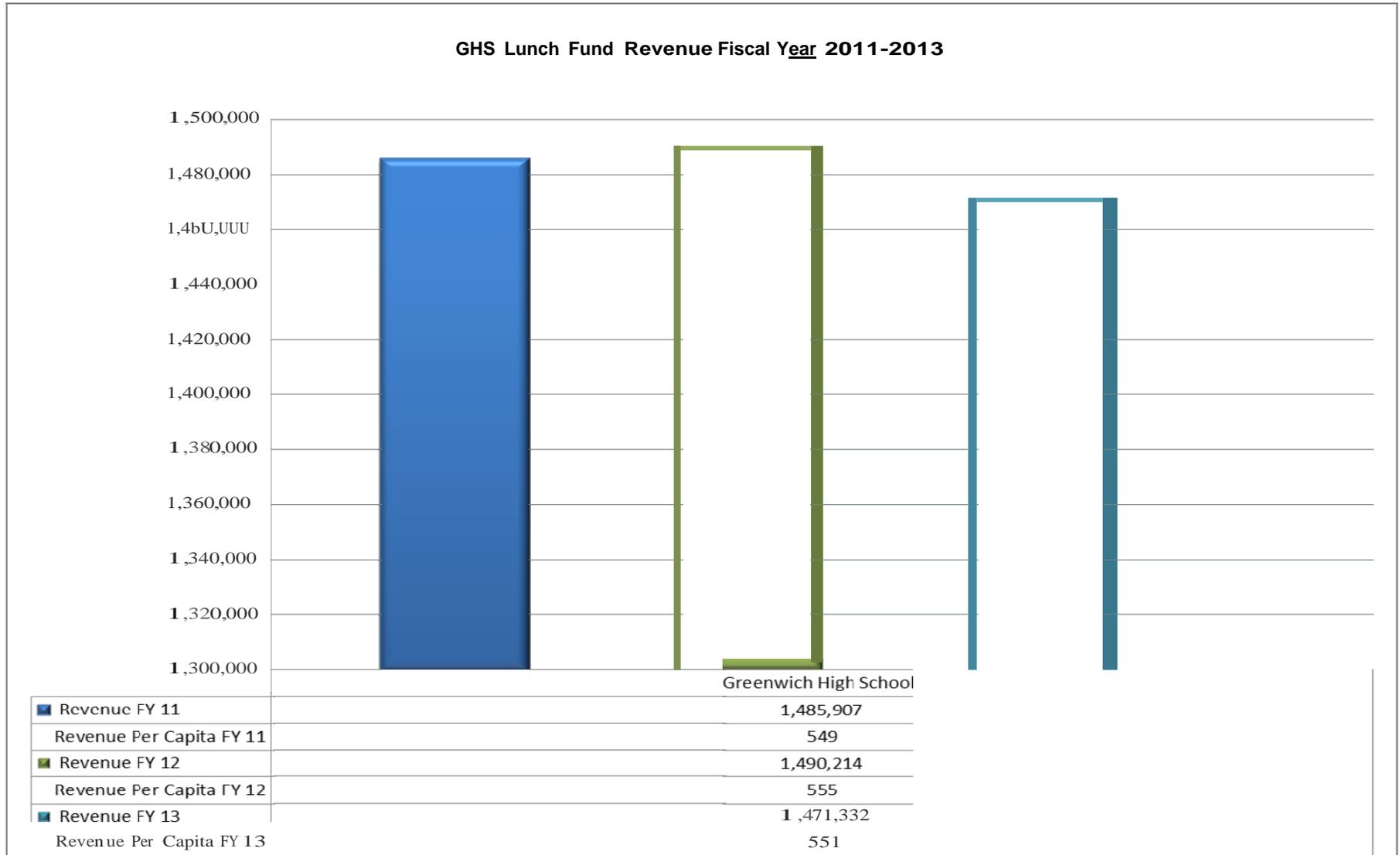
Historical Revenue Chart  
Chart II

Middle School Lunch Fund Revenue Fiscal Year 2011- 2013



# Historical Revenue Chart

## Chart III



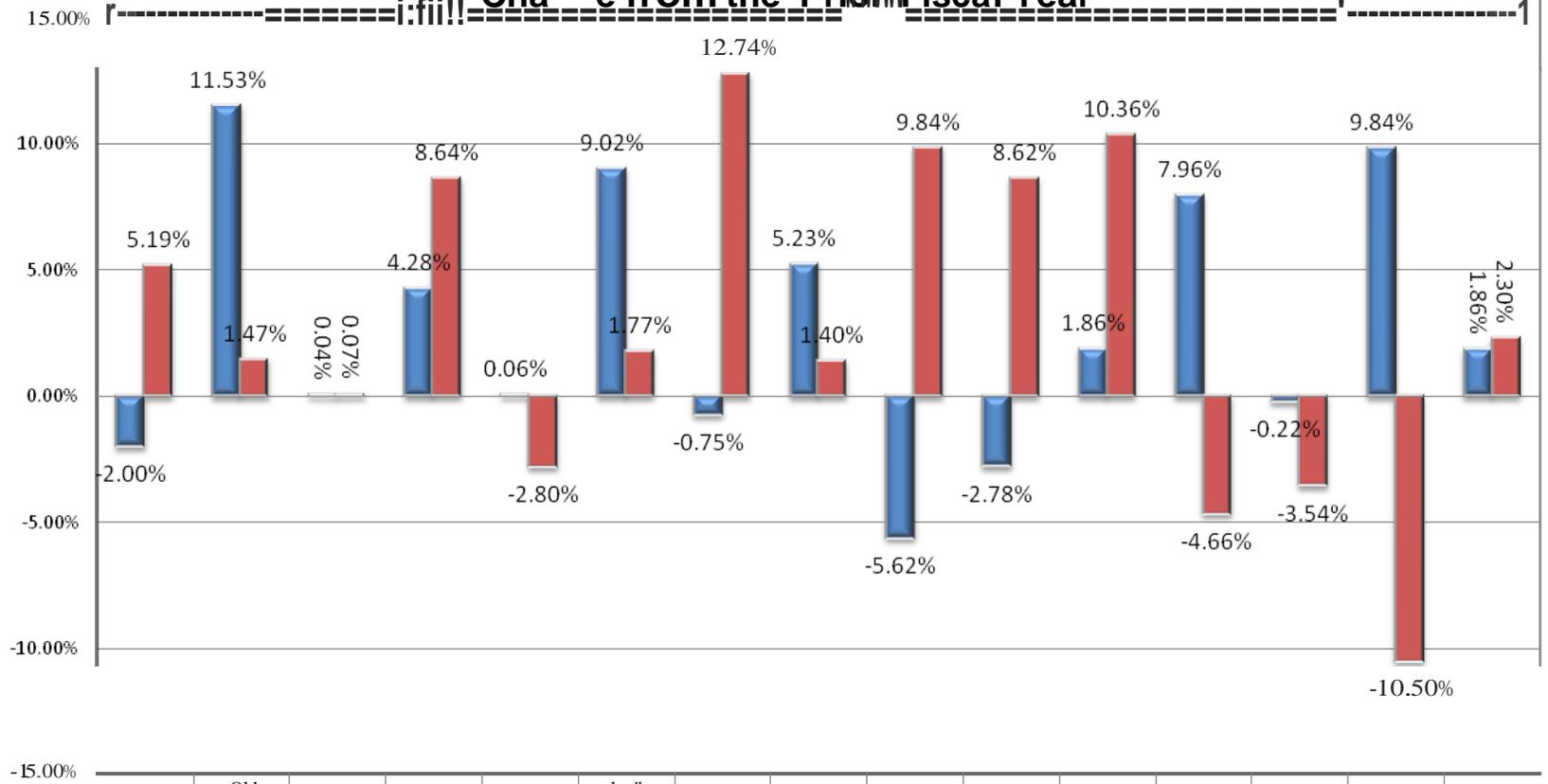
### Cost of Production as a Percentage of Revenue Chart:

This Chart allows comparisons between periods as well as comparisons between schools. The overall percentage of cost of product versus sales (known in a commercial environment as cost of goods sold) should be comparable across the schools. Similar to the Revenue Chart, the fluctuations between periods for an individual school is also comparable.

As the Chart indicates, the cost of production varies among the schools. The standard deviation among the schools is approximately ten percent. Simply, the average percentage of variation is approximately ten percent from the arithmetic average of the total sample. Volatility for the schools includes four schools outside one standard deviation and one school, the GHS, outside of two standard deviations. This would be considered a volatile sample for such a controlled environment. For comparisons of the same school for Fiscal 2011 and Fiscal 2012, four schools experienced a product cost percentage increase of ten percent despite an average increase for the whole program closer to three percent. From Fiscal 2012 to Fiscal 2013, six schools experience production cost as a percentage of revenue in excess of eight percent despite the fact that the overall program percentage rose only one percent. The combinations can be complicated but the conclusion is that the analytical trend does not provide comfort to management. Once again, it is our opinion that a significantly increased comfort level can be obtained if the recommendations listed in this report are implemented.

**Cost of Production Chart**

**Cost of Production as a Percentage of Sales: Expressed as Percentage Change from the Prior Fiscal Year**



	Ham Ave	Old Greenwich	Cos Cob	Parkway	Julian Curtis	Int'l School of Dundee	North MiamIs	New Lebanon	Riverside	Glenville	North Street	CMS	EMS	WMS	GHS
Change over FY 12 & 11	-2.00%	11.53%	0.04%	4.28%	0.06%	9.02%	-0.75%	5.23%	-5.62%	-2.78%	1.86%	7.96%	-0.22%	9.84%	1.86%
Change over FY 13 & 12	5.19%	1.47%	0.07%	8.64%	-2.80%	1.77%	12.74%	1.40%	9.84%	8.62%	10.36%	-4.66%	-3.54%	-10.50%	2.30%

### **Additional Background Information**

As noted in the Introduction Section of this report, the BOE requested that an internal audit be conducted for the revenue management process for the Food Service's Division. This proactive position by the BOE is a positive step, as Internal Audit is an additional management tool available to the BOE to help insure that good practices are followed. The request came after the discovery of an unusual pattern of revenue entries for sales at the Julian Curtiss Elementary School. The transactions in question revolved around lower than expected cash receipts and higher than expected charges to State of Connecticut's subsidized food programs. The pattern noted appeared to indicate that the physical cash for cash sale transactions was not being put into the cash register. To cover missing revenue, State of Connecticut Free and Reduced food service programs were charged. The assumption is that charges to the State Program were made to student account ID's that were very familiar to the cashier. It is assumed that the charges to the State account involved students who had brought in their own breakfast or lunch for the day and would have no charges to the State Program for the day. This way nothing unusual was noted to State charges or daily revenue. The process was sophisticated, as the total revenue and the cost of production as a percentage of revenue were not affected. Only drilling down to detailed daily records by individual cashier and noting comparable trends of actual cash received might have detected this anomaly. In fact, the trend was only detected after the employee in question was absent on a brief medical leave. Recommendation XII in this report, addresses the need for rotation of employees.

Addressing how daily transactions are processed, at the commencement of a work day, cashiers are required to open the cash registers, which are stocked with a predetermined start-up cash fund. The cashiers obtain the cash drawers from secured locations. Cashiers are responsible for counting the start-up cash at the beginning of each shift. All sale transactions are entered into cash registers that are integrated into a district wide software program called SNAP. Cashiers will verbally inform the customer of the total amount. There are no pop up point of sale screens or physical receipts. Payment can be made via cash or by entering a pin number permitting customers to charge versus a prepaid balance. If there are any prepayments during the course of the day, it set aside for posting at the end of the day or when time permits during the course of the shift. At the end of the business day, the cash drawer and its content is taken to an office or secluded area to count the amount of cash and checks processed through their register. These amounts are reconciled to reports that detailed the day's transactions. The main report used is the Sales and Meal Count Report from the SNAP software. At the Greenwich High School the reconciliation process is performed by an employee other than the cashier. After completion of the reconciliation, the cashiers are responsible for completing a deposit ticket. Cash and checks along with the deposit ticket are put into a bank bag. Deposits are made daily by the warehouse drivers.

### **Cash Register Hardware Issues: Machines, Keys, Receipts, etc.**

The BOE's School Lunch Fund currently has cafeteria operations at each school. The elementary basically operate with one register, the middle schools with two and the High School has thirteen registers. Our visual and operational observations of the cash registers include some basic concerns that hinder internal controls. The registers, in many cases, are old and do not contain many of the modern control features associated with proper internal controls. Some of our observations are as follows:

1. The registers do not have point of sale display readout information.
2. The registers do not produce automated receipts.
3. The registers are easy to open manually without keys.

Additionally, we noted that the drawers on these old machines open just by touching the outside of the drawer. There is no key required for opening a cash drawer. Any passerby can easily open a cash drawer. This is a major fundamental weakness in internal controls. A strong internal control practice, assigns responsibilities to individuals for maintaining proper cash balances and documentation. It is Internal Audit's opinion that it is difficult to fault an individual for custody of cash assets if it is extremely difficult to secure such assets. The proper way to control cash registers is by assigning keys to a very limited group of employees. For example, only the register custodian and the supervisor would have a key.

1. Greenwich High School – Thirteen Registers: We would envision that at the High School each cash register custodian be assigned a key for their machine with a backup key being assigned to the Food Service Manager. With new cash registers, the ability to make this restriction is readily available.
2. Middle Schools – Two Registers: We would envision that each cash register custodian be assigned a key, similar to the High School. Since there is not Food Service Manager at the middle schools, when there is a need to get a register opened, it would be the requirement of someone in administration to open the machine – not the other cashier or food service workers.
3. Elementary Schools – One Register: Since there is only one register, the controls are compromised further due to the need to have the one register open at all times. We would envision that the key here would be available to the cash register custodian assigned for the day with a backup key made available to a responsible employee who normally does not have register responsibilities. This could be someone in administration but it would be understandable that the backup employee would need to be immediately available.

### **General note on cash readout displays and cash receipts.**

Please note the following State Statute that requires either a conspicuous readout platform or receipts for commercial organizations.

#### **Connecticut General Statutes 42-115t - Cash register read-outs to be visible to consumer. Violations. Enforcement**

(a) No person, partnership, association or corporation shall use in the ordinary course of business any cash register or machine or device of similar function which does not produce a readout conspicuous to the consumer on the front or back of such register. The requirements of this section shall not apply to any . . . . when a receipt is given at the time of the sales transaction with a sales slip, receipt or similar document which describes the item purchased. For the purposes of this section, the item description requirement shall be satisfied by a statement designating: (1) the department in which the item is purchased, (2) a classification of items which includes the item purchased or (3) an inventory control or similar number which corresponds to an identical number appearing on the price or other tag or label affixed to the item.

Internal Audit obtained an opinion from the Law Department that the statute does not apply to municipalities. Despite the lack of a legal obligation, it is our opinion, that the Statute addresses sound business practices that the Town should consider adopting

### **Cash Receipts:**

One of the simplest but most important elements in preventing malfeasance over cash transactions that involve an end user customer is to provide a customer with a receipt. We have previously cited State Statute that requires that the cash register have a readout display or the cashier issue a receipt for the amount of the transaction. The most common theft of cash occurs when the transaction is not rung up (recorded) in the register. These types of unrecorded transactions quickly accumulate and are difficult to trace due to a lack of source documentation. One of the most common methods to defend against these transactions is to require that a receipt be automatically produced and handed to the customer. It is considerably easier to observe a violation of this protocol than to watch for other potential issues. If a receipt is not issued a “red flag” could be noted. It is also important to note, that pop up transaction displays can record the entering of individual sale items but if the amount “tendered” is not pressed, the transaction as currently operating, will not be recorded. With newer machines this may not be a problem, however, a receipt is the easiest way to follow the entire individual entries and total amounts. We were informed that one of the concerns with issuing receipts is that the paper receipts may be discarded in a careless manner by some of the students. We note that in consideration of this item that this is a control procedure that will reduce the temptation to commit fraudulent transactions and will aid management in detecting such transactions.

### **Recommendation I:**

**The BOE should give serious consideration to replacing the cash registers at all the facilities. If new machines are purchased, pop up read out transaction displays and the ability to produce receipts should be included features.**

Based on the observations previously made in this report, it is our strong opinion that internal controls will never reach practical acceptable levels if the older cash registers are not replaced. New machines should have pop up displays and have the capability of issuing receipts.

**Response from the BOE:**

The BOE will conduct research to determine if such registers exist in the School Food Service Industry. It should be noted that the cash registers currently being used are part of a complex Student Nutrition Accountability Program that communicates with a software system specifically designed and approved to meet the guidelines of the USDA. The BOE will submit a CIP request for FY14-15 for an upgrade that could potentially be as high as \$60,000.

**Recommendation II:**

**Receipts should be provided to all customers at each cafeteria.**

One of the strongest controls to prevent unrecorded transactions is to require cashiers to provide a receipt to every customer. From our observations at the Middle Schools and the High School, we came to the conclusion that providing receipts would improve internal controls. While there are obvious concerns when dealing with the youngest at the elementary schools, it is still our opinion that the practice should be consistent throughout the school system. Issuing receipts helps close the transaction, which provides for stronger controls to prevent unrecorded receipts.

**Response from the BOE:**

The BOE will conduct research, as in Recommendation I, to determine if such registers exist in the School Lunch Industry.

**Recommendation III:**

**Control of the physical ability to access cash registers should be limited. Cashiers should be supplied keys only for the machine they operate.**

As previously noted, the current machines are easily accessible. If new registers are purchased, access keys should be provided to individual cashiers, only for the cash register they operate. If a cashier walks away from a cash register, they should take their key and lock their register. We understand that at the elementary schools this is a more difficult control step to implement since there is only one cash register. We note that even at the elementary schools there will be times that the register can be locked without impeding operational efforts.

### **Response from the BOE:**

The BOE agrees with the recommendation and will implement by month end December 2013.

### **Void and Credit Sales:**

Common transactions that test the integrity of internal controls occur with void and credit transactions. The current older cash registers also present a challenge for sales that are entered but are not recorded until the “amount tendered” key is pressed.

Amount tendered: currently, a cashier has the ability to delete a transaction before it is recorded if the cashier has not entered “amount tendered”. To explain through example, a student buys three items at one dollar an item, each item is entered into the machine but the transaction is not totaled and recorded until the amount tendered key is pressed. We observed at several of the schools visited, that a common practice of the cashiers, after entering individual sales items, is not to press the amount tendered key until the student produces enough cash. If adequate cash is not produced the cashier will not press the amount tendered key, effectively deleting the transaction with no entry recorded. The obvious implication is for an appearance of a properly recorded transaction is in place. This current feature aids a cashier who is not recording transactions by providing a “proper” appearance.

Void and credit sales: currently, the registers allow a cashier to delete a recorded transaction. These are transactions that the cashier has pressed “amount tendered” and the transaction has been recorded. Void and credit transaction can occur well after the original sale transaction occurred. For example, it could occur the next day. The process in place requires the cashier to fill out a correction form for void transactions processed through the machine. There is no threshold where the cashier has to obtain approval from a supervisory employee to process the void or credit.

### **Recommendation IV:**

**Cashiers should be instructed not to use the delete key to erase previously entered transactions. The practice of not pressing the amount tendered key to clear previously entered transactions should be disallowed.**

As previously explained, cashiers follow the practice of deleting transactions before entering the transaction into the system (amount tendered key). This frequently happens if the student does not have enough funds to pay for the sale. Proper internal control and cash management practices require that all transactions are entered and, if appropriate, reversed through a formal and documented procedure. For these transactions a void correction form would be processed.

### **Response from the BOE:**

The BOE has implemented this recommendation.

**Recommendation V:**

**Void and credit sales should be approved by supervisory personnel. A practical threshold should be established to make this recommendation operationally feasible.**

Currently, void and credit sales are processed by the cashiers without supervisory approval. Correction forms are completed and included with the day's reconciliation documentation. The supervisor does not approve the transaction. In a commercial cash management environment all voids and credits have to be approved by a supervisor. We are proposing to implement this control but realize that the practical ability to have supervisors approve every void, credit and mistake would be cumbersome. We propose that the Food Service Managers or the Account Clerk II, who is responsible for Food Service accounting, be responsible to approve all "reversals" over a reasonable threshold. We propose a two dollar threshold but are certainly agreeable to a higher amount if metrics prove that the administrative burden is too high. The administrative burden for these transaction is somewhat alleviated by the fact that every cashier's screen can be accessed by the Food Service Managers and the Account Clerk II. Through remote access the supervisory employees can approve these transactions.

The reconciliation documentation that is sent to Havemeyer for review should be done on a daily basis. Currently, only copies of checks and deposit tickets are forwarded by the schools to Havemeyer. While Havemeyer has access to the reports and can perform the reconciliation independently of the schools, strong internal controls would require that the documentation of the daily reconciliations be forwarded to Havemeyer.

**Response from the BOE**

The BOE has implemented this recommendation.

**Recommendation VI:**

**The mechanical ability of the cashiers to process void and credit transactions should be eliminated**

Practically, the best way for all employees to understand that void and credits transactions are going to be handled differently, is to eliminate the capabilities of the cashiers to perform this function. Without eliminating this capability, there is a strong possibility that credits and voids could be used to circumvent other newly implemented controls.

**Response from the BOE**

The BOE has implemented this recommendation.

**Reconciliations:**

Currently, only copies of checks and deposit tickets are forwarded to Havemeyer. This is performed on a weekly basis. Havemeyer does have the ability to view the reconciliation results but the actual documentation written to verify the over and short positions are not reviewed.

Effectively, Havemeyer does not see the documentation, so they cannot review, reconciliation documentation. This creates a control environment that cashiers will quickly come to understand that the correction they processed is not reviewed by supervisory personnel. The exception to this observation by Internal Audit is for the review of reconciliations at the High School. The High School's results are readily available for review by the High School's Food Service Manager. In fact, the High School cashiers do not reconcile their own day's work. This is done by administrative Food Service personnel.

**Recommendation VII:**

**For the elementary and middle schools, reconciliation documentation should be forwarded to Havemeyer on a daily basis. This should include the daily deposit tickets, SNAP correction forms, Cash Tally Form and the daily SNAP Sales and Meal Counts report.**

Currently, the control environment is weakened by the knowledge that the reconciliation data is not reviewed by supervisory employees for the elementary and middle schools.

**Response from the BOE**

The BOE has implemented this recommendation.

**Prepayments:**

Throughout the district, every student has the ability to make a prepayment toward purchasing food service items. The program is setup for breakfast, lunch and a la carte items. Typically, a student will approach the cashiers with cash or a check and the cashier will enter the amount into the SNAP system. Every student is assigned a PIN number to access the account and charge an item. At the elementary schools, for the youngest grades, the PIN number is frequently entered by the cashiers. At the middle schools and the High School the PIN numbers are exclusively entered by the students. The prepaid amounts for some days could be higher than the revenue transactions for the day. A stronger internal controls environment would separate these larger transactions from the cashiers who are primarily responsible for processing sales. We noted from field audit observations that the cashiers did not immediately process the prepayment due to the time constraints of the busy lunch hours. The High School already follows a practice similar to the one we recommend in Recommendation VIII by designating that one food service worker be responsible for prepayments. The remaining cashiers at the High School do not process prepayments.

**Recommendation VIII:**

**Prepayments at the elementary and middle schools should not be processed and receipted by cashiers. Preferably, administrative employees should be recording these transactions.**

Our opinion is based on control practices that does not mix large dollar receipts with smaller transactions and does not burden employees processing multiple transactions in a "busy" environment. Additionally, large dollar amounts are removed from the risk of an unrecorded transaction by a knowledgeable cashier. The discovery risk for a cashier of many smaller transactions is far greater than with one large transaction. The employee who is actually

recording the large transactions should not have as much knowledge of the students buying habits to know which accounts not to credit. The segregation of this function should enhance internal controls.

**Response from the BOE:**

The BOE has implemented the recommendation in the secondary schools, and is exploring the option in the elementary schools based on limited staff.

**Cash Security Controls:**

Internal Audit visited six school locations for the purpose of spot checking cash register transactions. With the exception of the High School, we did not observe that the cash drawers and overnight deposits were in the most secured locations. For several locations the cash drawers were secured in the Food Service freezers. Access to the freezer keys was not always secure.

**Recommendation IX:**

**Where possible, security over receipts should be enhanced to provide for safe storage only accessible by the cashier and a limited number of official supervisors.**

We understand the operational challenges for the district providing safety over receipts at all times. It is our observation and experience that an internal control environment is enhanced by appearance both real and illusory. We understand that a determined individual over time will probably gain access to receipts. The current storage method in some of the schools does not depict a strong control environment and may accelerate potential problems. The district should consider supplying safes, safe rooms or access to administrative safes within the schools.

**Response from the BOE:**

The BOE agrees with the recommendation and will implement by month end December 2013.

**Self-Audit Techniques:**

One of the most important internal control techniques for controlling cash transactions is to perform self-audits of balances, transactions, etc. For cash controls with registers, the process would include unannounced audits of cash balances during a transaction day. Many times cashiers will not record or under record receipts during a business day but will not physically take the funds until an opportunistic time occurs. Frequently, these surprise counts catch cashiers with too much funds in a cash drawer, a clear indication that there may be unrecorded receipts. Internal Audit can help in this regard but a comprehensive program can only be instituted with more man power and frequent visits. When we performed our spot checks, we heard comments such as: “this has never been done before” and “it is about time that this is being done”.

**Recommendation X:**

**The BOE's Food Service's Division should conduct self-audits of cash register transactions.**

As noted in the Section entitled Self Audit Techniques, there are many reasons to perform self-audits of cashier transactions during the middle of a business day. Each cashier should be audited several times a semester with the results documented. Problem results should require more frequent self-audits until the problem abates. Supervisory personnel should conduct the audits. The possibility of an audit review will provide for an additional strong deterrent against fraud.

**Response from the BOE**

The BOE agrees with the recommendation and will implement beginning October 1, 2013.

**Potential for non-recorded transactions in a cash register environment:**

This report includes several observations and recommendations to prevent fraudulent transactions. We have noted control practices to help alleviate fraudulent unrecorded and partially recorded transactions. We have made similar recommendations to protect against fraudulent reversals of recorded transactions. Unfortunately, all the recommendations noted will not prevent the cleverest from committing fraudulent acts. In the cash register environment the most common fraudulent act is the non-recording of an entire transaction. It is our experience that one of the best deterrents aimed at preventing non recorded transactions is through the use of cameras. We do not take lightly the expense of instituting this recommendation. It is our opinion that there are so many employees that participate as cashiers (could be in excess of 60 during a school year due to rotations) that several, just by simple risk assumptions, will test the paper internal control processes. Additionally, the budgeted revenues numbers are in the 3.7 million dollar range. The combination of large amounts of transactions and money, combined with many cashiers, leads to a very challenging internal control environment, one in which in our opinion, would be strongly augmented by installing cameras. While the return on investment is impracticable to estimate, logic would dictate in this high volume and dollar environment that this period would be short.

**Recommendation XI:**

**The BOE should give very serious consideration to installing cameras to monitor cash register activities at all the cafeterias.**

The risk of non-recorded and under recorded transactions has been explained in this section. The dilemma for the BOE is that the smallest volume operations have the fewest employees and the least optimal segregation of duties and the largest volume cafeterias have the strongest segregation of duties. Both small and large operations carry varying degrees of significant risk. It is our opinion that we cannot eliminate any locations from this recommendation.

### **Response from the BOE**

The BOE will explore the cost of this recommendation and incorporate into its CIP for future fiscal years.

### **Rotation of Employee Responsibilities:**

At the present time there are 11 full time employees budgeted for the Food Service Division. At July 1, 2013 there were 82 part time and temporary workers assigned to the Program. Within each school there has been a practice to rotate employees. We were informed about stronger internal rotational practices in some schools versus others. However, in some cases employees have been on the registers for extended periods of time. Where there is a large volume of cash transactions and funds, it is accepted good business practice that employees should be rotated to different responsibilities on a periodic basis. This is most commonly known to be in effect in the banking industry where cash tellers are rotated. It is important to note that most of the largest thefts involving cash transactions occur after an employee becomes familiar with the deficiencies in internal controls at a particular location. The confidence to perform such acts could come from an observation that another employee is not performing their part in maintaining a proper internal control environment. These observations take time to absorb before enacting a plan to commit theft. One of the other concerns of non-rotation is that employees become familiar within each other and perform fraudulent acts of collusion. Theft involving collusion is the most difficult transaction to expose. Frequently, the “colluding “employee is the person responsible for checking on the other colluding employee. Non-rotation of employees creates a much higher risk of collusion among employees. Additionally, for the BOE, employee cashiers can become very familiar with students ID numbers, enabling the cashier to charge student accounts that they feel are not being monitored. These types of situations are almost always fostered by familiarity by employees who have been in place for long periods of time. Rotation also allows management to note anomalies in statistical data. Frequently, the data will indicate a change from historical trends, providing valuable “red flags” to management which would not be available without rotation.

### **Recommendation XII:**

**The BOE should seriously consider a rotation policy for employees who operate the cash registers.**

As this is a complicated recommendation to enact, we will not prescribe a formula for the rotation other than to say that the policy should definitely include an inter school rotation and that employees should not be teamed up within the rotation policy.

### **Response from the BOE**

The Food Service Department will perform intra-school rotation of cashiers at all school facilities. With reference to inter school rotation of employees (school to school), Food Services will research the option but has reservations with reference to: schedule conflicts, budgetary concerns, collective bargaining concerns and individual school opposition due to school community ties.