



Lisbon Central School District Cafeteria Cash Receipts

Report of Examination

Period Covered:

July 1, 2014 – December 30, 2015

2016M-152



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

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 Lisbon Central School District, entitled 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 Lisbon Central School District (District) is located in the Towns of Lisbon, Madrid and Waddington and the City of Ogdensburg in St. Lawrence County. The District is governed by an elected seven-member Board of Education (Board). 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

A food service manager is responsible for overseeing the District's food service operations, including monitoring cafeteria receipts. Cafeteria sales revenue totaled \$139,230 for the 2014-15 fiscal year.

The District has one school building with approximately 600 students and 115 employees. Its budgeted expenditures for the 2015-16 fiscal year were \$12.9 million, which were funded primarily with State aid, real property taxes and grants.

Objective

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

- Did District officials establish adequate internal controls over the collection and deposit of cafeteria cash receipts?

Scope and Methodology

We examined the District's internal controls over cafeteria cash receipts for the period July 1, 2014 through December 31, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 take 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 New York State 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 provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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.

Cafeteria Cash Receipts

The Board is responsible for designing policies and the food service manager is responsible for developing procedures over cafeteria operations to help ensure that the District receives the proper amount of revenue from cafeteria sales. Policies and procedures should address collecting, verifying and depositing cash receipts and segregating these duties. Employees must be properly identified and accountable for their specific cash management process activities. Additionally, an individual who is not involved in the day-to-day cafeteria operations should approve adjustments and voids to the point-of-sale (POS) system to ensure that they are accurate and supported.

An effective system of internal controls over cafeteria receipts requires the separation of duties so that one individual does not control most or all phases of financial transactions. Concentrating key duties such as cash handling, recordkeeping and cash reconciliations with one individual weakens internal controls and increases the risk that errors and/or irregularities might occur and go undetected. When it is not practical to segregate duties, District officials should implement compensating controls such as having management review the work performed by staff. District officials must supervise those charged with handling money and ensure a reliable accountability of cash collected.

District officials need to improve internal controls over cafeteria cash receipts. The Board has not adopted policies and District officials have not developed procedures governing cafeteria cash receipts or segregated the incompatible financial duties of cash handling, recordkeeping and cash reconciliations for the food service program. The food service manager did not perform an independent reconciliation of cash sales to deposits or review the work of those who performed incompatible cash receipt duties.

In addition, the Treasurer performed incompatible financial duties related to collecting, recording and depositing cafeteria cash receipts and had access to the cafeteria's POS system that she did not need to fulfill her job responsibilities. As a result, the District has an increased risk that cafeteria receipts could be misappropriated and remain undetected.

Modified Transactions – The District uses a POS system for its cafeteria cash collection and recording process. Two cash registers are in operation during each meal period, and the POS system records all transactions when the cashiers enter sales into their registers.

However, the cashier can void and modify transactions without supervisory review and approval. In addition, the food service manager does not review voided or modified transactions reports to ensure they are accurate and supported with documentation.

During the 2014-15 fiscal year, the system registered \$1,554 of adjustments and voids. Because the food service manager did not review and approve voided and modified transactions, the District has an increased risk that errors or irregularities could occur and remain detected. For example, voided transactions could be used to cover misappropriations of cash receipts.

Daily Cash Count – District officials should ensure that an individual who is independent of cash handling and recordkeeping functions reconciles daily cafeteria cash sales with deposits. The food operations manager should verify cash sales from each cash register to cash counted in each drawer, and the Treasurer should issue a receipt for the amount of cash submitted for deposit.

One of the cashiers counts all cash and checks collected for cafeteria sales from both registers after lunch each day. The cashier generates a daily sales report from the POS system that shows all cash collected and uses this report to reconcile the cash in the drawers to the cash on the daily sales report. District officials told us there were rarely any discrepancies. However, no one other than the cashier verifies this daily cash count. As a result, the District has an increased risk that cafeteria moneys collected could be misappropriated without detection.

The cashier generates a deposit slip, places the cash and deposit slip into a one-time use deposit bag and brings it to the Treasurer for further processing. However, the Treasurer does not open the deposit bag, recount the money or provide the cashier with a duplicate receipt for the amount submitted.

The cashier also does not provide the Treasurer with a daily sales report or copy of the deposit slip. In addition, no one compares the daily cafeteria cash receipts to the daily cash reports, except the cashier who counts the daily receipts. Therefore, this cashier remains the only person to know the amount of cafeteria cash receipts inside the deposit bag. Because the money collected is combined into one daily receipt total, it would be very difficult to establish individual accountability in the event of a cash shortage.

Deposits – Once per week, the Treasurer takes the deposit bags with the cafeteria cash receipts to the bank for deposit. The Treasurer generates a weekly cash sales report from the POS system and

compares the amounts from the POS system to the online bank statement to verify that the deposits recorded in the system agree with the total that the bank indicates as being deposited for that week. The food service manager does not periodically reconcile deposits to the amounts submitted to the Treasurer to ensure that all cafeteria receipts were deposited into the bank.

System Access – Generally, a system administrator is designated as the person who oversees and controls an information technology system and has the ability to add new users and change users’ passwords and access rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls requires that this position be separate from any individual involved with collecting, recording and depositing cafeteria cash receipts. To ensure proper segregation of duties and internal controls, the POS system must only allow users to access computer functions that are necessary to fulfill their job responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions.

Controls over the cafeteria’s POS system need to be improved. The Treasurer was granted access to functions of the POS system that she did not need to fulfill her day-to-day job responsibilities. The Treasurer has administrative rights in the system with the ability to add new users and change users’ passwords and access rights and enter or void cafeteria cash transactions.

The Treasurer does not need access to the POS application within the system or administrator rights to fulfill her job responsibilities. She needs only to run reports from the system. These excessive administrative rights are problematic because the Treasurer is involved in collecting, recording and depositing cafeteria cash receipts and preparing monthly bank reconciliations, which means that she could modify and void transactions and adjust total amounts collected within the system and the accounting records without detection.

Cafeteria sales revenue totaled \$139,230 for the 2014-15 fiscal year. We randomly selected three months¹ of cafeteria deposits totaling approximately \$37,700 and compared recorded cash sales to deposits. While we did not identify any significant discrepancies, we found minor errors that we discussed with District officials. However, because the Treasurer performed incompatible financial duties without any oversight and had greater access within the POS system than necessary, the District has an increased risk of loss.

¹ March, September and November 2015

Recommendations

The Board and District officials should:

1. Adopt detailed policies and establish written procedures for collecting and accounting for cafeteria cash receipts.

District officials should:

2. Require the food service manager to review and approve voided and modified transactions and ensure that explanations for all adjustments are documented.
3. Require the food service manager to review the cashier's daily reconciliations and verify that the amounts collected agree with deposits on the bank statements.
4. Ensure that employees issue and retain duplicate receipts when cash is transmitted from one employee to another.
5. Ensure that the Treasurer has only those access rights within the POS system that are needed for her position.

APPENDIX A

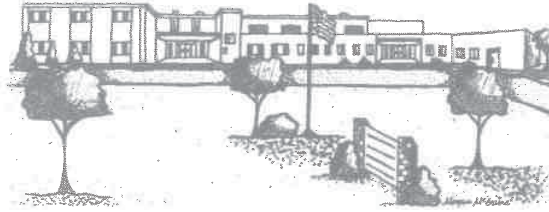
RESPONSE FROM DISTRICT OFFICIALS

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

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June 7, 2016

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Re: Lisbon Central School District
Cafeteria Cash Receipts Report of Examination 2016M-149
July 1, 2014 – December 30, 2015

The Lisbon Central School District acknowledges receipt of the above referenced draft audit report. We have reviewed the report and concur with its findings.

We are currently working on a policy of written procedures for collecting and accounting for cafeteria cash receipts, and have implemented the changes that were recommended.

On behalf of the Board of Education, I would like to thank the audit team of the New York State Comptroller's Office for their professionalism and courtesy throughout the audit process.

Sincerely,

Steven J. Barlow
Interim Superintendent of Schools

Learning

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish the objective of this audit, which was to determine the adequacy of controls over cafeteria cash receipts, our procedures included the following:

- We interviewed appropriate District officials and employees to obtain an understanding of the District's cafeteria cash receipts process.
- We reviewed monthly sales reports generated from the POS system for three randomly selected months (March, September and November 2015). We traced the daily totals on these reports to the bank deposits per the bank statements.
- We confirmed that the amounts from the sales reports from the POS system were accurately recorded in the District's financial records.
- We interviewed District officials regarding user access controls to the POS system.

We conducted this performance audit in accordance with 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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