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Chappaqua Central School District

Student Services Internal Audit of Food Services July 2010



INTERNAL AUDITORS AND ADVISORS
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July 13, 2010

Mr. Jeffrey Mester
President of the Board of Education
Chappaqua Central School District
66 Roaring Brook Road
Chappaqua, NY 10514

Dear Mr. Mester:

We have recently completed our internal audit of Student Services of the Chappaqua Central School District ("the District"). This area was recommended for audit in our internal audit risk assessment report which was completed earlier this fiscal year.

This internal audit report includes financial and operational information, the scope of the audit, our observations and recommendations, and management's responses. The audit procedures performed included various tests, reviews, and evaluations in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

We met with Management on May 17th and with the Audit Committee on June 8th to discuss the report findings and recommendations. We are also available to meet with the Board at its convenience.

We appreciate the fine level of cooperation provided to us by the District's staff during our audit and look forward to working with them in the future.

Very truly yours,

Accume Partners

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Background

As a result of the recently conducted Internal Audit Risk Assessment, the Student Services functional area, specifically Food Service, was identified as a candidate for an internal audit. Accordingly, the Board of Education and Audit Committee authorized an audit of this area. The audit procedures performed included various tests, reviews, and evaluations in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Audit Scope and Objectives

We performed an internal audit of Student Services, specifically the Food Service program. On site fieldwork took place from January 25th through February 5th 2010. The objective of the internal audit was to examine the internal controls over the food service program to ensure design and operational effectiveness, compliance with internal District Board Policies and Department procedures, and compliance with applicable laws and regulations. During the audit we examined internal controls over food service operations for the period of July 1st, 2009 through January 2010.

Audit Procedures

The audit procedures that we performed included the following:

- Reviewed the District's Board Policy Manual
- Reviewed Business Office Procedures
- Reviewed the Control Environment
- Interviewed Food Service Department staff
- Reviewed Food Service Contracts
- Reviewed Department procedures, forms, and other books and records
- Reviewed Management reports
- Reviewed contract billing and vendor statements
- Identified and tested key internal controls in the process to:
 1. Ensure food service cash collections are properly received, deposited and recorded;
 2. Ensure food service expenditures are properly documented, adequately supported, appropriately approved;
 3. Ensure monitoring controls over food service operations are adequate;
 4. Ensure compliance with applicable state and federal rules and regulations.

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Executive Summary

Audit Area	Key Processes/ Documents Reviewed	Recommendations	Audit Rating*
Food Service- Cash Disbursements/ Expenditures	<ul style="list-style-type: none"> • AP Files • Vendor Invoices • Food Service Contract • Sales and Meal Count Reports • Catering Forms 	1. The District has established proper procedures over Food Service expenditures. However, the District should reinforce those procedures to ensure compliance with the Board's established Purchasing and Food Purchases Policies.	Adequate/ Satisfactory
Food Service- Cash Receipts	<ul style="list-style-type: none"> • Deposit Slips • Deposit Confirmations • Cash Receipts • Bank Statements • P.O.S Documentation 	2. The District's Food Service Operations has adequate internal controls over the cash receipts process.	Adequate/ Satisfactory
Food Service – Free and Reduced Meal Program	<ul style="list-style-type: none"> • Program Applications • Direct Verification • Breakfast Survey 	3. The District has adequate internal controls over its Free and Reduced Meal Program.	Adequate/ Satisfactory
Food Service Inventory and Production Reports	<ul style="list-style-type: none"> • Physical Inventory Reports • Production Reports 	4. The District should ensure the FSMC has adequate procedures in place to meet compliance with inventory and production reporting requirements.	Needs Improvement
Food Service Contract Monitoring	<ul style="list-style-type: none"> • Financial Analysis • Review of Operating Statements • Self Review 	5. The District has established monitoring controls over food service operations. However, the District should maintain the supporting documentation of the work performed as evidence of the extent and nature of the monitoring controls.	Needs Improvement

* Our classification of audit findings is based on the following Audit Ratings (displayed on the next page):

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Audit Ratings

Significant Issues	Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the District.
Needs Improvement	Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings may require management's prompt resolution to prevent deterioration and possible losses.
Adequate/Satisfactory	Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings may indicate modest weaknesses that require management's attention.

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Observations and Recommendations

AREA: FOOD SERVICE EXPENDITURES

Observation:

Internal Audit assessed the adequacy of District internal controls over food service expenditures. Specifically, Internal Audit selected ten cash disbursements from the school lunch fund representing \$752,064.97. We reviewed the procedures in place to ensure that the invoices submitted for payment represented claims for actual goods and services provided; adequate documentation supported the claims for payment, and proper review and reconciliation of invoices to cafeteria sales and meal count reports was performed, if applicable; expenses were in compliance with contract or bid specifications, if applicable; and the invoice was appropriately reviewed and approved. We found no exceptions.

In addition, we selected 8 cash disbursements for purchases of meals and refreshments for District meetings totaling \$10,234.21. We reviewed procedures in place to ensure compliance with District Purchasing Policy and the District's *Policy 6050 Food Purchases for District Meetings and Functions*. In our review we noted the following control weaknesses:

- Purchase Order 90878's description read "Open P.O.," and offered no further description or explanation of purpose or nature of expenditure.
- Numerous invoices totaling \$3405.99 from one vendor were approved although the vendor submitted handwritten invoices that were not on a vendor stationary, and/or were not itemized.

School District Risk and/or Opportunity:

Good internal controls over the accounts payable and cash disbursement process helps to ensure that actual expenditures are in line with the District budget, in compliance with policies and procedures, and can help prevent fraud and misappropriation of District assets. First, a purchase order should represent a legitimate school district expense. Approved purchase orders should provide enough explanation and description of goods and services for the Purchasing Agent to make that determination. In addition, all expenditures should be supported with adequate documentation to ensure that goods were received, services were rendered, and to validate that the nature of the claim was an appropriate school district expense.

District expenditures related to food catering orders require good internal controls to ensure that services provided meet order requirements and are in line with established Policy. In addition, due to the nature of the expense, it is imperative that proper review and approval for catering events is established prior to making any orders. The District requires staff submit proper documentation with itemized receipts for catering expenses.

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Board Policy 6050 *Food Purchases for District Meetings and Functions* requires that whenever meals and/or refreshments are ordered, that the order request meet approved categories for providing meals and refreshments. In addition, the person making the request must indicate “*purpose of the meeting, meeting date and time, the group in attendance, number of people in attendance, and why attendees require food and refreshments to conduct school business.*” The District should ensure that procedures are in place to ensure adequate documentation is obtained to support food purchases for District meetings and functions.

Recommendation:

The District has established proper procedures over Food Service expenditures. However, the District should reinforce those procedures to ensure compliance with the Board’s established Purchasing and Food Purchases Policies.

Management’s Response:

We feel that this portion of the audit is not within the scope of the audit. We do, however, acknowledge the importance of following the purchasing policies and we have communicated to all the responsible administrators regarding this matter.

AREA: FOOD SERVICE CASH RECEIPTS

Observation:

Internal Audit reviewed the procedures for the cash receipts process related to food service operations. To do so, we interviewed the Food Service Director to gain an understanding of the cash collections and daily deposit procedures at school cafeterias. We conducted on-site visits of each cafeteria operation at all the District’s school buildings to observe cash register operations and meal sales transactions. In addition, we randomly selected thirty cash receipts posted to the school lunch fund totaling \$42,107.85 to test. Specifically, we reviewed the cash receipts, deposit tickets, and point-of-sale documentation to ensure that the monies were properly handled and accounted for; deposits tied to the bank statements; sufficient documentation supported the deposit; and deposits were done intact and on a timely basis. Internal Audit found no errors. However, we did note that on six occasions, a copy of the Deposit Slip was missing for the Bell Middle School Deposit. Apparently, all copies of the triplicate Deposit Slip were given to the bank and not maintained.

School District Risk and/or Opportunity:

In general, District food service operations should establish adequate procedures for the proper receiving, recording and depositing of cash receipts related to meal sales. Procedures should ensure that cash is adequately secured, revenue is properly recorded, and prepayments are appropriately applied to student accounts. In addition, food service

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operations should have procedures for daily balancing and reconciliations, and procedures should be handled consistently across cafeteria buildings. The District uses a Point-of-Sale (POS) system to transact food sales. The cafeteria register is the heart of the operation, in that the recording of the food sale is the basis for the revenue, fee, and reimbursement structure of the food service program. Thus, it is important that sales are recorded properly and accurately. Most errors can occur when cashiers improperly record a transaction, and a POS system facilitates the proper recording of meal or a la carte sales. Also, errors can also occur when meal counts are totaled and reported incorrectly. Again, POS systems' reporting features automatically tabulate daily sales by register, building and district. Thus, by using a POS system, the District minimizes its risk of recording and reporting errors related to meal sales and counts. In addition, the District's POS system allows for prepayments of student accounts, thus minimizing the need for cash transactions at the register.

Recommendation:

The District's Food Service Operations has adequate internal controls over the cash receipts process. There are no recommendations for this area.

AREA: FREE AND REDUCED MEAL PROGRAM

Observation:

Internal Audit reviewed the internal controls over the administration of the District's Free and Reduced Meal Programs. To do so, we interviewed the Food Service Director, the Administrator of the Free and Reduced Meal Program, and reviewed existing policies and procedures. In addition, Internal Audit randomly selected twenty-three Free and Reduced Meal Program Applications to test. Specifically, we reviewed the applications for completeness, to ensure income eligibility status was calculated correctly, and to ensure status was correctly reflected on the District's Student Information Database. We found no exceptions.

In addition, Internal Audit reviewed the District's Income Verification Test to ensure that the test was appropriately completed and adequate documentation was obtained to verify the income eligibility of the application. We found no exceptions.

Lastly, Internal Audit reviewed the District's Breakfast Survey to ensure that the survey was conducted in compliance with applicable state regulations; the District met the exemption based on survey responses received; and survey results were accurately reported. We found no exceptions.

School District Risk and/or Opportunity:

School Districts providing food service to students can participate in federal Child Nutrition Programs. These programs include the National School Lunch Program

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("NSLP"), the School Breakfast Program ("SBP"), and the Special Milk Program for Children ("SMP"). New York School Districts that participate in these school meal programs are eligible to receive cash reimbursements, for each meal served, from the federal government through the New York State Education Department's Office for Elementary, Middle, Secondary and Continuing Education, School Operations and Management, Child Nutrition Program Administration. In addition, Districts participating in the NSLP also receive United States Department of Agriculture ("USDA") commodity donations based on the number of reimbursable meals served.

In general, Districts should ensure that proper internal controls are established over its Free and Reduced Meal Programs. Districts should have documented and formalized procedures for program application processing. Adequate internal controls help to ensure that all eligible students in its community are identified, that errors are not made in determining the status of eligibility, and to help to ensure the District is in compliance with federal income verification and reporting guidelines.

Recommendation:

The District has adequate internal controls over its Free and Reduced Meal Program. There are no recommendations for this area. .

FOOD SERVICE INVENTORY AND PRODUCTION REPORTS

Observation:

Internal Audit reviewed the District's Food Service Management Company's "FSMC's" procedures for proper storage and inventory of foodstuff. During our on-site visits of school building cafeterias and kitchens, we noted the physical location and access of storage areas. In addition, we noted that the FSMC does not maintain perpetual inventory records. Inventory logs of goods received and goods used from storage and refrigerators/freezers are not maintained. Rather, the FSMC conducts physical inventory counts at each month end. In addition, to review the accuracy of inventory records, we randomly selected 50 items from the Inventory Reports in December 2009 and traced unit values to prices on vendor invoices. We found 7 exceptions that were subsequently corrected during the audit fieldwork.

In addition, Internal Audit requested Production Reports for 1 week in December 2009 for all school buildings to ensure the FSMC is completing and maintaining the records, as required by federal regulations. Specifically, Production Reports must be completed to reflect planned and prepared menus, portions served, and portions left over. We obtained Production Reports for all school buildings except for Horace Greeley High School. The FSMC acknowledged that the building had not properly prepared the reports, but began doing so in January 2010. The Food Service Director subsequently provided Production Reports for Horace Greeley High School Cafeteria for one week in January 2010.

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School District Risk and/or Opportunity:

The District's contracted Food Service Management Company "FSMC" must meet general requirements for the storage and inventory management of government commodities donated foods in both federal regulations and its contract with the District. In addition, best practices suggest that all food stuff and equipment be handled by proper storage and inventory management procedures. Inventory represents the costs for food stuff. The risk of poor inventory controls include theft, loss, and inaccurate costs. Although most foodstuff inventory is not directly owned by the District, loss of inventory or inaccurate inventory cost accounting could adversely affect operating costs and indirectly impact the District's net operating surplus.

Production Reports are key controls over food service operations. The reviews of menu records against production records on a periodic basis helps Management ensure that the FSMC is adhering to contract provisions as well as help the District comply with applicable federal rules and regulations.

Proper inventory and production controls are required for both District owned food service operations, as well as in the case where the Districts contract out to food service management companies, and the inventory on hand is both District and commercially owned. Regardless of the arrangement, Districts are ultimately responsible for the program oversight.

Recommendation:

The District should ensure the FSMC has adequate procedures in place to meet compliance with inventory and production reporting requirements.

Management's Response:

The Assistant Superintendent for Business has met with the Director for Food Service to discuss this matter. We will improve the monitoring and reporting of inventory in the future.

AREA: FOOD SERVICE CONTRACT MONITORING

Observation:

Internal Audit reviewed the adequacy of the District's monitoring controls over the food service contract and operations conducted by its FSMC. To do so we interviewed the District's Business Official, Accountant, and Food Service Director. In addition we reviewed the contract and policies and procedures governing food service operations. We noted the following monitoring controls in place:

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- The District's Accountant provides a review of the FSMC's Monthly Operating Statement and reconciles meal sales and counts data to the POS system reports, and recalculates the billed amount. The work-up is provided to the Business Official for review and approval of the monthly billings.
- The District's Business Official prepares a financial analysis of monthly food sales and expenses report comparing actual to budget, and actual sales to sales including prepaid sales. The report is also provided to the Board.
- The District has an active Wellness Committee that acts as an Advisory Board and focuses on the nutritional aspects of food service offerings, activities, and education. Both the Business Official and Food Service Director are members of the committee. Internal Audit was not provided with all Wellness Committee Meeting Minutes for FY09/10. In general, Committee Meeting Minutes should be maintained by the designated Committee Secretary.
- The District's Accountant performs the annual Self Review of Food Service Operations, as required by state regulations. However, the Accountant does not maintain any supporting documentation of the work up, so Internal Audit was not able to verify the nature and extent of the review that was performed.
- The District's Accountant performs a random review of the FSMC's Operating Statement to verify the identified allowable and unallowable costs and the amount of all such discounts, rebates, and applicable credits on invoices and bills presented for payment to the District. The Accountant provides a brief memo to the Business Official. However, the Accountant does not maintain copies of any supporting documentation of the work up, so Internal Audit was not able to verify the nature and extent of the review performed.

School District Risk and/or Opportunity:

Districts maintain overall responsibility of Food Service Operations, even when they contract out with a Food Service Management Company (FSMC) to administer the program. Districts must ensure that the food service operation is in conformance with provisions set forth in its agreement with the FSMC. Federal and State regulations mandate that the District monitor the food service operation through periodic on-site visits. Ultimately, Districts retain control of the quality, extent, and general nature of the food service and the prices to be charged to the students for meals.

Recommendation:

The District has established monitoring controls over food service operations. However, the District should maintain the supporting documentation of the work performed as evidence of the extent and nature of the review performed and the quality of the monitoring controls.

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Management's Response:

The District agrees with the auditor that we do have adequate control, but the internal review reports do not show the evidence of such controls. Since the completion of the audit, the District has completed two separate reviews and we believe we are providing sufficient documentation in the final reports.