

**Michael T. Wolff, CIA
Advisory Services**

South Colonie Central School District
Attn: Board of Education/Audit Committee
102 Loralee Drive
Albany, New York 12205

May 31, 2017

Re: 2016-2017 Caf  Operations (Cash Controls)

Executive Summary:

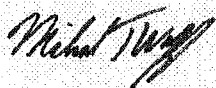
The Cafeteria Operations during 2015-16 had \$2.2 million in recorded revenues and \$2.0 million in expenses. Approximately \$1.0 million of the revenue is raised directly from sales, and an additional \$811 thousand was obtained from Federal and State Aid resulting from the proper accounting of district provided meals to students. Ensuring that there are effective policies and procedures and internal controls over the operations of the cash operations of the Cafeteria is imperative to prevent and reduce loss and ensure proper data is recorded to apply for Federal and State Aid.

As part of this Internal Audit review, the four areas reviewed included: cash collection, meal charge policies, food service software, and vending machines. To complete the audit, policies and procedures were reviewed, employees of food service operations were interviewed, data reports from the Cafeteria software were tested and reviewed, and the Business Manager was interviewed to gain an understanding of processes and to test internal controls.

The internal controls for the areas reviewed for the Cafeteria Operations appears to be in place and operating effectively to prevent a material loss or significant deficiency to the district. Additionally, the personnel involved have a working knowledge of policies, procedures and are aware of the internal controls in place and their necessity to be followed. Although there were some findings noted in each of the four areas reviewed none of them appear to be a significant deficiency of internal control nor increase the district to having a material loss.

Each of the four areas tested are discussed on the following report. All of the Cafeteria and Business Office staff were extremely helpful during this review and very knowledgeable and helpful. Please let me know if you have any questions concerning this report.

Sincerely,



Michael T. Wolff, CIA
Internal Control Specialist
Michael Wolff Advisory Services

Background: Cash Processing - The South Colonie School District's Café Operations has approximately 45 employees distributed throughout the District's buildings providing meals to the students and adults. There are 19 points of sale lines that process payments for meals throughout the district: Seven at the high school, three at each middle school (6), 1 at each elementary (4) except Veeder which has two. Each point of sale is assigned a cashier who is responsible for the money in the register and for processing transactions. Most of the points of sale are used for breakfast and lunch. The cashiers count their cash after each serving period and create a deposit after each meal. The deposits are created using a "blind cash count" which means the cashiers count the cash and make a deposit but do not know whether they have a difference from what the register is supposed to have. Blind cash counts are considered a "best practice" for internal controls.

On a daily basis all of the deposits from the registers are brought to the District Office by courier and locked in a safe overnight to be processed the following day. Each morning the deposits in the safe are opened and verified for accuracy to what the cash register system has on record and what has been deposited. Any variances are researched and corrections are attempted. A single deposit from all registers is created and is brought to the bank by courier. The deposit slips are retained by the cafeteria as well as given to the District's Treasurer. The Treasurer monitors the banking activity and reviews all the deposits for accuracy as part of the bank reconciliation process.

Nutrikids - The district uses the Nutrikids software system to process all monetary transactions for student and adult meals. Students and adults can pay cash for their meals however, the majority of students have money that has been "prepaid" on their account and therefore do not need to bring cash to school. The Nutrikids system provides an on-line portal for parents to place funds on a student's account using a debit/credit card. Since these transactions are handled electronically, there is a limited amount of cash processed at each of the cash registers, which reduces the size of the exposure to loss or theft. In addition to parents prepaying the account via the on-line portal, students can add funds to their account at the register.

Each student has an assigned account in Nutrikids and has a personal identification number (PIN) which is used when they want to process a transaction through one of the food lines. When the student enters their PIN, a photo of the student appears on the register screen so the cashier can validate the student is using their own account; however the PIN also provides the required anonymity for students so there is no identification of which students receive free or reduced meal plans.

Charge Policy - The District has a meal charge policy to address situations in which a student does not have a balance on their prepaid account and they come to school with no money. Since students' nutrition is very important, the district allows the students (K-8) to charge a number of meals before an "alternative meal" is prepared. The implementation of the charge policy can become a very difficult situation for the district since the collection of monies is usually a "parent" problem, however the district's lunch staff has to interact with the student on a daily basis. The issue of meal charge policies has come under scrutiny lately and all Districts across the New York State must have and submit their policy to State Ed. As part of this review the charge policies of the district were reviewed.

Vending Machine Sales - There are a number of vending machines that are maintained by the cafeteria staff. The vending machines provide students the ability to purchase beverages during periods in which the cafeteria is closed (e.g. after-school). The cafeteria staff collects the cash maintained in the machines as well as stocks the machines with inventory.

Internal Audit Results

The following results were based on my review of the policies, procedures and testing of the internal controls in the specific areas noted.

Cash Operations: The operations of processing the daily cash collected by the cashiers was reviewed to ensure procedures and internal controls were in place and operating effectively. A selection of cash register deposits were traced from the point of receipt, through the processing of the District Office then to the actual bank statement to identify the occurrences of differences, timeliness of processing transactions, as well as test the accuracy of the cash collection and reporting process.

Conclusion: The cash collection process appears well controlled, with many internal controls in place and operating effectively. The deposits of cash were accurately reported, properly segregated, and processed in a timely manner. It should be noted that the number of differences noted by the cashiers was extremely low. All the personnel interviewed that are part of the process appeared to have a sound working knowledge of the internal controls and procedures. One minor issue was noted during the review and was discussed with management:

Finding #1: During the testing of daily cash register receipts, it appeared that a single cashier was working out of two cash drawers at the same time. Further review noted that this appearance was the result of the cashier not completely signing out of their breakfast register and signing onto a different register for lunch. Although a second cashier signed into the original register for the lunch time shift, the Nutrikids system retaining the morning person's name as the operator since she didn't sign-out completely. This could cause differences to be erroneously reported to the wrong employee.

Recommendation #1: The cashiers should be reminded to sign off of their registers in the morning when changing locations or cash drawers in the afternoon, so the Nutrikids cashier system retains the appropriate name of the cashier in the system.

Nutrikids: The software maintained by the district for student accounts was reviewed to ensure user access rights appeared to reflect job responsibilities, and to test the accuracy and usage of various system reports. A sample of voided, account adjustment reports were reviewed to identify the types of voids, and/or adjustments that are made within the system and to make sure all changes were authorized.

Conclusions: The listing of users on the system were all active employees and the employees interviewed appeared to have a working knowledge of the system and the use of "electronic" controls that were programmed into the software. Based on my sample reviewed, all voids and adjustments made to student's Nutrikids accounts appeared to be valid. However the following items were noted during our review: which should be considered

Finding #1: As of 1/5/2017 there were 5 employees listed with "Director Access" which is full access to all functions. Based on the job descriptions of these individuals, it appears that their level of access is not reflective of their job responsibilities. All other employees appeared to have a level of access which reflected their job responsibilities.

Recommendation #1: The access levels of the 4 employees who are not "officially" the Director of Food Service Operations should be reviewed to ensure that their access levels are appropriately reflective of their responsibilities. If some of the users need "occasional access", (e.g. IT Director adding or deleting users, etc.) procedures should be developed to allow the employee full access for a period of time and then returned to a lower access level.

Finding #2: The café personnel in the District Office have complete system access and it appears that it is necessary in performing their daily jobs, or to act as a back-up should one of the other employees have to act as a back-up for the other. This access level allows employees

to adjust cashier and student account balances, void/adjust transaction activity, and/or change the price of menu related items. Although there were no instances of unauthorized transactions noted, there are no procedures in place to ensure all transactions, which can be referred to as management overrides, are valid and appropriate.

Recommendation #2: Since the three café employees within the District Office have access to make override transactions to the cash register and student prepaid accounts, a periodic review of these transactions should be performed by a person outside the Cafeteria operations to ensure all overrides are valid and correct.

Meal Charge Policy/Procedures: The procedures for charging meals was reviewed with the Café staff and all personnel appeared to have a working knowledge of the policy. Additionally a review was performed of student accounts with negative balances. As of 1/12/2017 there were 295 student accounts with a negative account balance, and a total aggregate negative balance of \$1,142.00. This dollar amount is relatively low considering the volume of transactions and the size of the district's student population, however at the end of the year, if these funds go uncollected they need to be written off to the General Fund and these are not considered an economical use of tax payer funds. Overall the policies and procedures for handling student's meal charges appears to be managed effectively, however there are a few areas that could be improved.

Finding #1: Although the district has policies and procedures for handling the charge accounts, there are some inconsistencies that were noted and areas in which additional procedures should be defined. The following are examples of some of the items that should be addressed in additional policies and procedures:

- Currently if a student runs into a negative balance and then submits paperwork that identifies them as being allowed to obtain free or reduced lunch, the negative balance is usually not collected. Procedures should be developed for either attempting collection or writing off the balance.
- Procedures should be developed for handling checks that are presented as having insufficient funds when presented for student accounts; Currently if a student presents a check for \$20 on their café account and the check bounces, the \$20 stays on the student's account allowing them to buy meals, however the bounced check amount is carried on a separate ledger and is required to be collected upon by the Café staff and/or the District Treasurer. As of 1/6/2017 there were \$498.64 in uncollected checks the staff were currently following up upon, and during the period of 2010-2014, there have been write-offs of these amounts totaling \$2,091.75.
- There is currently no documented procedure for handling the movement of balances, positive or negative, between siblings accounts. Specific procedures should be developed since in some instances the movement of a balance is not desired by one or more of the parents.
- Collection procedures should be documented to be consistent across the district. For example, a letter home after a certain number of days in a negative account status, a telephone call after so many additional days, and procedures for handling the "alternative" meal option. Additionally, the procedures for who will perform these processes should be agreed upon. Currently, building office assistants help with following up on negative balances, with the exception of one building. For consistency purposes these responsibilities should be outlined.
- Since the write-off of bad checks and/or negative student accounts are usually handled with a journal entry, these expenses do not go through the normal expense review policy afforded the Board of Education, the Claims Auditor. If these expenses were processed through the Claims Auditor they should appear on the Claims Auditor report as an expense that is not in the best interest of the district.

Recommendation #1: Additional procedures should be developed in writing to address the

how negative account balances will be handled; who will take part in the collection process; how NSF checks will be dealt with, and how the write-offs will be reported to the Board so they are aware of the dollar value of the potential charge off at year-end.

Vending Machines: The policies and procedures were reviewed to ensure there was effective internal controls over the cash processed within the vending machine as well as maintaining/using vending machine inventory, and reporting on the profitability or loss of the machines. The staff involved with the vending machines appear to have a working knowledge of the policies and procedures for operating the vending machines, however additional procedures should be implemented to strengthen internal controls and financial reporting.

Finding #1: The collection of cash and/or restocking of vending machines is handled by a single individual with no reporting of the vending machines activity presented when depositing cash into the Cafeteria fund. As a result there is no way to know if the deposit is accurate.

Recommendation #1: To provide for stronger internal controls and reduce the risk of loss, the cash and inventory process should either be performed by two staff members, or a single individual with a report provided by the vending machine that can be reconciled to the deposit.

Finding #2: Currently there is no reporting on the profitability or loss of the vending machines. Periodic reports should be prepared which identifies the cost of the vending materials versus the money collected to ensure the pricing of the products are correct, and proper decisions can be made in regards to the use of the machines.