



**LOVELAND MIAMI ELEMENTARY FOOD SERVICE OPERATIONS
LOVELAND CITY SCHOOL DISTRICT**

SPECIAL AUDIT REPORT

July 1, 1998 THROUGH June 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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SCHEDULE OF OFFICIALS AND ADMINISTRATIVE PERSONNEL

LOVELAND CITY SCHOOL DISTRICT

<u>BOARD OF EDUCATION</u>	<u>TERM ENDING</u>	<u>BOND</u>
Dr. Kathryn Lorenz, Ph.D.	12/31/99	\$50,000(1)
Mr. Gary Waits	12/31/01	N/A
Mr. Darryl Haeussler	12/31/99	N/A
Mrs. Linda Pennington	12/31/01	N/A
Dr. Judy McClanahan	12/31/01	N/A

OTHER PERSONNEL

Jill Manville, Treasurer	\$25,000(1)
Carol Marples, Food Service Director	\$10,000(2)

- (1) Nationwide Mutual Insurance
- (2) CNA Surety Company

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Report of Independent Accountants

Ms. Jill Manville, Treasurer,
Mr. John Ames, Business Manager,
Dr. Michael Cline, Superintendent
Loveland City School District
400 Loveland-Madeira Road
Loveland, Ohio 45140

Pursuant to your request dated June 4, 1999, we have conducted a "Special Audit" and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report," which were agreed to by you for the period July 1, 1998 through June 30, 1999 ("the Period"). These procedures were performed solely to determine the procedures followed by District personnel when collecting, recording, and depositing food service receipts at Loveland Miami Elementary ("the Elementary"); to determine if the amount of daily food service receipts deposited for the Elementary agreed to the number of lunches sold; and to determine whether procedures for counting, receiving, and deleting food service inventory items were in place. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the operational policies, procedures and practices of the Elementary's food service operations, including the Coffee Fund, for the Period to determine whether procedures were in place for collecting, posting, and depositing food service receipts.
2. We compared the cash register tapes of the Elementary's food service operations to daily deposits to determine whether money collected during the Period at the Elementary was deposited intact. We also performed a recalculation of money to be collected per the CN-7 reports to determine if the collections by the Elementary agreed with the number of lunches sold by the Elementary.
3. We reviewed the operational policies, procedures and practices of the Elementary's food service operations for the Period to determine whether the Elementary had procedures in place for counting, receiving, and deleting food service inventory items.
4. On April 20, 2000, we held an exit conference with the following Officials and Administrative Staff representing the District:

Dr. Kathryn M. Lorenz, Board Member
Ms. Jill Manville, Treasurer
Mr. John Ames, Business Manager
Ms. Carol Marples, Food Service Supervisor

The attendees were given an opportunity to respond to this Special Audit. A written response was received April 28, 2000, and their response was evaluated and changes were made where we deemed appropriate.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the District's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the District taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

Jim Petro
Auditor of State

September 20, 1999

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND

On June 4, 1999, we received a letter from Jill Manville, Treasurer of Loveland City School District, requesting a review of certain records relating to the Loveland Miami Elementary's Food Services Department.

At the end of the 1999 school year, allegations arose regarding the possible misuse of food products from the cafeteria at Loveland Miami Elementary school. In an interview on August 10, 1999, Carol Marples, District Food Service Director, indicated the former Head Cook at the Elementary resigned during the 1998/99 school year. During that year, there were rumors of food service inventory items disappearing from the Elementary. This information was presented to John Ames, Business Manager, who attempted to verify the rumors of missing inventory. Mr. Ames mentioned in a preliminary meeting with Auditor of State representatives that he saw the former Head Cook, Ms. Joyce Chambers, and another employee taking sacks of items from the Elementary cafeteria. Upon seeing Mr. Ames, the two employees returned the sacks to the cafeteria and departed. Mr. Ames then confiscated the sacks which included food items which had been wrapped in Styrofoam and tin foil. When confronted, Ms. Chambers stated they always wrapped food prior to throwing it away to keep the trash containers clean. This issue was forwarded to the District's legal counsel. A preliminary investigation of the matter was performed by school officials and the District's legal counsel. The School Board subsequently acted on the recommendation of legal counsel and changes were made in the administration of the Food Services Department.

We interviewed Bronston McCord of Ennis, Roberts & Fischer, District legal counsel. He indicated he was made aware of the allegations by John Ames, Business Manager, in mid to late May of 1999. He indicated he interviewed various individuals at the Elementary School regarding the allegations. Mr. McCord indicated none of these individuals saw the actual theft take place but each had corroborated some of the allegations presented by Mr. Ames. When confronted with the allegations, Ms. Chambers and Ms. Garrett, the other individual involved, chose to resign. The agreement for resignation was negotiated by the union representative for the two individuals.

Concurrent to the above activities, the fiscal office received a report by the State Board of Education which reflected an unexplained loss in revenue in the Food Services Department of nearly \$10,000.

As a result, the Treasurer contacted the Auditor of State for assistance in determining potential fraudulent activity in the use of food products and accounting for cash receipts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 - Review of Operational Policies and Procedures

We reviewed the operational policies, procedures and practices of the Elementary's food service operations, including the Coffee Fund, for the Period to determine whether procedures were in place for collecting, posting, and depositing food service receipts.

Procedures:

We interviewed Carol Marples, Food Service Director, to determine the Elementary's procedures for collecting receipts from lunches, depositing monies collected into the District's bank account, and posting receipts to the District's ledgers. In addition, we also requested supporting documentation to substantiate the information provided by the Food Service Director.

Results

1. We interviewed Ms. Carol Marples, Food Service Director, on August 10, 1999 to determine the procedures used for collecting, depositing and posting food service receipts during the Period. Based on the interview, we determined the following:
 - A food service operations policy and procedures manual did not exist during fiscal year 1999.
 - The cafeteria utilizes cash registers that are preprogrammed with the prices for free, reduced, and regular student lunches, milk, adult lunches, and paid presale lunch tickets.
 - Each time a student arrives at the register, the cashier enters the type of lunch purchased, collects the money, and places it in the cash register drawer.
 - At the end of the day, the cashier counts the monies in the drawer, removes the used tape and compares it to the monies counted in the drawer. If the monies agree to the register tape, she places her initials on the register tape.
 - The cashier then completes a Cashier's Report which summarizes the cash collected and number and type of lunches served. Any discrepancies between the cash register tape and the cash collections are documented on this report.
 - The Head Cook then reviews the Cashier's Report and recounts the money collected. If there are discrepancies noted, she initials the register tape showing the discrepancy was brought to her attention. If there is a large discrepancy, the cashier informs the Administrative Assistant to the Food Service Director. The Administrative Assistant attempts to resolve the discrepancy.
 - Once the Head Cook has reviewed the Cashier's Report, the cashier completes a deposit slip, places the money and the deposit slip into a locked bag, and deposits the money at the bank.
 - Students are allowed to prepay for up to 10 lunches. To do this, the student purchases a ticket from the school secretary. The tickets are given to the teachers each morning to be distributed to the respective students at lunch time. When purchasing their lunch, the cashier stamps the student's ticket and enters this into the cash register as a prepaid lunch. The cashier then returns the tickets to the secretary. Any monies collected by the secretary are coded as food service receipts on the deposit slip and included with other deposits for that day.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- Upon receipt of the deposit slip, the Administrative Assistant to the Food Service Director verifies the amount deposited to the register tape and the Cashier's Report. If in agreement, she completes the CN-7 report. If the Administrative Assistant notices numerous errors on a regular basis, she contacts the cashier to determine why the errors are occurring.
 - The Elementary also maintains a "coffee fund." This "fund" is used to pay for the coffee provided to the teachers in the teachers' lounge. Each time a teacher takes a cup of coffee, he or she is to place money in a cup beside the coffee pot. At the end of each day, the Head Cook collects the coffee money and presents it to the cashier to enter as an adult food sale. These monies then follow the same process as noted previously. The Food Service Director indicated there were instances where these monies were not included in the collections on a daily basis.
 - Upon receipt of the deposit slip from the bank, the Treasurer's Office posts the receipts to the Food Service Fund based on the coding of the receipts. Receipts are broken into student receipts, milk receipts, adult lunch receipts, adult milk receipts, and a la carte receipts.
2. Upon review of the records used by the Food Service Department, we determined the following forms were used by the District:

Loveland City Schools Lunch Daily Cashier's Report- A form completed daily by the cashier which shows cash income by type and the number of lunches sold. This is accompanied by a Daily Money Receipt list which breaks down the type of monies received including coins, dollar bills and checks.

Cash Register Tape - The cash registers record the number of items sold and cash collected by category. The tape is automatically generated by the cash register as items are sold.

Lunch and Milk Participation Form (CN1), Inventory Cost Report (CN2), School Lunch and Milk Program Daily Worksheet (CN7), and the Labor and Other Costs Report (CN8) - These reports are completed by either the Food Service Administrative Assistant or the Food Service Director and submitted to the Ohio Department of Education for reporting and reimbursement purposes.

Employee Labor Costs (Accrued) - This form is prepared by the Food Service Director to show labor costs for food services employees. It is submitted to the Ohio Department of Education for completion of the Gain and Loss Statement (MR-40).

MANAGEMENT COMMENT

Operational Policies and Procedures

The Food Service Department did not maintain formal written policies and procedures for collecting, depositing, and posting food service receipts, including "coffee fund" receipts. Without formal written policies and procedures, employees may interpret standard practices incorrectly resulting in inaccurate, inconsistent, and undesirable results.

It is our understanding the current Food Services Director has begun developing a Food Services Handbook. We recommend that once completed, the District formally adopt the Handbook and take necessary steps to make all appropriate employees aware of the policies and procedures contained.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Review of Cash Register Receipts

We compared the cash register tapes of the Elementary's food service operations to daily deposits to determine whether money collected during the Period at the Elementary was deposited intact. We also performed a recalculation of money to be collected per the CN-7 reports to determine if the collections by the Elementary agreed with the number of lunches sold by the Elementary.

Procedures:

1. We compared food service activity at the Elementary to the other elementary in the District for Fiscal Years 1999, 1998, and 1997 for profit/loss, expenditures, and receipts to determine if the problem was only in the current year.
2. We selected five days from each month during the 1999 school year and obtained the cash register tapes, CN-7's, and deposit slips for the Elementary.
3. We compared the amounts noted on the register tape for each selected day to the deposit slip and investigated any discrepancies.
4. We obtained the prices per student lunch, adult lunch, and milk sold at the Elementary for Fiscal Year 1999.
5. We recalculated receipts for the days selected by multiplying the number of lunches and milk served per the CN-7 by the price. We compared the recalculated amount to the deposit slip and investigated any discrepancies.

Results

1. We prepared a schedule of food service revenues, expenditures, and the profit or loss for the Elementary for 1999, 1998 and 1997 school years utilizing the monthly MR 40-State Report Gain and Loss Statements by School. When comparing the change in receipts, expenditures, and profit or loss changed for the same month for 1997, 1998, and 1999, we noted the variance consistently fluctuated within approximately \$2,000 with the exception of the May/June 1999 expenditures and profit or loss lines of the MR 40. We determined the fluctuations for the same month from year to year were acceptable due to changes in meals prepared and students served which would affect the profit/loss margin for all of the months and the fluctuations were comparable to those experienced by the other elementary with the exception of May/June 1999.
2. A loss of \$9,964 was reported on the May/June 1999 MR-40 State Report, Gain and Loss Statement by School. We performed a detailed review of each line item included on the May/June 1999 MR-40 Report and noted the following:
 - By comparing the food service Employees Labor Costs on the May/June 1999 MR-40 State Report to a table of food service salaries for the month prepared by the Food Service Director, we noted an error in the calculation of the Food Service Salaries. For one of the cooks at the Loveland Miami Elementary Building, the Employee Labor Costs included Gloria Hagedom being paid at \$1,074.00 an hour instead of \$10.74 an hour.
 - This error resulted in the Food Service Salaries being overstated by \$9,036. This was calculated by multiplying the pay per day (\$71.71) by 25 days for a total of \$1,793 plus \$10.74 times 8.5 hours of overtime for a total of \$91.29. The salary for Ms. Hagedom to be reported on the State report should have been \$1,884 instead of \$10,920, resulting in a difference of \$9,036. Due to the error, the profit/loss for the May/June 1999 MR-40 State Report was reported as a \$9,964 loss instead

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

of a \$926 loss. The loss of \$926 is comparable to prior years' results. After adjusting for this error, we determined the Elementary actually operated at a \$1,227 profit for the year and not at a \$7,811 loss as reported to the State Department of Education.

3. We selected five days from each of the months during the 1999 School Year for a total of 45 days. For each day selected, we compared the cash register tape total to the amount on the deposit slip. No variances were noted.
4. For each of the 45 days selected, we compared the amount on the deposit slip to the amount reported on the CN-7 report. No variances were noted.
5. We selected one day from April 1999 and one day from September 1998 and compared actual receipts reflected on the CN-7 report to estimated receipts calculated as the number of lunches or milk sold as listed on the CN-7 report times the price established by the Board of Education. No variances were noted.

MANAGEMENT COMMENT

The MR-40 State Report reflected a food service loss for May/June 1999 for the Elementary of nearly \$10,000. We reviewed the figures compiled by the Elementary and submitted to the State and found an error in Employee Labor Costs of \$9,036. When recalculated the amount which should have been reflected as a loss for May/June 1999 as \$926. Adjustment for this error also changed the year-end gain/loss from a \$7,811 loss to a \$1,227 profit. The error would not have been included on the MR-40 State Report had the District reacted and investigated the nearly \$10,000 loss prior to submitting the incorrect figures to the State. Reports which do not reflect accurate information could result in potential loss of subsidy funding and unnecessary audit costs to identify and correct errors.

We recommend the District initiate procedures to review reports submitted to State and federal agencies. Unusual amounts such as large profits or losses should be questioned by the reviewer and investigated to ensure the accuracy of reports.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 3 - Review of Inventory Procedures and Meal Production

We reviewed the operational policies, procedures and practices of the Elementary's food service operations for the Period to determine whether the Elementary had procedures in place for counting, receiving, and deleting food service inventory items.

Procedures:

1. We interviewed Carol Marples, Food Service Director, to determine the policies and procedures in place for the counting, receiving, and deleting food service inventories during the year. In addition, we reviewed documentation to support the procedures indicated.

Results

1. We interviewed Carol Marples, District Food Service Director, to discuss how inventory is recorded and maintained at the Elementary and any problems she has noted in the past. Based on the interview with Ms. Marples and review of documents used by the Elementary, we noted the following:

- Records for the Food Service Department included meal plans, schedules, servings needed, amounts served, and accounting for leftovers. Other records reflected inventory counts and reporting for State reimbursement. The following is a description of records used:

Meal Production Sheet - This form is completed by the Head Cook and shows details such as menu items served, portion sizes, quantity prepared, and leftover amounts. A top section of the form lists the building and totals served.

Commodity Distribution - This form lists the product, date, and items delivered to each school. It is prepared by the Food Service Director.

Commodity Allocation Form - This form lists the items in inventory, storage location, date planned for the menu, and cases available. It is prepared by the Food Service Director.

Weekly Commodity Delivery Form - As commodity items are shown on the menu, this form is completed by the Food Service Director to indicate the items received and the location they are stored.

Commodity Order Form - Completed by the Food Service Director after receiving a copy from each building indicating the needs of the Head Cook. This form records items ordered per school and the date they are needed.

Inventory - Commodity - This is the form used to record commodities inventory counts and is completed by the Food Service Director for all schools after receiving a similar form completed by the Head Cook.

Lunch and Milk Participation Form (CN1), Inventory Cost Report (CN2), School Lunch and Milk Program Daily Worksheet (CN7), and the Labor and Other Costs Report (CN8) - These reports are completed by either the Food Service Administrative Assistant or the Food Service Director and submitted to the Ohio Department of Education for reporting and reimbursement purposes.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- At the beginning of the year, the Food Service Director provides a Commodities Allocation Form to each building. Each building prepares a weekly Commodity Order Form indicating the commodities it wishes to obtain for menus of meals to be served.
- When commodities are delivered to the school, the school receives a delivery form. A summarization of orders and deliveries are included in a commodity order book maintained by the Food Service Director. This order book allows the assigning of costs to each school and is used to prepare monthly statements sent to the State.
- On a periodic basis, the District will order and receive commodities from the State Department of Agriculture. Upon delivery, a physical count of the commodities received is performed by both the Food Service Director and a maintenance man. The Food Service Director agrees the physical count to the original order form.
- At the end of each month, the Head Cook and Lead Cook are responsible for counting the inventory which is divided into non-governmental and governmental commodities. The Food Service Director also maintains a running inventory of governmental commodities received and distributed to the different schools throughout the year. The Food Service Director indicated she does not perform a reconciliation between her inventory records and those maintained by the Head/Lead Cook at the schools.
- When the cooks prepare a meal, they utilize a previously determined menu. The cooks then complete a Meal Production Sheet which includes the menu items, the number of meals served, the portion size, number of portions planned, the quantity prepared, the number of portions served, and the number of portions leftover. If there are portions leftover, the Cook has to document how the leftovers are to be disposed. We reviewed sheets from other buildings within the District to determine how the form should be completed. Reports completed by the former Head Cook at the Elementary, including the Meal Production Sheet, did not always include all items served, particularly the a la carte items. Reporting of leftover items and intended disposition of those items was not recorded. Some of the Meal Production Sheets and other records reflecting actual meal planning could not be located to agree to inventory or sales records for several months of the 1998/99 school year. Based on this information, we determined that during the Period, the forms were incorrectly completed by the Head Cook.
- Although the current Director has begun compiling a written policy and procedure manual, there were no written policies or procedures regarding proper maintaining, receiving, and deleting food service inventory items, including the use of leftover food items during the Period.
- Ms. Marples also indicated that on the day Ms. Chambers removed her personal items from her office, the secretary with her noted Ms. Chambers had removed records that did not appear to be personal in nature such as menus and other documents (e.g. Meal Production Sheets). The secretary had accompanied with Ms. Chambers to ensure she only removed personal items from her office.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Operational Policies and Procedures

The Food Service Department did not maintain formal written policies and procedures regarding proper maintaining, receiving, and deleting food service inventory items, including the proper use of leftover food items. Without formal written policies and procedures, employees may interpret standard practices incorrectly resulting in inaccurate, inconsistent, and undesirable results.

It is our understanding the current Food Services Director has begun developing a Food Services Handbook. We recommend that once completed, the District formally adopt the Handbook and take necessary steps to make all appropriate employees aware of the policies and procedures contained.

Meal Production Sheets

Meal Production Sheets are used by the Food Services Department to account for the number of meals prepared and served to students and staff. The sheets we reviewed did not list a la carte items prepared and served. When meals are served but not reflected on the forms, an accurate accounting of meals produced and served can not be maintained. This may also lead to inaccurate reporting to State and federal agencies.

We also noted the forms did not always designate the disposition of leftovers (e.g. frozen for reuse or thrown away). By not documenting the disposition of left over food items, inventories may be misstated and subject to misappropriation.

We recommend the school review the current forms for content to ensure they list all possible categories of food items offered. The District should also implement procedures to ensure District staff are held accountable for accurate completion of the forms.

Maintenance of Records

We were unable to select and review Meal Production Forms from the entire 1999 school year because several months of related food service records were not available. Upon receiving our request for these records, the District determined the former Head Cook, Ms. Chambers had removed these records when she removed her personal items from her office. The District contacted Ms. Chambers and requested the records be returned. The records were returned after the completion of our fieldwork.

Board Policy, Section EHA, for Data and Records Retention requires an orderly and timely acquisition, storage, retention and disposal of school district records and reports be maintained. The Policy also outlines the procedure for disposing of records.

We recommend District records be maintained in accordance with their records retention schedule and the records retention schedule for federal grants, if applicable. Upon dismissal or resignation of an employee, the District should ensure that all District records in that individual's possession are not removed from the District premises. We also recommend the District initiate procedures for ensuring all employees are aware of the District's policy for maintenance and retention of records. Employees should also be made aware of the severity of removing District records without authorization.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Inventory

The Head Cook and Lead Cook are responsible for counting inventory throughout the year. The Food Service Director also maintains a running inventory of commodities received and distributed to the schools throughout the year. However, there is no reconciliation between the Food Service Director's inventory records and the Head Cook's inventory records. Without proper reconciliation of records, food service inventories may be misstated and not detected in a timely manner by management. Additionally, proper reconciliation of food service inventory records may reduce the risk of misappropriation of food service items.

We recommend that control procedures be implemented which include periodic food service inventory counts by individuals other than the Head/Lead Cook and the results be reconciled to the records maintained by the Food Service Director and the Elementary's Head/Lead Cook.



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OFFICE OF THE AUDITOR

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LOVELAND MIAMI ELEMENTARY FOOD SERVICE OPERATIONS LOVELAND CSD

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2000**