



**Auditor of State
Betty Montgomery**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Ms. Jayne Mummert, Board President
Mr. Ralph Shell, Superintendent
Mr. Brian Switzer, Treasurer
Clermont Northeastern Local School District
2792 US 50
Owensville, OH 45160

At your request, we have conducted a special audit of the Clermont Northeastern Local School District's (District) food service receipts and expenses by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2000 through May 12, 2005, solely to:

- Determine whether food service receipts collected for the period September 1, 2004 through May 12, 2005 were deposited into the District's bank account.
- Determine whether District payments made to its food service contractor, Chartwells, were for food service related expenses.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (March 1993). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. Using available documentation, we determined whether food service receipts collected, including vending machine and candy sales, were deposited into a District bank account.

Significant Results – Using available records, we tested food service receipts for the period September 1, 2004 through May 12, 2005 and determined food service collections totaling \$288,738 were deposited into the District's bank account. With the exception of the Middle School's candy sales, we noted no significant variances between food service collections and deposits during this period. Due to the lack of candy sales records and no significant exceptions being noted in our testing, we performed no further testing of food service receipts prior to September 1, 2004. Testing noted that only \$5,299 of the \$8,735 in documented Middle School candy sales was deposited. We issued a finding for recovery against Paul Longbottom, former Food Service Manager, for \$3,436 of public monies collected but unaccounted for. In addition, we cited the District for failure to maintain certain food service receipt records and made three management recommendations to strengthen internal controls over food service collections.

2. We determined whether the District made payments in accordance with the Chartwells contract for administration of its food service operations. In addition, we determined whether the District paid Chartwells for personal purchases made by the former Food Service Manager which were subsequently billed to the District.

Significant Results – Over the five year term of the contract, the District paid Chartwells \$1,666,855 for food service. In evaluating costs incurred by Chartwells and billed to the District, we determined the District paid \$4,305 for costs included in the contractual definition of “Administrative Fee” billed to the District. During the 2002-2003 school year, the District was billed and paid \$99 for Administrative Fees in excess of the allowed amount. We issued a finding for recovery against Chartwells for \$4,404.

In addition, Paul Longbottom, former Food Service Manager, charged \$52,571 of personal purchases on Chartwells’ purchasing card which were subsequently billed to and paid by the District. Accordingly, we issued a finding for recovery against Paul Longbottom and Chartwells, jointly and severally, for \$52,571.

We made a recommendation that the District periodically review documentation supporting requests for payment from its contractors and verify the requested amounts were supported and for District-related expenses.

On July 12, 2006, the Clermont County grand jury indicted Mr. Longbottom for grand theft, theft and engaging in a pattern of corrupt activity. On October 26, 2006, Mr. Longbottom entered a plea of guilty to grand theft and theft.

3. On December 7, 2006, we held an exit conference with the following individuals representing the District:

Jayne Mummert, Board President	Ralph Shell, Superintendent
Brian G. Switzer, Treasurer	Robert Humble, Director of Personnel
Wayne Johnson, Director of Special Education	Terri Hoerth, Food Service Director
John Burgess, Esq., Ennis, Roberts & Fischer	

The attendees were informed that they had five business days to respond to this Special Audit Report. No response was received from the District.



Betty Montgomery
Auditor of State

October 16, 2006

Supplement to the Special Audit Report

Background

On March 21, 2000, the District entered into a contract with Chartwells, a division of Compass Group, USA, to provide and manage the District's food service operations for the period July 1, 2000 through June 30, 2001 with the option to extend the contract for four successive one year renewal periods. To manage the District's food service operations, Chartwells hired Paul Longbottom as Food Service Manager. Mr. Longbottom's responsibilities included managing personnel, purchasing supplies for food preparation, and reporting expenses incurred to Chartwells for subsequent billing.

On May 4, 2005, Brian Switzer, the District's treasurer, contacted the Auditor of State's (AOS) Cincinnati regional office to report irregularities the District noted involving Mr. Longbottom. The District suspected that certain food service receipts (i.e. vending machine and candy sales receipts) were collected but were unaccounted for by Mr. Longbottom.

On May 12, 2005, representatives of the AOS Special Investigations Unit and Special Audit Section met with Ralph Shell, Superintendent; Teri Hoerth, Food Service Secretary; and Mr. Switzer to discuss the allegations and review documentation the District had gathered. Allegations included the possible theft of vending machine and candy sales money and altering of receipts and invoices to conceal personal purchases on Chartwells' corporate purchasing card which were subsequently billed to and paid by the District.

Mr. Longbottom was interviewed by AOS representatives regarding the unaccounted vending machine and candy sales receipts and personal purchases using Chartwells' purchasing card. During the interview, Mr. Longbottom provided a written statement that he had purchased sports cards and memorabilia using Chartwells' purchasing card for which the District ultimately paid via an invoice from Chartwells. Mr. Longbottom's statement also indicated that he altered documents and did not reimburse either the District or Chartwells for the personal purchases. On May 12, 2005, Mr. Longbottom was dismissed as the District's Food Service Manager and was not permitted to return to the premises.

On May 25, 2005, the Auditor of State initiated a special audit of the vending machine and candy sales receipts and the payments to Chartwells for administration of the District's food service operations.

On July 12, 2006, the Clermont County grand jury indicted Mr. Longbottom for grand theft, theft and engaging in a pattern of corrupt activity. On October 26, 2006, Mr. Longbottom entered a plea of guilty to grand theft and theft.

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Issue No. 1 – Food Service Receipts

Using available documentation, we determined whether food service receipts collected, including vending machine and candy sales, were deposited into a District bank account.

Procedures

1. We identified the total food service receipts collected to be deposited into the District's bank account during the period September 1, 2004 through May 12, 2005.
2. We identified the amount deposited for food service collections during the period September 1, 2004 through May 12, 2005.
3. We compared the amount collected in Procedure No. 1 to the amount deposited in Procedure No. 2 and determined whether the receipts collected were deposited into the District's bank account.
4. For the period September 1, 2004 through March 24, 2005, and May 1, 2005 through May 12, 2005¹, we compared the documented candy sales to the related deposits into the District's bank account and determined whether the sales collected were deposited.

Results

1. Since the records were not available to identify each building's receipts collected specifically for candy and vending machine sales, we identified the total food service receipts collected from all buildings using available records and determined whether the total receipts collected, including candy and vending machine sales, were deposited. Upon review of available records, we determined the Middle School did maintain candy sales records for the period September 1, 2004 through March 24, 2005, and May 1, 2005 through May 12, 2005.

Using available food service receipts documentation for the period September 1, 2004 through May 12, 2005, we determined the District collected \$288,738. With the exception of the Middle School's candy sales, no significant variances between receipts collected and deposited were noted. Due to the lack of candy sales records and no significant exceptions noted during our testing, we performed no further testing of food service receipts prior to September 1, 2004.

We noted the following weaknesses during our review of documentation supporting food service collections maintained by the District for which we have made management recommendations and a noncompliance citation:

- The District was unable to locate 47 cash register tapes, 11 summary (X/Z) register tapes, and 15 daily cash count sheets.
- We noted discrepancies between the amounts reflected on the Daily Accounting Sheets summarizing the cash register's daily activity and the respective cash register tapes. There was no documented evidence that the former Food Service Manager reconciled the daily register tapes to the amounts on the Daily Accounting Sheets and that the discrepancies had been resolved.
- No documented evidence existed that an independent individual verified that the amounts recorded on the Daily Accounting Sheet and daily cash count sheet were accurate.

¹ During the period March 24, 2005 through April 30, 2005, the Middle School staff did not maintain candy sales records. Since Mr. Longbottom was dismissed by the District on May 12, 2005, he did not make that day's deposit of food service collections including candy and vending machine sales.

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- No documented evidence existed that the former Food Service Manager reconciled the Daily Accounting Sheets to the daily cash count sheets for each cash register ensuring all receipts collected were accounted for in the cash drawer.
2. Based on processed deposit slips and bank statements, the District deposited \$289,812 of food service collections into a District bank account for the period September 1, 2004 through May 12, 2005.
 3. Comparison of the amounts recorded as receipts and the amount deposited noted \$1,074 more was deposited than recorded. The additional receipts deposited consisted of fish fry receipts totaling \$939; rebate checks of \$94, and \$41 from unknown sources.
 4. With the exception of the Middle School candy sales, the District did not maintain supporting documentation identifying the amount collected and forwarded to the Food Service Manager for each building's vending machine and/or candy sales. During the periods September 1, 2004 through March 23, 2005 and May 1, 2005 through May 12, 2005², the Middle School used two cash register keys to track candy sales. At the end of each day, these sales were voided from the register and reported on a separate copy of the deposit slip from that day's collections. The candy collections were placed in a separate unlocked money bag with the completed copy of the deposit slip and submitted to Paul Longbottom, the former Food Service Manager. Upon receipt, Mr. Longbottom completed one deposit slip for all of the buildings' collections and deposited the receipts. We made a recommendation that the District implement procedures requiring each building to prepare a deposit slip for that day's collections, make a copy of the deposit slip to be forwarded to the Food Service Director, and to place the receipts collected and the deposit slip into a locked bank bag prior to forwarding to the Food Service Director.

Using the available Middle School records, we identified \$8,735 of candy sales. However, only \$5,299 was deposited resulting in a shortage of \$3,436. We issued a finding for recovery against Paul Longbottom for \$3,436.

In addition, we recommended the District implement procedures to strengthen controls over candy and vending machine sales to improve the accountability of the collection of candy and vending machine activity.

Finding for Recovery

During the period September 1, 2004 through May 12, 2005, the Middle School's candy sales of \$8,735 were forwarded to Paul Longbottom. However, only \$5,299 of the candy sales was deposited.

In accordance with the foregoing facts, we issued a finding for recovery against Paul Longbottom in the amount of \$3,436 for public monies collected but unaccounted for in favor of the District's Food Service fund.

Noncompliance Citation

Maintaining Supporting Records

Ohio Rev. Code Section 149.351(A) states "(a)ll records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code."

The District was unable to provide 47 cash register tapes, 11 summary (X/Z) tapes and 15 daily cash count sheets supporting cash register collections during the period September 1, 2004 through May 12, 2005.

² Mr. Longbottom was dismissed by the District on May 12, 2005 and did not deposit the food service collections for that day.

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We recommend the District maintain records supporting food service receipts collected in accordance with the Board-approved records retention schedule.

Management Recommendations

Operational Policies and Procedures

The District did not maintain written policies and procedures for collecting food service receipts, including vending machine and candy sales; depositing receipts collected; and reconciling food service collections to deposits. Without written policies and procedures, employees may interpret standard practices incorrectly resulting in inaccurate, inconsistent and undesirable results.

We recommend the District develop a Board-approved departmental handbook addressing these areas. Upon approval, the District should ensure all appropriate employees are made aware of the policies and procedures contained in the handbook.

Food Service Receipt Collections

During the comparison of daily cash register receipts identifying collections to the Daily Accounting Sheets, daily cash count sheets and the amounts deposited, we noted the following weaknesses:

- Each cashier completed a Daily Accounting Sheet summarizing that day's activity recorded on the cash registers tapes. We noted variances up to \$429 between the Daily Accounting Sheet and the cash register tapes or the summary (X/Z) tapes. The current Food Service Director indicated these variances were the result of incorrect keying of sales or the failure to run the end-of-the-shift summary tapes resulting in that shift's totals being added to the next shift's or day's receipts. There was no evidence that the former Food Service Manager reconciled the cash register and the summary (X/Z) tapes to the Daily Accounting Sheets and resolved any discrepancies noted.
- Each cashier completed a daily cash count sheet documenting the funds contained in the cash drawer. No evidence existed that an independent individual verified that the amount reported on the cash count sheet agreed to the amount in the cash drawer.
- In comparing the cash to be deposited per the cash count sheet to the cash collected per the Daily Accounting Sheet, we noted variances up to \$255. The current Food Service Director indicated the changes on the cash count sheets were her notations and the changes were the result of cashier errors when completing the cash count sheet. No evidence existed that these documents were reconciled by the former Food Service Manager and that any discrepancies identified were resolved.
- Daily collections, including those from the vending machines and candy sales, were placed in an unlocked bank bag with a completed copy of a deposit slip and forwarded to former Food Service Manager, Paul Longbottom. Mr. Longbottom completed a deposit slip and deposited that day's total collections.

Failure to reconcile the funds collected to the funds deposited increases the risk that discrepancies due to errors or irregularities will not be detected in a timely manner. In this report, we issued a finding for recovery against Paul Longbottom for \$3,436 of candy sales collected but not deposited.

We recommend the District develop a checklist identifying the forms to be completed by each cashier and require the completed checklist and/or forms to be signed by an independent individual documenting his/her review of the forms for accuracy based on available supporting documentation. Upon completion of this review, the employee should place the receipts with a completed deposit slip in a locked bank bag and attach a copy of the completed deposit slip to the paperwork being submitted to the Food Service Director. Each building should maintain a copy of the paperwork submitted to the Food Service Director to document amounts remitted each day.

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Upon receipt of the deposit slip from the bank, the Food Service Director should reconcile the amount deposited to the amounts reflected on the paperwork and resolve any discrepancies. The Food Service Director should monitor the discrepancies between the Daily Accounting Sheets, cash register tapes, summary (X/Z) tapes, and the daily cash count sheets for each cashier to determine whether additional training should be provided.

Vending Machine and Candy Sales

The District operated vending machines and sold candy throughout the day in some buildings and at lunch time in other buildings. During the period July 1, 2000 through May 12, 2005, the buildings did not maintain inventories documenting items purchased and sold from the vending machine or candy sales. However, the Middle School did maintain documentation supporting each day's sales for the period September 1, 2004 through March 23, 2005 and May 1, 2005 through May 12, 2005. Vending machine receipts and candy sales from the other buildings were collected periodically and deposited with that day's food service collections.

No documentation was maintained to permit the District to recalculate the amount that should have been collected for comparison to the funds deposited from those sales. Failure to maintain an inventory and a record of the items sold reduces the District's ability to determine whether all funds collected were deposited and whether any inventory shrinkage occurred.

When collecting funds from the vending machine, we recommend the District have a second individual observe and document the collection and the counting of receipts collected prior to deposit. The District should also take an inventory of the remaining items to identify the goods sold since the last collection. Upon completion of the inventory, the District should recalculate the amount that should have been collected based on the value of the snacks sold and compare the calculated amount to the amount deposited. Any discrepancies should be resolved in a timely manner.

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Issue No. 2 – Payments to Food Service Contractor

We determined whether the District remitted payments in accordance with the Chartwells contract for administration of the District's food service operations. In addition, we determined whether the District paid Chartwells for personal purchases made by the former Food Service Manager which were subsequently billed to the District.

Procedures

1. We compared the amount Chartwells invoiced the District to the amount the District paid to Chartwells for the administration of the District's food service operations and resolved any discrepancies.
2. We reviewed available supporting documentation maintained by Chartwells for the amounts included on the invoices paid by the District for certain cost categories and determined whether the amounts billed to the District were supported by expenses incurred for the District's food service operations and were in accordance with the contract.
3. We obtained documentation supporting charges on Chartwells' purchasing card from certain vendors for purchases made by Mr. Longbottom, presumably on behalf of the District for its food service operations; identified the items purchased from those vendors; and determined whether the items purchased were related to the District's food service operations.

Results

1. During the period July 1, 2000 through May 12, 2005, the District made 31 payments totaling \$1,666,855 to Chartwells for administration of its food service operations. The payments were supported by invoices submitted by Chartwells with no exceptions.
2. In response to our request for supporting documentation, Chartwells provided a copy of its operating ledger identifying the charges it incurred while operating the program. When totaled by account, the charges agreed to the amount Chartwells invoiced the District. Chartwells stated the supporting documentation for food and paper supply purchases was maintained by the District, salary charges were supported by payroll registers, and the remaining entries were internal postings with no available supporting documentation other than the entries posted to the ledger.

Based on this response, we compared available documentation obtained from the District and Chartwells supporting the invoices to the operating ledger for selected periods. We selected one period from the most recent contract year and compared the records maintained by the District for food and paper supplies purchases to those reflected on Chartwells' operating ledger. We were unable to agree the total amount reflected on the operating ledger to the District's documentation because of expense reclassifications, posting of accrual entries, and lack of documentation supporting the allocation of expenses on the District's documentation to the various accounts contained in Chartwells' operating ledger.

We requested payroll registers for selected periods and determined the payroll registers' gross payroll was reflected in the operating ledger. However, we were unable to verify the other entries reflected as payroll in the operating ledger since the amounts were internal entries posted by Chartwells in which no documentation was provided.

We made a recommendation that the District periodically obtain from its contractors documentation supporting charges billed to the District and determine whether the expenses billed are supported and project-related prior to making payment.

We selected semi-variable cost categories in excess of \$4,000, and management and administrative fees billed to the District for the period July 1, 2000 through May 12, 2005 and determined whether the District was billed for these items in accordance with the contract.

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We noted the following for which we have issued a finding for recovery for \$4,404:

- Chartwells billed the District \$4,165 for “Rent-Office Equipment” and \$140 for “Depreciation H/W” expenses for charges related to Chartwells’ corporate accounting system. These expenses appear to be included in the definition of the Administrative Fee charged by Chartwells to the District in Section 10.3 of the contract and should not have been billed to the District separately.
 - We recalculated the Administrative Fee charged to the District in accordance with Section 10.3 of the contract and determined the District remitted an extra day of the Administrative Fee equaling \$99.
3. In response to Mr. Longbottom’s May 12, 2005 statement that he used Chartwells’ purchasing card to purchase personal items, we requested and received from Chartwells available purchasing card statements and supporting documentation for Mr. Longbottom’s charges. Purchasing card charges were subsequently billed to the District. Based on Mr. Longbottom’s statements and a scan of purchasing card statements, we identified certain vendors that did not appear to be related to food service operations. The vendors included Becketts, JW The Edgeman, Unique Distributors, United Cutlery, Rainbow Cards and Superstars. Rainbow Cards, a company owned by Mr. Longbottom, was used to obtain payment for purchases at Sam’s Club, some of which were fictitious and/or for inflated amounts. We reviewed available documentation submitted by Mr. Longbottom to Chartwells for these purchases and also obtained documentation from the vendors identifying the items purchased.

We verified Mr. Longbottom made purchases for items such as sports cards; sports and movie memorabilia; and collectibles. Using Rainbow Cards, Mr. Longbottom made purchases from Sam’s Club which were fictitious and/or personal in nature. As such, we issued a finding for recovery against Paul Longbottom and Chartwells, jointly and severally, for purchases from the following businesses:

<u>Vendor</u>	<u>Amount</u>
Becketts	\$ 716
JW The Edgeman	9,051
Unique Distributors	7,651
United Cutlery	2,960
Rainbow Cards	27,065
Superstars	2,007
	<u>\$49,450</u>

We also identified purchases totaling \$3,121 from various vendors, including Ticketmaster, Kaybee Toys, Pet Center and PayPal, for which the nature of services or products provided by the vendor did not appear to relate to the District’s food service operations. Accordingly, we issued a finding for recovery against Paul Longbottom and Chartwells, jointly and severally, for \$3,121.

Findings for Recovery

Unallowable Costs/Fees

For the period July 1, 2000 through May 12, 2005, the District paid Chartwells \$4,165 for “Rent-Office Equipment” and \$140 for “Depreciation H/W”. In its March 8, 2006 response, Chartwells stated the “Rent-Office Equipment” category summarized expenses billed for its corporate accounting and payroll charges. Chartwells’ operating ledger identified the charges for “Depreciation H/W” as depreciation of its corporate accounting and payroll system.

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Section 10.3 of the contract between Chartwells and the District provided the District would be charged an Administrative Fee of \$90 per day for a minimum of 178 days. The contract defined Administrative Fees as:

“... its overhead expenses necessary to operate the food service including but not limited to, area and zone supervision and general support provided by Chartwells’ corporate offices (accounting, purchasing, tax, legal, research, auditing, other related administrative functions, etc.)”

The expenses billed to the categories “Rent-Office Equipment” and “Depreciation H/W” were for expenses included in the definition of Administrative Fees. As such, these charges should not have been billed separately to the District.

For the 2002-2003 school year, the District provided food service for 172 days. Per the contract, the District was required to remit an administrative fee of \$99³ per day for a minimum of 178 days. However, Chartwells invoiced and was paid for 179 days at \$99 per day resulting in an overpayment of \$99.

In accordance with the foregoing facts, we issued a finding for recovery against Chartwells in the amount of \$4,404 for public monies illegally expended in favor of the District’s Food Service fund.

Purchasing Card Expenses

In addition to District-related charges, Paul Longbottom, District Food Service Manager and Chartwells employee, charged personal purchases totaling \$52,571 on Chartwells’ purchasing card during the period of July 1, 2000 through May 12, 2005. In some instances, Mr. Longbottom submitted falsified invoices in order to conceal the nature of the charges. Mr. Longbottom asserted to Chartwells these expenses were for the District’s food service operations. The District remitted payment for these expenses included by Chartwells in its monthly invoiced amount. We determined these purchases, such as sporting cards, knives, swords and other collectibles were personal in nature and unrelated to the District’s food service.

In accordance with the foregoing facts, we issued a finding for recovery against Chartwells and Paul Longbottom, jointly and severally, in the amount of \$52,571 for public monies illegally expended in favor of the District’s Food Service fund.

Management Comment

Contract Monitoring

During the review of documentation supporting expenses recorded in Chartwells’ operating ledger and the charges to Chartwells’ purchasing card, we noted the following:

- Supporting documentation for \$2,572 of purchasing card charges was not provided by Mr. Longbottom to Chartwells for expenses incurred.
- Original invoices received by Mr. Longbottom were not submitted to Chartwells. Instead, Mr. Longbottom submitted copies of invoices supporting the charges on the purchasing card some of which were alterations of original invoices or completely fictitious.
- Purchasing card charges to vendors unrelated to District food service operations, such as Becketts and Superstars, were billed to the District.
- Without obtaining additional documentation such as the operating ledger supporting the invoices, the District was unable to determine that “Rent-Office Equipment” and “Depreciation H/W” expenses were related to Chartwells’ corporate accounting system which appeared to be included in the costs covered by the Administrative Fee.

³ In accordance with Section 10.4 of the contract, the Administrative Fee was increased to \$99 per day as a result of the District failing to pay its required advance payment by August 15th.

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Not requiring documentation supporting expenses incurred by contractors and periodically reviewing documentation supporting the expenses increases the risk the District will pay for unallowable costs.

For all contracts, we recommend the District require contractors maintain supporting documentation for expenses and that the District periodically review original source documentation supporting the costs billed to the District to ensure no alterations or unallowable expenses were included in the invoice.

Additionally, the District should perform periodic scans of subcontractors to ensure the nature of the subcontractors' businesses is such that it relates to the goods/services being provided by the contracted vendor.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

CLERMONT 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
DECEMBER 21, 2006**