February 21, 2001

Mr. Alan Tomiyama  
Business Manager  
Business Services Division  
Los Angeles Unified School District  
355 South Grand Avenue, Suite 1100  
Los Angeles, CA  90071

Dear Mr. Tomiyama:

This is our report on the audit of the LAUSD Food Services: Cash Handling Procedures

These are the report’s key sections:

• The Executive Summary is an overview of what we audited and what we found.

• The Introduction specifies the scope of the audit and steps taken during the audit.

• The Finding and Recommendations section describes in detail the condition we found, our recommendations and your comments.

• Annex A contains your verbatim comments on specific recommendations. Annex B lists others receiving copies of the report. Annex C lists the members of the audit team.

I appreciate the courtesies and cooperation extended to us during the audit.

Sincerely,

Don Mullinax  
Inspector General
EXECUTIVE SUMMARY

Introduction. This report contains the results of our audit of the cash handling process related to a la carte food sales at Los Angeles Unified School District (“LAUSD”) cafeterias. We conducted the audit as scheduled in our year 2001 work plan.

Objectives. The overall objective of the audit was to determine whether funds collected by cafeterias were properly accounted for and controlled. The specific audit objectives were to (i) determine whether existing policies and internal controls protected cash receipts from misappropriation by restricting access to cash receipts and cash receipt records to authorized personnel, (ii) ensure cash receipts were properly summarized and accurately recorded in the underlying accounting records, and (iii) determine that there were adequate supervision and reconciliation procedures being performed by personnel other than those who handled cash receipts.

Results in Brief. Generally, we found that the accounting and controls over funds collected by cafeterias needed some improvement. The Food Services Branch had policies and procedures that were generally comprehensive for cash handling related to a la carte food sales. However, these policies and procedures needed stricter enforcement or improvement to prevent misappropriation of funds; ensure proper and accurate recording of cash transactions; and to ensure adequate supervision of cash handling tasks. We noted, for example, that cafeteria managers could be more effective in cash handling functions with more training in that specific area. Also, the accuracy of cash sales records could be improved if area food services supervisors increase their monitoring of the preparation of these reports. Finally, the misappropriation of funds could be more readily detected if cafeteria personnel adequately reported and analyzed discrepancies between food sales and cash collections.

Summary of Recommendations. We recommended that the Food Services Branch: (i) investigate the possibility of providing schools with more modern cash register equipment or integrating a la carte sales into the in-progress computerization of food service operations, (ii) provide additional training to all cafeteria managers regarding cash handling procedures and record keeping, (iii) direct area food services supervisors to perform periodic random inspections of cafeteria financial records and to review these records for completeness, and (iv) revise key weekly report forms to require an identification and explanation of all cash sale discrepancies.

LAUSD Comments. The LAUSD agreed with our recommendations and stated that corrective actions had been taken or were planned. LAUSD’s specific comments are presented in the finding and recommendations section of the report and its verbatim response is shown at Annex A of the report.
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INTRODUCTION

Background. In fiscal year 2000, the Food Services Branch provided approximately 40 million breakfasts, 73 million lunches, and 4 million snacks to over 700,000 students at over 900 sites. Over 6,000 people assisted in providing these meals daily. A la carte food sales volume was approximately $32 million.

Controls over cafeteria cash transactions were achieved primarily through numerous manual procedures that required the daily, weekly, and monthly preparation of certain records. Such controls are important due to the volume of cash transactions and because the maintenance of an internal control structure is consistent with AICPA guidelines, which state that establishing and maintaining an internal control structure is an important management responsibility along with determining that the internal control structure operates as intended and is modified as appropriate for changes in conditions.\(^1\)

Objectives. The overall objective of the audit was to determine whether funds collected by cafeterias were properly accounted for and controlled. The specific audit objectives were to (i) determine whether existing policies and internal controls protected cash receipts from misappropriation by restricting access to cash receipts and cash receipt records to authorized personnel, (ii) ensure cash receipts were properly summarized and accurately recorded in the underlying accounting records, and (iii) determine that there were adequate supervision and reconciliation procedures being performed by personnel other than those who handled cash receipts.

Scope. We performed the audit from July 2000 through February 2001 at the Food Services Branch and at selected elementary and secondary school cafeteria locations. We performed the audit work in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances. The audit covered transactions representing operations current at the time of the audit.

Methodology. To accomplish the audit objectives, we:

- Reviewed the policies and procedures of the Food Services Branch.
- Tested documentation that supported a la carte food sales transaction activity.
- Used statistical sampling to select schools in which to verify the performance of selected cafeteria tasks.

\(^1\) AICPA Auditing Standards Board Statement of Auditing Standards Number 55 “Consideration of the Internal Control Structure in a Financial Statement Audit.” P. 7.
• Interviewed cafeteria workers, cafeteria managers, financial managers, and principals to gain an understanding of actual business practices and controls.

In the course of this review, we also interviewed representatives from the Food Services Branch to get a general overview of the LAUSD’s plan to automate cafeteria operations.
FINDING AND RECOMMENDATIONS

FINDING: A LA CARTE FOOD SALES

For the Business Manager, Business Services Division

SUMMARY

The Los Angeles Unified School District (“LAUSD”) needed to take action to improve the data accuracy for student and faculty a la carte cash food sales. Specifically, the LAUSD’s Food Services Branch did not:

- Provide adequate equipment to accurately and efficiently process cash sales activity.
- Effectively monitor the preparation of all reports, schedules, and worksheets related to meal service and collections.
- Adequately report or analyze discrepancies between food sales and cash collections.

These conditions occurred because (i) installation of electronic cash registers LAUSD-wide was not deemed to be cost effective by Food Services Branch management, (ii) area food services supervisors did not perform adequate periodic reviews of cafeteria managers financial records retained at the school site, (iii) cafeteria personnel performing cash handling tasks were not adequately supervised in those tasks, (iv) document preparation guidelines were not strictly enforced, and (v) existing policies did not require food sales information to be compared to actual cash collections.

As a result, there is an increased likelihood of errors without the use of modern equipment, LAUSD assets may not be adequately safeguarded and accounted for, and reporting mechanisms did not sufficiently detect and deter misappropriation of funds.

Our recommendations to correct these conditions begin on page 8.
BACKGROUND

Student a la carte food sales transactions were normally handled at service windows that did not use cash registers while faculty a la carte food sales activity was normally handled with the use of cash registers. Mobile a la carte stations served food and collected cash in open trays.

Elementary schools typically had a cafeteria manager that monitored student and faculty cafeteria sales activity. The cafeteria manager was responsible for food preparation activities, reconciling daily inventory consumption, cash collections, cash deposits, and the preparation of required forms and schedules that documented a la carte food sales activity.

Secondary schools had both a cafeteria manager and a financial manager that monitored student and faculty cafeteria sales activity. The cafeteria manager was responsible for food preparation activities, reconciliation of daily food consumption, extension of sale transactions, and completion of required forms that documented a la carte food sales activity. The financial manager maintained custody of all cash and prepared documentation that supported student and faculty a la carte food sales and bank deposit transaction activity.

DISCUSSION

This section discusses these three areas:

- Cash Registers
- Document Preparation
- Procedure Guidelines

Cash Registers

The Food Services Branch did not provide functional cash registers for use at school site locations.

Food Services Operations Manual, Record Keeping, (Rev 8/99), requires that elementary school cafeterias that have cash registers use them on the service line where the most money is collected. In addition, items rung into the register must be identified as either an adult or student sale.
Using statistical sampling, we selected 48 schools to review the effectiveness of their cafeteria cash handling procedures. In the course of this review we noted the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary schools visited with outdated cash registers</td>
<td>93%</td>
</tr>
<tr>
<td>Secondary schools visited that had no cash registers to record student food sales</td>
<td>100%</td>
</tr>
<tr>
<td>School sites visited that did not adequately restrict access to cash registers and boxes</td>
<td>77%</td>
</tr>
</tbody>
</table>

The outdated cash registers could not issue receipts, describe the items sold, or register a sales transaction greater than $5.99 without multiple entries. In addition, the registers had a “no sale” key that could override the recording of a sale transaction.

These conditions occurred because the installation of electronic cash registers LAUSD-wide was not deemed to be cost effective by Food Services Branch management.

As a result, there was an increased likelihood for errors and loss of LAUSD assets without the use of modern and appropriate equipment and the lack of receipts being generated diminished the control over cash receipts at the point of sale.

We discuss the needed corrective action regarding cash registers in Recommendation 1.

**Document Preparation**

Cafeteria personnel did not comply with Food Services Branch document preparation guidelines.

Food Services Operations Manual, Record Keeping, (Rev 8/99) gives detailed instructions regarding the preparation of various reports that must be completed to provide a record of food service cash transactions and to deter and detect theft of LAUSD assets. In addition, the LAUSD Personnel Commission requires that the typical duties of the area food services supervisor should include “Evaluating or assisting in evaluating the technical performance of cafeteria managers and counseling food service employees”. According to Food Services Branch Form P-38.145 (Rev. 4/98), criteria to be considered when evaluating the technical skills of cafeteria managers’ include:

1. Maintenance of operational records, including weekly reports.
2. Maintenance of financial records, including proper cash handling procedures.
There are various forms and schedules that are required to be completed daily after each meal service and retained at the school site. In addition there are numerous forms that must be completed by the end of each week and mailed to the Food Services Branch. These daily and weekly forms include:

- Cafeteria Daily Unit Sales Report.
- Elementary Cash Register Summary.
- Student A La Carte Sales and Full Price Meals Reconciliation Sheet.
- Weekly Report Forms 1 through 5.

The daily reports listed above should be completed according to the following guidelines:

- Forms should be prepared by someone not involved with the money count.
- Forms should be completed in black ink (Cafeteria Daily Unit Sales Report only).
- Corrections should be made in red ink (Cafeteria Daily Unit Sales Report only).
- Discrepancies between cash collected and food sales amounts should be explained.

Forms should be signed when appropriate by the cafeteria manager, financial manager, or their designee.

Using statistical sampling, we selected 48 schools for review. At each of these schools we tested compliance with the above controls. The results of our testing are presented below. The percentage of schools visited where the control procedures were not being consistently followed is shown in the exceptions rate columns. The [E] column corresponds to elementary schools and the [S] column corresponds to secondary schools.

<table>
<thead>
<tr>
<th>Control Deficiency Noted</th>
<th>Exception Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate segregation of cash receipt, report preparation and inventory duties.</td>
<td>67% 94%</td>
</tr>
<tr>
<td>A la carte food sales reports prepared in pencil instead of black ink.</td>
<td>80% 89%</td>
</tr>
<tr>
<td>Changes to original recorded food sales information were not made in red ink.</td>
<td>50% 89%</td>
</tr>
<tr>
<td>Cash shortages or overages were not adequately explained or reported to the Food Services Branch.</td>
<td>50% 100%</td>
</tr>
<tr>
<td>Cafeteria managers did not sign the respective cash reconciliation forms.</td>
<td>90% 0%</td>
</tr>
</tbody>
</table>
In addition to the exceptions noted above, a review of 104 Daily Unit Sales Reports prepared in fiscal year 2000 disclosed mathematical errors, missing inventory data, and unexplained cash shortages and surpluses. If the rate of unexplained cash shortages observed in our review is pervasive throughout the LAUSD, this suggests that as much as $650,000 of funds may have been unaccounted for in fiscal year 2000.

The above conditions occurred because Food Services Branch management did not require area food services supervisors to closely evaluate the performance of the cafeteria managers assigned to them. In addition, cafeteria personnel were not adequately supervised and trained and documentation preparation guidelines were not strictly enforced.

As a result, LAUSD assets may not have been adequately safeguarded and accounted for and misappropriation of funds may have occurred and gone undetected by management.

We discuss the needed corrective action regarding document preparation in Recommendation 2 and 3.

**Procedure Guidelines**

Cafeteria a la carte sales amounts and accurate cash shortage or surplus amounts were not recorded on any reports submitted to the Food Services Branch.

Food Services Operations Manual, Record Keeping, (Rev. 8/99), provides detailed instructions for weekly forms that must be completed and submitted. For elementary schools, the key weekly report is Weekly Report Form 2 and for secondary schools it is Weekly Report Form 5. Each report is required to disclose:

- Cash Sales
- Change Funds
- Collections and Bank Deposits
- Collections on Invoices

In addition, elementary school personnel completed a daily worksheet known as the Elementary Cash Register Summary while secondary school personnel completed a similar worksheet known as the Daily Cash Receipts Report. Each of these reports provided summarized transaction information.

We reviewed a sample of each of the forms described above for completeness and data accuracy. Our review disclosed that (i) cafeteria managers were simply reporting the cash that had been collected when asked to report the value of a la carte food sales, and (ii) weekly cash shortages or surpluses were identified only through a comparison of weekly cash collected with the weekly
monies deposited in the bank. However, this procedure does not verify that the value of food items sold during the week was equal to the cash actually collected during the same time period.

These conditions occurred because wording on the weekly forms did not clearly indicate that a la carte food sales should be reported and the forms did not correctly compare a la carte food sales to collections to monies deposited.

As a result, the Weekly Report Forms 2 and 5 and the Elementary Cash Register Summary and the Daily Cash Receipts Report may not have reflected accurately all cash shortage or surpluses. Accordingly, the usefulness of these reports to management to help detect and deter theft of cafeteria funds was diminished.

We discuss the needed corrective action regarding procedure guidelines in Recommendations 4 and 5.

**RECOMMENDATIONS AND COMMENTS**

**Recommendation 1:** Direct the Food Services Branch to investigate the possibility of providing elementary and secondary schools with cash registers that will be compatible with the in-progress computerization of food services operations or (ii) ensure that the in-progress computerization of food services operations will include a la carte food sale transaction activity.

**LAUSD Comments:** The LAUSD agreed that incorporating a la carte sales transaction activity into its current changeover to computerized cafeteria operations is a viable option that will be explored more fully in tandem with the computerization program set to be completed in 2005. The LAUSD maintains that this option is more cost effective and practical than investing in new cash registers at this time.

**Recommendation 2:** Direct the Food Services Branch to provide additional training to all cafeteria managers regarding procedures for proper cash handling and record keeping of faculty and student a la carte sales activity.

**LAUSD Comments:** The LAUSD agreed with our recommendation and stated that all area food services supervisors will receive additional training related to auditing a la carte food sales records. This training should be completed by the end of February 2001. Cafeteria managers will in turn receive additional training under a training program set to begin prior to April 1, 2001.

**Recommendation 3:** Direct area food services supervisors to perform periodic random inspections of cafeteria financial records that are prepared and retained at the school site level. The results of such reviews should be reflected in the cafeteria managers’ performance evaluation.
**LAUSD Comments:** The LAUSD agreed with our recommendation and stated that it will initiate a program in August 2001 that will require area food supervisors to conduct at least two school site visits each fiscal year. The results of the reviews may receive consideration in the performance evaluations of the cafeteria managers if other conditions indicate it is appropriate to do so. In addition, central Food Services Branch staff will continue its program of random audits where all documentation will be reviewed.

**Recommendation 4:** Revise Weekly Report Forms 2 and 5 as well as the Elementary Cash Register Summary and the Daily Cash Receipts Report to require a comparison of food sales amounts with cash collections and cash deposited to identify all cash short or over amounts with an explanation to be provided for all discrepancies.

**LAUSD Comments:** The LAUSD agreed with our recommendation and stated the indicated forms would be revised and redistributed by July 1, 2001.

**Recommendation 5:** Revise the Food Services Manual, Record Keeping section to require cafeteria managers to attach a copy of the Elementary Cash Register Summary or the Daily Cash Receipt Report, whichever is appropriate, with the weekly submittal of Report Forms 2 and 5. In addition, the Elementary Cash Register Summary and the Daily Cash Receipt Report should be revised to show distribution requirements and should have a space for the signature of the cafeteria manager.

**LAUSD Comments:** The LAUSD agreed that these forms should be monitored more closely but proposed an alternative arrangement to achieve this. The proposed alternative arrangement will require that these forms be reviewed on a test basis as part of the biannual area food services supervisor visits as well as the Food Service Branch random audits described in the LAUSD comments for recommendation 3.

**Inspector General Response:** The LAUSD alternative satisfies the intent of our recommendation.
ANNEXES
COPIES OF ANNEX A ARE AVAILABLE FOR VIEWING IN THE LOS ANGELES UNIFIED SCHOOL DISTRICT’S OFFICE OF THE INSPECTOR GENERAL
REPORT DISTRIBUTION

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General Counsel
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Local District Superintendents
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Associate Superintendent of Planning, Assessment and Research
Associate Superintendent of Specially Funded, Parent/Community Programs
Assistant Superintendent of Adult and Career Education
Chief Facilities Executive
Chief Financial Officer
Chief Information Officer
Local District Business Managers
Chief Procurement Officer
Chief of Police
Communications Advisor
Director, Legislative Affairs and Governmental Relations
Director, Independent Analysis Unit
Director, Food Services Branch
Executive Officer of the Board of Education
Executive Administrator of Business, Finance, Facilities and Information Technology
Executive Administrator of Educational Services, School Operations and Parent/Community Involvement
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