

ASD INTERNAL AUDIT REPORT

2019-01

Student Nutrition Cafeteria Cash Controls

Anchorage School District

April 24, 2019

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

April 24, 2019

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2019-01; Student Nutrition Cafeteria Cash Controls; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Student Nutrition Cafeteria Cash Controls. The objective of this audit was to determine the adequacy of internal controls in collecting, recording and managing funds related to meal accounts. To achieve our objective, we visited nine schools where we observed operations, interviewed staff, and conducted surprise cash counts. We also interviewed Student Nutrition Department administration staff to identify internal controls and responsibilities, and reviewed policies and procedures.

Based on our review, internal controls over collecting, recording and managing funds related to meal accounts need improvement. Specifically, management of the Student Nutrition Department's accounts receivable needs improvement, refunds of prepaid meal accounts were not issued when accounts became inactive, and deposit bags were not kept secure prior to being deposited. Moreover, there were multiple software systems used at the Student Nutrition Department that did not provide adequate reporting for use by management and the Student Nutrition Department lacked many written policies and procedures.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

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ASD Internal Audit Report 2019-01
Student Nutrition Cafeteria Cash Controls
Anchorage School District

Introduction. The Student Nutrition Department (Student Nutrition) provides meal service to over 41,000 students in 83 Anchorage School District (District) schools. In 2017, Student Nutrition reported more than \$2.2 million in sales. Payment for student and staff meals may be made by cash or check at school locations, or by credit card online through Parent Connection. Prepayments are credited to the student's account. Some students have a card that can be scanned when a lunch is received and other students provide their student identification numbers (IDN) to receive a lunch. When the card is scanned or their student IDN is entered, their account is debited for the lunch. However, in an effort to ensure that all students receive meals, charging is allowed without limit. The District has 37 schools participating in the Community Eligibility Provision (CEP) program, where all students receive a free breakfast, lunch, and in some cases, dinner. To be eligible for this program, at least 40% of the students at each school, a group of schools in the District, or all schools in the District must qualify for free meals. When schools meet the CEP criteria, no application is needed from the families because data from other needs-based assistance programs was used to determine school eligibility. Additionally, to ensure meals are safe, healthy, and nutritious, Student Nutrition is required to follow guidelines issued by the State of Alaska (SOA) and United States Department of Agriculture (USDA).

Objective and Scope. The objective of this audit was to determine the adequacy of internal controls in collecting, recording and managing funds related to meal accounts. To achieve our objective, we visited nine schools where we observed operations, interviewed staff, and conducted surprise cash counts. We also interviewed Student Nutrition administration staff to identify internal controls and responsibilities, and reviewed policies and procedures (P&Ps).

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period from September through November 2018. The audit was requested by the Anchorage School Board Finance Committee.

Overall Evaluation. Internal controls over collecting, recording and managing funds related to meal accounts need improvement. Specifically, management of Student Nutrition's accounts receivable needs improvement, refunds of prepaid meal accounts were not issued when accounts became inactive, and deposit bags were not kept secure prior to being deposited. Moreover, there were multiple software systems used at Student Nutrition that did not provide adequate reporting for use by management and Student Nutrition lacked many written P&Ps.

FINDINGS AND RECOMMENDATIONS

1. Management of Accounts Receivable Needs Improvement.

- a. **Finding.** Management of Student Nutrition's accounts receivable needs improvement. As of December 18, 2018, the balance due from 5,901 active students was \$317,552, which ranged from \$.01 to \$1,327. In addition, \$83,969 was due from 2,329 inactive students, ranging from \$.05 to \$1,009. Therefore, the total balance due from both active and inactive accounts was \$401,521. (See Attachment 1 for accounts receivable data.) Specifically, we found the following:

- ***Account Balances Not Aged*** – Accounts receivable aging reports were not available to Student Nutrition Administration staff. According to Student Nutrition staff, the PCS Right Now system does not age accounts. As a result, it was difficult

to identify past due accounts. This information is helpful to determine when collection action may be needed or when to write off uncollectable accounts as bad debt.

- ***Deferred Revenue Distorted*** – Both credit and debit entries for meals were included in the District’s deferred revenue, distorting the deferred revenue total. The debit entries were from accounts receivable. Only credit entries should be included in deferred revenue. The credit entries were the result of prepayments or overpayments.
- ***No Collection Effort for Inactive Accounts*** – Once students left the District, notices of past due balances were no longer mailed, emails were no longer sent, and phone calls were no longer made to collect past due payments. As a result, the balances remained on the students’ accounts indefinitely.
- ***Written Meal Charge Policy Not Followed*** – Student Nutrition has not followed its notification policy regarding past due meal accounts. The USDA requires that ASD have a written unpaid meal charge policy and that it be clearly communicated to families, as well as staff responsible for collection. The Anchorage School District’s policy states that when a meal is charged to a student account without sufficient funds, an email may be sent and a weekly reminder regarding balances due will be sent home with the student. If the balance escalates, email frequency may increase and an automated phone call may be used. When interviewing staff, we found that notices were sent home for only elementary students, and emails and phone calls had not been made since last school year. According to Student Nutrition management, the automated phone calls were not made because the automated phone calling system no longer exists and had not been replaced with a new system. After we inquired, letters were mailed for balances over \$50. It was past practice to send an email for balances above \$20, and place both a phone call

and send an email for balances over \$30. The automated phone and email systems were expected to be active in November 2018.

- ***Collection Responsibility Unclear*** – It was unclear who is responsible for collecting past due accounts receivables. At one time, cafeteria managers called parents/guardians about past due accounts. However, this was discontinued and the collection responsibility was moved to Student Nutrition Administration. Student Nutrition Administration instructed cafeteria managers to provide negative balance reports to principals each week. Student Nutrition Administration staff indicated that they rely on school principals and staff to assist with the collection efforts. However, this expectation had not been clearly communicated to school principals who we interviewed.

According to some principals, they did not feel that they should be responsible for collecting past due accounts receivable. They believed that having principals or other school staff in an account collection role could negatively impact their relationship with parents/guardians. In addition, they sensed that families may choose not to attend school meetings and functions if they feel uncomfortable because of past due debts.

- ***Collection Agency Not Used*** – Food Services did not send delinquent accounts receivable to a collection agency. Based on a survey conducted by the Commercial Collection Agency Section of the Commercial Law League of America, the longer an account is outstanding, the less the probability of collection. For example, after three months, the likelihood of collecting on a delinquent account drops to about 70 percent. After six months, about 45 percent of delinquent accounts will never be collected, and after one year the probability of collecting a delinquent account drops to about 20 percent. Some school districts across the nation use agencies to recover

delinquent accounts. Since account balances were not aged, it is nearly impossible to determine what accounts should be sent to a collection agency.

b. **Recommendation.** The Student Nutrition Director should:

- 1) Consult with the District's Information Technology (IT) Department to determine if aging reports can be developed.
- 2) Ensure that deferred revenue balances do not include debit balances from accounts receivable.
- 3) Take action to collect on past due inactive accounts.
- 4) Enforce its policy regarding meal charges.
- 5) Clarify who is responsible for collecting past due accounts receivable.
- 6) Consider sending delinquent accounts to a collection agency.

c. **Management Comments.** Management stated, "Student Nutrition (SN) concurs with the specific findings of the audit; the management and collection of unpaid meal balances is a nationwide problem. The District policy is to provide meals to children who need or want them regardless of the child's ability to pay. This policy presents some fiscal risks; but the District acknowledges that kids simply perform better if fed. The District does encourage needy families that are not zoned for CEP schools to apply for the Free and Reduced meal program. For a number of reasons, some eligible families do not apply. Recognizing this, the District has provided a line item in this year's budget and subsequent years to provide general fund contribution to offset these losses. Some specific notes on sub topics under this finding are provided below.

- "a. Account balances not aged. Unpaid meal accounts are similar to an open line of credit since the account can be debited or credited at any time. Our current software package does not easily track the age of the unpaid portion of a meal account. We have not seen this feature demonstrated in any other software currently available.

- “b. Deferred revenue. Meal accounts are listed as a deferred revenue because they are a prepaid, unearned revenue and should be treated as a liability. This is consistent with how other financial institutions manage overdrawn checking accounts, which would be the closest corollary. However, we will evaluate the treatment of accounts receivable in deferred revenue.
- “c. Collection for inactive accounts. The District acknowledges this shortcoming. Current software limitations make this a manpower intensive activity. Student Nutrition assesses that the administrative costs, combined with the low recovery probabilities on these accounts, outweigh the potential monetary benefits.
- “d. Written policy procedures. The policy, revised by a combined, Administration panel in 2017, effectively shares meal charge recovery between Student Nutrition staff and school-based leaders. Of note, the policy focuses on principal interaction with families as a way to encourage those with accruing large balances to apply for the Free and Reduced Program versus an attempt at collection. Because of the large number of accounts currently in arrears, this has proven difficult to administer. The management of this policy should improve and be alleviated as the District plan noted above forgives those accounts deemed unpayable or unable to resolve.
- “e. Use of a collection agency. The use of a collection agency is an option of last resort available to the administration. Given the relatively small student debt amounts and the uncertain fiscal challenges faced by some ASD families, the District has not exercised this option.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

2. **Refunds Not Issued For Inactive Accounts.**

- a. **Finding.** Refunds of prepaid meal accounts were not issued when accounts became inactive. As of December 2018, there were 23,538 inactive accounts totaling \$208,838 that had not been returned to families and/or former staff. For example, when students or staff leave the District, such as graduation or termination of employment, their account status is changed from active to inactive, but no attempt is made to return the funds. Moreover, there was no refund information available on the District's website or the online payment system, credit statements were not sent, and funds were not sent to the SOA as unclaimed property. Being a government agency, funds are to be reported after being abandoned for one year as of June 30. The SOA Unclaimed Property Act (Alaska Statute 34.45) requires that unclaimed property reports be sent to the Department of Revenue by November 1 of each year.
- b. **Recommendation.** The Student Nutrition Director should refund the prepaid meal accounts. There are several ways this could be accomplished. For example, as part of graduation information can be provided regarding refunds. Moreover, the Student Nutrition Director should send unclaimed property to the SOA, Department of Revenue.
- c. **Management Comments.** Management stated, "SN concurs with this finding. The Department recognizes that management of inactive accounts, with both positive and negative balances is a persistent issue and is in the process of rectifying. Determining the age of inactive accounts is difficult with current software thus making it problematic to transfer those accounts with positive balances to Unclaimed Property. This issue will improve once the Department procures and implements a new software package. As recommended, Student Nutrition will submit unclaimed property reports to the SOA Department of Revenue."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Deposit Bags Not Secured.**

- a. **Finding.** Deposit bags were not kept secure prior to being deposited. During daily delivery of food and supplies to school cafeterias, Student Nutrition drivers are responsible for collecting prepared deposits from each school they visit. Student Nutrition drivers kept the deposit bags in their truck cabs until returning to the warehouse at the end of their routes. This practice poses a potential risk to the physical security of the driver as well as a financial risk to the District. Instead of using Student Nutrition drivers, some school districts across the country use armored car services for deposit transportation.
- b. **Recommendation.** The Student Nutrition Director should consider other options for collecting bank deposits such as contracting with an armored car service to collect the cafeteria deposits from each school or using reverse automated teller machines located at schools. This effort could be coordinated with the Chief Fiscal Officer to determine if other school funds could also be collected at the same time.
- c. **Management Comments.** Management stated, "SN concurs with this finding. The Department recognized the issue of drivers transporting large sums of cash unsecured prior to the audit. SN is currently working with the Finance and Risk Management Departments and Instruction Department leadership to develop a spoke-and-hub system to centrally collect monies and to contract with a bonded security company or other applicable entity to transport cash to a financial institution. This will relieve drivers of the responsibility to transport large sums of cash."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Management Reports Are Not Adequate.**

- a. **Finding.** There were multiple software systems used at Student Nutrition that did not provide adequate reporting for use by management. For example, there was no aging report, a report to compare inventory sent to schools with sales, or reporting on voided transactions in cafeterias. OneSource was used for inventory tracking and PCS Right Now for cafeteria sales, but they did not communicate with each other. As a result, management did not have the necessary information to determine if theft occurred.
- b. **Recommendation.** The Student Nutrition Director should work with the District's IT Department to develop custom reports that would enable better controls over inventory and finances, as well as provide comprehensive reporting.
- c. **Management Comments.** Management stated, "SN concurs with this finding. The two primary software suites used to manage a variety of functions are inadequate. The District is in the initial stages of acquiring funding to obtain a single software package that better provides for all the required functions of the department."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Lack of Policies and Procedures.**

- a. **Finding.** Student Nutrition lacked many written P&Ps. Some of the problems identified in this report could have been avoided with more comprehensive procedures. For example, current procedures do not include topics such as bad debt write off, return of

prepaid account balances, application of donated funds, and accounts receivable. Although Student Nutrition had some P&Ps, they had not been updated for several years.

- b. **Recommendation.** The Student Nutrition Director should develop and implement comprehensive standard operating P&Ps for collecting, recording and managing funds related to meal accounts.
- c. **Management Comments.** Management stated, “SN concurs with this finding. The Department is in the process now of reviewing and modifying existing policies and procedures to address these issues.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 14, 2019.

Audit Staff:
Dawn Brown

Attachment 1

Accounts Receivable as of December 18, 2018			
<u>Balance Range</u>	<u>Account Type</u>	<u>Number of Students</u>	<u>Total Due</u>
\$0.00-\$19.99	Active	3,267	\$ 22,548.82
	Inactive	1,548	9,074.27
\$20.00-\$49.99	Active	1,127	36,723.86
	Inactive	354	11,450.59
\$50.00-\$99.99	Active	702	49,655.85
	Inactive	210	14,682.57
\$100.00-\$249.99	Active	527	80,705.41
	Inactive	161	24,400.28
\$250.00-\$499.99	Active	201	70,102.61
	Inactive	42	14,515.40
\$500.00-\$749.99	Active	45	27,627.44
	Inactive	9	5,672.86
\$750.00-\$999.99	Active	21	17,361.95
	Inactive	4	3,163.80
\$1,000.00 and more	Active	11	12,825.75
	Inactive	<u>1</u>	<u>1,009.45</u>
Totals:		8,230	\$401,520.91

Source: Auditor analysis of unaudited PCS Right Now data