



2015-2016

# ALLEGATION OF MISAPPROPRIATION OF DISTRICT FOOD SERVICE FUNDS AT A MIDDLE SCHOOL CAFETERIA

We confirmed the  
employee  
misappropriated  
District Food Service  
funds



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## ABBREVIATIONS LIST

CAP	Corrective Action Plan
FNS	Food and Nutrition Services
IA	Internal Audit
MS	Middle school
POS	Point of Sale
SY	School Year

# Executive Summary (IR01)

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## Background

The Food and Nutrition Services (FNS) and Employee Relations Departments contacted Internal Audit to request assistance in determining whether misappropriation of District Food Service funds had occurred at a middle school (MS) from meal payments received by the cafeteria manager. Parent(s) alleged that their child's meal account was credited for lesser amounts than what they had paid via cash and/or check during the 2015-2016 school year (SY).

The District uses WebSMARTT software to manage the food service program. This software employs the use of point-of-sale (POS) systems to record and track meal payments made with cash and/or check paid to cafeteria staff. For meal payments received online (credit/debit card), the District uses an online service called MySchoolBucks. MySchoolBucks also provides parents and employees a way to monitor all of their meal account activity online.

The assistance provided to the aforementioned departments is part of the consulting services category, which is included in the Board approved 2015-2016 fiscal year Internal Audit Plan.

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## Objective and Scope

The objective was to assist the FNS and Employee Relations Departments in determining whether misappropriation of District food service funds occurred. If misappropriation was confirmed, determine possible cause(s), and provide recommendations that could strengthen the related internal controls established by FNS to prevent future occurrences.

The scope initially focused on student meal account transactions reported by the parents for the 2015-2016 school year (SY). After analyzing the documentation and reviewing reports from WebSMARTT for 2015-2016 and 2014-2015, we identified questionable meal transactions outside of the original allegation that also showed multiple voids and re-entering of payments at a lesser amount(s). As such, we expanded the scope to include similar 2014-2015 SY transactions.

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## Summary of Findings

1. The cafeteria manager denied misappropriating food service meal payments from students including those related to the allegation. However, eleven check payments provided by parents were analyzed and each showed discrepancies ranging from \$5 to \$10 for approximately \$75, affecting five students.

During our analysis, we also noted there were other students and/or employees (over 100) with questionable transactions that occurred between October 2014 and February 2016. Most of these transactions showed a similar pattern such as the one the cafeteria manager admitted to using to misappropriate employee food service account payments (see #2

below). As such, there is a risk the District may receive additional allegations from students/parents that meal accounts were credited for lesser amounts.

2. The cafeteria manager admitted to have misappropriated approximately \$640 from District food service funds from September 2014 up to March 2016 by using one or a combination of schemes including skimming, cash larceny, and reversing meal charges. The cafeteria manager claimed these funds came from payments made by employees to fund their meal accounts at the middle school.

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### **Summary of Recommendations**

1. Food and Nutrition Services in consultation with the Deputy Superintendent of Finance and Operations, General Counsel and EPISD Police Services should evaluate whether charges should be filed against the cafeteria manager and seek restitution of the misappropriated funds.
2. Human Resources should file a copy of this report in the cafeteria manager's investigative file.
3. Food and Nutrition Services in consultation with the Deputy Superintendent of Finance and Operations, and General Counsel should determine if students/employees affected are warranted refunds to their meal accounts.
4. Additional recommendations to strengthen internal controls for the FNS operations are provided in the detailed report (IR02) for the two findings.

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### **Summary of Observations**

1. The FNS department produced a special report for this investigation that showed the middle school in question had the highest number of "in and out" (enter and void payments) transactions compared to any other school in the District. This report proved helpful in detecting the payment patterns the cafeteria manager developed to conceal this scheme.

We recommend the FNS department run and review this report at a minimum once a year mid-year (or as often as management determines) as part of their review/monitoring process and take action as deemed appropriate.

2. The cafeteria manager and the assistant manager did not follow appropriate security practices when handling the POS registers, for example:
  - The cafeteria manager assigned passwords for all POS users.
  - Both the cafeteria manager and the assistant manager stated they did not log out from their POS after each use. Instead, they would take over each other's POS during breaks or phone calls.

We recommend:

- a. The FNS department consult with Technology Services on how to apply the latest District guidelines regarding password and security to District applications and systems (i.e. POS).

- b. If feasible and cost effective (implementation and maintenance), the FNS department should evaluate and determine if employees can swipe their District employee IDs to log in to the POS instead of typing in their POS code.

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### **Summary of Corrective Action Plan**

A Corrective Action Plan (CAP) was provided by the process owner(s) outlining the activities to be implemented. The CAP appears to be sufficient to address the reportable findings and observations outlined in this report.

Also note the cafeteria manager has resigned from the District.

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### **Conclusion(s)**

The cafeteria manager denied misappropriating District food service funds from student meal payments as alleged by parents. However, the cafeteria manager admitted misappropriating (by skimming and cash larceny) approximately \$640 from District food service funds from employee meal payments. The misappropriation of funds violated Board Policy DH (Exhibit) Employee Standards of Conduct, Standard 1.2. and the EPISD Food and Nutrition Services Accountability Agreement s/he signed on August 13, 2015.

Internal Audit cannot provide assurance/validate the accuracy of the misappropriated amount due in part to the internal control deficiencies identified in the FNS collection and deposit procedures. Recommendations have been made in this report to strengthen FNS internal controls and prevent future occurrences.

Attached is the complete investigation report, which includes detailed findings, observations and recommendations.

## Detailed Report (IR02)

### Allegation

Food and Nutrition Services (FNS) received an allegation regarding inconsistencies in meal payments. Parent(s) alleged that their child's meal account was credited for lesser amounts than what they had paid via cash and/or check during the 2015-2016 school year.

### Methodology

To achieve the objectives, we:

1. Obtained and analyzed documentation collected by the FNS Department and/or Employee Relations staff such as interview notes, written statements from parents and students, copies of cancelled checks, deposit documents, reports generated by the software vendor (WebSMARTT) for school years 2014-2015 and 2015-2016, and WebSMARTT and MySchoolBucks account history reports.
2. Downloaded and analyzed meal history reports from the WebSMARTT system.
3. Researched relevant Board Policy, and federal, state, and local guidelines.
4. Interviewed the middle school cafeteria manager and cafeteria assistant manager. We used open-ended questions to allow them to speak freely, choosing their own pace, focus, and level of detail. We asked they verify documentary evidence (i.e. exhibits) and corroborated their statements.

## Findings

### Finding (#01) Student Meal Accounts

#### Condition

The cafeteria manager denied misappropriating food service meal payments from students including those related to the allegation. However, we noted all cancelled checks (11) provided by parents were entered for lesser amounts ranging from \$5 to \$10 (affecting five students' meal accounts). Table A summarizes the patterns we identified the cafeteria manager used to enter the payments into WebSMARTT. These patterns are similar to the schemes the cafeteria manager admitted using to misappropriate food service funds from employee payments (see finding #02).

**Table A – Results of 11 student meal payments**

Payment Patterns	Number of Instances
A check payment was entered for an amount, voided, and reentered at a lesser amount	5
A check payment was entered at a lesser amount	6*
Total	11

\*In one case, the cafeteria manager re-instated the difference after the parent questioned the transaction.

When the cafeteria manager was interviewed and presented with documentary evidence (including account history from WebSMARTT and cancelled checks from parents) his/her responses were:

- a. Meal payments with checks, handed by students to cafeteria staff, were credited at lesser amounts because "sometimes" students would ask for change back. However,

	<p>this explanation was inconsistent with written responses obtained by Employee Relations from students. The four students interviewed (two of which are part of the allegation) stated they had never requested change back from the cafeteria staff at the middle school.</p> <p>b. The cafeteria manager could not provide a response when asked to explain why payments made directly by parents also showed discrepancies.</p>
Effect and Risks	<p>Based on the 11 checks reviewed, it appears student meal accounts for five students were not properly credited for approximately \$75.</p> <p>There is a risk the District may receive additional allegations from students/parents that meal accounts were credited for lesser amounts, since during our analysis, we noted there were other students and/or employees (over 100) with questionable transactions that occurred between October 2014 and February 2016. Most of these transactions showed a similar pattern as the one the cafeteria manager admitted to using to misappropriate employee food service account payments where a payment was entered, voided, and then reentered at a lesser amount.</p>
Causes	<ol style="list-style-type: none"> <li>1. The cafeteria manager stated s/he was giving change back from check payments (i.e. check cashing). The FNS Director confirmed they allow the practice for cafeteria staff to give money to students from their (student's) lunch funds/balances.</li> <li>2. The FNS collection process does not involve issuing receipts when receiving payments at the collection point. Rather, the FNS department encourages parents/employees to review their meal account transactions in MySchoolBucks through their website.</li> <li>3. At this campus, reoccurring student meal payment issues were reported to the cafeteria manager for resolution. This practice allowed for convenient resolution at the campus level. However, in this case, it gave the cafeteria manager an opportunity to reinstate funds to meal accounts that were originally credited at lesser amounts. It may have also allowed the cafeteria manager to avoid further questioning from parents and/or to limit parent contact with FNS.</li> </ol>
Criteria	<p>Board Policy DH(Local) states, "Standard 1.1. The educator shall not intentionally, knowingly, or recklessly engage in deceptive practices regarding official policies of the District, educational institution, educator preparation program, the Texas Education Agency, or the State Board for Educator Certification (SBEC) and its certification process."</p>
Recommendations	<ol style="list-style-type: none"> <li>1. The FNS department must ensure cafeteria staff are not allowed to cash checks or give change back from check payments received. This should be documented in the FNS handbook and be part of the accountability agreement FNS employees are required to sign.</li> <li>2. The FNS department should not allow cafeteria staff to withdraw money from students' and/or employees' meal accounts unless there is a legitimate reason (e.g. refunds or closing accounts) and is properly documented with approval from a FNS supervisor.</li> <li>3. Determine if WebSMARTT is capable of sending automated text messages to parents/employees every time a payment is made and/or voided to a lunch account</li> </ol>



	<p>they own. The benefit will be to give the parents/employees real-time information to verify their payments if logging into MySchoolBucks is not possible.</p> <ol style="list-style-type: none"> <li>4. The FNS department should consider developing a formal reporting process where a FNS supervisor/administrator is notified about meal account inconsistencies and/or shortages. FNS can determine the best method(s) to inform parents/employees of the process.</li> <li>5. Food and Nutrition Services in consultation with the Deputy Superintendent of Finance and Operations, and General Counsel should determine if students affected are warranted refunds to their meal accounts.</li> <li>6. We recommend the FNS Department analyze the questionable transactions mentioned under the Effect and Risks section above, discuss findings with the Deputy Superintendent of Finance and Operations, and determine if follow-up is warranted.</li> </ol>
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### **Finding (#02) Employee Meal Accounts**

Condition	<p>The cafeteria manager admitted to misappropriating food service funds from meal account payments made by employees. The cafeteria manager would use one or a combination of the following schemes:</p> <ol style="list-style-type: none"> <li>1. Record meal payments for \$5 less than what s/he had collected from employees (skimming).</li> <li>2. Charge a meal and then reverse the meal charge so the employees would not notice the \$5 difference in their meal balance (i.e. gave a meal without charging for it).</li> <li>3. Enter a check payment for the amount stated on the check, void the payment, and re-enter the payment for a lesser amount (cash larceny).</li> </ol>
Effect	<p>The cafeteria manager misappropriated approximately \$640 from employees' meal payments from September 2014 until March 2016.</p> <p>Due to deficiencies in internal controls outlined in the causes section of findings 1 and 2, we cannot provide assurance the aforementioned amount is the actual total amount of District food service funds misappropriated by the cafeteria manager.</p>
Causes	<ol style="list-style-type: none"> <li>1. The Bank Deposit Procedures within the FNS Handbook do not state cafeteria staff need to reconcile WebSMARTT sales from cash and checks (separately) to the corresponding "Daily Deposit Worksheet," and bank deposit slip.</li> <li>2. The cafeteria manager failed to follow established collection and deposit procedures. Instead, s/he would perform the following that helped conceal the scheme: <ol style="list-style-type: none"> <li>a. The cafeteria manager entered check payments as cash in WebSMARTT, which made tracing and identifying check payments to individual meal accounts difficult.</li> <li>b. The cafeteria manager would close his/her register (i.e. POS – point of sale) before the other POS cashiers and would take the money drawer to the office alone. This created an opportunity for the cafeteria manager to be left alone with the money before starting the counting process.</li> </ol> </li> </ol>



	<p>c. The cafeteria manager's money drawer was not counted by anybody else to verify the total amount collected on his/her POS.</p> <p>3. The cafeteria assistant manager, who serves as a verifier in the collection and depositing process, was led to believe (thru training provided by the cafeteria manager) the non-standard collection procedures listed above (2a and 2b) would expedite or make the process more efficient.</p>
Criteria	<p>1. Board Policy DH(Exhibit): Employee Standards of Conduct states, "Standard 1.2. The educator shall not knowingly misappropriate, divert, or use monies, personnel, property, or equipment committed to his or her charge for personal gain or advantage."</p> <p>2. Board Policy CE(Legal): Annual Operating Budget states, "The District shall not lend its credit or gratuitously grant public money or things of value in aid of any individual, association, or corporation."</p> <p>3. The EPISD Food and Nutrition Services Accountability Agreement signed (August 13, 2015) by the MS cafeteria manager states: "The EPISD Food and Nutrition Services (FNS) Department will not tolerate theft. It is very serious and will result in the employee's recommendation for termination. The following examples are considered theft... 1. Taking food, supplies, equipment or money from the kitchen area for personal use or giving to another person for their personal gain... 4. Knowingly undercharging, or not charging customers, for food and beverage items. This includes school staff... "</p> <p>4. The FNS Department Nutrition Clerk/Cashier Handbook 2015-2016 states, "The POS cash drawers will be counted immediately following each meal session by the cafeteria manager and POS cashier in the manager's office. The money must never be left in the care of one person during this process. Two people or more must be present. Accurate handling of all cafeteria money is required and will be completed according to the established procedures."</p>
Recommendations	<p>1. Include written procedures in the FNS Handbook requiring cafeteria staff to:</p> <ol style="list-style-type: none"> <li>Enter cash collections as cash and check payments as checks. Check transactions should be traceable throughout the entire collection and deposit process.</li> <li>Perform a three-way match between the WebSMARTT sales report, the "Daily Deposit Worksheet" and bank deposit slip. Daily collections should reconcile with all cash and checks (separately) received for that day.</li> </ol> <p>2. Each POS register should be counted and matched to the POS sales report(s) by two cafeteria employees before they are combined to make the deposit.</p> <p>3. As part of their monitoring duties, FNS area supervisors should consider using a checklist to document whether campus cafeteria staff are performing collection and depositing procedures according to FNS written procedures. For example, check if:</p> <ol style="list-style-type: none"> <li>POS users are entering checks as checks (check number and amount).</li> <li>The three-way match (recommendation #1b listed above) is being performed.</li> <li>Two cafeteria employees are counting the monies collected and the monies are not left in the care of one person at any time.</li> </ol>

	<ol style="list-style-type: none"> <li>4. The assistant manager should be re-trained in all related areas by a FNS supervisor using written FNS procedures.</li> <li>5. Human Resources should file a copy of this report in the cafeteria manager's investigative file.</li> <li>6. Food and Nutrition Services in consultation with the Deputy Superintendent of Finance and Operations, General Counsel and EPISD Police Services should evaluate whether charges should be filed against the cafeteria manager and seek restitution of the misappropriated funds.</li> <li>7. Food and Nutrition Services in consultation with the Deputy Superintendent of Finance and Operations, and General Counsel should determine if employees affected are warranted refunds to their meal accounts.</li> </ol>
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## Observations

We considered the items noted or observed below are worthy of informing you as the data owner/expert in order for you to make the determination as to whether they should be addressed.

<b>Observation (#01)</b>	The FNS department shared the results of an "in and out" (enter and void payments) report they produced especially for this investigation. Their results showed the middle school in question had the highest number of "in and out" transactions compared to any other school in the District. Although a large volume of "in and out" transactions alone does not mean theft is occurring, report results could serve the FNS supervising staff as an early warning of possible problems with meal transactions.
Recommendations	We recommend the FNS department evaluate the benefit of this report and whether it should be included as part of their review/monitoring process. Irregularities should be followed-up by FNS supervisors/director and addressed as deemed appropriate.

<b>Observation (#02)</b>	<ol style="list-style-type: none"> <li>1. During our interview with the cafeteria manager, s/he mentioned s/he was allowed to assign the POS codes to the other POS cashiers (assistant manager and snack bar cashier) to open the POS registers. It appears POS codes are shared and known by more than one person at least at this cafeteria. When a POS code is known by more than one individual user, the accountability of the user for all activity within the account will be difficult to trace and/or in some cases impossible to enforce.</li> <li>2. Both the cafeteria manager and the assistant manager stated they did not log out from their POS after each use. Instead, they would take over each other's POS during breaks or phone calls. This practice is contrary to written FNS handbook policy.</li> <li>3. Access to the POS registers does not seem to be appropriately secure since the POS codes to open them are being printed on WebSMARTT reports. These reports are printed, used, and handled daily by the cafeteria staff for their deposit reconciling process. Also, we noted the POS code serves as the employee operator number and the password for the POS system. In our opinion, these are not good password/security practices and expose the District to a higher risk of unauthorized access to its POS systems.</li> </ol>
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Criteria	The "WebSMARTT Acceptable use agreement for access outside the cafeteria" form included in the FNS Department Nutrition Clerk/Cashier Handbook 2015-2016 states, "I will not use any other account than my own to log into WebSMARTT" and "I will log out of WebSMARTT after each use. I will not leave the screen open on my computer."
Recommendations	<ol style="list-style-type: none"> <li>1. The FNS department should evaluate their current password/code management for all POS systems and ensure they follow required District password and security policy guidelines (e.g. no sharing of passwords/codes, one code for each unique user, no duplicate passwords). Consult with Technology Services on how to apply the latest District guidelines regarding password and security to District applications and systems.</li> <li>2. If feasible and cost effective (implementation and maintenance), the FNS department should evaluate and determine if employees can swipe their District employee IDs to log in to the POS instead of typing in their POS code.</li> <li>3. WebSMARTT reports should not include the POS codes that open the POS registers.</li> </ol>