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NEWS RELEASE

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FOR RELEASE _____ June 30, 2020 _____

Auditor of State Rob Sand today released a report on a special investigation of the Nevada Community School District (District) Food Service Department for the period July 1, 2014 through March 31, 2019. The special investigation was conducted as a result of concerns regarding the alleged improper use of the District's food inventory by the District's former Food Service Manager. The former Manager was responsible for ordering and tracking food inventory for the District. The special investigation was conducted in cooperation with the Nevada Police Department.

Sand reported the procedures identified a lack of segregation of duties for the purchasing and tracking of food inventory. In addition, Sand reported the District did not maintain the Food Service Department's inventory on a perpetual basis or in a manner which would allow the District to determine if items were improperly removed from inventory. The District also did not maintain adequate supporting documentation such as receiving reports, deletion/usage reports and spoilage reports. As a result, it was not possible to determine if the former Food Service Manager improperly removed items from the District's food inventory for his personal use.

Sand also reported the District allowed staff, parents, affiliated organizations and others to purchase food from the Department. The practice required a receipt be issued for the funds collected. The collections and copies of the receipts were to be remitted to the Business Office to be recorded in the District's accounting system and deposited in the District's bank account. Because receipts were not maintained and there is no mechanism to determine if a receipt was properly issued for all collections for the inventory items sold to individuals, we could not determine if all collections from the sale of inventory were deposited with the District.

Copies of this report have been filed with the Nevada Police Department, the Division of Criminal Investigation, the Story County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review on the Auditor of State's web site at <https://www.auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON A SPECIAL INVESTIGATION OF THE
NEVADA COMMUNITY SCHOOL DISTRICT
FOOD SERVICE DEPARTMENT**

**FOR THE PERIOD
JULY 1, 2014 THROUGH MARCH 31, 2019**

Table of Contents

	<u>Page</u>
Auditor's Transmittal Letter	3
Background	
Investigative Summary:	
Background Information	4
Detailed Findings	4-6
Recommended Control Procedures	6-7
Staff	8



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Auditor of State's Report

To the Board of Education of the
Nevada Community School District:

As a result of concerns regarding the alleged improper use of the District's food inventory by the District's former Food Manger, we reviewed available financial records and other supporting documents for the Food Service Department (Department) at the Nevada Community School District (District). We have applied certain tests and procedures to selected financial transactions of the District for the period July 1, 2014 through March 31, 2019. Based on a review of relevant information and discussions with District officials and personnel, we performed the following procedures.

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Interviewed District officials to determine the procedures for purchasing and tracking food inventory.
- (3) Attempted to review inventory records maintained for the Food Service Department.
- (4) Attempted to review records related to sale of food as allowed by District practice.
- (5) Reviewed documentation obtained from the Nevada Police Department to identify any information which should be considered for testing or additional analysis.

Based on these procedures, we identified several internal control weaknesses including a lack of segregation of duties and a lack of controls over certain collections. We were unable to determine if any items were improperly removed from the District's food inventory or if collections for the sale of food were not properly deposited because adequate records were not maintained. Several additional concerns were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Food Service Department within the Nevada Community School District, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Nevada Police Department, the Division of Criminal Investigation, the Story County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by personnel of the Nevada Community School District and the Nevada Police Department during the course of our investigation.

Rob Sand
Auditor of State

June 29, 2020

Report on Special Investigation of the
Nevada Community School District Food Service Department

Background Information

The Nevada Community School District (District) is based in Nevada, Iowa and serves approximately 1,500 students in Story County. The District includes Central Elementary School, Nevada Middle School, and Nevada High School. The District provides breakfast and lunch to students at each of its buildings during the school year.

The operations of the District's Food Service Department are overseen by the Food Service Manager (Manager). David Schmitz was previously by the District as Manager. As the Manager, Mr. Schmitz's duties included ensuring sufficient inventory was on hand, ordering items, and ensuring meals were properly prepared and served to District students and personnel.

Mr. Schmitz placed orders with the District's vendors on a weekly basis. The orders were placed via a phone call and purchase orders were not prepared. When the food was received, a copy of the invoice was to be submitted to the District's Business Office for approval and payment.

The District also allows staff, parents, affiliated organizations, and others to purchase food from the Department. The practice requires a receipt be issued for the funds collected. The collections and copies of the receipts are to be remitted to the Business Office to be recorded in the District's accounting system and deposited in the District's bank account.

The Office of Auditor of State received an anonymous email alleging the Manager had used school equipment for personal use and took food and collections from the lunch program for personal use. The Office of Auditor of State was subsequently contacted by the Nevada Police Department after they were contacted by the District's Superintendent regarding an allegation Mr. Schmitz removed food from the District's freezer for personal use.

As a result of the concerns identified, District officials entered into a separation agreement with Mr. Schmitz on March 4, 2019. The terms of the agreement allowed Mr. Schmitz to be paid the remainder of his contract through June 30, 2019. However, he was not allowed back on District grounds without approval of District officials.

As a result of the concerns identified, we performed the procedures detailed in the Auditor of State's report for the period July 1, 2014 through March 31, 2019.

Detailed Findings

Based on the procedures performed, we identified several internal control weaknesses including a lack of segregation of duties and a lack of controls over processing collections. We were unable to determine if any items were improperly removed from the District's food inventory or if collections for the sale of food were not properly deposited because adequate records were not maintained. Several additional concerns were also identified. A more detailed explanation of the findings identified is included in the following paragraphs.

INVENTORY AND INTERNAL CONTROLS

As previously stated, it was alleged the former Manger used District inventory for his personal use. In order to determine how inventory was used, we requested copies of inventory reports, receiving reports, usage reports, and spoilage reports from the District. According to District officials, the former Director did not maintain supporting documentation for the use of inventory. The only documentation available were copies of vendor invoices submitted by the Manger to the Business Office for payment. District officials also stated they did not keep a perpetual inventory. However, an inventory is completed at the end of each fiscal year for financial reporting purposes.

Because the District did not maintain supporting documents to show the items added to inventory and how inventory was used, we were unable to determine if any items were improperly removed from the District's food inventory for personal use.

COLLECTIONS FROM SALES

As previously stated, the District has allowed staff, parents, affiliated organizations, and others to purchase items from or through the Department, such as sports drinks, meat, chips, and similar items. Affiliated organizations include Booster Clubs, PTOs, and other similar entities associated with the District. It is unclear if the District received payment for the items sold prior to the District paying for them or if the District paid for the items and was then subsequently reimbursed for them.

In accordance with the District's practice, a receipt is to be issued for the payments received for the sale of these items. The amounts collected and copies of the related receipts were to be remitted to the Business Office to be recorded in the District's accounting system and deposited in the District's bank account.

According to District officials, the former Director did not maintain copies of receipts issued for the sale of inventory and they were unable to locate any other supporting documents for the sale of food items. As a result, we were unable to determine how often items were sold to staff, parents, affiliated organizations, and others; the types of items sold, and the costs associated with them.

Because receipts were not maintained and there is no mechanism to determine if a receipt was properly issued for all collections for the inventory items sold to individuals, we were unable to determine if all collections from the sale of items were properly deposited with the District.

The Iowa Department of Education (Department) has issued guidance regarding the appropriate handling of student activity funds. Specifically, the Department updated the "Frequently Asked Questions (FAQs) Regarding the Student Activity Fund" on March 23, 2016. Page 14 of the FAQ document specifies:

Question: Can the district purchase concession items then sell them to an independent booster club at cost?

Answer: No. The district cannot use the benefits it holds as a nonprofit governmental entity on behalf of an outside entity. Since the booster club is independent of the school, it would need to purchase its own concession items. The independent booster club would need to look into a sales tax exemption in its own standing, for example. The exemption under which a school district falls is limited to tax-certifying or tax-levying bodies and political subdivisions of the state."

Based this guidance, the District should not allow the resale of items to staff, parents, affiliated organizations, and others.

OTHER ADMINISTRATIVE ISSUES

District officials have a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, and provide oversight of District operations. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Based on our review, we determined the District officials did not provide sufficient oversight, including:

- not reviewing inventory records or requiring inventory records be maintained,
- requiring inventory counts more than once a year for financial reporting purposes,
- not implementing controls to ensure the actions of one individual act as a check on those of another and provide a level of assurance errors or irregularities will be

identified within a reasonable time during the course of normal operations. These controls include an independent person periodically verifying inventory on hand is appropriate and reviewing invoices for unusual purchases.

Recommended Control Procedures

We reviewed the procedures used by the Nevada Community School District to order and track inventory related to the Food Service Department. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the District's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among members to prevent an individual from handling duties which are incompatible. The District's former Food Service Manger had control over the ordering, receiving, using, and tracking food inventory.

Recommendation – We realize segregation of duties is difficult with a limited number of individuals involved. An important aspect of internal control is the segregation of duties among members to prevent an individual from handling duties which are incompatible. The District employs Kitchen Managers in each building which allows the District to segregate the duties and limit the opportunity for an individual to use inventory for personal use.

- B. Food Inventory – Sufficient inventory records were not maintained and periodic inventory counts were not performed for the Food Service Department. In addition, District officials were unable to determine who had access to the inventory. As a result, we were unable to determine if anyone used the inventory for personal gain.

Recommendation -District officials should ensure the process of ordering, reeving and tacking inventory is segregated to prevent one employee from having total control over the inventory. In addition, inventory records should be maintained which enables the District to determine the type and quantity of any food item in inventory at any point in time. These records may include purchase orders, receiving reports, deletion/usage reports, and spoilage reports. In addition, the District should restrict access the inventory to staff who need access in order to perform their job duties.

- C. Collection of Sales – District practice allows staff, parents, affiliated organizations, and others to purchase items from or through the Food Service Department. District policy requires a receipt to be prepared whenever money is collected by the District and the amounts collected and the related receipts are to be remitted to the Business Office to be recorded in the accounting system and deposited in the District's bank account. District officials reported they could not locate support which should have been maintained by the former Manger documenting the items sold to staff, parents, affiliated organizations, and others and the amounts collected for the items sold.

Recommendation – District officials should establish and implement procedures to prohibit the practice of allowing staff, parents, affiliated organizations, and others to purchase items from the District.

- D. Sales to outside organizations - The Iowa Department of Education (Department) has issued guidance regarding the appropriate handling of student activity funds. Specifically, the Department updated the "Frequently Asked Questions (FAQs) Regarding the Student Activity Fund" on March 23, 2016. Page 14 of the FAQ document specifies a district cannot use the benefits it holds as a nonprofit governmental entity on behalf of an outside entity.

As a result, the District should not allow the resale of items to staff, parents, affiliated organizations, and others.

Recommendation – District officials should implement procedures to ensure compliance with guidance provided by the Iowa Department of Education.

- E. Notification - Section 11.6(7) of the *Code of Iowa* requires governmental subdivisions to notify the Auditor of State regarding any suspected embezzlement, theft or other significant financial irregularities. The Auditor of State was not notified by the District in September of 2018 when the concern was first identified.

Recommendation – The District should implement procedures to ensure compliance with section 11.6(7) of the *Code of Iowa*.

- F. Oversight – District officials have a fiduciary responsibility to provide oversight of the District’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

Based on our observations and the procedures we performed, we determined District officials failed to exercise proper fiduciary oversight. The lack of appropriate oversight and the failure to ensure implementation of adequate internal controls permitted an employee to exercise too much control over the operations of the District’s Food Service Department.

Recommendation – Oversight by District officials is essential and should be an ongoing effort. District officials should ensure sufficient information is prepared and provided to them for making decisions and appropriate policies and procedures are adopted, implemented, and monitored to ensure compliance.

Report on Special Investigation of the
Nevada Community School District Food Service Department

Staff

This review was conducted by:

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