



**CSIS California School Information Services**

---

December 14, 2011

V. Scott Scambray, Superintendent  
Merced Union High School District  
3430 A Street  
Atwater, CA 95301

Dear Superintendent Scambray:

The purpose of this letter is to confirm the findings and recommendations formulated by the Fiscal Crisis and Management Assistance Team (FCMAT) for the study conducted at the Merced Union High School District. Many of these findings and recommendations were preliminarily discussed at the exit meeting conducted on November 2, 2011. Details of the team's assessments and recommendations are further explained in this letter.

As discussed in the exit meeting, FCMAT will not provide a final report; this management letter culminates the on-site work conducted November 1-2, 2011. The scope and objectives of this study are as follows:

The district is requesting the FCMAT team to review board policies, administrative regulations, and business services practices related to asset management and the use of district equipment by school district personnel. The review will include recommendations regarding internal controls and best practices to prevent fraud, misappropriation of funds or other illegal activities for the maintenance, transportation and food service departments.

If at any time during the review the FCMAT team identifies issues of potential fraud, misappropriation of funds or other illegal activities pursuant to Education Code Section 1241.5, the team will notify the county office of education and request that the review be continued under the criteria of an AB 139 Extraordinary Audit.

## **Background**

The Merced Union High School District is located in Merced County and serves the cities of Merced, Atwater, Livingston and surrounding communities. The district comprises approximately 625 square miles with an enrollment of more than 10,000 high school students from 10 feeder elementary school districts. The district operates five comprehensive high schools and one continuation and adult school.

FCMAT team members visited the Merced Union High School District on November 1-2, 2011, where interviews were conducted with staff members. During this visit, the team also visited six school sites, one warehouse, the district office, the maintenance yard and two transportation bus barns and mechanic shops. School site visits included visual inspection of custodial shops, cafeterias and kitchens. Prior to

### **FCMAT**

Joel D. Montero, Chief Executive Officer

1300 17<sup>th</sup> Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647  
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • [www.fcmat.org](http://www.fcmat.org)  
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

and during the visit, the team also collected and reviewed documentation necessary to assess the district's established board policies and administrative regulations. The team also reviewed other district documents establishing and/or communicating to employees the district's protocol for asset management and disposal and related internal controls.

FCMAT interviewed staff members from a variety of positions in the food service, transportation and maintenance and operations departments. Additional interviews were conducted with district administration and site custodial and grounds crews to ensure that perspective was considered from each representative area.

FCMAT's focus during staff interviews and with site and department visits was on the existence of adequate district board policy, administrative regulations and operational policy and procedures as they pertain to the safeguarding and use of district assets. Additional attention was directed to staff knowledge of and adherence to these established policies. The FCMAT team sought to assess the adequacy of documented internal control procedures and the means of communications to staff regarding these procedures. The team also worked to assess staff knowledge of, adherence to and district enforcement of district established policies, as well as operational policy and procedures regarding internal controls.

Over the last several years the district has experienced changes in its administrative staff, including both the chief business official (CBO) and superintendent positions. It is common for questions to arise concerning established policy, procedures and routine business practices as those administrative positions are filled. It is the responsibility of district administration to ensure that appropriate internal controls are established and followed by district employees to ensure that the assets acquired by the district are properly safeguarded.

District assets can be misappropriated through the misuse of district equipment, facilities, money, materials and supplies, or through the removal of district property. Misuse can include using district equipment and/or materials and supplies for personal benefit, and may include doing so during work hours. This often happens when an employee operates a personal business of a similar nature utilizing district materials or equipment to conduct business. In the case where an employee is working on personal activities during their work hours, additional loss to the district includes productivity, which may then result in the district needing to maintain higher staffing levels to get all the work done.

A sound internal control structure for safeguarding district assets requires the establishment and enforcement of effective policies and procedures. FCMAT considered the following control elements to assess the internal controls utilized to safeguard district assets in the district's food service, transportation and maintenance and operations departments:

- Access limitations to inventories, small tools, and valuable and/or portable assets
- Access limitations to documents authorizing acquisition and/or disposal of assets
- Assigned responsibility over assets
- Documentation of asset movement for proper accountability
- Periodic inventories and comparisons to fixed asset records related to materials, tools and equipment

## ***Internal Controls***

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping to ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud. All educational agencies should establish internal control procedures to perform the following:

1. Prevent internal controls from being overridden by management.
2. Ensure ongoing state and federal compliance.
3. Provide assurance to management that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the proper internal control expectations.

## **Findings and Recommendations**

### ***Board Policies and Administrative Regulations***

Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Education Code, Government Code, Public Contract Code, federal regulations, case law and district practices. Board policies and administrative regulations provide guidance and directives by which a district and its personnel operate, and they are a key component of internal controls. Because they are based on laws and regulations that are revised frequently, board policies should be updated to reflect changes in legislation.

The district develops and maintains its board policies and administrative regulations utilizing the California School Boards Association GAMUT online model school board policy system. This system is considered to be compliant with all laws and regulations and is highly regarded. Many school districts in the state utilize this program. GAMUT is designed to provide districts with a framework to be tailored for each district's policy needs.

Board policy is typically the overarching statement of the district's guiding principles. Practical, detailed implementation of the policy is articulated in administrative regulations. The district shared several board policies and administrative regulations that focus on the purchase, management, use, and disposal of district assets.

Board policies reviewed by FCMAT included:

- BP 3270: Sale and Disposal for Books, Equipment and Supplies
- BP 3300: Expenditures/Expending Authority
- BP 3310: Purchasing
- BP 3400: Management of District Assets/Accounts

Administrative regulations reviewed by FCMAT included:

- AR 3310: Purchasing Procedures
- AR 3400: Management of District Assets/Accounts
- AR 3440: Inventories
- AR 3512: Equipment
- AR 3451: Petty Cash Funds

These board policies and administrative regulations present a perspective that district assets are procured, managed and disposed of in a methodical fashion. Administrative Regulation 3512 clearly states that, “Employees and/or students shall use district equipment only for school-related tasks. The Superintendent or designee shall ensure that all employees understand that personal use of district equipment is prohibited and that a violation may be cause for disciplinary action.”

Recently the district began verbally communicating to various employee groups that theft or the use of district assets for personal gain is not acceptable. The district should ensure that this same message is communicated across all employee groups district-wide. Where accepted practices will be changing, a memo should be issued to all employees. The district administration should meet with employees to explain the rationale and consequences for inappropriate use of district assets. The district should also include such clear direction in the orientation of new employees. Further, the district should ensure that all employee handbooks and/or procedural manuals are updated to address the acceptable and unacceptable use of district assets.

## ***Inventory***

The district is required to inventory items that have a useful life of one year or more, cost \$500 or more per unit and are purchased with federal funds. In addition, the Code of Federal Regulations Title 34, Section 80.32 requires that a physical inventory be completed at least once every two years.

District personnel indicated that inventory tags are placed on assets at the time of delivery to the district warehouse prior to distribution to the individual sites or departments. An inventory tag is created and sent to the site/department for those purchases drop shipped directly to a district location other than the district warehouse, and site staff are responsible for adhering the asset tag(s) to the applicable item(s).

However, interviews with staff showed that although an inventory is maintained, a periodic inventory has not been performed in accordance with Education Code Section 35168, which states:

The governing board of each school district shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal.

During site visits, FCMAT team members identified assets with a value of more than \$500 that did not have asset inventory tags. The ownership of the equipment could not be confirmed through inquiry with staff members during FCMAT’s visit.

The district should conduct a physical inventory of its equipment with an original cost exceeding \$500 and reconcile counts to inventory records. Policies and procedures should be reviewed and revised to ensure that the inventory is kept current, in accordance with the California Education Code and the Code of Federal Regulations.

Districts should apply the following basic concepts and procedures to their transactions and reporting processes to build a solid internal control structure:

- **System of checks and balances**

Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- **Segregation of duties**

Adequate internal accounting procedures must be implemented and necessary changes made to segregate job duties and properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.
- **Staff cross-training**

More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation time, and another staff member should be able perform those duties. Inadequate cross-training is often a problem even in the largest local educational agencies.
- **Use of pre-numbered documents**

Checks, sales/cash receipts, purchase orders, receiving reports and tickets should be printed by an outside printer. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient to simply use pre-numbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.
- **Asset security**

Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.
- **Timely reconciliations**

Bank statements and account balances should be reconciled monthly by an employee independent from the original transaction and recording process. For example, the district office employee reconciling the revolving checking account should not be the same person who maintains the check stock.
- **Comprehensive annual budget**

The annual budget should include sufficient detail for revenues and expenditures (by school site, department and resource) to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly.
- **Inventory records**

Inventory records should be maintained that identify the items and quantities purchased and sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

## ***Transportation***

The transportation department has a large fixed asset inventory that includes buses and other vehicles, tools and equipment. In addition, the department purchases parts, tires, fuel and equipment to support ongoing operations. Transportation department mechanics and management have authority, at varying levels, to purchase and utilize materials and supplies necessary to conduct work assignments. Evaluation of the appropriate use of these assets is detailed in separate categories below.

## ***Parts and Supplies***

Parts and supplies necessary to maintain and repair district vehicles are purchased by mechanics with oversight by the shop supervisor, or directly by the shop supervisor. All invoices are routed through the director for approval prior to batching for payment. This practice ensures several levels of review for any purchase. Interviews with staff confirmed a clear understanding of district-established procedures for purchasing. Any parts or supplies that are kept on a shelf for later use are inventoried. The district holds a very small inventory of parts, and reports that local parts houses are able to provide same day delivery. Shop supervisors appear to keep their inventory records up to date.

Although no buses have been purchased in a few years, interviews with staff indicated that the district purchasers follow Public Contract Code requirements.

Many construction and facilities projects are subject to bidding under Public Contract Code Sections 20111 and 22002, which set bid limits of \$15,000 for public works projects and \$78,900 (for calendar year 2011) for equipment, materials, or supplies to be furnished, sold or leased to the district. The bid limit amount for public works projects has not been adjusted for many years. However, the limit associated with equipment, materials and supplies is adjusted annually for inflation; the new limit is issued each December and is effective the following January 1. This means that districts must seek competitive bids on projects or purchases/leases costing more than the stated limit.

All surplus equipment is sent to the warehouse where the equipment is declared surplus, accepted by the board and sold on an Internet auction site. Interviews with staff confirmed a clear understanding of district procedures for disposing of obsolete items. The district's process is well-organized and meets the requirements of Education Code Sections 17545 and 17546.

## ***Fuel***

The district maintains fuel tanks at three different locations. The Livingston and Atwater sites each have one 1,000-gallon diesel tank and one 1,000-gallon gasoline tank. The Merced site has one 1,000-gallon gasoline tank and two 1,000-gallon diesel tanks. Fuel is purchased on a bid contract, ensuring the lowest price for fuel during each year. Fuel for buses and other district vehicles is pumped by employees in the classification of transportation helper. Maintenance and grounds employees fuel their own assigned vehicles at one of the district fuel locations. Rarely do any other employees fuel their assigned vehicles.

The amount of fuel dispensed is recorded on clipboards placed at each pump location. Each time a vehicle is fueled, the vehicle number, mileage and gallons pumped is recorded. The sheet also has the starting meter reading for the pump. When the sheet is complete, the ending meter reading is recorded. A separate transportation office employee compares the total gallons pumped to the meter reading. Generally speaking, the two amounts don't exactly match, because employees do not record fuel pumped

to the tenths of gallons. The district should require reporting the quantity of fuel pumped to the tenths of gallons for more accurate reconciliation.

The pumps are turned off and locked after hours and on weekends. The fueling location in Merced is monitored by video surveillance. These practices and procedures are reasonable methods to deter theft or misuse of fuel. There has been no recent discovery or reported instances of theft.

## ***Vehicle Use***

Bus drivers are assigned to regular bus routes and athletic or field trips. During FCMAT interviews it was evident that drivers are aware of and follow strict departmental rules and are not permitted to park a bus outside of their home or other unassigned locations. If an unusual logical reason should occur necessitating an unforeseen stop, such as the need to use a restroom when returning from a field trip, the driver communicates with dispatch to obtain permission to park the bus at a safe location for the necessary stop.

In the same fashion, teachers and coaches are permitted to utilize district Suburbans and minivans for small student group or team trips. These vehicles are checked out through the transportation department and must be returned after their use. Staff members are not permitted to park the vehicle at their home or use it for any personal purpose. For weekend trips, the teachers and coaches are required to check out the keys in advance. They report to the parking location on the weekend and get the vehicle, and return it immediately after its use.

It was reported by district administration and confirmed with transportation staff that no district employees have a vehicle assigned to them that they can drive to and from home.

## ***Wash Rack***

A vehicle washing area with an approved three-stage separator is adjacent to the transportation shop. The wash rack is covered and has appropriate drainage. It is generally utilized to wash buses and district vehicles, or steam-clean the undercarriage of buses and other vehicles and equipment.

During interviews with staff members it was noted that staff members in the transportation department have historically been allowed to use the wash rack to wash their own vehicles when they are off duty. This activity places the district at risk of liability should an employee slip, fall or otherwise injure themselves while washing their personal vehicle. Even if it is on the employee's own personal time, the district could be responsible for this injury. This activity can also be construed as a misuse of district equipment and assets. Employee use of district facilities, brushes, sponges, water and soap for personal gain is not appropriate. The district should not permit this use of district property, materials and equipment and should communicate with employees that this practice will no longer be acceptable.

## ***Shop Use***

The district maintains and operates two transportation shop facilities, one in Livingston and one in Merced. Hand tools are owned by the mechanics and stored in their own tool boxes on the premises. Tools inventories are maintained for each employee. The district owns large or specialty tools that are stored in district-owned boxes or cabinets. The shops are equipped with overhead reels for air, water and fluids, lifts, jacks and other heavy-duty equipment.

In the past, mechanics have been allowed to service and repair their personal vehicles in the transportation shops on their own time. This places the district at risk should the employee be injured while working on their own vehicle. The risk is greatly enhanced when these activities occur after hours or on weekends, when other employees are not there to assist if there is an accident or injury. In addition, the absence of other employees or supervision provides the opportunity for misuse of district materials and/or supplies and leaves the district vulnerable to theft.

Suburbans and other district vehicles require parts and tires that potentially are common with other vehicles personally owned and/or serviced by employees. Although it was reported during transportation staff interviews that mechanics personally purchase and provide their own parts, oil and other supplies used for servicing their personal vehicles, lax access controls provide the opportunity for employees to utilize district oil, parts or other fluids. Use of district lifts, jacks and other equipment for personal benefit place additional wear and tear on these items, potentially diminishing their useful lives. The risk of having to replace small tools and equipment also is inherent should the employee not report and/or replace an item that is either damaged or lost.

The district should discontinue allowing employees to utilize district resources for personal benefit. Because the mechanics own their hand tools, they are permitted to remove them from district property for personal use when needed.

### ***Petty Cash***

The transportation department maintains a small petty cash fund of \$200, which is intended to be used for small purchases under \$25 that are of immediate need. The petty cash fund is maintained in a secure, locked location, with reasonable access controls limited to the department secretary and the shop supervisor. Common uses of petty cash funds are parking fees, bridge tolls, and reimbursements to employees who purchase fuel for district vehicles in an emergency. Employees are required to provide receipts for all petty cash fund expenditures. Staff reported that utilization of petty cash is infrequent, and it is replenished approximately once a year.

### ***Maintenance and Operations***

Maintenance and operations staff members perform their duties at various district locations. The maintenance staff report to the maintenance yard and shop on the Merced Union High School campus. The shop houses various tools and equipment utilized by maintenance staff in their daily work. A fleet of vehicles is assigned to maintenance staff for use in conducting their duties on district sites.

Operational staff, including custodian and grounds crews, are assigned and report directly to individual school sites. Each site has a shop for housing equipment, small tools and supplies for maintaining campuses.

### ***Policy and Procedures Manual***

The maintenance and operations department maintains a department manual that outlines several essential functions of the department including purchasing procedures, accounts payable procedures, and board policies. The manual does not contain policies and/or procedures addressing use of district vehicles, use of district tools and equipment, use of district facilities, key control, employee conduct, employee discipline, discarded materials procedures, or surplus equipment procedures.



The department manual should define legal and procedural mandates to ensure the department operates in compliance with current law and functions optimally. The absence of guidance in the areas noted leaves employees unclear or unaware of the district's position and permissible activity in each area. The director should ensure that board policies and administrative regulations are followed and revise the department manual to include, but not be limited to, these topics:

- Use of district vehicles
- Use of district tools and equipment
- Key control
- New employee orientation
- Employee conduct
- Employee discipline
- Materials purchases
- Discarded materials
- Surplus equipment
- Fixed asset inventory

The manual should be reviewed by the CSEA representative for suggestions before being implemented. Once updated, staff members should be provided with this manual and oriented with its contents. Department staff should be held accountable to strictly follow established policies and procedures.

### ***Purchasing Procedures***

The maintenance and operations department purchasing procedures were found to be well structured, with appropriate safeguards in place to ensure adequate control of materials purchases. Purchasing limits are established for open purchase orders. Interviews with staff indicated a perceived maximum purchase threshold of \$350 for any single item or \$450 for the invoice total. FCMAT found that these limits differ from the limits outlined in the department manual of \$250 and \$350. Invoices for purchases are required to be turned in to the maintenance and operations assistant at the end of each work shift. The invoices are recorded and charged to the related job for which they were acquired. Invoices that exceed \$450 require a special purchase order. Procurement cards are carried by each employee for three local vendors: Lowes, Home Depot and OSH. The same requirements and limits are in place for purchases with credit cards at these stores.

Equipment or tool purchases that exceed \$50 must be initiated through the district's established purchasing process utilizing a purchase order. Any equipment or tool that exceeds \$500 must have three price quotes and department administration approval before the purchase is made.

FCMAT found that maintenance and operations staff members had a good understanding of the district's established purchasing procedures. However, the department policy and procedure manual should be revised to reflect accurate limits for purchases made by maintenance and operations staff.

### ***Discarded Materials***

Through interviews with the maintenance and operations staff, it was discovered that historically, employees were permitted to take discarded materials, i.e., "scrap metal" and "scrap lumber" from the maintenance and operations facility for personal use. During FCMAT interviews with management and

staff it was reported that there was no indication that employees were permitted to take any materials that were considered to be of value to the district, only discarded or obsolete materials. Over the last several months, the director of maintenance and operations has taken steps to discontinue this practice. Verbal direction has been given to the maintenance and operations employees, prohibiting taking discarded materials for personal use.

The maintenance and operations department recycles any discarded materials that have cash value. The funds from the recycled materials are forwarded with receipts to the district office. Materials that have no recycle value are discarded in the trash bins to be hauled away to the local landfill.

The director of maintenance and operations should establish written procedures, consistent with board policy and administrative regulations, that cover discarded materials and supplies and should include the recycling procedures for discarded materials. The department manual should be routinely reviewed and revised and should incorporate the operational policies and procedures recommended in this letter.

### ***Use of District Facilities***

Staff reported to FCMAT during interviews that in the past employees were permitted to use the district shop and equipment for personal activities. Employees having access to a district facility after business hours poses a significant risk for the district. This practice places the district in a position of potential liability should employees injure themselves while conducting these activities on district property. In addition, unnecessary wear and tear on district equipment can reduce its useful life.

The director of maintenance and operations reported that in the past, he had no record or knowledge of the frequency with which the facilities were used after business hours. Both the director and staff conveyed that employees were recently verbally informed that they are no longer permitted to use the district facilities or equipment for personal use. The director of maintenance and operations should establish written procedures that prohibit this usage, consistent with board policies and administrative regulations. The department manual should be revised to include the policies and procedures.

It was also shared during interviews that on at least one campus, former staff members retained keys to the campus and continue to access industrial arts facilities, utilizing machinery and equipment for personal purposes. Although this could not be confirmed, the district should ensure that keys are returned to the district upon termination of employment and that former staff members are not permitted to utilize campus facilities and/or equipment for personal purposes.

All facilities in the maintenance and operations yard have security systems that are monitored by a private security company. Each employee is given an identifier code that shows the activity of arming and disarming security systems. The director of maintenance and operations should inquire into weekly activity reports from the security company as a way to monitor district facilities for any activity after business hours.

### ***Use of District Tools***

The district has had a practice of permitting maintenance and operations employees to check out and borrow district tools and equipment for personal use. This practice included the use of hand tools as well as power tools. The director of maintenance and operations recently discontinued this practice, verbally informing the maintenance and operations staff that they would no longer be permitted to borrow district tools for personal use. Use of district tools and other equipment for personal benefit places undue wear and tear on those items, potentially diminishing their useful lives. The district risks having to replace

small tools and equipment prematurely should an employee not report and/or replace an item that is damaged, lost or simply not returned.

The director of maintenance and operations should establish written procedures, consistent with board policies and administrative regulations, that prohibit the personal use of district tools. The department manual should be revised to include the policies and procedures.

## ***Key Control***

The district maintains at least one vehicle at each school site to be utilized by the custodial and grounds staff to perform their duties. Staff members use these vehicles for various tasks including mail pickup, transporting athletic equipment to other school sites on game days, and completing various projects on their assigned campus. During site visits, FCMAT study team members observed the keys for vehicles in an unsecured location in the maintenance or repair facility. Although staff members noted that the facility itself always remains locked, the keys could easily be accessed by anyone that gains access to the maintenance and operations shops, either through valid access or unlawful entry.

The district should maintain all keys in a secure location either by installing a lock box or by placing them in a secure location such as a locking cabinet or drawer.

The director of maintenance and operations should establish written procedures, consistent with board policies and administrative regulations, for proper checkout and usage of the district vehicles at the school sites. The department manual should be revised to include the policies and procedures.

## ***Fixed Asset Inventory***

FCMAT found the maintenance and operations inventory control to have some inconsistencies. It was reported through interviews that the equipment inventory throughout the district was unknown. FCMAT discovered through interviews with staff that the maintenance and operations department has recently started an inventory control process that will include photos and identification of all assets belonging to the maintenance and operations department district wide.

The maintenance and operations department should maintain an inventory of all its equipment and assets. The inventory should include the age and value of the asset, identification tag, and photo of the asset. Once the inventory process is completed, the department will be able to identify needs by site, anticipate replacement of equipment and track the surplus process of district assets. This inventory process should be updated annually and kept current as equipment is purchased or discarded and sold.

## ***Food Service***

FCMAT conducted interviews and site observations at the Merced, Atwater, Buhach, Golden Valley and Livingston high school campuses, the district office and warehouse. The key areas reviewed were purchasing, inventory, cash handling, food production records, and use of kitchens and food service equipment outside of the meal program. Overall, the food services department appears to managing its assets appropriately. FCMAT observed clean and organized sites and found staff to be knowledgeable and cooperative. Although no major concerns were identified, a few areas could use tighter control and/or written policies and procedures, including key control, kitchen use and cash handling.

## ***Purchasing and Inventory***

The director of nutrition services directs the purchasing process for the department. District-established policies and procedures are followed for purchasing, securing bids and quotes. The director is responsible for developing menus and establishing the product standards for sites to follow. The director specifies what sites may or may not order for the food service program. The district warehouse maintains some food and paper products on hand that the staff can order. However, most orders are delivered from vendors directly to the sites. Site supervisors create orders, which are reviewed and approved by the director before they are sent to vendors. This serves as a check and balance for types and quantities of products purchased.

The director of nutrition services should document the ordering and inventory process by creating written procedures that are consistent with board policies and administrative regulations. These policies and procedures should be incorporated into a food services department manual, similar to that of the maintenance and operations department, which documents all routine procedures of the department. Once established, this manual should be routinely reviewed and updated. Written policies and procedures help ensure everyone understands expectations and follows the same procedures as established by the district.

The district warehouse is located near the district office, and houses offices for both the nutrition services director and the purchasing and warehouse supervisor. This allows product oversight by both managers. The warehouse is well-organized and immaculate, which benefits both sanitation and inventory control and demonstrates high standards in asset management.

Inventory maintained in the warehouse for the food services program consists primarily of commodity foods. Commodities are ordered by the director using the Nutri-Kids system and are redistributed to sites as needed. Most other products are delivered directly to sites by vendors. The district maintains a perpetual inventory throughout the year using the computerized system. Monthly physical inventories are conducted in the warehouse but not at individual sites. While monthly inventories are not required by regulation, they would be useful to provide a better history of usage and a more accurate accounting of inventories on hand.

The department recently purchased the Nutri-Kids inventory and purchasing program to track its products. The district has yet to fully implement the program but is working toward that goal. The sites are networked to the warehouse and order commodities using the Nutri-Kids system. Site personnel may also order online directly from vendor websites. All orders are approved by the director. Foods allowed to be ordered are pre-approved by the director, who receives an email alert of each order so purchases can be monitored.

During interviews, site supervisors shared that they maintain adequate product for their needs by conducting a weekly inventory before ordering. Most sites involve several staff members in this process and often keep an ongoing grocery list as they run low on products. The site storage areas seem to be well organized and products do not appear to be stockpiled.

The site supervisors stated that they have good control over inventory and haven't experienced issues with unaccounted-for products. The director concurred with this assessment.

The director stated now that sites are networked in Nutri-Kids, he plans to have them conduct monthly inventory and send it to him. The director should continue working to fully integrate all food purchases and inventories into the Nutri-Kids system. This will formalize the inventory process and allow the director to better monitor the ordering process and inventory on hand.

## ***Cash Handling***

All sites have multiple points of sale during meal times to serve students most efficiently. Some of these points of sale are inside cafeterias or at snack bar windows and some are on mobile food carts at various locations on campuses. Some sites have three carts clustered in a circle with two points of sale on each cart. All sites have student workers helping regular staff members sell food to students. There is always an adult employee with student workers during meal sales. However, at the sites using a cluster of carts, the staffing configuration is six students and one adult employee, which can make it challenging to observe all activity. Most sites stated that the adults supervise students rather than actually sell products, in an effort to prevent theft or students giving food away to students. There was occasional mention of money being short or products not being charged to friends of students. When an incident is discovered, students are counseled on proper protocol. If problems persist, that student's services are terminated. The district should ensure that student employees are trained in proper money handling procedures and that they understand their responsibilities.

Cash boxes are used at each point of sale and at all sites. Cash boxes are locked in either safes or metal storage cabinets inside supervisor's offices when not in use. At most sites, supervisors or assistant supervisors are in charge of maintaining the security of the cash boxes between meals. Most sites have supervisors check out the boxes to staff; some have staff members retrieve their own boxes for serving lines.

Cash boxes generally contain a bank of either \$26 or \$12.50 in small bills and change. The smaller cash amounts are generally for lines that serve mostly meals with fewer cash transactions than a la carte lines. In the areas where students work, most sites have the adult employee working the line keep track of larger bills in a bank bag, allowing student access only to smaller bills.

In between meals, most sites lock the cash boxes in the safe. Locations with indoor cafeterias or snack bars have locked drawers where the boxes remain until the end of the day, when all cash boxes are returned to supervisors' offices to be counted.

Cash drawers are counted at the end of the lunch period. A couple of sites have two people count cash together to verify amounts, but most sites only have one person counting cash (due to staff schedules and duty assignments). Cash boxes are balanced back to their initial balances and locked up for the next day. The remaining cash is documented on deposit forms, logged into the computer and then sealed in bank bags. All sites stated money is taken to the bank daily, usually by the supervisor or assistant supervisor, unless it is a bank holiday. The director of nutrition services should develop standardized cash handling procedures, consistent with board policies and administrative regulations, which should be documented in a department manual. These procedures should require two employees to count and verify cash and document it in the computer. Although cash boxes are balanced back to their original base of \$12.50/\$26 at the end of each day, the cash balances should be verified at that start of the following day as well. Staff schedules should be adjusted to allow for this important internal control procedure.

While a few instances were mentioned of money missing, the amount and the frequency was cited as minimal. The overall cash handling procedure for the district appears reasonable and appropriate.

## ***Unauthorized Kitchen & Equipment Use***

One of the most frequent concerns voiced by food service personnel during FCMAT interviews was the use of kitchens after hours by school site staff or outside groups. The frustrations included missing or broken equipment and messes left in the kitchens (sinks, stoves and countertops). Staff members shared that they sometimes come to work in the morning and have to re-clean their work areas before begin-

ning work because someone has used the kitchen after hours. A few sites also found that the cappuccino machines were used for school events and left dirty. This is a loss of product belonging to the food services department and presents a health safety issue. Leaving the machines dirty can lead to contamination because they contain milk products. Staff members also reported having found ovens or food warmers left on after use by outside parties, which presents a potential fire hazard and increases utility costs.

At times, food service or other personnel have been allowed to borrow kitchen equipment, sometimes for school use and sometimes for personal use. Staff members reported that they frequently notice equipment (especially utensils and small pots and pans) missing when they come in to work. This makes it harder for staff to complete duties, and increases equipment replacement costs for the food service department.

Use of district tools and other equipment for purposes outside of their intended department places undue wear and tear on those items, potentially diminishing their useful lives. It also increases the risk of having to replace small tools and equipment prematurely should items be damaged, lost or not returned. Permitting the borrowing of kitchen equipment, even if it is for other purposes on campus, places an unnecessary burden on the food services department. Written procedures prohibiting the personal use of district equipment should be documented and incorporated into the department manual, consistent with board policies and administrative regulations.

These are not uncommon problems in school kitchens. Many activities in schools and communities involve food. However, use of any district facility outside of normal internal use should be monitored and approved, and limited where possible. The district has facility use policies, and any person or group wanting to use school facilities is supposed to complete a facility use form and have it approved prior to use. Current district policy addressing facility use does not contain specific language pertaining to kitchen use other than the form containing a spot to check off if a request is being made for kitchen use.

Food service staff stated that their understanding has always been that a food service worker is supposed to be hired whenever the kitchen is to be used, although it often doesn't occur. They also stated that the kitchen is often used without their prior knowledge. FCMAT did not find a written district policy requiring a food service staff member to be on duty during kitchen use.

Unauthorized kitchen use raises several issues. Food and equipment are vulnerable to theft, breakage or contamination. Food preparation surfaces such as sinks, counters, cutting boards, and utensils must be thoroughly sanitized after use to avoid contamination and potential food borne illness. If food service staff is unaware of the previous contamination and prepares student meals on contaminated surfaces, students could become ill. If foods such as meat, poultry or eggs were prepared in kitchens by unauthorized staff (e.g., for a student barbecue or breakfast), the cross contamination could lead to an outbreak of salmonella, E. coli or other bacteria. This would be serious for those eating the contaminated food and could create a liability for the district.

The district should develop policies and procedures for kitchen use by non-food service personnel. Access to kitchens should only be permitted when accompanied by a food service staff member. Individuals or groups wishing to use the kitchen should complete facility use forms and be required to reimburse the district for costs associated with the required services of food service staff. The food service staff member should be responsible for monitoring clean-up and sanitation activities to ensure safety. The presence of district staff during facility use also provides additional safeguarding of district tools, equipment and food stores.

Equipment should never be removed from kitchens unless approved by food service staff and documented on the district's equipment borrowing form. Borrowed equipment should only be permitted for school sponsored events and only if it does not interfere with regular school meal preparation. Neither district equipment nor facility use should ever be allowed for personal needs.

## ***Food Leaving the Kitchen***

Staff interviews gave little indication of food supplies disappearing from kitchens. It was reported, however, that paper products (napkins, plates, plastic flatware) have been taken by non-food service personnel for site events.

One common practice that seems to occur at all sites is for leftovers from student meals to be taken home by food service staff. The amount does not appear to be significant, and staff stated that leftovers are reused for school meals if the quality allows. The most common item taken from the kitchen is sandwiches. Some site staff indicated that before weekends or holidays they have occasionally taken produce home if it was product that would not be fresh by the time school reopened. The general feeling is that the staff does not want the product to go to waste because it would be thrown away. These practices have been the culture of the district for years, and the director is aware that staff is doing this. Leftover food should not be taken home under any circumstances. The director should develop written procedure consistent with board policies and administrative regulations, communicate it to staff and monitor compliance to ensure that over-ordering and overproduction for personal gain does not occur.

The only other instance that food seems to go home with staff is that they sometimes take their meals home rather than consuming them on campus. This is particularly true for employees with short shifts that don't have scheduled meal periods. According to district policy, all food service staff and the site custodians assigned to the lunch area are allowed to have free meals, which is also allowable under federal/state program regulations. To better control supplies, the district should require that all meals are eaten on site. When meals are eaten on site there can be more control of portions and the people actually eating the food. Otherwise, extra food could be taken, and friends or family members could be benefiting from the free meals intended for staff.

While the previously mentioned habits are not unusual nor do they appear serious, it is not good practice to have any district assets go home with staff. No abuse of the privilege is suspected, but the opportunity for problems exists. With less conscientious staff, the practice of allowing leftovers to go home could lead to deliberate overproduction for personal benefit. Since much of the food used is purchased with federal funds, even more care needs to be taken to ensure it is used for intended purposes.

The department keeps thorough production records of meals prepared and served. This is not only good practice but is required by the Child Nutrition Reauthorization Act, Section 210.10 7 CFR Ch. II (3), Production and Menu Records, and is a focus of the School Meals Initiative (SMI) review during a Coordinated Review Effort (CRE) audit. A copy of the review guidance for the SMI review has been attached at the end of this letter.

Leftovers must be documented, which the sites do, but the disposition of them is also supposed to be noted (reused or discarded). The district should record the disposition of leftovers as required and throw away products determined to be unsuitable for reuse.

## ***Key Control***

As with most school districts, control of facility keys is a daunting task. Often master keys open too many rooms and unauthorized persons have access to areas they shouldn't. This seems to be true of the district, especially with the food service facilities. Most staff interviewed voiced concerns that many people have keys to the kitchens and food storage areas. Some site staff believe that outside groups regularly authorized to use cafeterias and kitchens have their own set of keys. The district should take inventory of key distribution and rekey areas thought to be problematic. Kitchen keys should be limited and should not

be regular master keys. The previously mentioned problems of inventory control and food safety make it vital for a minimal number of people to have keys to kitchens. Keys to food storage areas should be limited to food service staff, and emergency keys kept with the maintenance or facilities department. Staff other than site administrators or custodians should not have keys to kitchens. Under no circumstances should outside groups be given keys to district facilities. Custodians or food service staff should be on the premises to unlock kitchen and cafeteria facilities for authorized use.

Many of the issues identified by FCMAT related to personal use of district assets by staff are common and may be easily corrected through establishment, enhancement and/or simply communication of district policy and procedures. The existence of policy and procedures alone will not be sufficient to ensure effective internal controls over district assets. It is the outward communication to employees of what is and is not acceptable and the ethical behavior of management and supervisors that fosters an environment of integrity and accountability. Communications to staff are essential to ensure their clear understanding of the acceptable uses of district property. The district's internal control environment will be enhanced through these communications and enforcement of policy and procedures.

At no time during FCMAT's fieldwork did any team member identify any issues or otherwise observe any activity that suggested fraudulent acts, misappropriation of funds or other illegal activities.

This concludes FCMAT's work for the Merced Union High School District. FCMAT extends its appreciation to the district staff and administration for their cooperation during fieldwork. We hope this management letter will be beneficial to all concerned. Should you have questions or require additional information, please contact me at (209) 384-0349.

Sincerely,

A handwritten signature in black ink, appearing to read 'Marisa A. Ploog', with a decorative flourish at the end.

Marisa A. Ploog, CPA  
Fiscal Intervention Specialist



**NSLP  
SCHOOL MEALS INITIATIVE (SMI) REVIEW GUIDANCE**

**NOTE: Only areas related to SMI are included in this guidance (all other areas of review can be found in the NSLP CRE Administrative Review Guidance)**

<b>(1) AREA TO BE REVIEWED</b>	<b>(2) THE AGENCY SHOULD HAVE THESE DOCUMENTS AVAILABLE</b>	<b>(3) AGENCY (Y) CHECKLIST</b>	<b>(4) ADDITIONAL INFORMATION</b>
<b>SITE SELECTION</b>			<p>Ensure the menu planning options for each site and each meal type are correctly stated in the CNIPS. If the CRE is conducted at the same time, the SMI site(s) may be selected as one of the CRE site(s).</p> <p>One site for each type of menu planning used by the district will be selected.</p> <p>Site selection criteria includes:</p> <ul style="list-style-type: none"> <li>• Food Service Director request</li> <li>• Satellite or production kitchens</li> <li>• Sites that have new staff; complex serving lines; multiple menu choices; grade mix; made healthy meal changes; different cycle menus; not been previously reviewed.</li> </ul>
<b>ON-SITE VISIT</b>	<ol style="list-style-type: none"> <li>1. Menu for the day with portion size per age/grade group.</li> <li>2. Menu production records/nutrient analysis for the day.</li> <li>3. Standardized recipes and processed product information for items served those day.</li> </ol>		<p>Reviewer(s) will require the listed items to be provided by the food service director or site staff.</p> <p>The on-site visit will include observations of meal preparation and service.</p>
<b>NUTRITION EDUCATION</b>	<ol style="list-style-type: none"> <li>1. Samples of any nutrition education to promote healthy lifestyles for children, school staff or parents.</li> <li>2. Training for food services staff on SMI or related topics.</li> <li>3. Team Nutrition activities or materials.</li> <li>4. SHAPE California activities or materials.</li> <li>5. Garden Project activities or materials.</li> <li>6. Displays of the Food Guide Pyramid and the Dietary Guidelines.</li> <li>7. Menu slicks with nutrition education/physical exercise promotions.</li> <li>8. Outreach including school boards, community, farmer, and parent organizations.</li> </ol>		<p>Nutrition Education also may include nutrition topics integrated into the curriculum, nutrition disclosure on menus or in newsletters, and local nutrition policy.</p>

<p><b>Legend of Acronyms:</b></p> <p>7 CFR = Title 7 Code of Federal Regulations          CRE = Coordinated Review Effort          EC = California Education Code          FNS = Food and Nutrition Service          MB = Management Bulletin          NSD = Nutrition Services Division          NSLP = National School Lunch Program          SHAPE = Shaping Health as Partners in Education          USDA = United States Departments of Agriculture</p>	<p><b>REFERENCES</b></p> <ol style="list-style-type: none"> <li>1. <i>Healthy School Meals Training Manual</i></li> <li>2. 7 CFR Part 210.10 and 220.8 Menu Planning Approaches</li> <li>3. <i>Management Bulletins:</i> <ul style="list-style-type: none"> <li>• 96-113 Nutritional Analysis of USDA Quantity Recipes</li> <li>• 97-107 Grain/Bread Requirements</li> <li>• 00-113 Summary of Final Rule – Menu Planning Approaches</li> </ul> </li> <li>4. USDA FNS SMI Frequently Asked Questions, April 2007</li> <li>5. <i>School Nutrition Programs Administrative Manual</i></li> </ol>
--	--

<b>(1) AREA TO BE REVIEWED</b>	<b>(2) THE AGENCY SHOULD HAVE THESE DOCUMENTS AVAILABLE</b>	<b>(3) AGENCY (N) CHECKLIST</b>	<b>(4) ADDITIONAL INFORMATION</b>
<p><b>NUTRIENT STANDARD MENU PLANNING APPROACHES:</b></p> <p><b>NUTRIENT STANDARD MENU PLANNING (NSMP)</b></p> <p><b>SHAPE NUTRIENT STANDARD MENU PLANNING (SNSMP)</b></p> <p>Menus and information will be needed for both breakfast and lunch</p>	<ol style="list-style-type: none"> <li>MENUS for the Review Period and day of review listing type of menu item and portion size for each grade group.</li> <li>STANDARDIZED RECIPES (for each site) for items that contain more than one ingredient. See sample standardized recipe form, Attachment A. Standardized recipe must include:               <ol style="list-style-type: none"> <li>Name of recipe</li> <li>Yield (include serving size and number of servings)</li> <li>Documentation of type of menu item i.e. entree or side dish</li> <li>All ingredients and type, such as fresh, frozen, and light syrup</li> <li>Correct measures, weights and/or pack size.</li> <li>Preparation instructions</li> <li>Nutrient analysis of the recipe</li> </ol> </li> <li>LIST OF PROCESSED FOODS (See sample vendor product list worksheet Attachment B)               <ol style="list-style-type: none"> <li>Reference by manufacturer, product name, and code number from the locked USDA Database</li> <li>Nutrition information label documenting nutrient levels for Calories, Protein, Vitamin A and C, Iron, Calcium, % of Calories from Fat and Saturated Fat.</li> </ol> </li> <li>MENU PRODUCTION and/or TRANSPORT RECORDS for all sites that include:               <ol style="list-style-type: none"> <li>Number of meals panned and number served, by grade group.</li> <li>All planned menu items used to meet the daily and weekly requirements, including condiments.</li> <li>Serving size by grade group for each food item.</li> <li>Total amount of food prepared for the number of students by grade group.</li> <li>Actual number of students and adults served.</li> <li>Ala carte and adult meals planned and served.</li> <li>Leftover usage records, substitution lists and dates.</li> </ol> </li> <li>AVERAGE WEEKLY AND DAILY NUTRITIONAL ANALYSES for each week meals are served by grade or age group including information for meeting all required nutrition standards, i.e., calories, protein, vitamins A and C, iron, calcium, total fat, and saturated fat.</li> <li>PRINTOUT OF AGE/GRADE STANDARDS used including any custom standards.</li> </ol>		<ul style="list-style-type: none"> <li>The Reviewer will select the month and week of review. If conducted during a CRE, the review month may be different for the SMI review.</li> <li>Records must include type and quantity of food used, number persons served, and portion size for the month of review.</li> <li>Any substitutions of menu items must follow the "two week window" and be clearly documented.</li> <li>Ensure that all planned menu items are served in the portions which correspond to the menu items analyzed</li> <li>Ensure that the nutrient information for all products is current.</li> <li>Nutritional analyses for each week must be available for review. They may be stored as computer files or as paper printouts</li> <li>Provide documentation of the type and most current version of USDA approved nutrient analysis software being used.</li> <li>Cholesterol, fiber, and sodium levels will also be evaluated.</li> </ul> <p>Reference: For the most current list of approved software go to the USDA Healthy Meals Resource System Team Nutrition website: <a href="http://healthymeals.nal.usda.gov/nal_display/index.php?info_c_enter=14&amp;tax_level=1&amp;tax_subject=234">http://healthymeals.nal.usda.gov/nal_display/index.php?info_c_enter=14&amp;tax_level=1&amp;tax_subject=234</a></p>
<p><b>ASSISTED NUTRIENT STANDARD MENU PLANNING (ANSMP)</b></p>	<ol style="list-style-type: none"> <li>Initial cycle menu and backup documents submitted to NSD.</li> <li>Approval letter of the initial cycle menu by the NSD.</li> <li>Name, address, contract, and qualifications of the consultant</li> <li>All items required for NSMP must be available for review at the school/agency (see previous section for NSMP).</li> </ol>		<p>Reference: MB 96-111 Assisted Nutrient Standard Menu Planning</p>

(1) AREA TO BE REVIEWED	(2) THE AGENCY SHOULD HAVE THESE DOCUMENTS AVAILABLE	(3) AGENCY (4) CHECKLIST	(4) ADDITIONAL INFORMATION
<p><b>FOOD BASED MENU PLANNING (FBMP) APPROACHES:</b></p> <p><b>ENHANCED (EFBMP)</b></p> <p><b>TRADITIONAL (TFBMP)</b></p> <p><b>SHAPE FBMP</b></p> <p>Menus and information will be needed for both breakfast and lunch</p>	<p>1. MENUS for the Review Period and day of review listing components/portion size for each grade group.</p> <p>2. STANDARDIZED RECIPES (for each site) for items that contain more than one ingredient. See sample standardized recipe form, Attachment A. Standardized recipe must include: :</p> <p>a) Name of recipe b) Yield (include serving size and number of servings) c) All ingredients - the form (fresh, frozen, light syrup, Etc.) d) Correct measures, weights e) Preparation instructions f) Contribution to the meal pattern</p> <p>7. LIST OF PROCESSED FOODS (See sample vendor product list worksheet, Attachment B)</p> <p>a) Manufacturer's specifications or Child Nutrition Label (CN label) b) Nutrition information label documenting nutrient levels for Calories, Protein, Vitamins A and C, Iron, Calcium, % of Calories from Fat and Saturated Fat.</p> <p>3. MENU PRODUCTION and/or TRANSPORT RECORDS for all sites that include:</p> <p>a) Number of meals planned and number served, by grade group b) All planned menu items used to meet the required meal pattern, condiments, and non-creditable desserts c) Serving size by grade group for each food item d) Total amount of food prepared for the number of students by grade group e) Actual number of students and adults served f) A la carte and adult meals planned and served g) Leftover usage records, substitution lists and dates</p> <p>4. Copy of nutrient analysis for the review period and day of review. If one has been conducted by the district. Analysis of menus is not required for districts using FBMP approaches.</p>		<ul style="list-style-type: none"> <li>The reviewer will select the month and week of review. If conducted during a CRE, the review month may be different for the SMI review.</li> <li>The state agency will complete a nutritional analysis and give assistance to improve the quality of the meals.</li> <li>Documents listed in column (2) are required to complete a week of menu analysis.</li> <li>Documents may be requested in advance of the review date so that the nutrient analysis may be conducted prior to the review.</li> <li>Document of which USDA approved software was used, if applicable.</li> </ul> <p>NOTE: Districts are encouraged to complete the nutritional analysis of recipes and menus.</p> <p>Reference: For the most current list of approved software go to the USDA Healthy Meals Resource System Team Nutrition website: <a href="http://healthymeals.nal.usda.gov/nal_display/index.php?info_c=enter=14&amp;tax_level=1&amp;tax_subject=234">http://healthymeals.nal.usda.gov/nal_display/index.php?info_c=enter=14&amp;tax_level=1&amp;tax_subject=234</a></p>