



UCSB Audit and Advisory Services

Internal Audit Report

**Housing, Dining & Auxiliary Enterprises
Internal Control Review**

June 12, 2017

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Approved by:

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Report No. 08-17-0012

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June 12, 2017

To: Martin Shumaker, Director, Business & Financial Planning
Housing, Dining & Auxiliary Enterprises

Distribution

Re: **Housing, Dining & Auxiliary Enterprises - Internal Control Review
Audit Report No. 08-17-0012**

As part of the 2016-17 annual audit services plan, Audit and Advisory Services has completed an audit of internal controls in Housing, Dining & Auxiliary Enterprises (HDAE). Enclosed is the report detailing the results of our work.

The purpose of this audit was to evaluate the adequacy of internal controls for HDAE. The scope of this audit focused on the oversight, controls, and processes for Residential Dining Services' business practices used to manage and monitor receiving processes and inventory management, Residential Operations over physical key access controls, and data integrity of the Business Intelligence System for Business and Financial Planning, during fiscal year 2015-16.

Based on the results of the work performed, we found the audited areas have adequate internal controls over residential dining operations, residential physical key access, and data infrastructure. We identified modest opportunities for improvement in analyzing inventory trends and enhancing key access controls and system procedures for user deactivation.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We greatly appreciated the assistance on this project provided by HDAE personnel. If you have any questions, please contact me.

Respectfully submitted,

Jessie Masek
Acting Director
Audit and Advisory Services

Enclosure

Martin Shumaker, Director, Business & Financial Planning

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Distribution:

Housing, Dining, & Auxiliary Enterprises

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Alex Ramos, Assistant Director of Residential Dining Services

cc: Chancellor Henry Yang

Vice Chancellor Administrative Services Marc Fisher

UCSB Audit Committee

Senior Vice President and Chief Compliance and Audit Officer John Lohse

PURPOSE

The purpose of this audit was to evaluate the adequacy of internal controls for Housing, Dining & Auxiliary Enterprises (HDAE).

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of this audit focused on the oversight, controls, and processes for Residential Dining Services' business practices used to manage and monitor receiving processes and inventory management, Residential Operations over physical key access controls, and data integrity of the Business Intelligence System for Business and Financial Planning, during fiscal year 2015-16.

The objectives of our review were to determine whether there is sufficient controls over residential dining operations, residential physical key access controls, and data integrity.

To accomplish our objectives, we:

- Researched and reviewed relevant University of California (UC) audits and reports from other institutions of higher education related to management over housing. Table 2 outlines relevant audits by UC Audit and Advisory Services.
- Researched and reviewed UC and UC Santa Barbara (UCSB) policies, best practices, and other guidance relevant to the scope of the audit.
 - UC Santa Barbara Policy and Procedure, *Physical Access Control*, issued June 24, 2013.
 - UC Policy BFB-43, *Material Management*, issued October 19, 2016.
- Gained an understanding of housing operations through interviews with key personnel and review of the dining, residential and operational department's business processes and internal controls.
- Performed a risk analysis that considered procedures and compliance with business processes over physical key access controls, dining common receivables and inventory, and data integrity.
- Tested a sample of transactions to determine whether inventory management practices and processes were consistent in each of the four dining commons by reviewing the dining inventory tracking system and authorization procedures.
- On a sample basis, conducted specific audit testing or utilized direct observation and inspections of processes required for physical key access control of authorized personnel and reviewed physical key access controls in the KeyWatcher system.
- Evaluated computer systems and data recovery procedures to determine integrity of data imported into the Business Intelligence System and determined if data recovery procedures are adequate.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND¹

UCSB Housing, Dining & Auxiliary Enterprises (HDAE) has an annual operating budget of \$160 million and provides housing and associated services for UCSB's undergraduate student, graduate student, and faculty population. HDAE provides housing and services to:

- Over 9,500 students in residence halls and apartment complexes.
- More than 10,000 students living adjacent to campus.
- 150,000 conference and meeting attendees annually.

HDAE is responsible for 250 acres of grounds and landscaping and 3 million square feet of building space. HDAE has 600 full-time employees and 1,300 student employees.

HDAE includes several business units:

- Administrative and Residential Information Technology
- Business and Financial Planning
- Conference and Hospitality Services
- Campus Dining Services
- Residential Dining Services
- Residential and Community Living
- Residential Operations
- The Club & Guest House
- Transportation and Parking Services
- University Bookstore
- University Center
- Events Center
- Distribution and Logistical Services

Residential Operations²

As part of the University, Residential Operations is responsible for the day-to-day operations, housekeeping, maintenance and repair of over 3.1 million square feet of facilities and 250 acres of grounds. The unit operates on a 24-hour daily basis throughout the year, responding to an annual average of over 30,000 work orders and employing 214 FTE³ career staff and 86 student staff.

Residential Dining Services

The UC Santa Barbara dining commons offer dining in four locations with convenient meal hours to meet a variety of needs and maximize convenience. In addition to food, Residential Dining Services offers nutrition education, wellness materials, and information about ethnic, religious and holiday meal traditions. For students living in the UC Santa Barbara residence halls, the cost of the meal plan is included with room and board.

¹ Source: UCSB Housing, Dining & Auxiliary Enterprises admissions website.

² Source: Director, Residential Operations.

³ Hours worked by one employee on a full-time basis.

Business Intelligence System

The Business Intelligence initiative within UCSB Housing, Dining & Auxiliary Enterprises (HDAE) is designed to create an environment that supports a more informed decision-making and planning effort across the entire organization. The tools are designed to help analyze the historical and current trends of business operations. The automation of routine tasks contained in many of the stages throughout the entire process allows staff to focus more on the analysis of the data than on the preparation of the reports themselves thus providing a higher value return. Overall, Business Intelligence System affords opportunities to pursue goals and the mission of the organization and University.

Table 1 outlines the income and operating expenses for Fiscal Year 2015-2016 for Housing, Dining & Auxiliary Enterprises.

Table 1	Housing, Dining & Auxiliary Enterprises Fiscal Year 2015-2016	
Category	Income	Expenses
Total Income	\$118,796,522	
Total Household Expenses		\$20,481,968
Student Program Expense		5,878,485
Total General Expenses		22,096,246
Total Food Service Expenses		24,746,962
Total Income and Operating Expenses	\$118,796,522	\$73,203,661*

Source: UCSB Administrative Services FY 2015-16 Annual Report.
*Table does not include Debt Payments for 16 Housing Facilities of \$24.7M

SUMMARY RESULTS OF OUR REVIEW

We found that HDAE has overall adequate oversight, controls, and processes for dining receiving and inventory operations, physical key access controls and data infrastructure. We found Residential Dining Services' reporting and reconciling process for the dining commons to be sufficient. In addition, we found the data validation process adequately imports figures from data warehouse into the Business Intelligence System, providing Business & Financial Planning, the ability to analyze income trends and forecast monthly and year-to-date planning efforts.

However, our work acknowledged that there are opportunities to enhance controls in Residential Operations surrounding physical key access and system procedures for user deactivation, and to evaluate in Residential Dining Services performing an analysis of inventory variance trends over a span of weeks to identify the potential risk of theft.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

UCSB Audit and Advisory Services
Housing, Dining & Auxiliary Enterprises - Internal Control Review

Table 2	Relevant Previous Work by UC Audit and Advisory Services		
Report Name	Year	Campus	
UCSB Housing & Residential Services Audit	2001	UC Santa Barbara	
UCSB University Inventories Phase 2-Audit	2014	UC Santa Barbara	
UCI Student Housing Report	2010	UC Irvine	
UCI Mesa Court Housing Audit Report	2015	UC Irvine	
UCI Arroyo Vista Housing Final Audit Report	2017	UC Irvine	
UCLA On-Campus Housing Maintenance Shop Audit Report	2010	UC Los Angeles	
UCLA Housing and Hospitality Services-University Apartments	2013	UC Los Angeles	
UCLA Housing and Hospitality-Cashiering Operations Audit Report	2014	UC Los Angeles	
UCLA Guest House Audit Report	2015	UC Los Angeles	
UCLA Housing and Hospitality Services-Access Controls Audit Report	2015	UC Los Angeles	

Source: Auditor Analysis

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Residential Dining Services - Dining Operations

Receiving Process

Our work found that Residential Dining Services' have adequate practices and processes in place surrounding the administering of ordering, receiving goods, and reconciling adjustments to the final invoice. We selected two dining commons and evaluated the validation process for receiving, adjusting, and reconciling invoices of five vendors for each location for consistency. Table 3 summarizes our conclusions.

Table 3	Dining Commons Receiving Process	
Category	De La Guerra	Ortega
Goods Received and Validated	✓	✓
Adjustments Noted in System	✓	✓
Purchase Orders Reconciled	✓	✓

Source: Auditor Analysis.
✓: Compliance with procedure requirements.

Inventory Process

We also reviewed all four dining commons to ensure that there was a process in place over the management of inventory. We evaluated the weekly inventory process and reports generated showing inventory counts and goods received and found existing controls were overall compliant. However, we recommend they evaluate performing an analysis of inventory variances that would be useful to identify trends over a period of weeks to identify the potential risk of theft. Table 4 summarizes our conclusions.

Table 4	Dining Commons Inventory Process			
Category	De La Guerra	Ortega	Portola	Carrillo
Weekly Tally Worksheet	✓	✓	✓	✓
Physical Inventory Variance	✓	✓	✓	✓
Cost of Goods Reconciled	✓	✓	✓	✓

Source: Auditor Analysis.
✓: Compliance with procedure requirements.

B. Residential Operations – Physical Key Access Control

Based on the procedures performed, we found Residential Operations had generally implemented physical key access controls and access was reasonable based on job duties. However, within the scope of our audit, we identified that one out of five users selected in the system had relocated to another residential hall, yet still had access to keys from his prior location. Additionally, we found that access requires dual authentication, with the use of a key

fob and fingerprint to access the KeyWatcher system. However, while the key fob is returned and codes reset at separation from the University, a procedure is not in place to deactivate employees in the system. Table 5 summarizes our conclusions.

Table 5		Physical Access Control	
Category		Authorized Access	
Access to Physical Key Log		✓	
Authorized Access		Partial ¹	
User Disabled after Separation		Partial	

Source: Auditor Analysis.
 ✓: Compliance with procedure requirements.
 Partial: Partial compliance with procedure requirements.
 1: One of five user accounts not was not updated.

C. Business & Finance Planning - Data Integrity

Our review of the Business Intelligence System found that during our audit period, HDAE controls over the data validation process were adequate. Access control is role based. We found that there is a backup process in place consisting of one full backup per day and three transaction based backups. Additionally, backups are sent offsite for disaster recovery. Table 6 summarizes our conclusions.

Table 6		Housing Information Technology	
Operational and Technical Controls			
Data Validation Process	<ul style="list-style-type: none"> • Monthly data import • Data confirmed by Financial Manager 		
Identity and Access Management	<ul style="list-style-type: none"> • Authorization is permission based 		
System Backup Controls	<ul style="list-style-type: none"> • Performed four times a day • Backup sent offsite 		

Source: Auditor Analysis.

Residential Dining Services

We recommend Residential Dining Services evaluate the value of performing an analysis of inventory variance trends over a span of weeks to identify the potential risk of theft.

Management Corrective Actions

Residential Dining Services will evaluate the value of performing an analysis of inventory variance trends over a span of weeks to identify the potential risk of theft.

Audit and Advisory Services will follow up on the status of this management action plan by September 29, 2017

Residential Operations - Physical Key Access Control

We recommend that Residential Operations:

- Establish documented procedures for removing separated personnel from access in the KeyWatcher system.
- Develop a checklist to ensure that access is removed in the system.
- Document access deactivated and key fob was returned.
- Periodically review a report of user accounts with access to physical keys.

Management Corrective Actions

Residential Operations will:

- Establish documented procedures to remove separated personnel in the KeyWatcher system.
- Develop a checklist to ensure that access is removed in the system.
- Document access is deactivated in the system and key fob was returned.
- Periodically review a report of user accounts with access to physical keys.

Audit and Advisory Services will follow up on the status of this management action plan by September 29, 2017.