HOUSING AND HOSPITALITY SERVICES

DINING SERVICES PURCHASING (NON-FOOD)

AUDIT REPORT #16-2226

Audit & Advisory Services

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Background

In accordance with the UCLA Administration fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) conducted an audit of Dining Services Purchasing (Non-Food). UCLA Dining Services is an award-winning program that is nationally recognized for its high quality cuisine, state-of-the-art facilities, and innovative services. It caters to the needs of its guests with convenience and flexibility in mind and offers a wide variety of menu choices, dining hours, and meal plans. The program is designed to provide fresh, healthy, and tasty meals every day for students, faculty, staff, and visitors.

Dining Services has two types of dining options: residential and quick-service restaurants. Residential restaurants serve as many as ten entrée options at every meal. All meals are buffet and all-you-can-eat style. Diners may pay for their meal by meal plan, BruinCard Easy Pay, or a meal ticket; cash and credit cards are not accepted at the restaurants. Guests and visitors may purchase a meal ticket or a visitor BruinCard to use at the restaurants. Residential restaurants include Bruin Plate; Covel Commons; De Neve Dining, and FEAST at Rieber. Quick-service restaurants offer diners the opportunity to enjoy a meal in a casual café style atmosphere or take it “to-go.” Patrons can pay using cash, BruinCard Easy Pay or a meal plan. The quick-service restaurants include Bruin Café, Café 1919, and Rendezvous.

Each dining location is managed by a General Manager who reports to an Assistant Director. The Senior Director of Food and Beverage, who reports to the Assistant Vice Chancellor of Housing & Hospitality Services, oversees the entire Dining Services management team.

Purchasing and accounts payable policies and procedures are established at the systemwide level in UC Business and Finance Bulletin BUS-43, “Materiel Management” (BUS-43). Locally, UCLA Policy 740 (Purchasing Goods and Services) describes campus approval authorities, responsibilities, and restrictions for the purchase of goods and services. UCLA Policy 741 (Low-Value Purchases) provides requirements and guidelines specifically governing purchases under low-value purchasing authority which has been delegated to individuals outside the Campus Purchasing department. UCLA departments are authorized to place low-value (N Order-Class Codes) orders, for up to $5,000 per vendor, per account-code, per day, excluding transportation costs and taxes, in BruinBuy, UCLA’s web-based purchasing application.

Purpose and Scope

The purpose of the review was to ensure that Dining Services’ organizational structure and controls and the related systems and procedures were conducive to accomplishing its business objectives surrounding non-food purchasing. Where applicable, compliance with University policies and procedures was also evaluated. The scope of audit included:

* Restaurant Purchasing Controls
* Disbursements
* Reconciliation and Monitoring
* Accountability Structure
* Non-Inventorial Theft Sensitive Purchases

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests of records, interviews, and other procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, internal controls over the key areas examined were generally conducive to accomplishing the department’s business objectives. However, controls and business practices could be further strengthened by implementing the following:

* Ensure that all invoices are properly approved and documented (i.e., signed and dated) before being processed for payment.
* Monitor the department’s blanket agreements and anticipate the need for additional funds to minimize the unnecessary use of LVOs to purchase goods. Management should also improve compliance with University policies and procedures by working with Campus Purchasing for the procurement items that require a requisition.
* Re-emphasize with all mandatory reviewers the need for the timely review of Post Authorization Notices (PANs).
* Ensure that all expenses that have been incurred as of June 30th are properly reported.
* Periodically review the department's accountability structure to ensure that it is accurate, current, and in compliance with the UCLA Financial Policy.

The audit results and corresponding recommendations are detailed in the following sections of the report.

Audit Results and Recommendations

Restaurant Purchasing Controls

A&AS conducted interviews with the seven general managers over each of the restaurants to determine if controls over non-food purchasing were adequate. The general managers discussed purchase requests, vendor selection, ordering, receiving, invoice approvals, and reconciliations/monitoring. Controls over non-food purchasing appeared to be adequate in the 11 restaurants covered.

There were no significant control weaknesses noted in this area.

Disbursements

A&AS obtained the July 1, 2014, to June 30, 2015, Detail General Ledgers for the following accounts (Table 1):

**Table 1**

|  |  |  |
| --- | --- | --- |
| **Account Name** | **Admin Account – Fund** | **Non-Food Account – Fund** |
| Bruin Café | 761021-70015 | 761026-70015 |
| Bruin Plate | 760821-70015 | 760826-70015 |
| Café 1919 | 766701-70031 | 766729-70031 |
| Covel | 766521-70031 | 766526-70031 |
| DeNeve Commissary | 768121-70005 | 768126-70005 |
| DeNeve Dining | 760621-70005 | 760626-70005 |
| DeNeve Lunch on the Go | 768321-70005 | 768326-70005 |
| DeNeve Bakery | 768221-70005 | 768226-70005 |
| Dining Admin | 760427-70000 | None |
| Hedrick | 761421-70030 | 761426-70030 |
| Rendezvous | 767521-70025 | 767526-70025 |
| Rieber (FEAST) | 761221-70025 | 761226-70025 |

Expenditures in each Detail General Ledger were analyzed and aggregated by sub code (Table 2). Based on the analysis, A&AS focused on type entry 41 (Accounts Payable invoice accrual) transactions in sub code 03 (Supplies & Expense). The remaining type entries and sub codes were either outside the scope of the audit, or had relatively low amounts of expenditures (or none) during the period of review (fiscal year 2014-15).

**Table 2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sub Code** | **Description** | **Expenditures** | **% of Total** |
| 01 | Salaries – Staff | $ 3,595,186 | 9.6 |
| 02 | General Assistance | $ 17,226,668 | 45.9 |
| 03 | Supplies & Expense | $ 4,718,602 | 12.6 |
| 04 | Equipment & Facilities | $ 0 | 0.0 |
| 05 | Special Items | $ 710 | 0.0 |
| 06 | Employee Benefits | $ 11,904,619 | 31.8 |
| 07 | Special Items | $ 44,800 | 0.1 |
| 08 | Special Items | $ 0 | 0.0 |
|  | **Total** | **$37,490,586** |  |

The following chart compares sub code 03 supplies and expenses of the admin and non-food accounts among the various restaurant areas.

A&AS selected a judgmental sample of 39 purchase orders from among the ledgers listed above in Table 1. The expenditures ranged from $25.54 to $30,384.80. The sample population from fiscal year 2014-15 covered the order class codes listed in Table 3.

**Table 3**

|  |  |  |  |
| --- | --- | --- | --- |
| **Order Class Code** | **Use** | **Count** | **Amount** |
| A | Agreement Release | 13 | $ 74,365 |
| F | BruinBuy Contract Catalog Item | 6 | $ 1,679 |
| I | BruinBuy Supplier Site Order | 3 | $ 764 |
| N | Low-Value Order (LVO) | 14 | $ 17,456 |
| P | Purchase Order | 1 | $ 20,114 |
| Q | Pcard Order | 2 | $ 1,673 |
|  | **TOTAL** | **39** | **$116,051** |

Supporting documentation for each invoice was requested from Dining Services and reviewed for the following attributes:

* Purchases were authorized.
* Invoices were approved by management.
* Purchases were appropriate and made through the correct mechanism.
* Expenditures were recorded correctly.
* Post Authorization Notifications (PANs) were read by all mandatory reviewers, and read within 5 days by at least one of the mandatory reviewers.

The following were noted:

1. Invoice Approvals

Based on management’s description of the non-food purchasing process and controls, A&AS reviewed selected invoices for two signatures to verify that these documents were approved before being submitted for processing to the Dining Services Central Office (DSCO). Of the 39 transactions reviewed, 16 invoices either lacked sufficient approval by restaurant management, or there was no evidence available for A&AS to verify that management approved the purchase. When invoices are not properly approved by management, the organization is exposed to a greater risk of unauthorized purchases and misuse of University funds.

Recommendation: Restaurant management should ensure that all invoices are properly approved and documented (i.e., signed and dated) before being processed for payment.

Response: Effectively immediately, the Dining Services Business Manager has reminded restaurant General Managers of the requirement to sign invoices to indicate approval. Dining Services Central Office Accounting Staff will also continue to audit approval signatures, and follow-up with restaurant General Managers as necessary.

1. Low Value Orders

Dining Services processed four transactions as LVOs with vendors that had long-standing blanket agreements with the University. According to management, these agreements may have been low or out of funds at the time of the purchase. Campus Purchasing should have been notified of the need for additional funds on the blanket agreement. According to Campus Purchasing, it is the department’s responsibility to monitor its blanket agreements, which are intended to provide goods and services at the best overall value, and to protect the University by applying appropriate terms and conditions of purchase.

Additionally:

* Covel procured maintenance services on a broiler using an LVO totaling $438 in March 2015. Per Attachment A of UCLA Policies 740 and 741, a requisition is required for service, repairs or maintenance; these items may not be purchased using a LVO.
* DeNeve Lunch on the Go purchased portable radios using an LVO totaling $2,106 in March 2015. Rieber also purchased radio earpieces using an LVO totaling $449 in August 2014. Per Attachment A of UCLA Policies 740 and 741, a requisition is required for telecommunication systems; these items may not be purchased using a LVO.

Recommendation: Management should monitor the department’s blanket agreements and anticipate the need for additional funds to minimize the unnecessary use of LVOs to purchase goods. Management should also improve compliance with University policies and procedures by working with Campus Purchasing for the procurement items that require a requisition.

Response: Effectively immediately, the Dining Services Business Manager will monitor the department’s blanket agreements to ensure that they have appropriate funding for the purchase of goods from regular vendors to minimize the unnecessary use of LVOs to purchase goods. Management will also work with Campus Purchasing to improve compliance with University policy and procedures for the procurement of items that require a requisition.

1. Post Authorization Notification Review

The PAN for five transactions were not read by at least one of the mandatory reviewers for the FAU within 5 days. Timely PAN reviews help to ensure that transactions are appropriate and properly recorded.

Recommendation: Management should re-emphasize with all mandatory reviewers the need for the timely review of PANs.

Response: Effective immediately, the Housing Business Office, and the Financial Management Services department will continue to conduct periodic reviews of PAN reviewers in Dining Services, and will follow-up with them as necessary. The Dining Business Manager will be kept apprised of these reviews, and will follow-up with PAN reviewers as necessary.

1. Unrecorded Liabilities

A&AS met with the Business Office Manager to understand the business practices Dining Services has implemented to ensure that accrued liabilities for non-food purchases are properly recorded at year-end. Dining Services reports its year-end accruals in a standardized form to Financial Services Management. In order to help identify unrecorded liabilities related to expenses that may have been incurred but not paid for as of June 30, 2015, A&AS ran the detail general ledger in Campus Data Warehouse (CDW) for all non-food accounts for the month of July 2015. The detail general ledgers were filtered by expenditures and “Transaction Document Date” before July 1, 2015. The analysis showed that there were 80 transactions with an invoice date (i.e., “Transaction Document Date”) from the prior fiscal year. A judgmental sample of eight of these transactions was selected to trace to the fiscal year 2014-15 Accrued Expense form to verify that these purchases were properly reported to General Accounting.

A&AS identified two out of the eight selected expenses from July 2015 with invoice dates from fiscal year 2014-15 that were not reported in the Accrued Expense form for fiscal year 2014-15.

Recommendation: Dining Services management should ensure that all unrecorded liabilities related to expenses that have been incurred but not paid for as of June 30th are properly reported.

Response: Effective immediately, the Dining Services Business Manager will continue with the current practice of reminding restaurant managers to submit all invoices for timely processing during fiscal year-end. Dining Services accounting staff will also continue the current practice of reconciling vendor statements on a monthly basis to ensure that invoices are processed in a timely manner.

Reconciliations and Monitoring

A&AS conducted interviews to understand how Dining Services management performs the general ledger reconciliation and the monitoring mechanisms in place to ensure that controls over the purchasing process are adequate. According to the Business Office Manager, the reconciliation process includes reviewing all PANs against supporting documentation (i.e., original invoices, packing slips, etc.) every week by the mandatory reviewers in the DSCO. Mandatory reviewers check every invoice for general appropriateness of the purchase and the correct account/fund and sub-object code. A&AS also confirmed the PAN review process with all DSCO mandatory reviewers. The PAN review process appears to be a strong control activity that accomplishes the overall purpose of the reconciliation.

There were no significant control weaknesses noted in this area.

Accountability Structure

The Distributed Administrative Computing Security System (DACSS) for purchasing functions was evaluated for compliance with the UCLA Financial Policy as of May 2016. Users with access to process purchase transactions for Dining Services’ administration and non-food FAUs were reviewed to verify that access is consistent with current responsibilities and the organizational structure. Mandatory reviewers for the accounts were reviewed to verify that PANs for purchasing transactions were approved by individuals with the appropriate delegation of authority. A&AS also reviewed the Chief Administrative Officer (CAO) Certifications for department codes 3130 and 3170 that were submitted to Corporate Financial Services in June 2015.

User access was not always consistent with current responsibilities and the organizational structure. As of May 6, 2016, A&AS identified one individual with AP730 access to the Dining Admin FAU (4-760427-70000) whose home department code was 3175 (University Apartments). Although this person has global access, management should consider if it is appropriate for someone outside of the Housing Administration and On Campus Housing areas to process up to $900,000 in transactions for Dining Services. The UCLA Financial Policy states that tasks shall only be delegated to people who are qualified to perform them. A qualified person must, in part, be actively involved in the tasks being performed.

In addition, the General Managers for DeNeve Dining, DeNeve Bakery, DeNeve Lunch on the Go, and Hedrick were not set up as mandatory reviewers for the respective restaurants’ Administration and Non-Food accounts. Without the General Managers, these areas did not have anyone within the restaurant operation reviewing PANs, exposing the organization to the risk of unauthorized purchases and misuse of University funds. Additionally, the Assistant Directors over DeNeve Lunch on the Go and Hedrick were not set up as mandatory reviewers for those respective FAUs.

Recommendation: Dining Services management should evaluate whether the access for the individuals noted above should be updated. The department's accountability structure should be reviewed periodically to ensure that it is accurate, current, and in compliance with the UCLA Financial Policy.

Response: Effective immediately, the Dining Services Business Manager will work with the Housing Business Office to determine the appropriateness of preparer access, as the employee noted above is not a Dining Services employee.

As of July 26, 2016, the GM of DeNeve is a mandatory reviewer for DeNeve purchasing transactions. Also as of July 26, 2016, requests have been submitted to set-up the GM’s of the Bakery and Hedrick as mandatory reviewers for purchasing transactions. DeNeve Lunch on the Go has been combined with the DeNeve location as of July 1, 2016, therefore the GM of DeNeve is a mandatory reviewer for DeNeve Lunch on the Go purchasing transactions.

Non-Inventorial Theft Sensitive Purchases

A&AS conducted interviews with Dining Services assistant directors to identify what management considers to be non-inventorial theft sensitive items and to understand the controls over these items to minimize shrinkage. Management considers items like china, flatware, and server ware to be non-inventorial and theft sensitive. These items are counted regularly by staff for operations purposes, but due to constant use, are not issued and monitored in a formal manner. The count record provided by one of the assistant directors as of June 2016 and the related count instructions appeared reasonable.

There were no significant control weaknesses noted in this area.

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