August 24, 2016

To: Charles Nies – Vice Chancellor for Student Affairs

Subject: Audit of Dining Services

Ref: Report No. M16A010

Internal Audit has completed an audit of Dining Services which was part of the Fiscal Year 2015 – 2016 audit plan.

We appreciate the help we received from Dining Services staff during the audit.

Todd Kucker
Director of Internal Audit

Attachment

Cc   SVP Vacca
       Chancellor Leland
       Associate Chancellor Putney
       Assistant Vice Chancellor Vasquez
       EH&S Director Donohue
       Associate Director Murray
       EH&S Specialist Lurtz
       UC Merced Audit Committee

UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES

Dining Services
Report No. M16A010

August 24, 2016

Work performed by:
Todd Kucker – Internal Audit
Brandi Masasso – Internal Audit

Management Summary

Internal Audit has completed an audit of UC Merced's Dining Services. The purpose of the audit was to evaluate whether Dining Services has set up effective and efficient internal controls over payments, inventories, and food safety.

Based upon the audit results, it appears that Dining Services is effectively managing their various operations. Management has set up adequate internal controls and steps have been taken to provide sufficient financial monitoring over the various Dining operations. Dining Services' management properly considers controls as they promote their mission of "providing the highest quality, best tasting, and most diverse menu for the campus community". They work closely with other campus departments to improve controls over the significant areas that they manage.

During the audit, we identified some control weaknesses and inefficient processes. There are potential improvements in the following areas:

- Sustainable and compliant food safety measures
- Efficiency of food management practices
- Control over receiving and maintaining food and supplies inventories
- Delegated purchasing authority
- Dual custody of cash

These potential improvements are discussed in detail in the following report.

Purpose, Objectives, and Scope

Internal Audit has completed an audit of Dining Services, which was part of the Fiscal Year 2015 – 2016 Audit Plan. The purpose of the audit was to evaluate whether Dining Services is effectively managing significant risks and internal controls in the areas of payments, inventories, and food safety.

The audit objectives were to:

- Review department purchasing and the control of food inventories;
- Evaluate control of cash and payments, including Dining Services' responsibilities related to Payment Card Industry Data Security Standards (PCI DSS);
- Verify that food safety training and food inspections are properly completed;
- Review the various food operations managed by Dining Services, including the food carts, catering, the Lantern Café, and the MarketPlace store;
- Evaluate the department's review and monitoring of financial results;
- Review Dining Services' participation in the UC President's food initiatives; and,
- Review the management of meal plan funds on the CatCard.

To fulfill the audit objectives, we interviewed Dining Services' staff and focused on transactions and controls in place during July 1, 2015 and April 30, 2016. The work of other departments has an important impact on the Dining Services' controls so we also met with various employees from Environmental Health and Safety (EH&S), the CatCard Office, Campus Cashiering, Procurement, and other departments that work closely with Dining Services.

Background

At UC Merced, Dining Services is an auxiliary within Student Affairs. With the growing campus, Dining Services has continued to increase food and dining options for the campus community. The department manages the main dining center (Yablokoff-Wallace Dining Center) and various other food providers, including The Lantern Café, Summits Marketplace, Lakeside Catering, and the Fork in the Road food carts. Dining Services also works closely with outside food vendors who manage different food carts on campus.

Dining Services has different meal plans for students. Students use their campus cards (CatCards) to purchase meals throughout the terms. The increasing number of students, staff, and faculty has resulted in a rapid growth of food sales during recent years. For example, fiscal year 2015 sales increased 10% over fiscal year 2014 sales (which had increased 29% over fiscal year 2013 sales).

To manage these increasing operations, student staff are a very significant part of the Dining Services operations. Dining Services is the department that employs the most students at UC Merced.

Conclusion

Based upon our audit, we concluded that Dining Services has set up, and is maintaining, adequate control over their operations. We identified areas where Dining Services could improve control over inventories and where Dining Services should also work closely with EH&S to improve food safety practices at UC Merced. We noted potential improvements in the following areas:

- Sustainable and compliant food safety measures
- Efficiency of food management practices
- Control over receiving and maintaining food and supplies inventories
- Delegated purchasing authority
- Dual custody of cash

The issues and management corrective actions are discussed below.

Observations and Management Corrective Actions

1. Establish sustainable food inspection processes

Dining Services works closely the EH&S to manage the campus's responsibilities related to food safety. The former EH&S Director who retired in February 2016 was the campus' sole Registered Environmental Health Specialist (REHS) who managed campus food inspections in the past. Inspections are required to be completed by an REHS registered with the California Department of Public Health.

During the audit, we discussed food inspections with EH&S. With the retirement of the Director, it has become apparent that the campus needs to invest additional resources to set up sustainable food inspection processes. During recent months, EH&S has had to hire consultants and utilize REHS's from another UC campus to complete food inspections and comply with State of California requirements.

Food safety and proper labeling of food is critical to the safety of students, faculty, and staff. Improperly labeled food could have terrible implications for people with food allergies. Food quality and safety issues could also result in poor publicity for the campus.

We commend EH&S for quickly moving forward with improving food safety and inspections after the retirement of the campus REHS. We recommend that EH&S and Dining Services work together to establish a plan of sustainable practices going forward. Governance over the process should be established so quality issues can be quickly reported to employees with the ability to take necessary actions to correct identified issues.

Management Corrective Action

EH&S currently plans to contract with an REHS as a consultant (much like EH&S currently does for the Ergonomics and Radiation Safety programs) until current EH&S personnel can become certified as an REHS. EH&S is working with the UC-wide REHS workgroup to keep up-to-date on best practices, obtain professional advice, and become a subject matter expert.

EH&S is working with Dining to ensure labeling issues are corrected. Dining has looked at the labeling process and made adjustments to it in an effort to improve this essential function.

This action plan was completed before this report was issued.

2. Reconsider current processes related to temporary food permits

During the review of food inspection processes, we noted that an employee in Student Affairs is responsible for issuing temporary food permits for the campus. It sounds like this process was set up in this manner as the campus was fortunate to have an employee with this special background. Food permits were just added to the unrelated responsibilities of this employee. This process does not seem sustainable as it depends upon the expertise of one particular employee rather than a formal department function.

As the campus continues to grow, we recommend that EH&S obtain the required expertise related to food inspections. After this expertise is set up, the responsibility for food permits should be transferred to EH&S. Part of the function should include evaluating the food safety practices of outside food vendors when they are on campus.

Management Corrective Action

EH&S is working with the employee in Student Affairs to develop an interim process to include EH&S in the student organizations' temporary food events. EH&S is also working with Staff, Faculty and affiliate temporary food events already. EH&S has teamed up with Procurement Services and Risk Management to develop consistent procedures for all temporary food events.

This action plan was completed before this report was issued.

3. Improve documentation related to required training

Food safety training is an important step in educating employees to prepare and handle food in a safe manner. During the audit, Dining Services was not able to provide adequate documentation to prove that all food handlers had completed periodic food safety training. While it is the practice to train new Dining Service employees regarding food safety, formal documentation of the completed training has not been maintained. We noted the same issue regarding periodic cash handling training for cashiers.

To improve accountability for required training, we recommend that documentation processes be established so it is easy to verify that employees have completed required training. Dining

Services should work with Human Resources to set up the training records in the Learning Management System (LMS).

Management Corrective Action

Dining Services will work with Human Resources to set up and track all required training in the Learning Management System. This action plan will be completed by October 31, 2016.

4. Utilizing best practices to improve food management practices

Back in 2005, Dining Services purchased software called "Computrition" to manage menus, food purchasing, and food inventories. Computrition is used by Dining Services at many higher education institutions. To obtain the benefits from the system, it requires employees to set up inventories on hand and then maintain current food information and costs.

While around $60,000 has been spent on this specialized management software since 2005, it appears that Dining Services has not been able to dedicate the necessary employee time and resources to keep information in the system up-to-date and useful. As the system is not fully utilized, currently ordering food and other items is based upon department purchasers' knowledge of typical food use. As an up-to-date food inventory is not maintained, employees spend additional time determining inventories on hand to order needed food and other items. Also, without evaluating the costs of ingredients it is difficult to make good pricing decisions.

We recommend that Dining Services evaluate the potential benefits versus the costs of fully utilizing Computrition. Proper use of the system could result in improved efficiencies and better control over food inventories.

Management Corrective Action

It was identified that four other UC campuses are using another system called "FoodPro" and one of these campuses has offered to support UC Merced's use of this system. Dining Services will analyze the potential benefits and costs of using Computrition or FoodPro. Once the analysis has been completed, Dining Services will devote employee time and resources to implementing the system to improve efficiencies. If it is determined that the use of Computrition would not benefit the campus, Dining Services will discontinue paying the annual license fees. This action plan will be completed by December 31, 2016.

5. Improve control over food inventories

The following control weaknesses were identified related to ordering, receiving, and maintaining inventories of food and other items.

- To maintain appropriate separation of duties, the employee receiving items from vendors should not be the employee ordering the items. Currently, two Dining Services

employees work closely with one another to order and receive the majority of food inventories and supplies. If one employee orders the items, it is the responsibility of the other employee to formally review and receive the items. During the review of receiving documentation, it was noted that the employee receiving does not always sign the receiving documentation. As a result, we could not verify that the employee confirming receipt was not also the employee who ordered the food and supplies.

- The storekeeper who completes most of the receiving of food and supplies reports directly to the employee who completes most of the ordering of food and supplies. This reporting relationship could make it difficult for the receiving employee to maintain a separate, independent function to promote appropriate separation of incompatible duties.

- Purchase cards are utilized by Dining Services for purchases when there is not sufficient time to order from the established food vendors. Dining Services employees will use a purchase card at a local grocery store to get needed ingredients. Currently, another employee is not reviewing and certifying receipt of items purchased with a purchase card to verify that all items purchased are received by the campus. As a result, the risk of personal purchases on a purchase card are not adequately managed.

- An accurate, up-to-date inventory listing is not maintained by Dining Services. As a result, it would be difficult to quickly identify shortages if food or supplies were missing.

- After items are ordered and arrive at Dining, the different dining operations (Lantern Café, Fork in the Road, Catering, etc.) take what they need from the central inventory. There is currently not a formal process to check out and track this inventory. As a result, food inventories and supplies could disappear without being able to identify that items have been taken. Also, as food costs are not allocated out to the different operations based upon use, it would be difficult to identify an unusual spike in costs if food and supplies were disappearing.

- There is not an end of shift reconciliation of food and items at some of the operations. For example, the Fork in the Road food cart disposes of uneaten hot dogs at the end of the shift. As there is not a reconciliation of food checked out to the cart and food at the end of the day, there is no way to verify that all cash sales were recorded.

- Dining Services utilizes strategic agreements and blanket purchase orders to purchase the majority of the food and supplies. Currently, when spending is close to the limit on a blanket purchase order, the amount of the order is just increased to allow more spending without evaluating vendor performance.

We recommend a few steps to improve control over ordering, receiving, and securing food inventories and supplies.

- Dedicate the necessary resources and employee time to maintain up-to-date inventory listings. Formal periodic counts should be completed to review the accuracy of the inventory listings.

- Strengthen receiving controls by training employees who complete the receiving of food and supplies in procedures and expectations. Set up procedures so receivers certify that food and supplies were received by the campus and assign accountability for appropriate receiving documentation to the storekeeper. To improve segregation of duties reevaluate the storekeeper's reporting structure and do not allow employees who order food and supplies to also complete receiving.

- Establish formal receiving procedures for items purchased with a purchase card so another employee verifies that purchased items are received by the campus.

- Set up formal procedures so there is sufficient documentation to track food and supplies transfers from the main dining center to the other dining operations. Transfers should be documented and approved by an employee who is assigned accountability for the food and supplies.

- Review current security camera use with Campus Safety. Determine where cameras should be located in order to improve security over food and other inventories and to verify that established procedures are being followed.

- Implement procedures for ongoing evaluations of vendor performance. Utilizing blanket purchase orders as a budget of spending with a particular vendor would promote these periodic evaluations.

Management Corrective Action

Dining Services will put together written department procedures for purchasing, receiving, and managing inventories. These written procedures will provide guidance and communicate expectations to employees. These procedures will be completed by December 31, 2016.

Dining Services will work with Campus Safety to evaluate current use of security cameras in order to identify locations and use that could improve security. Dining's cameras have already been integrated with the campus system and have already evaluated the costs of adding more cameras. This evaluation will be completed by September 30, 2016.

To improve segregation and distribution of purchasing and receiving duties, Dining Services will reevaluate and reassign purchasing and receiving responsibilities. Accountability for the receiving process and documentation will be assigned to the Dining Storekeeper. Dining Services management will continue to evaluate staffing changes and will include changes as part of the workforce plan. This action plan will be completed by December 31, 2016.

To improve receiving, Dining Services will provide special training to employees who receive food and supplies so they understand their responsibilities. Employees who receive will be required to provide sufficient documentation that the receiving process was properly completed. This action plan will be completed by December 31, 2016.

To improve control over purchases with a purchase card, an employee who did not complete the purchase will review and certify that all items purchased were received by the campus. The new requirements for receiving will be implemented by September 30, 2016.

To improve control over inventory, formal documentation will be required to show that food and supplies have been checked out by other operations. The inventory listing and inventory on hand will be periodically reconciled to account for inventory purchased and used by the main dining center and different operations. This process will be set up by December 31, 2016.

Food and supplies will be checked out to the different food operations and the daily use will be reconciled at the end of the day. This process will be set up by September 30, 2016.

To evaluate the use of food and supplies and to evaluate vendor performance, Dining Services managers and a representative from Procurement have begun meeting on a weekly basis. The weekly meetings will be utilized to review recent food costs and vendor performance, and to monitor performance of internal control over inventories. Dining Services will begin monitoring weekly cost of sales against food revenue in order to establish benchmarks. To do this will require establishing a new process to take a weekly physical inventory of food on hand. These processes will be set up by December 31, 2016.

6. Employees with delegated purchasing authority

Central Procurement has been delegated purchasing authority at UC Merced. Central Procurement then delegates the authority to department purchasers after the department purchasers have proved that they have an adequate understanding of UC purchasing requirements. While the Dining Services' employee who enters information in CatBuy has completed required training, the employees who actually complete the ordering and purchasing for the dining center, MarketPlace, and other operations have not been formally delegated purchasing authority.

We recommend that Dining Services work with Central Procurement to obtain required training for employees who order and purchase food and supplies. The necessary steps should be taken to obtain formal delegations of purchasing authority for these employees.

Management Corrective Action

Purchasers in Dining Services will complete the training required by Procurement in order to receive delegated purchasing authority. This action plan will be completed by December 31, 2016.

7. Maintaining dual custody of cash receipts

During the audit, we reviewed cash handling procedures. We noted that each morning, Dining supervisors recount cash and payments from the previous day while preparing the morning deposits. These counts are not completed in dual custody.

Opening a drop safe should require two employees: one with a key and the other with the combination. Currently, supervisors open these safes on their own in order to complete the morning cash counts.

We recommend that cash handling procedures be set up so dual custody over cash and payments is properly maintained.

Management Corrective Action

Dining Services will review and update cash handling processes so dual custody is properly maintained over cash and payments. This action plan will be completed by September 30, 2016.

Comment regarding the monitoring of financial results

While not considered a control weakness, it is important to understand the extra work required by Dining Services' management in utilizing the campus financial system to monitor financial results. Dining Services is an auxiliary that is required to at least break even financially. From the time-consuming work required to put together useful financial reports, it is evident that the campus financial system is not an optimal system for attempting to run a profitable business. As useful financial reports cannot be easily generated, management has set up spreadsheets which download sales information from the cashiering system and expenses from the campus financial system. These spreadsheets are broken out to analyze the different Dining operations (Lantern Café, MarketPlace Store, etc.).

Changing accounting practices could result in more useful financial reporting. One historical difficulty is all food costs are lumped together into one cost center. As a result, management is not currently able to efficiently break out these significant costs to the different operations. Another difficulty is that expenses and adjustments are not quickly recorded in the campus financial system. One instance was noted where multiple years' worth of cat dollar revenues were recorded all at once as an adjustment.

While current financial reporting processes are not optimal, management appears to have set up adequate "workarounds" to the campus financial system. They are working to get weekly or bi-weekly reporting in place to improve accountability over labor and other costs. Comparing current costs with the potential benefits shows that these work arounds appear to be less expensive than investing in a better system.