UCLA AUDIT & ADVISORY SERVICES

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July 22, 2015

SENIOR VICE PRESIDENT/CHIEF COMPLIANCE AND AUDIT OFFICER SHERYL VACCA
EXECUTIVE VICE CHANCELLOR & PROVOST SCOTT WAUGH:

Re: Housing & Hospitality Services – On-Campus Housing – Food Inventory Audit Report #15-2234

Enclosed is the audit report covering our review of the On-Campus Housing (OCH) food inventory activities.

The primary purpose of the review was to ensure that the related systems and procedures surrounding food inventory are conducive to accomplishing Dining Services' business objectives. The secondary purpose of the review was to evaluate the adequacy and efficiency of the internal controls over food inventory activities.

The scope of the audit focused on the following areas:

- Purchasing
- Accounts Payable
- Inventory Management
- Information Systems

Based on the results of the work performed within the scope of the audit, the organizational structure and control procedures regarding Dining Services' food inventory activities are generally conducive to accomplishing the department's business objectives. No significant control deficiencies were identified during the audit.

Please feel free to contact us if we can be of further assistance.

Edwin D. Pierce, CPA, CFE
Director

Enclosure

cc: J. Powazek

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HOUSING & HOSPITALITY SERVICES

ON-CAMPUS HOUSING - FOOD INVENTORY

AUDIT REPORT #15-2234

Audit & Advisory Services

July 2015

HOUSING & HOSPITALITY SERVICES
ON-CAMPUS HOUSING - FOOD INVENTORY
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Background

In accordance with the UCLA Administration fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) has conducted a review of the On-Campus Housing (OCH) food inventory activities.

OCH Dining Services' business objectives are to support the teaching, research, and public service mission of the University by delivering a quality food and beverage program which supports the Housing Master Plan and exceeds guest's expectations.

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. Dining Services offers a variety of dining options for students, faculty, staff, and guests. There are currently four all-you-care-to-eat Residential Restaurants located in Carnesale Commons, Covel Commons, De Neve Plaza, and Rieber Hall. Four Quick-Service Restaurants are also available, which include Bruin Café, Café 1919, De Neve Late Night, and Rendezvous. A commissary and bakery helps prepare and provide certain food items to the restaurants.

Food inventory is maintained at each of the restaurant locations in storerooms, kitchens, freezers, and coolers. Each location is responsible for ordering the food inventory items they need based on planned menus and patron forecasts. A purchasing team in Dining Services is responsible for helping to select and establish agreements with vendors who can provide food inventory items that meet the University's specifications and quality standards at the lowest cost. Dining Services is in the process of transitioning a large percentage of its food commodity purchases to a Group Purchasing Organization (GPO) to leverage purchasing power and obtain larger discounts from vendors. Items ordered are delivered to each restaurant location, where staff are responsible for

verifying that all items ordered and invoiced have been received. Invoices are reviewed by the General Managers for each dining location and submitted to the Dining Services Central Office (DSCO) for payment.

A vendor provided software program called FoodPro is utilized to help manage and monitor food inventory. Vendor invoices are recorded into FoodPro for detailed costing purposes and also into the campus BruinBuy purchasing and accounts payable system for payment processing.

Total budgeted raw food costs for fiscal year 2014-15 is approximately $14.8 million, with actual year to date cost through March 2015 of approximately $10.1 million.

Purpose and Scope

The primary purpose of the review was to ensure that the related systems and procedures surrounding food inventory are conducive to accomplishing Dining Services' business objectives.   The secondary purpose of the review was to evaluate the adequacy and efficiency of the internal controls over food inventory activities.

The scope of the audit focused on the following activities:

- Purchasing
- Accounts Payable
- Inventory Management
- Information Systems

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, the organizational structure and control procedures regarding Dining Services' food inventory activities are generally conducive to accomplishing the department's business objectives.

No significant control deficiencies were identified during the audit.

The audit results are detailed in the following section of the audit report.

Audit Results and Recommendations

Purchasing

Purchasing of food inventory items were reviewed to verify they were purchased in compliance with UC Business and Finance Bulletin BUS-43, "Materiel Management" (BUS 43). Three commodities (dry staples, frozen staples, and cheese products) were judgmentally selected and reviewed. Dry and frozen staples are competitively bid every six months, and cheese products once a month. The most recent bid documents were reviewed noting dry staples, frozen staples, and cheese products were competitively bid with multiple vendors submitting bids. Five items from each commodity were also judgmentally selected and reviewed to verify the vendors selected were the lowest bidders that met product specifications and quality standards.

Dining Services attempts to seek competition for all food products purchased; however, there are some limited instances when sole source purchases are made. BUS 43 requires that a justification be provided as to why that sole vendor is the only one capable of providing the needed product or service, if the annual expenditures are expected to exceed $100,000. Two sole sourced vendors were identified and reviewed, noting if sole source justifications were documented, signed by the Dining Services Buyer Supervisor, and allowable per BUS 43.

Dining Services is in the process of transitioning a large percentage of its food commodity purchases to a Group Purchasing Organization (GPO) to leverage purchasing power and obtain larger discounts from vendors. Prior to deciding to transition to a GPO, a comparison of the GPO prices to Dining Services' existing vendor agreement prices was performed for a group of selected products, noting there would be a cost savings. The GPO does charge an administrative fee for the services they provide; however, management indicated that the discounts and costs savings is estimated to cover the administrative fee. Changes in pricing for all food items, including items purchased through the GPO are highlighted on a weekly inventory cost analysis report that is reviewed by Dining Services management.

All food purchases reviewed appeared to be in compliance with BUS-43.

There were no significant control weaknesses noted in this area.

<u>Accounts Payable</u>

Accounts Payable (AP) staff in DSCO handle the processing of over 25,000 Dining Services related invoices per year. The AP process is on a weekly cycle, which coincides with the weekly physical inventory counts and food costs analyses. Vendors invoices are provided at time of delivery to storeroom staff, who are responsible for checking that all items ordered have been delivered and the invoices only include the items that have been received. The General Manager (GM) for each restaurant location must review and sign each invoice to ensure it is for authorized purposes. Invoices are picked up from each of the dining locations by AP staff on a daily basis and reviewed to ensure that each invoice has been signed by the staff receiving the items and the GM for the dining location. The prices charged for each item are checked to ensure they match the agreed upon bid prices. Invoices are keyed into the FoodPro system at the line item level to allow for costing and inventory tracking and analysis; and into the campus BruinBuy purchasing and accounts payable system for payment processing. Post Authorization Notification (PAN) reviewers also check to ensure that all the invoices have been approved and are charged to the correct funds and accounts.

Dining Managers at each restaurant location email AP a log of all the invoices that should have been received. AP staff reviews the log to ensure all invoices listed have been received, and when each invoice is keyed into FoodPro, they place a check mark on the log to track that all invoices have been input.

A judgmental sample of invoices from each dining location was reviewed to ensure that invoices paid were only for authorized items that were ordered and received. In addition, each invoice was reviewed to ensure they were paid in a timely manner, recorded correctly into FoodPro, and recorded to the appropriate fund, account, sub and object code in the campus general ledger.

In addition, A&AS staff electronically compared all the purchases for the week ending March 24, 2015, for a sample commodity (dry staples) to the agreed upon bid prices, noting that a majority of the invoiced prices matched the agreed upon bid prices. For the two hundred plus dry staple items purchased, only seven items had a price paid that differed from the bid price. The dollar amount of the variances was immaterial.

Test work indicated only items ordered and received were paid, and the amount paid agreed to the bid price.

There were no significant control weaknesses noted in this area.

Inventory Management

Weekly physical inventory counts of food inventory are performed by each restaurant location on Tuesdays. Inventory is taken in teams of two. The count results must be reviewed and signed off by the applicable Dining Manager. Physical inventory count sheets were reviewed for a judgmental sample of dining locations to verify that the count sheets had adequate item descriptions and units of measure, and the counts were being conducted in teams of two with review and approval by the applicable Dining Manager.

In addition, A&AS staff determined if food waste is being tracked and monitored by selecting a judgmental sample of dining locations and obtaining and reviewing examples of food waste logs. Food waste is currently tracked on paper logs and reviewed by the chefs on a daily and weekly basis. There is a new FoodPro waste tracking and reporting module that is currently being evaluated by management.

There were no significant control weaknesses noted in this area.

Information Systems

Dining Services AP staff must manually key in vendor invoices twice, once into the FoodPro system and then again into the campus purchasing and accounts payable system, BruinBuy. Over 25,000 vendor invoices must be keyed each year. The development of a systematic interface between the two systems to eliminate the need to rekey invoices into BruinBuy was being considered during the previous audit in 2012. A&AS followed up to determine if any action has been taken to develop the system interface by interviewing the Dining Services Business Office Manager and Director of Campus Purchasing and Accounts Payable. The Business Office Manager indicated they are still open to the idea; however, due to other projects and staffing changes in their department, no actions have been taken yet. The Director of Campus Purchasing and Accounts Payable indicated that with the possibility of a new food management system with the construction of the new Luskin Conference Center and upcoming plans to replace the campus financial management system, the development of an interface between the FoodPro system and BruinBuy system currently may not make sense.

Reports to manage and monitor food inventory were also evaluated to determine if they are adequate, accurate, and are regularly reviewed by the Dining Managers. The Inventory Cost Analysis and Location Cost Summary are two key FoodPro reports that are utilized by dining management to help manage and monitor food inventory. These reports are generated for each dining location on a weekly basis. The Inventory Cost Analysis report identifies deviations from planned inventory usage that may be due to under or over forecasting usage, not following recipes, poor portion controls, or theft. Additionally, the report identifies price changes for items that exceed 5%. The Location Cost Summary report identifies the per patron food cost, which is a key metric that is tracked and monitored by dining management. Dining Managers interviewed indicated the data in the reports are accurate and they review the report on a weekly basis.

There were no significant control weaknesses noted in this area.

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