**RIVERSIDE: AUDIT & ADVISORY SERVICES**

May 16, 2011

To: Andy Plumley, Assistant Vice Chancellor
UCR Housing, Dining & Residential Services

Subject: Limited Review of UCR Housing, Dining & Residential Services

Ref: R2010-06

We have completed our limited review of the UCR Housing, Dining & Residential Services in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2010-06 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Michael R. Jenson
Director

xc: Audit Committee
Director of Business and Finance, Housing Services Villegas

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

# INTERNAL AUDIT REPORT R2010-06

# HOUSING, DINING & RESIDENTIAL SERVICES

MAY 2011

Approved by:


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Auditor

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## Table of Contents

# UC RIVERSIDE
# HOUSING, DINING & RESIDENTIAL SERVICES
# INTERNAL AUDIT REPORT R2010-06
# MAY 2011

## I. MANAGEMENT SUMMARY

Based upon the results of work performed within the limited scope of the audit, it is our opinion that overall, except for the observations noted below, the system of internal controls of the UCR Housing, Dining & Residential Services (Division) is generally adequate and in compliance with University policies and procedures.

Positive Division developments include:

- The UC Board of Regents recently approved construction of a six-building apartment complex for approximately $144 million that will house around 800 students, and scheduled to open in Fall Quarter 2013.
- The UC Board of Regents recently purchased Summer Ridge Apartments (initially called Greenock and now Oban).
- The Division opened a new Child Development Center, which doubles the campus' childcare capacity.
- Management has been receptive to audit recommendations and has taken immediate action to improve processes and procedures.

We observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

- The Division's combined net revenues before debt service payments and major maintenance have been consistent in the last three fiscal years. However, net losses have increased significantly at Dining Services and net revenues for CDC have also decreased. (Observation III.A.1)
- We noted some misclassifications and inconsistencies in some Fund and Activity (Department) codes. (Observation III.A.3)
- Unrecorded CDC meal expenditures were noted. (Observation III.A.4)
- Desktop manuals for various processes were not updated by the Housing Services Administration. (Observation III.B.2)
- We noted some weaknesses in the back-up and recovery procedures in the Division's software applications. (Observation III.B.3)

These and other items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

# II. INTRODUCTION

## A. PURPOSE

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed a financial analytic review of the Housing, Dining & Residential Services' Division for Fiscal Years (FY) 2007-08 to FY 2009-2010 and a general internal controls review to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of certain internal controls.

## B. BACKGROUND

The Division is under the purview of the Vice Chancellor - Student Affairs, and managed by the Assistant Vice Chancellor for Housing, Dining & Residential Services. It has a total staff complement of 428 career employees and 950 student workers as of April 30, 2010.

The Division has the following departments: Housing Services (Campus Apartments and Residence Halls), Dining Services, and the Child Development Center. These departments are managed administratively by the Housing Services Administration.

***Housing Services***

Housing Services is comprised of two housing types: Campus Apartments & Family Housing and Residence Halls.

<u>Campus Apartments & Family Housing</u>
There are six (6) campus apartment and family housing communities managed and operated by Housing Services as follows:

(1) Bannockburn Village;
(2) Canyon Crest Family Student Housing;
(3) University Plaza;
(4) Falkirk;
(5) Glen Mor
(6) Greenock (Oban).

These are located on campus. There are also two third party apartment communities, Stonehaven and International Village that Housing Services works with to provide additional apartment housing. These are also located on campus and are governed via a ground lease.

Residence Halls
There are three Residence Halls at UCR for undergraduate students as follows:

(1) Aberdeen-Inverness (A-I) is UCR's first Residence Hall and opened in 1959. Originally, Aberdeen (A & B wings) was all-male and Inverness (D & E wings) was all-female. The building went coeducational in the late 1960s. Its design occupancy is 792 and the FY 2009-10 occupancy was 946.
(2) Lothian is the joining of two buildings: West Lothian & East Lothian. West Lothian (A & B Wings) opened in 1963 as an all-female hall and went coeducational in the early 1970s. East Lothian opened in 1991. Total design occupancy is 1,036 and the FY 2009-10 occupancy was 1,036.
(3) Pentland Hills is UCR's first suite-style housing. Each suite is comprised of four carpeted rooms housing 8–12 students. Its design occupancy is 1,132 and the FY 2009-10 occupancy was 1,294.

***Dining Services***

The Dining Services has six types of operations consisting of residential restaurants, campus restaurants, convenience stores, emporiums, food trucks, and catering.

Residential Restaurants
(1) A-1 Residential Restaurants;
(2) LO'Go! Café (Lothian's Grab-n-Go);
(3) Lothian Residential Restaurants; and
(4) Spinelli's Italian Oven @Lothian.

Campus Restaurants
(1) Latitude 55
(2) Honor Roll Sushi
(3) Stacked Deli
(4) Panda Express
(5) La Fiamma Pizza, Pasta, Salads & Soups
(6) El Sol Cocina Latina
(7) Hot Diggity Dawgs @ the Campus Store
(8) Coffee Bean & Tea Leaf
(9) The Barn Restaurant
(10) Ivan's @ Hinderaker
(11) Taco Fresco
(12) Arroyo Vista Café @ the Alumni & Visitors Center

Convenience Stores
(1) A-1 Bear's Den
(2) HUB Bear Necessities
(3) Lothian Bear Essentials

Emporium
Scotty's @ Glen Mor

Food Truck
Bear Track's Coffee

Catering
Citrus Grove Catering

***Child Development Center (CDC)***

CDC provides childcare services for UCR students, staff, and faculty. It is licensed to serve children between the ages of 2 months and 5 years. Admission to CDC is based on the availability of space in the appropriate age and developmental level classroom, and the date of application for services. CDC has extended its facility in September 2009 to accommodate more students. The new facility could accommodate 144 children, thereby doubling CDC's previous capacity. As of FY 2009-10, there were 183 students enrolled at the CDC. In FYs 2007-08 and 2008-09, 156 and 163 students were enrolled, respectively

The programs provided by CDC have been carefully planned to meet the goals, expectations, and policies of the University of California, the California Department of Education-Child Development Division, the National Academy of Early Childhood Programs, and the Center's staff and parents.

CDC staff is composed of various Child Development professionals such as teachers, teaching assistants, director, early childhood education interns, a music teacher and clerical personnel. All teachers should hold a valid Child Development credential issued by the State of California Commission on Teaching Credentialing, and all are employees of the University of California, Riverside.

The department became part of the Division in FY 2007-08. It has 56 career employees and 46 student workers as of April 30, 2010.

***Housing, Dining & Residential Services (HDRS) Administration***

The Housing Services Administration is in charge of the administrative functions for the Division.

As indicated by the Director for Business and Finance, Housing Services, all Housing units support the Housing Services Administration with a monthly recharge under Housing Services Operations Expense.

## C. SCOPE

Audit & Advisory Services' limited review scope included a financial analytic review of the Housing, Dining & Residential Services Division for Fiscal Years (FY) 2007-08 to 2009-2010 and general internal controls review described in detail as follows:

### 1. Financial Analytical Review

We performed a financial analytical review of the actual revenues and expenditures by Fund code using UCRFS Totals in FYs 2007-08 to 2009-10. This included identifying unusual trends or fluctuations and obtaining explanations for any significant and unusual variances.

Also, we compared the actual revenues and expenditures against budgeted amounts in the last two fiscal years and obtained explanations for any significant and unfavorable variances.

### 2. General Internal Controls

We reviewed and evaluated the Division's overall organizational structure and controls to ensure that these are conducive to accomplishing their business objectives through an interview with the Director of Business and Finance, Housing Services, and completion of the Internal Control Questionnaire (ICQ).

The interview with the Director of Business and Finance, Housing Services covered the following areas:

- Control Environment: The questions involved ways that management can inform staff of their roles, responsibilities, accountability, and authorities; it also included ways that management can create an environment to better ensure that integrity and ethical values are not compromised and that employees receive and understand the message.

- Risk Assessment: The questions were used to identify and assess the external and internal factors that could impact achievement of unit business objectives and provide a basis for certain management controls.

- Control Activities: The questions involved policies and procedures that help ensure that management's business objectives are achieved and directives are completed. Payroll controls were not included in this review as they will be generally covered in a separate audit on *Employee Time Reporting (R2011-B)*.

- Reporting and Monitoring: The questions involved management activities taken to assess the achievement of business objectives and the quality of internal control system performance.

- Communication: The questions involved how management identifies, captures, processes and reports information needed to achieve business objectives.

A section of the ICQ involving overview questions on Computer Equipment and Procedures was referred to the Housing, Dining & Residential Division's Information Technology (IT) Director for his response.

## D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

* effectiveness and efficiency of operations
* reliability of financial reporting
* compliance with applicable laws and regulations

Substantive audit procedures were performed during the period January to September 2010 (not inclusive). Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

# III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

## A. FINANCIAL ANALYTIC REVIEW

The Division's combined net revenues before debt service payments have been consistent in the last three fiscal years. However, net losses have increased significantly at Dining Services and net revenues for CDC have also decreased.

COMMENTS

### 1. Actual Revenues and Expenditures

#### *a) Housing Services*

Campus Apartments & Family Housing

An analysis of Campus Apartments & Family Housing actual revenues and expenditures for FYs 2007-2008 to FY 2009-2010 disclosed that the net revenues increased in FY2009-10 compared to the previous year. Two apartment complexes (Falkirk and Greenock/Oban) were added in 2007-08 and 2009-10 respectively. These were both unplanned opportunity purchases with Campus and Regent support.

| Actual | FY 2007-08 | FY 2008-09 | FY 2009-10 |
|---|---|---|---|
| Revenues | 12,712,188 | 13,339,188 | 15,155,725 |
| Expenditures | (7,273,819) | (8,984,398) | (9,735,886) |
| Net Revenue/(Loss) | 5,438,369 | 4,354,790 | 5,419,839 |

*Source: UCRFS Totals for funds 70007, 70015, 70020, 70023, 70027, 70029*

Residence Halls

An analysis of Residence Halls actual revenues and expenditures for FYs 2007-2008 to FY 2009-2010 disclosed an upward trend in net revenues due to the occupancy design, with a beginning occupancy rate of 116% for the last two years. Those years also included tripling of double rooms and master leasing off-campus space to accommodate as many students as possible.

| Actual | FY 2007-08 | FY 2008-09 | FY 2009-10 |
|---|---|---|---|
| Revenues | 33,029,406 | 37,547,483 | 36,950,499 |
| Expenditures | (25,607,060) | (29,161,513) | (28,039,743) |
| Net Revenue/(Loss) | 7,422,346 | 8,385,970 | 8,910,756 |

*Source: UCRFS Totals for funds 70002, 70005, 70006*

Debt service payments and major maintenance for the three fiscal years are as follows:

| Actual | FY 2007-08 | FY 2008-09 | FY 2009-10 |
|---|---|---|---|
| Debt Service Payments | 8,240,241 | 10,407,621 | 10,958,158 |
| Major Maintenance | 8,318,755 | 1,441,976 | 1,999,867 |
| Total | 16,558,996 | 11,849,597 | 12,958,025 |

Debt service payments and major maintenance were recorded under Residence Halls.

***b) Dining Services***

An analysis of Dining Services' actual revenues and expenditures for FYs 2007-2008 to FY 2009-2010 disclosed the following:

| Actual | FY 2007-08 | FY 2008-09 | FY 2009-10 |
|---|---|---|---|
| Revenues | 8,016,843 | 9,187,312 | 8,287,026 |
| Expenditures | (8,584,515) | (9,444,272) | (10,013,652) |
| Net Revenue/(Loss) | (567,672) | (256,960) | (1,726,626) |

*Source: UCRFS Totals for funds 70030, 70032, 70070, 70031*

Dining Services incurred a net loss of $1.7 million at the end of FY 2009-10 against last FY's net loss of $256,960. The Director for Business & Finance, Housing Services explained that newly established food venues such as Coffee Bean and Tea Leaf, a large increase in union labor costs, and a major reduction in catering sales have contributed to the increase in net loss. The Alumni & Visitors Center continued to be financially challenging.

Further, as stated by the AVC for Housing, Dining & Residential Services in his Executive Summary on HDRS FY 2010-11 Operating Budget report, the current financial position of Dining Services is the result of several factors. The most significant is the recent labor agreement with American Federation of State, County and Municipal Employees (AFSCME) Service Unit (SX) which resulted in increased salaries for some employees. We noted a 12% increase in payroll in FY 2009-10 compared to the previous year.

Secondly, Dining Services has been in a growth mode, where they have been responding to campus needs which include the opening of the Alumni Center and the HUB. The sheer amount of growth and investment is something that has been difficult to manage. Now that they have addressed a major campus need, they need to manage future growth. Further, management stated that they were not allowed to appropriately raise the amount of the board fees to keep up with the increases in labor and growth. And lastly, the current difficult economic times resulted in a general reduction of revenues.

### *c) Child Development Center*

An analysis of CDC actual revenues (including federal/state/local grants received) and expenditures for FYs 2007-2008, 2008-2009 and 2009-2010 disclosed the following:

| **Actual** | **FY 2007-08** | **FY 2008-09** | **FY 2009-10** |
|---|---|---|---|
| **Revenues: Grants/Fees** | 1,249,905 | 1,319,743 | 1,826,618 |
| **Revenues: Reg Fees** | 420,162 | 419,678 | 453,606 |
| **Expenditures** | (1,710,881) | (1,610,132) | (2,247,715) |
| **Net Revenue/(Loss)** | (40,814) | 129,289 | 32,509 |
| | | | |
| **Student Enrollment** | 163 | 156 | 183 |

*Source: UCRFS Totals for activity A01250, Grant Inc. = Grant Exp. per FY*

As previously mentioned, an additional CDC facility was opened in September 2009 to accommodate an additional 144 students. Currently, CDC's enrollment of 183 students (64%) is below its new capacity of 288 students. CDC's net revenues decreased by 75%. The primary reason for this decline was due to the expenditures related to the recent expansion of the CDC facility coupled with enrollment rate below capacity.

As stated by the AVC for Housing, Dining and Residential Services in his Executive Summary HDRS FY 2010-11 Budget Report, the expectations in the new center included a doubling of the registration fee budget and grant income. Neither of these occurred. Additionally, the previous years' robust waiting list quickly dried up in most programs as a result of the poor economy and the financial impact of the furlough program for faculty and staff.

### *d) Combined Housing, Dining & Residential Services and CDC*

An analysis of the Housing, Dining & Residential Services Division's actual net revenues/(loss) for FYs 2007-2008 to FY 2009-2010 disclosed the following:

| **Net Revenue/(Loss)** | **FY 2007-08** | **FY 2008-09** | **FY 2009-10** |
|---|---|---|---|
| **Housing** | 12,860,715 | 12,740,760 | 14,330,595 |
| **Dining** | (567,672) | (256,960) | (1,726,626) |
| **CDC** | (40,814) | 129,289 | 32,509 |
| **Combined** | 12,252,229 | 12,613,089 | 12,636,478 |

The Division's FY 2009-10 net revenues of $12.6 million before debt service payments and major maintenance are about the same for the last three years.

2. **Net Revenues – Actual vs. Budget**

The table below shows Housing, Dining & Residential Services' actual and budgeted net revenues for FYs 2008-2009 and 2009-2010.

| **Net Revenues** | **FY 2008-09** | **FY 2009-10** |
|---|---|---|
| **Budget** | 12,871,182 | 12,502,349 |
| **Actual** | 12,613,089 | 12,636,477 |
| **Variance Amount** | (258,093) | 134,128 |
| **Variance Percentage** | -2.01% | 1.07% |

RECOMMENDATIONS

Division Management should continue to strategically position themselves by identifying and addressing risk factors, identifying efficiencies and cost savings, evaluating their sales and marketing plans, and improving on key performance indicators to meet their financial and budget goals, especially in Dining Services and CDC.

*MANAGEMENT RESPONSE*

*We concur with the recommendation. Through careful management we have reduced the 2010/11 budgeted loss from $1.3M to about $50,000. The CDC budget is more difficult to impact due to licensing requirements. It also has a complicated clientele of faculty, staff, students and community. To provide a balance budget will required discussions and direction from the campus and the various client constituencies.*

3. **Full Accounting Unit (FAU)**

The Division's Profit & Loss (P&L) Statements were reported by Fund code. However, we noted some inconsistencies and misclassifications as some Fund codes did not match with its corresponding Activity codes as follows:

- Glen Mor Apartment's Activity codes were placed under Residence Halls, even though these were classified as Campus Apartments. In addition, Glen Mor Apartment's P&L Statements for the period July 2009 to January 31, 2010, were also reported under Residence Halls.

- The revenues and expenditures of the four residential restaurants and four convenience stores were reported as part of the Residence Halls P&L Statement. According to Division management, these will be reported in the Dining Services' P&L Statement in FY 2010 - 2011.

- Greenock's P&L Statement reported as part of the Campus Apartments showed that salary expenditures and certain administrative costs (i.e. housing services, etc.) had zero balances. Management stated that they did not hire anyone for Greenock and utilized the existing contracts and temporary services for grounds, custodial and maintenance. Also, Greenock's and Falkirk's Activity codes were placed under Residence Halls, even though these were classified as Campus Apartments.

- The Alumni Restaurant's (Arroyo Vista Café) Activity code was placed under Residence Halls although its transactions were reported as part of Dining Services' P&L Statements.

As indicated by the Director for Business & Finance, Housing Services, and the AVC for Housing, Dining & Residential Services, they have been monitoring their operations on a Fund code basis, although they now report on a Department code basis effective FY 2010-11.

In addition, the new FAU structure in FY2010-2011 combines both Residence Halls and Campus Apartments under one Activity code.

RECOMMENDATIONS

The Housing Services Administration Department should ensure that the Departments' actual income and expenditures are accurately recorded and properly classified in the UCRFS ledgers using the appropriate FAU elements and consistently reflected in the monthly P & L Statements.

*MANAGEMENT RESPONSE*

*We concur with the recommendation. Our original FAU constructs have made it difficult to add new programs and buildings. We have therefore introduced a totally new FAU structure as of July 1, 2010. This structure accommodates our new operational structure and is better organized to handle future additions.*

### 4. Unrecorded Meal Expenditures

Unrecorded CDC meal expenditures were noted.

CDC was not billed by HDRS Administration for meals totaling $36,756 that Dining Services provided to CDC in FY 2008-09. Of this amount, $17,461 was billed to and recorded as an expenditure of CDC in FY 2009-10. The balance of $19,295 was not billed nor recorded as an expenditure of CDC.

This observation and the corresponding recommendation are explained in detail in the Internal Audit of the Child Development Center audit report (R2011-16).

## B. GENERAL INTERNAL CONTROLS

### 1. Summary

We reviewed and evaluated the Division's overall organizational structure and controls to ensure that these are conducive to accomplishing their business objectives through an interview with the Director of Business and Finance, Housing Services, and completion of the Internal Control Questionnaire (ICQ).

Below are our observations.

### 2. Desktop Manuals

Desktop manuals for various processes were not updated by the Housing Administration Services department.

COMMENTS

Desktop manuals serve as guide to staff, particularly newly-hired employees in the performance of their functions.

As indicated by the Director for Business & Finance, Housing Services, the department is in the process of developing a special policy or procedures manual for the department.

RECOMMENDATIONS

Desktop manuals on the various processes should be developed and updated regularly by the Housing Services Administration. The manuals should include, but not be limited to the following processes:

- recharging and/or allocation of fees to the respective departments;
- monitoring of debt-service payments;
- supplies/equipment inventories; and
- financial reports preparation.

*MANAGEMENT RESPONSE*

*We concur with the recommendation. The supplies/equipment inventories manual was done during the audit. The other three (recharging/allocation of fees to the respective departments, monitoring of debt-service payments and financial reports preparation) are in process. Target date of completion is July 1, 2011.*

**3. Computer Equipment and Procedures**

We noted some weaknesses in the back-up and recovery procedures in the Division's software applications.

COMMENTS

Review of the ICQ on Computer Equipment and Procedures disclosed the following:

- The integrity of the back-up files was not tested periodically;
- There was no offsite back-up storage process.

Further, IT Director indicated that their Elite Pro disk was lost and needs to be replaced.

RECOMMENDATIONS

The integrity of the back-up files should be tested periodically, and back-up file recovery procedures should be documented.

Also, the department should evaluate if the installation of the Elite Pro disk would be cost-effective and critical to their operations.

*MANAGEMENT RESPONSE*

*We concur with the recommendation. Back-up files are being tested quarterly. Back-up file recovery procedures are being developed and will be completed by July 1, 1011. We have evaluated the Elite Pro disk and determined we can purchase a license for back-up and that this is the most cost-effective solution. This will be completed by July 1, 2011.*