HOUSING & HOSPITALITY SERVICES

ON-CAMPUS HOUSING – FOOD INVENTORY

AUDIT REPORT #19-2202

Audit & Advisory Services

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# Background

In accordance with the UCLA Administration fiscal year 2018-19 audit plan, Audit & Advisory Services (A&AS) performed an audit of internal controls and business practices over the On-Campus Housing (OCH) Dining Services’ 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 guests’ expectations.

A unit under OCH, 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 menu choices, dining hours, and meal plans for students, faculty, staff, and visitors. There are currently four all-you-care-to-eat residential restaurants: Bruin Plate, Covel Commons, De Neve Commons, and FEAST at Rieber. There are also four quick-service restaurants, which include Bruin Café, Café 1919, The Study at Hedrick, and Rendezvous. A commissary and bakery serve as support service locations that mass produce certain food items for the eight dining locations.

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. Ordered items are delivered to each restaurant location, where receiving personnel are responsible for verifying that all items ordered and invoiced have been received. Invoices are reviewed by the chefs and general managers for each dining location and submitted to the Dining Services Central Office (DSCO) for payment processing.

FoodPro, a vendor-provided food management system, is utilized to help manage and monitor food inventory by integrating necessary food service operations tasks: recipe and menu planning, forecasting and costing, purchasing, production, waste tracking, inventory control, and financial analysis.

Total expenditures for fiscal year 2017-18 was approximately $23.1 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. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit focused on the following activities:

* Procurement
* Accounts Payable
* Inventory Management
* Accountability Structure

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, OCH Dining Services’ organizational structure and controls are generally conducive to accomplishing its business objectives related to food inventory activities. However, certain controls and business practices could be further strengthened by implementing the following:

*Procurement*

* Management should utilize established vendor agreements instead of Low Value Orders (LVOs), when applicable, to ensure that purchases of goods and services by the University are at the best overall value, and that there is adequate protection of the University's interests by applying appropriate terms and conditions. Management should also continue to monitor the funding level of the blanket agreement and promptly submit a purchase order change request to Campus Purchasing in order to replenish the funding in blanket agreements, when needed.

*Accounts Payable*

* Management should develop written procedures for ordering, receiving, and invoice processing workflows, which should then be disseminated to the Dining Services staff. Each employee’s role within the workflow should be clearly defined. In addition to strengthening the current control environment, written procedures would serve as a useful resource for staff development and training, and also help to ensure that procedures are consistently implemented across all 10 dining facilities.
* Management should ensure that all dining areas input all invoices received on the invoice log into the FoodPro and BruinBuy systems. Invoices should clearly indicate that the receiving personnel compared every line item to the quantity received. Invoices should also show evidence of review by the chef and general manager against the Order Guide. The signatures of the receiving personnel, chefs, and general manager performing the review should be clearly identified by name and job title.
* To enhance management oversight and ensure uniform compliance with University policy, supporting documentation for purchases should be maintained and readily available in accordance with University policy, RMP-1, “University Records Management Program,” Records Code 005A3.
* To ensure the accuracy of costs transferred from one dining location to another, and to strengthen the integrity of financial reporting, management should retain all pertinent documentation that supports transferred costs.

*Inventory Management*

* Upon completion of each monthly inventory count, the assigned staff should legibly sign and date the inventory count sheets prior to submitting them for processing. In addition, inventory count documentation should be maintained for reference, variance identification, and resolution.
* Management should continue its new practice of retaining the raw scanner data. Additionally, if there are items that cannot be scanned, manual count sheets should consistently be used and retained by relevant personnel. If all items counted during the inventory were scanned, it should be clearly noted as such.
* Management should update the existing inventory count procedures to reflect current practices and to improve accountability of staff. The updated procedures should include information about accountability of count sheets, raw scanner data retention, documentation of two individuals participating in the count, documentation of detected variances and adjustments made, and any other additional information management deems beneficial to enhance controls.
* Per UCLA Policy 360 *Internal Control Guidelines for Campus Departments*, Attachment A *Guidelines for Application of Internal Control Principles*, Inventories (Equipment and Supplies), Section 2b, *Authorization and Approval*, states, “Any adjustment to inventory records (for returned, missing, damaged, obsolete, or stolen items) must be approved by departmental management. Large adjustments should be supported by written explanations. Management should document variances detected as well as the reasons behind the adjustments made to the ending inventory count.”
* As a best business practice to help minimize waste and potential shrinkage, management should consider documenting the optimal inventory levels and re-order points for staple items with a longer shelf life for all dining locations.

*Accountability Structure*

* The Chief Administrative Officer (CAO) and Department Security Administrators (DSAs) should closely monitor accountability delegations by reviewing quarterly Distributed Administrative Computing Security System (DACSS) reports to ensure that the current structure reflects access that is appropriate and consistent with the department’s organizational structure and job responsibilities.
* Management should ensure that all mandatory reviewers read their Post-Authorization Notices (PANs) timely in accordance with the UCLA Financial Policy.

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

Audit Results and Recommendations

Procurement

For many commodity-type items and equipment, a Group Purchasing Organization (GPO) may be used to source contracts. Since 2015, several UCLA customer units (including Dining Services) have had an agreement with a GPO called Avendra, to leverage purchasing power and economies of scale for favorable supplier terms and reduced costs. As part of the agreement, Avendra provides a list of supplier contracts that meet the University’s specifications and quality standards and with whom an annual expenditure of $100,000 or more is expected. Additionally, these contracts are awarded to the lowest responsible bidder that meets specifications based on one of the following three Campus Purchasing approved competitive bid evaluation methodologies: cost alone, cost per quality point, or best value. Dining Services and other customer units will not be allowed to use suppliers that do not meet these bidding requirements. Approximately 90% of Dining Services’ purchases are made through Avendra vendors.

1. Procurement

Depending on the gross annual expenditures of Dining Services and other customer units, and the allowance run rate (an annualized spending rate), Avendra will either be owed a procurement fee or will owe a rebate to all customer units in accordance with the existing contract terms and conditions.

Discussions were held with management and Campus Purchasing to determine the calculation of the approximately $209,000 rebate amount received for the August 2017 through July 2018 contract year. Avendra sends Campus Purchasing monthly reports that summarize the gross spending per customer unit and allowance run rate, which should be above the current 3.5% procurement fee. Opportunities for cost savings in specific food categories are also communicated. Additionally, Dining Services receives a weekly Avendra commodity report that shows the general price trends for major food commodity groups (e.g., meat/poultry, seafood, produce, dairy, etc.). Management uses this report and vendor-provided weekly price lists to track costs of key products and, if necessary, make substitutions in recipes that allow for cost efficiency and maximum use of seasonal ingredients.

There were no significant control weaknesses noted in this area.

1. Sole Source Vendors

Competitive bidding is required for goods and services with expenditures expected to exceed $100,000 annually. However, when requesting that a procurement be non-competitive, Business and Finance Bulletin (BFB) BUS 43 (Purchases of Goods and Services) requires that department administrators provide documented justification that the product or service is unique, available only from one source, or is designed to match others used in or furnished to a particular installation, facility, or location.

Data analytics were utilized on the fiscal year 2017-18 campus General Ledger to identify vendors with total annual purchases greater than $100,000. Five sole-sourced vendors were identified and corresponding sole source justification forms were reviewed to ensure that exception to bidding was documented in accordance with BUS 43. Different versions of the sole source justification form were being used. Since October 2018, the standardized sole source vendor justification form created by the University of California (UC) Procurement Services has been used.

There were no significant control weaknesses noted in this area.

1. Sustainable Sourcing

Per the UC Policy on Sustainable Practices, sustainable food is defined as “food and beverage purchases that meet one or more of the criteria listed” including locally grown/raised/handled/distributed, fair trade certified, USDA organic, grass-fed, humane raised/handled, cage-free, and other categories. Additionally, all food service operations should “track and report annually the percentage of total annual food budget spent on sustainable food” with the goal of “achieving 20% sustainable food purchases by the year 2020.”

The H&HS Sustainability Manager oversees the implementation, maintenance, and tracking of the progress of sustainability programs for several areas, including OCH. The FoodPro Total Spend Report is used to track the total quarterly spending for Dining Services, which is categorized by vendor, dining location, FoodPro commodity category, and sustainability category. Food items purchased must fulfill one or more of the sustainability criteria in order to be considered sustainable.

From A&AS review of the summer 2018 quarterly Total Spend Report, it was noted that Dining Services incurred approximately $2.1 million in food purchases, of which approximately $428K (20.9%) was deemed sustainable.

There were no significant control weaknesses noted in this area.

1. Low Value Orders

Order Class N – Low Value Orders are intended to streamline the purchasing process for smaller, low-risk purchases. Departments are authorized to place LVOs for up to $5,000 per vendor, per account code, per day, excluding transportation costs and sales and/or use tax.

Data analytics were utilized on fiscal year 2017-18 campus General Ledger activity to identify whether LVO authority was being bypassed and to verify whether LVOs were inappropriately utilized with vendors with whom a departmental or campus-wide strategic sourcing blanket agreement exists. The following were noted through audit testing:

* Twenty-two transactions (totaling $49,533) were executed in a manner that bypassed LVO purchasing authority by exceeding the designated daily limits.
* These 22 transactions were also executed using three vendors with whom a blanket agreement was already established at the time the transaction occurred.

Additionally, for a judgmental sample of 21 food inventory purchasing transactions (TE code 41 – Accounts Payable – Invoice Accrual) from fiscal year 2017-18 for all 10 dining facilities, one transaction was processed as an LVO with a vendor that already had a blanket agreement in place with the University.

Per discussions with Dining Services management, LVOs are used to process vendor payments when the blanket agreement funding have not been replenished in time to cover the payments due. UCLA Policy 740 (Purchasing Good and Services) states that department administrators are responsible for assuring that appropriate funds are available before submitting a requisition. According to Campus Purchasing, departments are also responsible for monitoring their blanket agreement funding levels and, when necessary, submit a purchase order change request to ensure replenishment in a timely manner.

UCLA Policy 741 (Low-Value Purchases) states that the LVO authorization is a limited purchasing authority delegated to operating units for the purchases of supplies or services that are not available from established agreements. Additionally, the agreed-upon terms and conditions associated with an established blanket agreement provide protection and best overall purchase value to the University. These protections are not available if LVOs are used to facilitate payment instead of Order Class A purchase orders, which are releases against the blanket agreement.

Recommendation: Management should utilize established vendor agreements instead of LVOs, when applicable, to ensure that purchases of goods and services by the University are at the best overall value, and that there is adequate protection of the University's interests by applying appropriate terms and conditions. Management should also continue to monitor the funding level of the blanket agreement and promptly submit a purchase order change request to Campus Purchasing in order to replenish the funding in blanket agreements, when needed.

Response: Agreed. Dining Services has blanket agreements for a majority of the vendors it is in constant business with. A QDB file is in place to monitor and manage fund levels and expiration dates in blanket agreements to make the proper POCR’s when the blanket is nearing expiration or is in need of additional funds. Management has agreed to give Dining Services Central Office (DSCO) a minimum of a two weeks’ notice should a new vendor be on boarded to give administration and Purchasing enough time to process the VCK set up along with establishing a Blanket Agreement.

Accounts Payable

Discussions were held with Dining Services management to obtain an overview of the purchasing workflow processes.

On a daily basis, chefs at each dining location will use the weekly FoodPro Purchase Requirements Order Guides (“Order Guides”) to place orders with vendors. At the time of delivery, receiving personnel will use the accompanying vendor invoice to count and verify the accuracy of items received; they are not aware of the quantities ordered. Any discrepancies in quantity or issues with quality are immediately noted on the invoice and communicated to the vendor so that the issues may be addressed and credits can be issued; damaged items are sent back. To ensure the appropriateness of items purchased, invoices are reviewed and signed by the dining location chef and general manager, who will also electronically document all invoices received on an invoice log.

Additionally, on a daily basis, DSCO student employees pick up the original invoices from each dining location; the invoice log is sent to DSCO Accounts Payable. Invoices are reviewed to ensure that only items received are paid for based on the receiving personnel’s review, management at each dining location have reviewed and signed invoices, and that the proper price is paid for each line item. DSCO receives weekly price update listings from vendors that show the price fluctuations for food items; these listings are uploaded into FoodPro. DSCO will under-pay the invoices if prices in FoodPro from the weekly price lists are lower than those stated on the invoice.

Invoices for all dining locations are input twice, once in the FoodPro system for internal tracking purposes and again in BruinBuy, the campus purchasing and accounts payable system, for payment processing. The invoice logs are used by DSCO Accounts Payable staff to track the invoices entered into FoodPro, ensure that the log is complete, and all invoices listed have been received and processed.

Post-Authorization Notification reviewers check purchasing transactions to ensure that all invoices have been properly approved and are charged to the correct funds and accounts.

Management has not established written procedures for ordering, receiving, and invoice processing. UCLA Policy 360 (Internal Control Guidelines for Campus Departments) requires that department administrators periodically review department operating procedures to ensure internal controls are being followed and improving on those controls when weaknesses are detected. Control activities, including operating procedures, should be identified and captured to enable management and staff to carry out their responsibilities efficiently and effectively. Without established written procedures for key operational processes, the efficiency and effectiveness of the Dining Services’ operations could be impacted.

Recommendation: Management should develop written procedures for ordering, receiving, and invoice processing workflows, which should then be disseminated to the Dining Services staff. Each employee’s role within the workflow should be clearly defined. In addition to strengthening the current control environment, written procedures would serve as a useful resource for staff development and training, and help to ensure that procedures are consistently implemented across all 10 dining facilities.

Response: Agreed. Dining Services Management will address with the management team the importance of following current business practices related to ordering and receiving. Written procedures will be developed and disseminated to ensure all 10 dining facilities are constantly following protocol by November 11, 2019. Training will then be provided for the applicable team members.

1. Purchasing

A judgmental sample of 21 food inventory transactions (type entry code 41 - Accounts Payable – Invoice Accrual) from all 10 dining facilities was selected for audit testing from the fiscal year 2017-18 campus General Ledger. The sample transactions were reviewed to verify that the purchases are appropriate expenditures, properly supported, accurately recorded, and approved by designated personnel.

Corresponding supporting documentation was reviewed for accuracy and completeness, including evidence of receipt, payment for items ordered and received proper management review, and accurate posting to the appropriate Full Accounting Unit (FAU). Documents reviewed included the Order Guides, invoices, invoice logs, FoodPro Purchase Recap Invoice Report, BruinBuy documentation, General Ledgers, PANs, and other supporting documentation.

A review of the sample of purchasing transactions disclosed that they were appropriate University expenditures, accurately recorded in both FoodPro and BruinBuy, posted to the appropriate FAU, and reviewed and approved by mandatory reviewers in a timely manner. However, the following issues were also noted:

* For one transaction, the invoice amount and invoice log entry did not match because Dining Services staff did not record all invoice items on the invoice log; DSCO staff entered the correct invoice amount in BruinBuy and FoodPro.
* For one transaction, the corresponding invoice log could not be located by Dining Services staff.
* For 16 of the 21 transactions (76%), A&AS was unable to verify that all items listed on the invoice were received because the receipt of items was not clearly indicated. In addition, although there were multiple signatures on the invoice, it was unclear which signature belonged to the individual verifying the receipt of items against the vendor-provided invoice.
* For all 21 transactions, A&AS was unable to verify that invoices were properly reviewed by dining location management. The multiple signatures included on the invoices could not be matched with the dining location chef or general manager to document their reviews.

Recommendation: Management should ensure that all dining locations input all invoices received on the invoice log into the FoodPro and BruinBuy systems. Invoices should clearly indicate that the receiving personnel compared every line item to the quantity received. Invoices should also show evidence of review by the chef and general manager against the Order Guide. The signatures of the receiving personnel, chefs, and general manager performing the review should be clearly identified by name and job title.

Response: Agreed for invoices received at dining locations. However, vendors will sometimes send invoices directly to Dining Services Central Office (DSCO), and these would not be included in the invoice log. When these invoices are processed, DSCO A/P staff enters into Food Pro and Bruin Buy and then they are forwarded to the unit for review and signatures. The approval signatures on these invoices are the mitigating control for invoices that were not sent directly to the dining location. Signatures on the invoices signify that quantities received were reviewed and approved by the Executive Chefs.

Dining Services will create signature logs no later than the week of October 20, 2019 for each dining unit to clearly identify who is authorized to sign invoices, including their job title. The dining units will update the signature logs when there are staffing changes.

Additionally, for 19 of the 21 transactions (90%), A&AS was unable to verify that items purchased and reflected on the invoice agree to the items ordered per the Order Guide because the Order Guides had not been retained. Dining Services has no internal policy currently in place across all dining locations regarding the retention and maintenance of supporting documentation for purchasing transactions. The UC Records Retention Schedule, Records Code 0005A3, requires that documents related to financial and procurement activities, regardless of their medium, are to be retained for four years after the end of the fiscal year in which all activity has been completed.

Recommendation: To enhance management oversight and ensure uniform compliance with University policy, supporting documentation for purchases should be maintained and readily available in accordance with University policy, RMP-1, “University Records Management Program,” Records Code 005A3.

Response: Agreed. At the moment, Dining does not have the physical space necessary to maintain four years of purchasing data. Dining will explore the utilization of electronic document storage to comply with Records Code 005A3.

1. Bakery and Commissary

Meetings with Dining Services management were conducted to obtain an overview of how the cost of items transferred from the bakery and commissary to other dining locations are determined and monitored.

The bakery and commissary serve as support service locations where mass preparation and production of baked goods and soup, sauces, salads, vinaigrettes, and other such items are centralized. All eight dining locations use FoodPro to order food items from both the bakery and commissary on a recharge basis. Recipes drive the content of the orders placed; the FoodPro Service Needs Report is generated by the bakery and commissary several days in advance so that orders placed can be fulfilled in a timely manner.

Using the monthly FoodPro Inventory Transfer Detail Report, an adjusting journal entry is posted at the end of the month with the total monthly cost transfers from one dining unit to another. Items from the bakery and commissary are purchased either ready-made or prepared in-house. The cost of items made in-house is comprised of all the ingredients needed to make the item, as noted in the recipe; the cost of labor is kept separate. Because FoodPro retains the cost of items from the most recent invoice input by DSCO staff, the total cost of items made in-house will fluctuate.

A judgmental sample of five transfers from the bakery and commissary to one dining location were selected to verify that the purchases are appropriate expenditures, supporting documentation is adequate and proper, and the cost transferred to the dining location is reasonable.

Audit review of the sample of purchasing transactions disclosed the following:

* For three selections, the FoodPro Service Needs Report and invoices were not available. Management indicated that the FoodPro Service Needs Reports are not retained for dates prior to the current operating week.
* For one selection, the transfer cost differed from the invoice cost. Management indicated that the transfer cost is for when the item is prepared in-house, while the invoice cost is for when the item is purchased ready-made. In this instance, the item was purchased at a cost of $30.76, but no supporting documentation could be provided to support why a ready-made item was being transferred at the in-house preparation cost of $15.38.

Management does not retain supporting documentation, such as the invoice and FoodPro Service Needs Report, to ensure that expenditures are appropriate and costs are being transferred properly. Without adequate supporting documentation, the accuracy of costs transferred cannot be easily substantiated and financial reporting may also be affected.

Recommendation: To ensure the accuracy of costs transferred from one dining location to another, and to strengthen the integrity of financial reporting, management should retain all pertinent documentation that supports transferred costs.

Response: Agreed. However, based on the figures provided in the finding, we believe this was simply a transfer of part (50%) of the supply purchased by Bakery, and not a transfer with inaccurate costs. Attempts were made to obtain further details regarding the transaction in question with no results yet. In support of the overall recommendation, Dining Services agrees to complete a quarterly random spot audit of check transfers for cost accuracy. FoodPro retains a rolling 36-month period of these records.

Inventory Management

To obtain an understanding of current processes and controls over inventory storage areas, A&AS performed walkthroughs for two residential dining locations (Bruin Plate, De Neve), two quick-service locations (Café 1919, Bruin Café), and the bakery.

Food inventory items are stored at each location. Non-perishable inventory items (such as canned goods, baking soda, and syrups) are maintained in storerooms. Perishable inventory items (such as meats, seafood, dairy, and produce) are maintained in commercial freezers and coolers located throughout the various service areas. Electronic monitoring devices and paper logs are used to ensure that food items are being stored at appropriate temperatures in the coolers and freezers. Food items are stored in an organized manner on shelves, platforms, and carts; doorways and aisles are kept clear and unobstructed.

Access to food inventory storage areas is restricted to the appropriate staff. During normal business hours, the inventory storage areas remain unlocked for ease of access to all employees working in the particular dining location. At the end of the day, inventory storage areas are locked.

Security cameras are located throughout the storage, preparation, dining, delivery, and entrance/exit areas; H&HS Access Controls maintains footage on a server within H&HS.

1. Inventory Counts

Discussions were held with Dining Services management to discuss inventory count procedures for locations using manual count sheets and for those using scanner devices.

Physical inventory counts of food inventory are performed by at least two individuals at all 10 dining locations on a monthly basis. Locations will use either scanner devices or manual count sheets to record the count. Once the inventory count is complete, scanner device data is uploaded into FoodPro and count sheets are submitted to DSCO for entry into FoodPro. Dining location management will review the FoodPro Inventory Analysis Report to ensure that count results are accurately reflected; any discrepancies will be noted and resolved during this review process.

The October 2018 monthly food inventory count documentation (manual count sheets for applicable locations and the Inventory Analysis Report for all locations) was judgmentally selected and reviewed to verify the following attributes:

* Inventory counts are performed on a monthly basis by at least two individuals.
* Any significant variances are documented and explained.

For the locations using manual count sheets, all items from the manual count sheets were traced to the Inventory Analysis Report to verify that monthly inventories are properly performed and recorded.

Based on the test work performed, the October 2018 manual count sheets and Inventory Analysis Reports include adequate descriptions of the dining location, storage area name and number, inventory count date, item name and number, unit of measurement, and quantity counted. However, the following issues were also noted:

1. Manual Count Sheets

* The manual counts sheets for one location could not be located after DSCO entered the count information into FoodPro. Audit review of the count sheets could not be performed for this location.
* The manual count sheets for another location were not signed by either of the two individuals who likely performed the count.

By not consistently maintaining the manual count sheets for all locations, including evidence of the specific individuals performing the inventory counts, the risk of misappropriation of assets is increased, the opportunity for detecting errors is decreased, and financial reporting may be less reliable.

Recommendation: Upon completion of each monthly inventory count, the assigned staff should legibly sign and date the inventory count sheets prior to submitting them for processing. In addition, inventory count documentation should be maintained for reference, variance identification, and resolution.

Response: Agreed. Inventory Count Sheets will be signed prior to submitting for processing, and maintained for reference, variance identification, and resolution.

1. Scanner Devices

* For the locations where scanner devices were used to record the October 2018 monthly counts performed, A&AS could not verify that two individuals performed the count because the count information was not retained or documented. Count sheets are supposed to be completed for items that cannot be scanned. However, because there was no documentation of the inventory counts where scanner devices were used, it could not be determined whether there were any items that could not be scanned or whether count sheets were prepared for those items. Consequently, the results of the inventory counts where scanner devices were used could be subject to undetected errors.
* During audit fieldwork discussions with management, it was noted that beginning with the March 2019 month-end counts, the original raw data from the scanner devices is now being retained as part of the inventory count documentation. By retaining the scanner count data, management will be better able to determine whether any changes were made by the dining locations during the review process. The raw scanner data also documents that two individuals participated in the inventory count.

Recommendation: Management should continue its new practice of retaining the raw scanner data. Additionally, if there are items that cannot be scanned, manual count sheets should consistently be used and retained by relevant personnel. If all items counted during the inventory were scanned, it should be clearly noted as such.

Response: Agreed. We will continue to use manual count sheets for those items that cannot be scanned and the records will be retained by the dining units, and notated as directed.

A&AS noted that the inventory count procedures for locations using manual count sheets and for locations using scanner devices are not current and do not reflect existing practices. UCLA Policy 360 (Internal Control Guidelines for Campus Departments) requires that department administrators periodically review department operating procedures to ensure internal controls are being followed and improving on those controls when weaknesses are detected. Control activities, including operating procedures, should be identified and captured to enable management and staff to carry out their responsibilities efficiently and effectively.

Recommendation: Management should update the existing inventory count procedures to reflect current practices and to improve accountability of staff. The updated procedures should include information about accountability of count sheets, raw scanner data retention, documentation of two individuals participating in the count, documentation of detected variances and adjustments made, and any other additional information management deems beneficial to enhance controls.

Response: Agreed. Management will update procedures to reflect current practices by the end of November 2019.

1. Inventory Reports

A&AS met with Dining Services management to determine the kinds of reports used to help with monitoring monthly inventory and purchasing activity, detecting waste and shrinkage, and ensuring security over inventories. Several types of reports were obtained and reviewed.

Purchases from vendors, and transfer costs from one dining location to another, are detailed in the FoodPro Purchase Recap Invoice Report and FoodPro Inventory Transfer Detail Analysis Report. The Purchase Recap Invoice Report for a location includes all invoices entered into FoodPro by DSCO staff and summarizes all purchases (both food and non-food) by invoice date, vendor, purchase order number, invoice number, and amount for the month. The Inventory Transfer Detail Analysis Report summarizes all transfers of inventory items amongst the dining locations and their associated unit and extended costs.

Dining Services management also uses other reports to monitor purchases and cost fluctuations. Using information from budgeted costs, FoodPro, and BruinCard swipes (each swipe is counted as a patron), the Weekly Purchase Analysis Report allows management to monitor the appropriateness of purchases (overall and per patron) and cost fluctuations on a weekly basis. For each dining location and major food category, total spending and per patron spending data are detailed for the current week, the current month to date, and the same month in the prior year. Avendra provides management weekly commodity reports that detail cost trends for major food categories. Because management is inclined to purchase items that have had a drop in prices, menus could potentially be modified.

Usage and waste figures are tracked by the Food Service Report and FoodPro Recipe/Items Waste Report. The FoodPro Service Report is prepared for every service station within each dining location after every meal period. The report details the meal period and date, patron forecast, menu number, item number and name, portion size, number of forecasted portions, and prepared portions that were either served or left out. The Recipe/Items Waste Report details the costs associated with items that are wasted, donated, contaminated, spilled/dropped, and prepared but not consumed. Information from both reports are used for future forecasting to help reduce the unconsumed prepared portions and ultimately wasted food.

Inventory activity is monitored by two reports, the FoodPro Location Cost Summary Report and FoodPro Inventory Analysis Report. The Location Cost Summary Report tracks the purchases, transfers, ending inventory value, and “period actual costs” for each food category for a specified dining location. The period actual cost is the ending inventory value subtracted from the sum of beginning inventory, purchases, and transfers. The FoodPro Inventory Analysis Report is used to analyze the reasonableness of usage levels and ending inventory counts. The report also identifies deviations between actual and planned usage that may be caused due to under/over forecasting, not following recipes, lack of proper portion control, possible product shrinkage, and other causes. The Inventory Analysis Reports for all locations were reviewed as part of audit testing for the inventory counts.

Based on our review of the October 2018 Inventory Analysis Reports (initial and final) for The Study at Hedrick dining location, it was noted that the ending inventory figure in the initial Inventory Analysis Report did not agree with the ending inventory figure in the final version of the report. Management stated that prior to finalizing the October 2018 inventory count, the dining location managers needed to make an adjustment. Documentation is not maintained to substantiate the variances detected during monthly inventory counts, the reasons for the variances, and the resulting adjustments made to the ending inventory count during the dining location manager’s review.

Additionally, for locations that use scanner devices to perform monthly counts, A&AS could not verify whether there were any identified variances and, if so, that an adjustment was made in FoodPro as a result of management review. For locations that use manual count sheets to perform monthly counts, there were variances in the ending inventory quantities between what was recorded on the count sheets when compared with the Inventory Analysis Reports. Management could not determine whether the variances were a result of data entry errors made when DSCO entered the manual count sheet quantities into FoodPro or whether an adjustment was made in FoodPro as a result of count errors identified during the review of the Inventory Analysis Report.

Recommendation: Per UCLA Policy 360 *Internal Control Guidelines for Campus Departments*, Attachment A *Guidelines for Application of Internal Control Principles*, Inventories (Equipment and Supplies), Section 2b, *Authorization and Approval*, state “Any adjustment to inventory records (for returned, missing, damaged, obsolete, or stolen items) must be approved by departmental management. Large adjustments should be supported by written explanations. Management should document variances detected as well as the reasons behind the adjustments made to the ending inventory count.”

Response: Agreed. Adjustments to the ending inventory counts are typically done as the product is received (for returned, missing or damaged product), so there should not be any large adjustments made to inventory after the fact.

1. Inventory Levels

Discussions were conducted with Dining Services management to determine whether adequate procedures have been established to ensure that optimal inventory levels are maintained and re-order points are clearly noted.

Because of a lack of uniform procedures across all dining locations, only one of the 10 dining locations has documented optimal inventory levels and re-order points established. Instead, due to the perishable nature of most food items ordered, a weekly FoodPro Purchase Requirements Order Guide (“Order Guide”) is used to help determine the quantity of items to be purchased, which in turn is affected by the quantity of items on hand. The Order Guide is generated using predetermined menus and recipes in FoodPro. For a dining location, the Order Guide details the weekly ordering and delivery schedule as well as the quantity of items that should be ordered from vendors. In order to minimize waste and potential shrinkage, the chef will informally check existing inventory levels prior to ordering.

Recommendation: As a best business practice to help minimize waste and potential shrinkage, management should consider documenting the optimal inventory levels and re-order points for staple items with a longer shelf life for all dining locations.

Response: Dining is focused on dynamic menus with changing requirements to deliver higher quality customer service to our residents and guests. Due to the concept of dynamic menus, having optimal inventory levels does not function properly in our environment.

Accountability Structure

The OCH Dining Services’ accountability structure in DACSS in effect for January 2019, was evaluated for effective delegation of authority in initiating, processing, and reviewing food inventory purchasing transactions, and for adherence to the UCLA Financial Policy on “Principles of Financial Accountability.” According to the policy, maintaining and securing an effective accountability structure should provide for the routine update of DACSS to ensure that proper access is granted to inquire, prepare, and/or review transactions.

The DACSS system is UCLA’s enterprise application access management system that allows campus departments to manage access to the resources and functions of all major university transaction systems such as Purchasing, Accounts Payable, and Payroll. A user’s ability to perform a transaction can be restricted based on organizational hierarchy and/or FAU. Additionally, dollar limits can be placed on financial transactions. The CAO of a unit is responsible for identifying the individuals that will have access to the applications systems, and those responsible for reviewing transactions for each specific application. TheCAO is also responsible for selecting a primary and backup DSA. The DSA is responsible for the input (into the DACSS system) of specific access privileges as determined by the CAO.

Controls surrounding the OCH Dining Services’ accountability structure and Post-Authorization Notifications were reviewed to evaluate their effectiveness and reasonableness.

1. Accountability Structure

The DACSS structure for the delegation of initiating, processing, and reviewing food inventory purchasing transactions, could be improved. Specifically, A&AS’ review disclosed the following concerns:

* Reviewer access for purchasing transactions was redundant for one reviewer. Privileges were set up with access to all fund numbers for two accounts as well as with restricted access to the same two accounts.
* One user’s purchasing access was not removed upon their retirement. Discussions with management indicated that access was appropriate during the user’s active payroll status, but indicated that access should have been removed upon the employee’s separation from the University. Access was subsequently removed by the DSA.

Recommendation: The CAO and DSAs should closely monitor accountability delegations by reviewing quarterly DACSS reports to ensure that the current structure reflects access that is appropriate and consistent with the department’s organizational structure and job responsibilities.

Response: Agreed. Dining Services Management will review the DACSS reports quarterly to address any changes in organizational structure, and the DSA will be alerted to changes in employee status.

1. Post-Authorization Notification (PAN) Review

Financial transactions must have at least one mandatory reviewer in order to be processed. Once the transaction is processed, a PAN is generated. PANs are automatically generated and sent to mandatory and non-mandatory reviewers based on the reviewer set up in DACSS. Mandatory reviewers are required to log onto the PAN system and review their notifications. The PAN system provides an “inbox” for each reviewer and records a date/time stamp when the record is created and then opened for review. Non-mandatory reviewers receive an email generated at the time of the transaction.

The UCLA Financial Policy states that mandatory reviewers must read their PANs “within two business days of receipt,” all reviewers are to: “inspect each transaction to ensure the Preparer properly fulfilled their responsibilities;” “ensure that each transaction complies with policy, regulatory, and other requirements;” and “resolve all questions that arise with a transaction, or ensure the transaction is reversed until the questions are resolved.”

A&AS queried the CDW DACSS to generate a report to identify mandatory reviewers that are set up to review purchasing PANs for Dining Services’ food inventory purchasing accounts.

For the 14 mandatory reviewers, A&AS examined the PAN Mandatory Reviewer Audit Log for the six-month period of July 15, 2018 to December 15, 2018, to verify that PANs were reviewed in a timely manner in accordance with the UCLA Financial Policy. Although the UCLA Financial Policy states that transactions must be reviewed within two working days of receipt, A&AS used a five-day criterion for compliance testing to allow for weekends, holidays, alternative work schedules, and short absences.

Audit testing disclosed that all 14 of the mandatory reviewers had unread PANs that exceeded the five-day threshold used for audit review. Table 1 shows the number of unread PANs exceeding five days for each reviewer and the range of days that the PANs remained unread.

Table 1

Unread PANs for Mandatory Reviewers

July 15, 2018 to December 15, 2018

|  |  |  |
| --- | --- | --- |
| **Mandatory Reviewer** | **# of Unread PANs that remained in the queue > 5 Days** | **Range of Days Unread** |
| Reviewer 1 | 47 | 5 to 12 |
| Reviewer 2 | 50 | 5 to 9 |
| Reviewer 3 | 20 | 5 to 19 |
| Reviewer 4 | 31 | 5 to 15 |
| Reviewer 5 | 31 | 5 to 16 |
| Reviewer 6 | 13 | 5 to 20 |
| Reviewer 7 | 146 | 5 to 18 |
| Reviewer 8 | 52 | 5 to 10 |
| Reviewer 9 | Over 200 | 5 to 7 |
| Reviewer 10 | Over 200 | 5 to 16 |
| Reviewer 11 | Over 200 | 5 to 20 |
| Reviewer 12 | 182 | 5 to 15 |
| Reviewer 13 | 68 | 5 to 13 |
| Reviewer 14 | 31 | 5 to 8 |

Recommendation: Management should ensure that all mandatory reviewers read their PANs timely in accordance with the UCLA Financial Policy.

Response: Agreed. Dining Services Management will address with the management team the importance of all mandatory reviewers reading their PANs timely in accordance with policy. Dining Services Management will create a Standard Operating Procedure (SOP) for reviewers to reference should they go on an extended leave or vacation and identify a backup reviewer should they be out for an extended amount of time.

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