

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis Health
Food and Nutrition Services
Audit & Management Advisory Services Project #18-20**

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**Food and Nutrition Services
AMAS Project #18-20**

MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2018 audit plan, Audit and Management Advisory Services (AMAS) performed a review of UC Davis Health (UCDH) Department of Food and Nutrition Services (FNS). FNS has five separate units:

- Cafeteria Services, which operates cafeterias in the Medical Center, Ambulatory Care Center, and the Medical Education Building.
- Food & Nutrition Services, which is responsible for the preparation and delivery of meals to UC Davis Medical Center (UCDMC) inpatients.
- Catering Services, which caters events throughout UCDH upon request;
- Clinical Nutrition, a program for registered dietitians who work as part of the medical team treating UCDH patients. This unit offers a fifty week dietetic internship program.
- Kitchen Production, the unit which purchases and prepares food, supporting all the other units.

FNS ended FY 2017 with approximately \$7.9 million in gross revenue from the three cafeterias and catering operations.¹ FY 2017 expenses totaled \$24.6 million, of which \$16.8 million (68%) was spent for salary and benefits and \$5.3 million (22%) was spent for food. Through March of FY 2018, FNS totaled approximately \$6.3 million in gross revenue and \$19.4 million in expenses, of which \$13.2 million (68%) was spent for salary and benefits and \$4.5 million (23%) was spent for food.

In March 2018, FNS had a total of 195 FTE and was recruiting for 17 positions, including 6 new barista positions. The department served 560,926 inpatient meals in FY 2017.

Finally, FNS has been working to comply with the University of California Office of the President (UCOP) policy on increasing purchases of locally sourced and other sustainable food products. The policy instructs that by 2020, 20% of the food purchases by each foodservice unit should be sustainable products. Sustainable products made up 16% of FNS' FY 2017 purchases and FNS believes they will achieve the 20% goal by the end of FY 2018.

Purpose and Scope

The purpose of this audit was to assess internal controls over financial, administrative, and operational processes within FNS, with specific areas of emphasis on controls around the purchasing of food, waste tracking, cash management controls and reconciliation to the general ledger for cafeteria revenue, and financial monitoring.

In order to accomplish these objectives we analyzed data on FNS's budget, finances, and purchasing. We observed the daily operations of the cafeteria cash management office, interviewed FNS staff and management, and assessed controls over food inventory, cash, debit and credit cards, and vouchers, including physical security. We also reviewed FNS procedures and business practices for compliance with University and UCDH policies.

¹ Inpatient meals are bundled with the cost of a hospital stay. FNS does not receive any revenue for these meals.

The timeframe under review was July of FY 2015 to March of FY 2018.

Conclusion

We conclude that Food and Nutrition Services does review their finances monthly and regularly monitors the metrics for their performance. They have appropriate separation of duties in their purchasing procedures and periodically examine the services and products provided in the cafeterias. FNS is undertaking several improvement initiatives, including investigating meal choices for inpatients and expanding and updating the cafeteria menus. They have made it a priority to increase their use of sustainably-produced products and reduce waste.

We did find that there are opportunities to improve:

- Reconciliation of cafeteria revenue;
- Verification of sales tax liabilities;
- Documentation of cash management procedures;
- Allocation of food costs;
- Scheduling of Per Diem employees;
- Security over the Food Stores area; and
- Tracking of food waste.

Additional information is contained in the body of this report.

Observations, Recommendations, and Management Corrective Actions**Business Operations****A. Cafeteria Revenue Reconciliation Process**

No overall reconciliation is performed between the total cafeteria revenue and the entries in the general ledger.

The cafeteria allows people to pay using cash, credit/debit cards or vouchers. Each payment type is processed and recorded in Kuali by different methods and by different staff:

- Cash deposits are prepared and entered into Kuali by FNS staff daily. Campus General Accounting checks that the amount in Kuali matches the bank's records, but does not compare it to the reports generated from the FNS Point of Sale system (Agilysys).
- Credit/Debit card payments are sent from the credit card processor, Freedom Pay, directly to the bank in daily batches. The bank then sends a feed which is recorded into Kuali with no further approval.
- Vouchers are recharged to the issuing departments monthly by FNS staff. The entries are approved by UCDH Accounting.

Due to this fragmented process, no one unit has responsibility to ensure that the general ledger reflects the total daily revenue from cafeteria operations. Further, the monthly schedule for recharging vouchers and the timing of the daily feed of credit/debit card revenue prevents easy reconciliation of the daily cafeteria revenue reported by Agilysys to that recorded in the general ledger. Agilysys can produce reports which would help overcome these problems, but they are not currently being used since FNS does not reconcile voucher and credit/debit card sales to the Kuali.

Reconciliation of all revenue received to the amounts in the general ledger is a basic internal control to ensure all receipts are accounted for. The lack of a periodic reconciliation for FNS revenue increases the risk of not detecting errors or fraud.

Recommendations

1. We recommend FNS assign a staff member the responsibility of regularly reconciling the daily revenue reported by Agilysys to that recorded in the general ledger.
2. We further recommend FNS work with Agilysys to determine the reports which provide the information needed for the reconciliation.

Management Corrective Actions

- a. By 9/15/2018, FNS will assign overall reconciliation responsibility to the FNS Financial Supervisor and will ensure this is reflected in the job description.
- b. By 9/15/2018, FNS will identify Agilysys reports to utilize for the reconciliation.
- c. By 1/15/2019, FNS will perform the first reconciliation between daily sales revenue reported by Agilysys and the amount recorded in Kuali.

B. Sales Tax

The calculation and recording of sales tax is not transparent and may not be correct.

Sales tax liabilities are entered into Kualu based on the Agilysys system's calculation of what is owed. The current Agilysys reports do not contain the information necessary to verify the accuracy of the sales tax calculation.

Agilysys calculates the sales tax based on payment type. It is unclear if all types are correctly set up, especially each voucher type. Some voucher purchases are set as taxable and others are not. The processing schedule for vouchers and credit/debit card payments makes it difficult to verify the daily sales tax calculations. AMAS could not verify the accuracy of the sales tax calculated and recorded for the day tested.

Inaccurate sales tax reporting and remittance can put the unit at risk of a sales tax audit and result in assessments from the State Board of Equalization that include back taxes, interest and a 10% penalty.

Recommendations

1. We recommend FNS ensure that sales tax on retail sales is correctly calculated and entered into Kualu.

Management Corrective Actions

- a. By 10/15/2018, FNS will develop a reference tool that defines the types of transactions that are taxable.
- b. By 10/15/2018, FNS will confirm Agilysys is correctly configured for taxable transactions.

C. Written Procedures

Cash collection and processing procedures are not documented.

The cash collection process incorporates numerous checks and balances and has many separate parts. Due to its complexity, and the need to limit access to cash, only two FNS cash office employees are knowledgeable on all of the necessary steps. Other staff can drop cash into the safe when the cash office employees are not there, but the rest of the processing is left for their return.

Additionally, the demands of their daily tasks have prevented the cash office staff members from documenting their procedures. However, the lack of written procedures can result in a breakdown in FNS' ability to correctly manage its cash collection when employees leave.

The development of written departmental policies and procedures for cash collection would improve internal controls, aid in the orientation of new employees, and help ensure business continuity in the event of turnover.

Recommendation

1. We recommend FNS develop written departmental policies and procedures for cash collection and processing.

Management Corrective Action

- a. By 01/15/2019, FNS will develop written resource materials that describe the cash management processes and responsibilities (job outlines, checklists, etc.)

Financial Monitoring**D. Allocation of Food Costs**

FNS monitors overall department performance, but does not match the revenues and expenses in cost centers, preventing a clear determination of how individual units are performing.

FNS management monitors the department's performance using metrics on overtime, meal costs and productivity in addition to variance from budget. Current practices, however, do not support the evaluation of their individual lines of business.

FNS operates a centralized food purchasing and storage program, which supplies food for the inpatient meal production unit, the three cafeterias and the catering unit. FNS does not track what food is used by each unit. Therefore, FNS decided it was more practical to treat food costs as a central expense. All revenue produced is reported under the unit where it is generated.

As a result, reports on both the cafeteria and catering units are misleading, since they include the revenue from food sales but do not include food costs. FNS does not receive revenue for inpatient meals.

FNS's current practice prevents accurate financial reporting and therefore monitoring of the individual business lines within FNS. Clear and accurate financial reporting is an essential business practice and is required by UC Davis policy.

Recommendation

1. We recommend FNS develop a strategy to allocate an appropriate portion of monthly food costs to the cost centers using the food.

Management Corrective Actions

- a. FNS will conduct an analysis to determine the best method to allocate food costs to retail and catering cost centers by 01/15/2019.
- b. By 3/15/2019, FNS will build the identified method for allocating food costs of retail and catering into the draft FY2020 budget.

E. Per Diem Employees

FNS does not limit the hours worked by per diem employees, which could result in a considerable increase in employee benefits expense.

FNS uses per diem employees to fill in for staff members who are on leave and to reduce overtime costs. Under the terms of the union contracts, per diem employees who work more than 1,000 hours in a 12 month period have an annual opportunity to request conversion to career status. If the employee has satisfactory performance, UCDH is obligated to offer a career position at a minimum of 50% time. Career employees receive benefits, which per diem employees do not. The added benefit cost can be significant; the benefit rate for these job titles is 60.7%.

As of May 2018, 12 FNS per diem employees were eligible for conversion to career status. If all the eligible employees were half-time career employees and per diem employees filled the remaining hours, May payroll expense would have increased by \$13,300.

FNS does track the hours worked by per diem employees, and considers the potential for increased benefit expense when preparing its budgets. However, the extra expense could be avoided by a more judicious use of per diem employees.

Recommendation

1. We recommend FNS develop a strategy to manage per diem employees' hours and reduce the risk of unplanned conversion to permanent employment status.

Management Corrective Action

- a. By 3/15/2019, FNS will establish a larger per diem pool to reduce the risk of conversion eligibility and budget impacts.

Food Purchasing Management

As part of our review, we visited FNS and observed the processes FNS uses to order, receive, and approve the purchasing of food. During the observation, we noted the following issues. We did not perform any further work in the management of food inventory, and so this cannot be considered a complete review of food purchasing practices.

F. Food Storeroom

Access to the Food Storeroom Area is not well controlled.

The food storeroom area is behind a locked door. However, on the day of our visit, the door was propped open. In addition, 36% of FNS employees have badge access to the food stores area.

Until recently, it was the practice at FNS to configure new employee badges to mirror access of an existing employee. Many employees were given unnecessary access to the food storage area. Further, the current list of employees with access includes a former employee who has separated from FNS.

To effectively manage the food inventory and comply with policy, FNS must establish safeguards that adequately protect the food inventory from theft or loss.

Preventing non-essential personnel from entering the food storeroom area decreases the opportunity for misplacement or theft.

Recommendations

1. We recommend FNS ensure the door to the storeroom is kept closed. Select FNS staff members should be responsible for admitting deliveries, couriers and others who need to access the food stores.
2. We further recommend FNS restrict access to the food stores to only those employees whose duties require it.

Management Corrective Actions

- a. By 10/15/2018, FNS will implement a process for supervisor/manager monitoring to ensure the door is not propped open.
- b. By 10/15/2018, FNS will review the storeroom access report, confirm the staff that require access and remove access as appropriate.

G. Food Waste Tracking

FNS efforts to track food waste are incomplete.

FNS recently instituted a system to track the cost of wasted food as part of a plan to quantify foods that consistently generate the most waste and adjust recipes and total production accordingly. The current tracking logs are limited to the inpatient tray line and pantry production; they do not include waste from cafeteria operations or food that expires before it can be used.

The original intent was to implement the waste logs in stages to track waste for all FNS lines of business. However, the effort to successfully track inpatient meals has delayed work on logs for the other areas.

To generate the most useful information, the waste tracking efforts must include all FNS operations. This will give FNS the best opportunity to not only cut costs but also increase adherence to UCOP's policy on Sustainable Practices.

Recommendations

1. We recommend FNS develop and implement waste logs that will track the cost of wasted and expired foods in all their lines of business.

Management Corrective Actions

- a. By 10/15/2018, FNS will implement the tracking of waste due to expired products.
- b. By 11/15/2018, FNS will expand the waste tracking to include waste in retail sales.
