

UCLA AUDIT & ADVISORY SERVICES



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January 14, 2016

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

Re: Housing & Hospitality Services – Vending Services Procurement and Inventory
Audit Report #16-2225

Enclosed is the audit report covering our review of the Housing & Hospitality Services (H&HS) Vending Services procurement and inventory business practices.

The purpose of the review was to ensure that the Vending Services' structure and controls, and the related systems and procedures are conducive to accomplishing its business objectives surrounding procurement and inventory. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following:

- Separation of Duties
- Inventory Management
- Purchasing, Receiving, and Invoice Processing

Based on the results of the work performed within the scope of the audit, Vending Services' overall structure and controls are generally conducive to accomplishing its business objectives related to procurement and inventory activities. However, controls and business practices could be further strengthened by implementing the following:

- Due to Vending Services limited staff, a complete separation of duties with regard to ordering, receiving, physical inventories, and reconciliations is difficult to achieve. Management should designate an independent person from Vending Services to perform a periodic sample review of purchasing and inventory records as a mitigating control.
- The ability to control access over and track keys for the vending machines and trucks should be strengthened. Vending Services management indicated that they are in process of evaluating other key management systems that will offer more security features.
- Management should consider repairing the locks to the warehouse loading docks because they are rusted and broken. Currently, metal chains used to raise and lower the doors are looped around hooks on the inside of the doors to secure the area.

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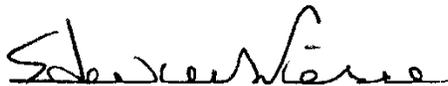
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- Periodic physical inventory counts should be performed jointly by two people, including an independent person, who does not have responsibilities for receiving, maintaining, and issuing inventory. Staff should also be reminded to initial the inventory count sheets.
- Property tags should be properly affixed to all inventorial equipment.
- Management should ensure that all mandatory reviewers are reviewing their Post Authorization Notices (PANs) in a timely manner. Additionally, mandatory reviewers should be removed if they will be absent from work for an extended period of time, and another reviewer should be assigned.
- The receipt of goods should be properly documented to ensure Vending Services only pays for goods that have been properly received.
- Vending Services management should sign vendor invoices to document and evidence their approval.

The corrective actions implemented by management satisfactorily address the audit concerns and recommendations contained in the report. In accordance with our follow-up policy, a review to assess the implementation of our recommendations will be conducted approximately four months from the date of this letter.

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



Edwin D. Pierce, CPA, CFE

Director

Enclosure

cc: S. Olsen

HOUSING & HOSPITALITY SERVICES
VENDING SERVICES PROCUREMENT AND INVENTORY
AUDIT REPORT #16-2225

HOUSING & HOSPITALITY SERVICES
VENDING SERVICES PROCUREMENT AND INVENTORY
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Background

In accordance with the UCLA Administration fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) performed an audit of Vending Services' procurement and inventory business practices.

Established in December 1970, Vending Services is a self-supporting operation that provides the campus community with a variety of food, beverage, and sundry products. Vending Services currently operates approximately 318 machines throughout the campus and is responsible for purchasing, stocking, and maintaining vending machines, selecting items and brands of product, and issuing vending machine refunds. Management utilizes the MEI Easitrax Inventory System (MEI) to support the operation.

Revenue totaled \$2.42 million with expenses of approximately \$2.30 million for fiscal year 2014-15, leaving a net operating revenue of approximately \$120,500. Specific to food and beverage items, the total purchases for fiscal year 2014-15 were approximately \$827,000, and the average monthly warehouse inventory was approximately \$40,000. Vending Services employs 11 full-time employees and three student employees. The Vending Services Manager, who reports to the Assistant Director of Dining, oversees the operation.

Purpose and Scope

The purpose of the review was to ensure that the Vending Services' structure and controls, and the related systems and procedures are conducive to accomplishing its business objectives surrounding procurement and inventory. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following:

- Separation of Duties
- Inventory Management
- Purchasing, Receiving, and Invoice Processing

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, Vending Services' overall structure and controls are generally conducive to accomplishing its business objectives related to procurement and inventory activities. However, controls and business practices could be further strengthened by implementing the following:

Separation of Duties

- Due to Vending Services limited staff, a complete separation of duties with regard to ordering, receiving, physical inventories, and reconciliations is difficult to achieve. Management should designate an independent person from Vending Services to perform a periodic sample review of purchasing and inventory records as a mitigating control.

Inventory Management

- The ability to control access over and track keys for the vending machines and trucks should be strengthened. Vending Services management indicated that they are in process of evaluating other key management systems that will offer more security features.

- Management should consider repairing the locks to the warehouse loading docks because they are rusted and broken. Currently, metal chains used to raise and lower the doors are looped around hooks on the inside of the doors to secure the area.
- Periodic physical inventory counts should be performed jointly by two people, including an independent person, who does not have responsibilities for receiving, maintaining, and issuing inventory. Staff should also be reminded to initial the inventory count sheets.
- Property tags should be properly affixed to all inventorial equipment.

Purchasing, Receiving, and Invoice Processing

- Management should ensure that all mandatory reviewers are reviewing their Post Authorization Notices (PANs) in a timely manner. Additionally, mandatory reviewers should be removed if they will be absent from work for an extended period of time, and another reviewer should be assigned.
- The receipt of goods should be properly documented to ensure Vending Services only pays for goods that have been properly received.
- Vending Services management should sign vendor invoices to document and evidence their approval.

The results of the audit and related recommendations follow.

Audit Results and Recommendations

Separation of Duties

Due to Vending's limited staff, complete separation of duties (with ordering, receiving, physical inventories, and reconciliations) is difficult to achieve. The Vending Services Manager is responsible for (or is the backup) multiple key processing functions such as approving orders, placing orders, receiving items, approving invoices, physical inventory counts, reviewing overs/short reports, and reviewing and approving wasted items. This was a recommendation that was made during our previous audit in 2013, and a mitigating control that was recommended and instituted by management was a quarterly review of purchasing and inventory records by a person independent of Vending Services. The previous Director of Food & Beverage, who has since separated from the University, was performing these independent quarterly reviews. These reviews have not been conducted since February 2015.

Recommendation: To help minimize the risk associated with a lack of separation of duties due to staffing constraints, management should reinstitute the quarterly review of purchasing and inventory records by someone independent from Vending Services. The independent review should include the following:

- Select a sample of purchases from the BruinBuy system and ensure the purchases were an appropriate business expense and were properly approved. Obtain the supporting invoice for each purchase and ensure items agree to the purchase order, were properly approved and received, are recorded appropriately in the MEI system, and agree to the University's general ledger.
- Select a sample of monthly inventories (from the warehouse and truck) and verify that the inventory was performed by two employees, properly documented into MEI, and was appropriately approved. Review inventory overages or shortages to ensure they are within defined thresholds.

- Review food waste to ensure that it's within expected thresholds and wasted items are appropriate and properly authorized.

Response: Effective September 2015, The Assistant Director of Dining Services began recording monthly inventory along with the Senior Storekeeper.

Effective January 2016, the Assistant Director of Dining Services will begin his quarterly review of the invoice file. The Assistant Director of Dining Services will select a sample of invoices to ensure that items were properly approved, recorded appropriately in the MEI system, and accurately reconcile with the university's general ledger.

Effective January 2016, the Assistant Director of Dining Services will begin the quarterly review of verifying sample monthly inventories from warehouse and truck to confirm that the inventory was performed by two employees, properly documented into MEI, and appropriately approved.

The Vending Manager will continue documenting warehouse overages or shortages on a monthly basis.

The Vending Manager will continue reviewing and evaluating food waste thresholds on an ongoing basis.

Inventory Management

Physical Security

Vending inventory items are stored in multiple locations including a warehouse, vending trucks, and vending machines. Physical security over these areas was reviewed, noting that there are two loading dock doors that are only opened when deliveries are being accepted, or when inventory is being issued to vending trucks to refill vending machines. Otherwise, the loading dock doors are kept closed and secured with a chain. The back of the vending trucks where inventory is stored is secured with padlocks. Vending machines are locked and a key is required to open the machines. Vending keys are stored in a key box that is secured with a padlock in the Vending Services office area. Based on audit review, there are some physical security enhancement opportunities, which are noted below.

A. Access and Control Over Vending Keys

Access controls and accountability over Vending Services keys could be enhanced. Keys for the vending machines and vending trucks are stored in a back room in the Vending Services office area, in a wooden key box, which is attached to a wall and locked with a padlock. The Vending Services Manager and three vending staff all have a key to open the key box. When the key box is open in the morning, it is generally left unlocked during the day, and then locked up again at the end of the day. When the key box is opened, access to all the keys inside is available. Under the current setup, since multiple people have access to this box, if a key were to go missing, it would be difficult to hold any one person accountable. Also, the wooden box is not very strong and not securely attached to the wall.

Previously, when keys were checked out from the key box, staff had to record this on a key sign-out log. However, the key log has not been utilized since 2011.

Recommendation: The ability to control access over and track keys for the vending machines and trucks should be strengthened. Vending Services management indicated they are in the process of evaluating other key management systems that will offer more security features.

Response: Management will install a new key cabinet by March 2016. The cabinet will include the following features: key security, issuance and return documentation, and usage authorization.

B. Warehouse Loading Dock Doors

While there are sliding locks on each side of the loading dock doors for the warehouse, the securing mechanism has rusted out and been broken for a long time, and thus not used. The metal chains used to raise and lower the doors are looped around hooks on the inside of the doors to secure the area.

Recommendation: Although the chains appear to secure the loading dock doors to some extent; management should consider repairing the locks.

Response: Management will submit a work order to OCHM for the repair of the sliding locks on each side of the loading dock doors.

Vending Inventory

Physical counts of vending inventory in the warehouse and trucks are performed on a monthly basis. The Senior Storekeeper performs the warehouse inventory and the routemen perform the inventory counts for their own trucks. Inventory overages and shortages reports are generated and reviewed by the Vending Services Manager on a monthly basis. Overages or shortages greater than \$250 or 1.5% of the total average monthly inventory value requires further research and explanation. Cumulative annual average overages and shortages are also compiled and reviewed by the Vending Services Manager.

The physical inventory count sheets for the warehouse and trucks for May through July 2015 were reviewed, noting that the monthly physical inventory counts were performed. Inventory overages and shortages reports for a sample of three months, and also the cumulative average for the entire fiscal year 2014-15, were reviewed. For fiscal year 2014-15, there were no groups of vending items where the cumulative average of overages or shortages exceeded the department's threshold of \$250 or 1.5% of the average monthly total inventory value of \$40,000. In addition, food waste reports are generated and reviewed on a monthly basis by the Vending Services Manager. The following were noted:

A. Physical Inventory Counts

Physical inventory counts are not performed by independent personnel, and are typically performed by one person. The Senior Storekeeper, who receives, maintains, and issues inventory for the warehouse, also performs the monthly physical inventory counts. Physical inventory counts of the items in the trucks are

usually performed by routemen, who are also responsible for maintaining and issuing the inventory from their trucks. In addition, staff who perform the physical inventory counts are not recording their initials on the count sheets.

Recommendation: Periodic physical inventory counts should be performed jointly by two people, including an independent person, who does not have responsibilities for receiving, maintaining, and issuing inventory. Staff should be reminded to initial the inventory count sheets.

Response: Since September 2015, the Assistant Director of Dining Services and the Vending Services Senior Storekeeper have performed monthly physical inventory. Staff have been reminded to initial the inventory count sheets.

B. Equipment Property Tags

Property tags were not affixed to four of the ten inventorial equipment items reviewed. Two of the items were vending machines, and two were vehicles.

Recommendation: Vending Services management should ensure property tags are affixed to all inventorial equipment items. Property tags help with the identification and tracking of equipment as well as identifying equipment as being owned by the University.

Response: The majority of missing tags were associated with equipment that had been fully depreciated and should have been removed from the inventorial equipment list. Nonetheless, in the future, management will ensure that University tags are secured to inventorial equipment and trucks.

Purchasing, Receiving, and Invoice Processing

Vending raw food items purchased during fiscal year 2014-15 were reviewed to verify that they have been competitively bid out (when required), noting that the majority of vending items purchased (approximately 79%) were from three vendors. Two of the

vendors were selected based on a competitive bid process conducted by the H&HS Procurement unit three times a year and includes the following commodities: candy, chips, cookies, gum and mint, sandwiches, juice, and coffee. There is a UCLA campus-wide agreement in place with the third vendor to procure beverages for the vending machines.

Ten purchases from fiscal year 2014-15 were judgmentally sampled and reviewed, noting that the receipt of goods were documented for a majority of the purchases reviewed, prices on the invoices matched the agreed upon bid prices, the invoices were reconciled to the purchase orders and packing slips before authorizing payment, and the data was accurately recorded and reflected in MEI and BruinBuy. Also, the associated PANs were reviewed to determine if they were read in a timely manner. Audit testing indicated the following concerns:

A. Post Authorization Notice (PAN) Reviews

The PANs for four out of ten vending purchases were not reviewed in a timely manner by one of the required mandatory reviewers. According to UCLA's Principles of Financial Accountability, "A reviewer must review a transaction within two working days of receipt." Timely PAN reviews help to ensure that transactions are proper and appropriate. The unread PANs ranged from four to sixteen calendar days. The other mandatory reviewer for vending purchases is the Vending Services Manager, who did review his PANs in a timely manner.

The previous Director of Food and Beverage was also a mandatory reviewer for Vending Services purchases. The Director has been on leave since February 13, 2015; however, he was not removed as a mandatory reviewer until March 17, 2015. According to UCLA's Principles of Financial Accountability, a reviewer should be removed when they will be absent from work for two or more business days. The previous Director had 67 unread purchasing PANs during the period February 17 - March 12, 2015.

Recommendation: Management should ensure that all mandatory reviewers are reviewing their PANs in a timely manner. Additionally, mandatory reviewers should be removed if they will be absent from work for an extended period of time and another reviewer should be assigned.

Response: In September 2015, the Assistant Director of Dining Services became a mandatory reviewer and is reviewing his PANS in a timely manner. New reviewers will be assigned should a mandatory reviewer have an extended absence from work.

B. Invoice Approval Documentation

Although the Vending Services Manager reviews and approves all vendor invoices before they are submitted for payment, this approval is not documented.

Recommendation: Vending Services management should sign vendor invoices to document and evidence their review and approval.

Response: The Vending Manager will ensure all invoices are signed before being sent to the Accounts Payable department for payment.

C. Receipt of Goods Documentation

For eight of the ten purchases reviewed the receipt of goods was properly documented. However, for one purchase, the receiving document was not retained; for another purchase, there was no signature on the receiving document to evidence the receipt of goods. The invoices for both of these purchases were paid.

Recommendation: Vending Services management should ensure that the receipt of goods is properly documented. Also, it is good business practice to retain all receiving documentation as evidence of receipt of goods.

Response: Coffee Bean and Tea Leaf is the only supplier currently providing a packing slip. Since the invoice is normally emailed to the Vending Manager on the delivery day, once the Vending Manager is able to confirm the invoice matches the delivery, the receiving documentation is electronically filed for evidence.