HOUSING & HOSPITALITY SERVICES

LAKE ARROWHEAD CONFERENCE CENTER

AUDIT REPORT #17-2203

Audit & Advisory Services

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Background

In accordance with the UCLA Administration fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) conducted a review of the UCLA Lake Arrowhead Conference Center (LACC). The LACC offers a unique learning environment amidst the 40 acre property, 90 miles east of Los Angeles. LACC offers housing, meeting facilities, and services to organizations with educational purposes. Also, it provides a variety of services to local organizations and family holiday retreats to University faculty, staff, and alumni. The administrative offices, conference rooms, and food service unit are located in the main lodge. LACC also maintains 26 small buildings comprised of 104 guest rooms and additional conference facilities. The conference facilities include 10,000 square feet of meeting space with 14 meeting rooms, with the largest room accommodating up to 200 guests.

The Conference Program operates from early September through June. Summer months are reserved for the Bruin Woods program, which offers a resort and camp experience for families of UCLA alumni, faculty, and staff. For fiscal year 2015-16, total revenue was approximately $9.8 million, with total expenses of $7.5 million.

LACC uses Delphi, a sales and catering system used to track conference services booking charges and requests, Micros, a point of sale system, and Maestro, a property management system to run the day-to-day operations. Also, CashNet is used to record deposits. The Director of the LACC reports to the Assistant Vice Chancellor for Housing & Hospitality Services (H&HS). LACC employs approximately 70 full time employees.

Purpose and Scope

The purpose of the review was to ensure that LACC’s overall organizational structure and controls, and the related systems and procedures, are conducive to accomplishing its business objectives. The secondary purpose was to evaluate the adequacy and efficiency of internal controls within the LACC. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following activities:

* Cash Handling
* Equipment Inventory
* Food Inventory
* Information Technology
* Revenue
* Financial Management
* Procurement Cards

The review was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* and included tests of records, interviews, and other auditing procedures considered necessary to complete the audit.

Summary Opinion

Based on the results of the work performed within the scope of the audit, the LACC’s overall organizational structure and controls are generally adequate and effective to help achieve their business objectives. However, certain business practices could be further strengthened to improve upon the existing internal controls. The following were noted:

*Cash Handling*

* Mailed remittances should be verified and processed by two individuals, in order to strengthen accountability over funds and ensure compliance with UC Business and Finance Bulletin BUS-49, “Policy for Cash and Cash Equivalents Received” (BUS-49).
* When processing voids, management should remind staff to obtain and document proper approval by someone other than the individual that processed the transaction.
* Management should periodically review change fund documentation and ensure that Change Fund Cashier forms are properly completed for cashiers and authorized individuals with responsibility over change funds.

*Equipment Inventory*

* Management should ensure that all equipment items have a property tag properly affixed to the item. Also, Asset Management System (AMS) records should be updated to accurately reflect the serial number and/or Hull Identification Number (HIN) for the equipment identified during audit review.

*Food Inventory*

* Management should consider using FoodPro (a robust food production, planning, and control system) as a management tool to help track the spending and inventory levels for purchases of food items.
* In order to properly document the monthly physical count of food inventory, count sheets should be signed and dated by two individuals at the time of the count.
* Management should remind staff to use vendors who have an established blanket agreement with the University when making purchases to help ensure that goods and services are procured at the best overall value, and to minimize risks to the University.

*Information Technology*

* Management should continue to review listings of users who have access to Maestro, Micros, and the LACC network to ensure that only active and appropriate individuals have access to Information Technology (IT) systems.

*Financial Management*

* A&AS recognizes that there are resource and staffing constraints, which prohibit LACC from having separate individuals perform each function related to equipment inventory. However, as a compensating control, management should require that two people are present whenever equipment inventory counts are performed. The inventory counts should also be documented by both individuals who perform the verification.
* Management should review Post Authorization Notification (PAN) audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe. Also, management should remind staff to read their PANs in a timely manner.

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

Audit Results and Recommendations

Cash Handling

Controls surrounding cash handling were reviewed, including physical security, accountability, mailed-in payments, change funds, the petty cash fund, Honor Bar payments, and reconciliation and monitoring practices. A judgmental sample of five days in January 2017 was selected for deposit testing. Also, five voids and refund selections from July 2015 and March 2017 were reviewed to ensure proper approvals and adequate supporting documentation was maintained. The following improvements are warranted:

1. Mailed Remittances

While mailed-in payments are properly endorsed, logged and reconciled, they are not opened under dual custody. Also, LACC standard operating procedures indicate that mailed-in payments are opened by one individual. According to BUS-49, Section VIIIA.1.3, "Mailed remittances shall be verified and processed by two employees."

Recommendation: Mailed remittances should be verified and processed by two individuals, in order to strengthen accountability over funds and ensure compliance with BUS-49. Also, management should update the standard operating procedures to reflect policy requirements.

Response: Effective immediately, two persons will verify remittances at the time the mail is opened. We have updated the check log to show two signatures, and the standard operating procedures will be updated by June 30, 2017.

1. Voided Payment Transactions

Based on a review of five voids and refunds, one voided transaction was processed

by a supervisor on their own, and this transaction did not have documented approval from another individual.

According to BUS-49 Policy VIIIB.4, “Reductions of recorded cash accountability, e.g., voids and refunds, must be supported by all copies of the document involved, explained, and approved in writing by the cashier's supervisor at the time of occurrence where practical, but no later than the end of the day.”

Recommendation: Management should remind staff to obtain and document proper approval (by someone other than the individual that processed the transaction) when processing voids.

Response: Effective immediately, management will remind staff to obtain the proper approval when processing voids. This must be approved by someone other than the individual that processed the transaction.

1. Change Funds

The Front Desk Supervisor is the change fund custodian and delegates her change fund out to cashiers and authorized individuals. While the majority of the cashiers and authorized individuals had completed the Change Fund Cashier form, one cashier did not have the necessary change fund documentation completed. During the audit, this Change Fund Cashier form was properly completed.

According to the LACC change fund standard operating procedures, the "transfer of cash from the change fund custodian to the cashier and back to the change fund custodian from the cashier must be documented on the [change fund] form and retained."

Recommendation: Management should periodically review change fund documentation and ensure that Change Fund Cashier forms are properly completed for cashiers and authorized individuals with responsibility over change funds.

Response: On a quarterly basis, management will review change fund documentation to ensure that the Change Fund Cashier forms are properly completed for cashiers and authorized individuals.

Equipment Inventory

As of February 14, 2017, LACC had 47 equipment items with an acquisition cost of $820,629 listed within AMS. Procedures related to LACC’s equipment inventory were reviewed to ensure compliance with University equipment inventory policies. Also, a sample of 17 LACC equipment items were physically observed to ensure accurate recording in AMS. Further, a sample of five disposals from May 2015 to November 2016 were reviewed to ensure proper adherence to policies and procedures. Audit review indicated that controls over equipment inventory recordkeeping can be improved, as noted below.

Equipment Inventory - Recordkeeping

On March 7, 2017, a physical observation of 17 judgmentally selected equipment items was performed to verify that the equipment items listed with AMS were accurate. For the 17 items selected, A&AS physically observed the equipment item and verified that the item’s location, property tag, description, and serial number agreed with AMS records. Safeguards regarding storage of equipment to prevent theft/loss were also reviewed. The following were noted:

* University property tags are not always placed on LACC's equipment. In four instances, the equipment observed did not have a property tag affixed.
* Serial numbers are not always accurately reflected and/or recorded in AMS. The HIN for two vessels were not recorded in AMS. Also, the serial numbers for two gym equipment items were not accurately reflected in AMS.

Recommendation: Management should ensure that all equipment items have a property tag properly affixed to the item. Also, AMS records should be updated to accurately reflect the serial number and/or HIN for the equipment identified during audit review.

Response: Management has now ensured that all equipment items have a property tag properly affixed to each item. The AMS records have been updated to accurately reflect the serial number and/or HIN for the equipment.

Food Inventory

The LACC uses the FoodPro system to monitor the inventory of food. During fiscal year 2015-16, food purchases (charged to object code 4505 - Food) amounted to $866,547.

LACC monthly food inventory count sheets and inventory analysis reports for November, December, and January 2017 were reviewed to verify that monthly inventories are properly performed and documented by two individuals.

Inventory counts are jointly performed by the LACC Chef and Sous Chef. Once the inventory count is complete, the count sheets are submitted to Dining Service Central Office (DSCO) for data entry into the FoodPro system. A reconciliation is performed and documented by the Chef to ensure that count results are accurately reflected in FoodPro (by reviewing the Inventory Analysis Report). Discrepancies, if any, are followed-up and resolved by the Chef at the time of the reconciliation and documented.

A sample of 10 food related purchases from fiscal year 2015 -16 were reviewed to ensure that the food items were properly received and agree to what was ordered, that proper approvals for payment occurred, and that the items were accurately recorded.

Also, review of temperature logs for the month of January 2017 indicated that logs are properly documented, completed, and reviewed for the bakery cooler, main freezer, and main cooler areas.

Further, discussions with management and physical observations were held to verify that internal controls over the physical inventory of food and food storage practices are adequate, in order to prevent theft and unauthorized issuances.

The following improvements are warranted:

1. FoodPro

Discussion with DSCO and LACC management indicated that LACC has not entered food purchases/invoice data into FoodPro since December 2015. LACC management indicated that given staffing constraints, it has been difficult to input this data into FoodPro. Data is updated via an Excel sheet instead. Also, audit testing indicated that seven out of ten invoices were not input into FoodPro.

FoodPro can be used to log food purchases, and to verify the vendor is charging LACC according to contracted prices. Also, FoodPro can help to evaluate weekly usage of individual products to determine if the usage is appropriate for the business in the week. Without the invoices being entered into FoodPro, the amount of product on-hand and the amount of product being used may be difficult to calculate. Further, FoodPro can be used to calculate food cost per patron in comparison to income to help determine if inventory usage is appropriate.

Recommendation: Management should consider using FoodPro as a tool to help track spending and inventory, and to correlate invoice purchases with usage, based on inventories taken.

Response: Management will consider opportunities to improve the food and beverage inventory systems by July 31, 2017.

1. Monthly Inventory – Food

The two individuals who perform the monthly food inventory count do not document (indicating that they performed the count) on the Inventory Analysis Report until several days after the count.

Recommendation: In order to properly evidence the count, inventory count sheets should be signed and dated by two individuals at the time of the count.

Response: Effective May 1, 2017, the inventory count is now being signed by two persons at the time of the count.

1. Low Value Orders

From a sample of 10 food related purchases from fiscal year 2015 -16, audit review indicated that food purchases were properly approved, received, and agreed to what was ordered. However, one transaction was processed as a Low Value Order (LVO) with a vendor that already has a blanket agreement with the University. Management indicated that this was an oversight. Blanket agreements are intended to provide goods and services at the best overall value, and to protect the University by applying appropriate terms and conditions of purchase.

Recommendation: Management should remind staff to use vendors with an established blanket agreement with the University, and not LVOs in those instances.

Response: Effective immediately, management will remind the staff to use vendors with established blanket agreements with the University, and not LVOs in those instances.

Information Technology (IT)

LACC IT areas reviewed included Maestro, Micros, and the network. Based on audit review, controls surrounding password security, and device listings appear appropriate. User access controls were also reviewed. Management indicated that a periodic review of active employees is performed to ensure that only proper employees have access to IT systems.

Audit testing included reviewing 30 users with access to Micros, Maestro, and the LACC network as of February 1, 2017, to ensure that only current employees have access to these systems. While the majority of employees have proper access, one employee who separated from the University on August 31, 2016, still had access to the LACC network at the time of the audit.

Recommendation: LACC network access for the user mentioned above should be removed to ensure that unauthorized activity does not occur. Also, management should continue to review listings of active employees to ensure that only appropriate individuals have access to IT systems.

Response: The separated employee was removed from the LACC network. Management will review the list of active employees on a monthly basis starting June 1, 2017.

Financial Management

Financial management controls over revenue and expenses were reviewed to ensure that financial resources are effectively managed. The Accounts Receivables listing as of February 24, 2017, and general ledger reconciliations for November 2016 and January 2017 were reviewed. Also, PANs for January to December 2016 were examined to assure timely review by mandatory reviewers. The organizational structure, departmental Standard Operating Procedures (SOPs), and job descriptions were also reviewed to ensure proper separation of duties over key functions.

Further, a separation of duties matrix was prepared and discussed with LACC management to determine if duties were adequately separated. This matrix was used to ensure that no one individual has complete control over any key business process. In performing this analysis, UCLA Policy 360, “Internal Guidelines for Campus Departments” was referenced and reviewed. The following were noted:

1. Separation of Duties - Inventory

Separation of duties with regards to equipment inventory warrants improvement. The Facilities Manager performs the inventory count on his own (except for automobiles), maintains the inventory, and has the ability to receive inventory, adjust records, and sign the Equipment Inventory Modification Request (EIMR) form.

According to UCLA Policy 360, Attachment A, “Guidelines for Application of Internal Control Principles”, no employee should have complete control over more than one of the following groups of duties:

* Receiving, maintaining or issuing items,
* Preparing and maintaining up-to-date records of the location, transfer, damage, disposal, or loss of inventory,
* Performing annual physical inventory counts or inspections.

Recommendation: A&AS recognizes that there are resource and staffing constraints which prohibit LACC from having separate individuals perform each of the functions mentioned above. However, as a compensating control, management should require two people present whenever equipment inventory counts are performed. The inventory counts should also be documented by both individuals who performed the verification.

Response: Effective immediately, management will have two persons present when performing the equipment inventory. Inventory counts will also be documented by the two individuals.

1. Post Authorization Notifications (PANs)

Based on audit testing of PANs for the 11 month period of January 4, 2016, to December 4, 2016, five LACC mandatory reviewers are not reviewing PANs within two business days of receipt, in accordance with UCLA Financial Policy. Audit review identified the following with regards to mandatory reviewers:

|  |  |  |
| --- | --- | --- |
| Mandatory Reviewer # | # Unread PANs | Calendar Days Unread |
| 1 | 175 | 6 to 12 |
| 2 | 114 | 6 to 21 |
| 3 | 96 | 6 to 17 |
| 4 | 73 | 7 |
| 5 | 3 | 6 to 27 |

According to UCLA Financial Policy, PANs must be reviewed "within two working days of receipt." When reviewers review their PANs in a timely manner, this helps to ensure that financial transactions are proper and appropriate.

Recommendation: Management should review PAN audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe. Also, management should remind staff to read their PANs in a timely manner.

Response: Effective immediately, management will review PAN audit logs on a regular basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe. Management will remind staff to read their PANs in a timely manner.

Revenue

LACC revenue sources include income from Bruin Woods and conferences. Total revenue for fiscal year 2015-16 was approximately $9.8 million. A review of controls over processing and recording revenue was performed. The advance deposit reconciliation process was also reviewed for December 2016 Conference Center events to ensure proper recording and approval.

1. Bruin Woods and Conference Center Income

 A judgmental sample of 18 items during fiscal year 2015-16 (including guest income for Bruin Woods and Conference Center events) were reviewed to ensure that charges are appropriately supported and recorded. The following were noted:

* In four instances, Bruin Woods guest charges (such as clothing, souvenirs, supplemental activities, and other items not included in guest bills) were reviewed to verify that charges were appropriately processed in a timely manner, agreed to supporting documentation, and were recorded in the proper revenue accounts.
* In four instances, Bruin Woods guest reservations were selected and reviewed against CASHNet records, credit card batch settlement reports, online credit card payment reports, and guest folios. Also, A&AS verified that advance deposits were properly recorded by tracing amounts to the appropriate deferred income and revenue accounts in the general ledger.
* For five Conference Center events, contract documents were reviewed to determine the amount of advance deposit required and the date advance deposits were due. For each sampled event, CASHNet records, credit card batch settlement reports, online credit card payment reports, event billing statements, and general ledgers were reviewed to verify that advance deposits were received in a timely manner and properly recorded in the deferred income account.

Also, A&AS verified that when conference events were complete, the final bill was properly calculated and agreed to supporting documentation. Further, general ledgers were reviewed to ensure that total event income was properly recognized as revenue in the Conference Center events revenue account, any outstanding charges were recorded in the accounts receivable account, and ultimately collected in a timely manner.

* For five events that were recharged, A&AS verified that recharges were processed accurately and in a timely manner. For these items, the final bill, contract documents, and the general ledgers were reviewed to ensure that charges agreed to LACC established rates.

There were no significant control weaknesses identified in this area.

1. Advance Deposits

The LACC advance deposit reconciliation process was reviewed for December 2016 for the Conference Center events deferred income account to ensure proper performance and approval. The LACC Accounting Manager is responsible for reconciling the deferred income account on a monthly basis, and performs the following:

* Reconciles advance deposits received for the month via online credit card payments, mailed-in checks, and manual credit card payments to the general ledger for Conference Center deferred income account.
* Reconciles conference center revenue and related deferred income accounts in the general ledger.

The LACC Director reviews and approves the reconciliation on a monthly basis.

There were no significant control weaknesses identified in this area.

Procurement Cards (Pcards)

LACC has a total of five Pcard cardholders. In fiscal year 2015-16, LACC Pcard purchases totaled approximately $175,000. The LACC Director reviews and approves monthly Pcard statements for LACC staff.  The LACC Director's monthly Pcard statement is reviewed and approved by the Assistant Vice Chancellor of H&HS.

Based on a review of 20 transactions in fiscal year 2015-16, LACC properly uses Pcards in accordance with University policies and guidelines.  Original receipts, receiving documentation, monthly Pcard statements, and BruinBuy details were reviewed to evaluate the propriety of each sampled transaction. As required by policy, LACC maintained original receipts and the receiving function was properly performed and documented by someone other than the cardholder. Transaction details agreed with Pcard statements and were accurately processed in BruinBuy. Where appropriate, discussions were held with LACC management and physical observations were performed to determine that a valid business purpose justified the purchase.

There were no significant control weaknesses identified in this area.

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