

UC MERCED AUDIT AND ADVISORY SERVICES

May 2, 2019

To: Charles Nies – Vice Chancellor for Student Affairs
Michael Riley – Interim Vice Chancellor and Chief Financial and Administration Officer

Subject: Dining Services Audit

Ref: Report No. M19A003a

As approved for the FY 2018 – 2019 Audit Plan, UC Merced Internal Audit is completing audits of campus auxiliaries. This report relates to the audit of Dining Services.

We appreciate the assistance we received from staff in Dining Services, Procurement Services, Environmental Health and Safety, and Auxiliary Enterprises and Fiscal Innovation. The management action plans set up to correct identified issues will be tracked by Internal Audit until completion.

Please let me know if you have questions.



Todd Kucker
Director of Internal Audit

Attachment

cc: Senior Vice President and Chief Compliance and Audit Officer Bustamante
Chancellor Leland
Vice Chancellor McLeod
Associate Vice Chancellor Coker
Executive Director Reed
Associate Director Lynch
Associate Director Murray
Director Donohue
EH&S Specialist Kaur
Chief Procurement Officer Dubroff



UNIVERSITY OF CALIFORNIA, MERCED
Audit and Advisory Services

DINING SERVICES AUDIT
Report No. M19A003a

May 2, 2019

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I. MANAGEMENT SUMMARY

Internal Audit has completed an audit of Dining Services. The audit evaluated whether internal controls adequately manage significant risks, safeguard assets, and accurately report financial results.

In reviewing the results of audit testing, we concluded that the internal controls managed by Dining Services need improvement. While controls related to sales and payments received were effective, we identified areas for improvement in the safeguarding of food inventories, payroll costs, safety, and other areas. Our observations and recommendations are presented under the following headings in the report below:

- Safeguarding Food and Improving Food Purchasing Processes with an Inventory Management System
- Reviewing Prices on Vendor Invoices
- Verifying that only received items are paid for
- Reconciliation of Time Worked and Amounts Paid to Hourly Employees
- Keeping Track of Meals Provided to Employees
- Discontinue sales of food inventory to employees
- Catering Charges based on Actual Costs Incurred
- Department Approval of Catering Orders
- Compliance with P-Card Policies
- Monitoring Food Truck Safety
- Verifying that Employees Complete Required Training
- Sales Tax and the Heritage Meal Plans

II. BACKGROUND

Dining Services is an auxiliary within the Student Affairs division at UC Merced. To serve the growing campus, Dining Services continues to expand and offer additional dining options to students. During Spring 2019, there were around 3,400 students with meal plans.

Dining Services is the department that employs the most students at UC Merced. During February 2019, around 430 students and 50 staff were employed by the different dining operations.

Auxiliaries are essentially self-supporting activities on UC campuses. Ever since UC Merced began, the financial records of Dining Services have been combined with Student Housing in evaluating whether the operations are self-supporting. This has made it more difficult to evaluate the overall profitability of Dining Services as a stand-alone operation.

The following table estimates the financial results of Dining Services (with all of the dining operations consolidated) during the last few years.

	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018
Sales & Commissions	\$8,961,942	\$8,668,103	\$8,760,469	\$9,006,017
Catering Recharges	\$904,980	\$968,850	\$794,259	\$931,590
Total Revenues	\$9,866,922	\$9,636,953	\$9,554,728	\$9,937,607
Payroll and Benefits	\$4,018,708	\$4,278,885	\$4,922,340	\$4,799,228
Food costs and Items for resale	\$4,095,936	\$4,079,385	\$4,286,079	\$4,223,486
Other expenses	\$1,931,626	\$1,899,602	\$1,963,963	\$1,847,075
Total Expenses	\$10,046,270	\$10,257,872	\$11,172,382	\$10,869,789
Estimated Net Loss	(\$179,348)	(\$620,919)	(\$1,617,654)	(\$932,182)

The amounts in the table are from the general ledger and do not include some additional expenses that are allocated to Dining Services. The sales and expenses of the MarketPlace store are included in the table.

III. PURPOSE AND SCOPE

As part of the Fiscal Year 2018 – 2019 Audit Plan, Internal Audit has completed an audit of Dining Services. The purpose of the audit was to determine whether internal controls managed by Dining Services were operating effectively. While the audit reviewed various controls used to manage significant risks, the audit mainly focused on controls ensuring the accuracy of financial information. The following were the audit objectives:

- To review that procedures for managing cash and payments comply with the UC cash handling policy (*BUS-49 Policy for Cash and Cash Equivalents Received*);
- To determine whether student meal plans are properly set up and managed;
- To verify that food purchases and food inventories are properly controlled and safeguarded;
- To determine whether payroll and other expenses are properly reviewed and approved; and,
- To review that effective food safety procedures are complied with.

The scope of the audit included transactions between July 1, 2018 and February 28, 2019. The audit focused on the following Dining Operations:

- The Pavilion Dining Center
- Yablokoff Wallace Dining Center (YWDC)
- Lantern Café
- Lakeside Catering

- Outside food vendors and food truck operations

During FY 2018- 2019, management of the MarketPlace store was transferred from Dining Services to the Campus Store. The MarketPlace was not included in the scope of this audit.

A summary of the testing completed is provided in an appendix to this report.

IV. CONCLUSION

Based upon our testing, we concluded that internal controls managed by Dining Services need improvement. The most significant expenses for Dining Services are labor costs and food purchases. As we identified control weaknesses related to both of these significant areas, we recommend that steps be taken to improve internal controls.

We noted observations and recommendations for improvements in the following areas:

- Safeguarding Food and Improving Food Purchasing Processes with an Inventory Management System
- Reviewing Prices on Vendor Invoices
- Verifying that only received items are paid for
- Reconciliation of Time Worked and Amounts Paid to Hourly Employees
- Keeping Track of Meals Provided to Employees
- Discontinue sales of food inventory to employees
- Catering Charges based on Actual Costs Incurred
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- Compliance with P-Card Policies
- Monitoring Food Truck Safety
- Verifying that Employees Complete Required Training
- Sales Tax and the Heritage Meal Plans

V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

1. Safeguarding Food and Improving Food Purchasing Processes with an Inventory Management System

Issue (What we noted)

During this audit and during an internal audit of Dining Services in 2016, we noted that a system for keeping track of food inventories is not maintained. As a result, employees who order food need to frequently observe food inventories on hand to determine what needs to be ordered.

As part of this audit, we attempted to compare the number of particular items purchased with the number of the items sold. As much of the food purchased is processed as part of menu items, without an inventory management system it is very difficult to determine the reasonableness of items sold versus the amount of food purchased.

Best Practice/Policy

A large dining operation would usually have a system for managing food inventories. The system would be utilized to set up menus and track food inventories from the point of ordering through use. Tracking food inventories provides insight into spending and use. The system also helps safeguard inventories from theft as it would become evident that food ordered and received was missing.

Cause of Issue

Implementing and maintaining a food inventory system requires a significant amount of employee time. During recent years, the priority for Dining Services has related to increasing food options for the increasing number of students.

Risk and Impact

As food inventories are not maintained, there is a risk that food could be stolen and the loss would not be easily identified.

Processes for determining food to be ordered are not efficient. As food is not efficiently tracked sometimes it is difficult to allocate food costs between the different operations. For example, an employee in the Pavilion Dining Center orders food that is also used by catering. Without a food inventory system it is difficult to allocate food costs for each separate operation.

Recommendation

During the 2016 audit of Dining Services, it was noted that Dining Services had been paying for a software called Computrition but was not properly utilizing the system. During recent years, there were other priorities in Dining as the new Pavilion Dining Center was being constructed and put into operation. Based upon the continuing efficiency and control issues, we recommend that, after evaluating the costs and benefits, Dining Services should implement an inventory management system.

Management Corrective Action

UC Merced dining, currently a student services managed department, is working with UC Merced Auxiliaries and Fiscal Innovation (scheduled to begin management of the department in July 2019). During the next few months, Dining is undergoing a series of actions that should significantly improve the inventory and asset management controls that are in place.

Starting in March 2019, Dining Services started formal discussions internally regarding the implementation of an inventory system. Dining is currently exploring the use of FoodPro, a software used by some of our sister campuses that integrates with BobCat Buy's base platform Jaggaer. By using a system like FoodPro, Dining will be able to simplify their inventory management and procurement process, however, there are a number of issues that may delay this implementation. The first difficulty relates to the status of the Request for Proposal (RFP) for dining services to be released for bids. When this is released, the companies that bid on it will expect the campus to have full inventory accounting but they are unlikely to adopt any inventory system that Dining has in place because they are likely to have their own home grown inventory systems that integrate into their own GL and ERP systems. Due to this, the benefit of a system like FoodPro would need to have a payoff rate of less than six months (the campus is roughly twelve months away from a selected vendor starting their implementation). Dining is still going ahead and starting discussions with the vendor, FoodPro, to provide a demo and discuss what steps need to be taken in order to implement their system.

In the meantime, the current state of inventory management (the lack of which is documented here) is unacceptable. Dining began taking physical inventories about one month prior to the writing of this report. All food locations, including the food portion of the campus store, are now required to take a weekly inventory. The weekly inventories will be used to better predict the demand for inventory items over time and provide a greater ability to inspect Dining's cost of goods sold over weekly periods. Inventories are currently being taken every Friday morning or Thursday evening. The only area that we are currently having problems with this schedule is the Pavilion and this was due to the manager of the facility having 23 performance evaluations, which will likely not happen again. The manager of the Pavilion has already taken one inventory, roughly one month ago, and will take another this week and is expected to continue to take inventory weekly going forward.

Dining managers at each location are now responsible for their own inventory on hand. If at any point an interested party, particularly if the audit department is interested in monitoring, reviewing, or editing our inventory process, we welcome them to do so unannounced to help us to improve. We would like to request this as soon as possible since this part of the management corrective action plan is already in place.

The management action plan was implemented before this report was issued.

2. Reviewing Prices on Vendor Invoices

Issue (What we noted)

During the audit, we noted that there is not an adequate review of prices on vendor invoices. During our testing of purchasing and receiving, we compared prices on vendor invoices with price lists on approved food vendor contracts. We noted instances where prices had increased more than was allowed by the contract. We also noted where food items were purchased which were not on the negotiated price lists.

Best Practice/Policy

The first line of defense for confirming that the campus is paying prices in line with approved contracts is the employee review of vendor invoices while setting them up for payment.

Periodically, the UC Office of the President Procurement Services works with a consultant to audit prices charged the different campuses for compliance with contracts. To complete these audits, compliance with systemwide contracts with particular food vendors are reviewed. The results are based upon a small sample of invoices with these systemwide vendors. These audits do not review compliance with campus specific contracts.

Cause of Issue

After systemwide and campus-specific contracts are set up with food vendors, Dining services purchasers log into vendor websites to order food and supplies. After the items are received, a vendor invoice is received. In order to set up orders for payment, one Dining Services employee is responsible for setting up all dining orders in the UC Merced CatBuy system so the vendors can be paid. This additional keying of information is time-consuming and the employee does not have sufficient time to effectively review prices on the vendor invoices.

Risk and Impact

After Procurement negotiates prices with vendors, the vendor might charge higher prices.

As there is not an effective review of vendor prices charged, the campus sometimes paid higher than anticipated prices. There were also instances where Dining purchased items which were not on the negotiated price lists. An effective review of invoices would identify these instances where Procurement Services should contact the vendor to negotiate for these new items.

Recommendation

We recommend that vendor invoices be scrutinized before being set up for payment. The employee completing this review should have access to contracts and all applicable price lists.

Management Corrective Action

UC Merced's new procurement system will help Dining significantly with this. The prime vendor, Sysco, is being loaded into the e-procurement system. The vendor's pricing list will be fixed based on a base file that they transmit to Dining. By using this file roughly 50% or more of the total risk in this area will be reduced as this vendor is on track to be more than 50% of Dining's total purchases for FY 2020.

Dining's Financial Analyst will also do a routine departmental audit of other vendors and their invoices (on top of auditing the receiving, ordering, and payment process) at random points during the year. The goal is twelve random audits throughout the year as soon as the e-procurement system is fully functional. Currently, the responsibilities of the Financial Analyst is 95% transactional, meaning her primary function is processing invoices for payments. A large portion of the invoices that they are processing are for Sysco and other vendors that are likely to be placed into our e-procurement system. The system will free up a lot of the Financial Analyst's time and she will begin this audit process.

This action plan will be completed by December 31, 2019.

3. Verifying that only received items are paid for

Issue (What we noted)

During the testing of food purchases, we noted that some receiving documents were not reviewed and approved by the employees who received the items from the vendors.

Best Practice/Policy

When vendors deliver food items, a Dining Services employee who was not involved in ordering the items should review what was delivered. The employee should document that items listed on the receiving document or vendor invoice were delivered. The employee should sign the documents as evidence that the items received were properly reviewed.

Cause of Issue

Receiving documents from one Dining location did not include evidence of proper receiving. Employees at this location were not aware of the need to document receiving.

Risk and Impact

Proper receipt of the items provides evidence that the items were delivered. Without this review, there is a risk that the campus might pay for items that were never received.

Recommendation

We recommend that an employee who is not involved in ordering or purchasing the items complete the formal receiving. The employee should verify the accuracy of the items listed on the receiving documents or vendor invoice. The employee who completed the receiving should sign the documents as evidence that the review was completed. The employee who sets up the vendor invoices for payment should review for evidence of proper receiving.

Management Corrective Action

Dining has followed up with their managers at each location to ensure that they are aware that their receiving policy is not up to the standard that it must be. Beginning in July 2019, managers will be required to procure the expected orders for the next day on behalf of the receiving group so they can have physical forms to carry with them when receiving their orders. Each order that is received will be checked against the order placed and only when all items are verified are they to physically sign for receipt of the order. Once the order is received, they will be required to take a picture of the signed document and upload it to the procurement system as a note to the order.

The main difficulty will be with the vendors that are not immediately integrated with Dining's inventory system. For those vendors, Dining will require that the receiving and ordering group maintain their own records that clearly show all received orders and the signed documentation and original ordering documents. This will be maintained in box.com and available to auditors at any time. Dining's Financial Analyst will be expected to audit this process randomly and unannounced and to document any occurrences of malfeasance.

Any employees found not to be following receiving practices correctly will be immediately reprimanded for doing so officially and the responsible manager shall also be officially reprimanded. In order to implement this we will need to have a formal meeting where we provide a standard operating procedure manual that details the process. Internal Audit is welcome to provide feedback on the procedure once it is produced.

The action plan will be completed by August 31, 2019.

4. Reconciliation of Time Worked and Amounts Paid to Hourly Employees

Issue (What we noted)

During the audit, we reviewed how hourly employees log their time in Dining's timekeeping system (TimePro). We selected a sample of employees and compared the information in the timekeeping system with time recorded in the UCPATH system. We noted instances where non-exempt employees appeared to be paid for too many hours and/or too few hours when reviewing the hours actually clocked by employees.

Dining Services Management was already aware of this issue. To reconcile the time, Dining Services had already compiled the time recorded in the timekeeping system and time recorded on timesheets in the UCPATH Time Recording System (TRS) to analyze and reconcile the differences.

Best Practice/Policy

Hours recorded in the timekeeping system should be reviewed and approved by supervisors. Approved hours should match the hours paid to non-exempt employees.

Cause of Issue

When employees set up their bi-weekly timesheets in the UCPATH (TRS) system, they do not have access to their records in the timekeeping system. As they do not know, when they logged in and out during the time period, they are not aware when they report time that is not consistent with the timekeeping system.

Risk and Impact

When employees are paid for more time than they worked, more payroll costs are incurred than should have been paid. When employees are not paid for time worked, there is the potential for employee complaints, fines, and penalties.

Recommendation

When employees set up their timesheets in the TRS UCPATH system, they should be aware of the times which they clocked in and out during the time period. We recommend that employees receive their information from the timekeeping system so they can accurately complete their official timesheets. We also recommend that Dining Services continue to complete the time period reconciliations and establish a plan for handling differences noted.

Management Corrective Action

Dining will post the official hours worked on TimePro in the manager's office for all students to see in the future. That way they will be able to access the data ahead of the end of the financial period. We have also reached out to our sister campuses to determine how they deal with the issue of having multiple systems. We are awaiting responses and will follow up again.

The plan to make timesheet data accessible to employees will be completed by June 30, 2019.

5. Keeping Track of Meals Provided to Employees

Issue (What we noted)

Dining Services employees receive free meals during the times they are working. While this is consistent with employee agreements, we noted that these free meals are not currently tracked by Dining.

Best Practice/Policy

In order to accurately track costs and verify that free meal costs to employees are reasonable, a mechanism for tracking the items provided in these free meals should be established.

Cause of Issue

Meals for employees have always been handled in an informal manner. During the audit, we noted that Dining Services was already working to formalize guidance and tracking of meals.

Risk and Impact

The real cost of providing employee meals has never been tracked. The costs of the free meals are just combined with the overall food costs. This makes it more difficult to analyze Dining Services costs.

Recommendation

We recommend that employee meals be tracked by the Point of Sales cash registers. Written guidance for employees should establish expectations regarding the employee meals (i.e. recording meals, only current menu items are provided to employees during the shifts, etc.).

Management Corrective Action

By transitioning to the meal plan swipe system during Fall 2019 Dining will be able to create a system for employees to request a meal and then for a designated card to be used for them to swipe for their meal. Employees will be required to eat their meals in the same area as the rest of the attendees of the Pavilion dining facility. The designated card will be held only at one entry point for the facility and will be monitored electronically by being designated as a special card type. Any abuse of the card will be grounds to immediate dismissal since it will be similar to stealing. Dining will need to publish this change 30 days ahead of time in order to notify our union. It will be an official work rule.

Meals will be all you care to eat and only one will be permitted per day.

This action plan will be completed by August 31, 2019.

6. Discontinue sales of food inventory to employees

Issue (What we noted)

During the audit, it was brought to our attention that there has been a past practice of selling food inventory to Dining Services employees at cost. Per Dining Services managers, these sales were infrequent as only a few sales were completed each year.

Best Practice/Policy

These types of sales to employees are not allowed per the contracts with food vendors.

Cause of Issue

Per current managers in Dining Services, a former Dining Services Director allowed employees to purchase food inventories at cost. This was a long-standing practice.

Risk and Impact

There could be monetary penalties for breaching contracts with food vendors.

Recommendation

During the audit, Dining Services management explained that they have now discontinued these employee purchases. We recommend that management formally communicate to employees that this practice has been discontinued.

Management Corrective Action

Once this was discovered Dining immediately informed all managers that they need to stop this practice and they all verbally agreed. The inventory management system should make this much easier to detect if it happens again. Dining will include a rule regarding this in the standard operating procedures handbook.

Dining will also be informing all employees that they are not permitted to park next to the dining facility in their own personal vehicles and that they must park in the correct faculty and staff parking areas or their union contract allowed area.

This action plan was completed before this report was issued.

7. Catering Charges based on Actual Costs Incurred

Issue (What we noted)

During the audit, we reviewed the financial information for the catering operation. We reviewed how catering charges to departments are calculated and invoiced via CaterTrax. We noted that

catering recharges are simply calculated based upon estimated food costs with a 30% profit margin added to cover labor costs. We also noted that actual food costs are not allocated to the catering accounts in the financial system.

Best Practice/Policy

Catering services should be managed in a manner similar to their for-profit competitors. In order to determine whether it is less expensive to utilize an internal catering service rather than paying an outside vendor, it is important to properly analyze the costs and interdepartmental charges. Accurate financial information is needed to determine whether the appropriate amounts are charged to departments.

Cause of Issue

To charge departments for catering services, estimates of the costs of food items were established and then a 30% profit margin was added to cover related labor costs. This way of charging departments was set up for simplicity.

Risk and Impact

As only estimated costs are used to determine the catering charges to departments, the true costs of the catering operation might not be fully charged to their customers. As catering costs are sometimes charged to grants and funds with restrictions (Center for Educational Partnerships, etc.), there is a small risk that the catering charges might be questioned during an external audit. Overall, this simplistic manner of charging for catering costs might be a drain on the profitability of Dining Services.

Recommendation

We recommend that actual catering food and labor costs be evaluated periodically. Prices charged to departments for catering should be based upon these actual costs. This will provide assurance that accurate costs are being charged to departments and will verify that the catering operation is at least breaking even.

Management Corrective Action

UC Merced Auxiliary Services intends to work with catering during FY2020 to adopt a new pricing methodology. This work is expected to start in September 2019. This will involve reviewing food cost as well as non fixed labor as a measure of what should be charged for catering services on campus and off campus. In addition, catering will be required to split their inventory from the main pavilion inventory and tracking their performance with an “inventory in – inventory out + orders = total cost of goods” formula. This will help to create a performance report for Catering in particular that will improve control over pricing.

This action plan will be completed by December 31, 2019.

8. Department Approval of Catering Orders

Issue (What we noted)

During our review of catering orders, we noted that catering services is not responsible for verifying that a department has properly approved a catering order.

Best Practice/Policy

In order to verify that a department's catering request has been approved by an employee with the necessary budget authority, the approval should be obtained before catering services are provided.

Cause of Issue

CaterTrax orders were originally designed to require manager approvals. In the past, Catering experienced frustration in attempting to obtain all manager approvals before the catering orders were fulfilled. As it was apparent that catering often needed to be completed before obtaining the approvals, departments were expected to obtain and maintain the proper approvals without involving Catering. Departments are also responsible for maintaining lists of event attendees and other documentation that is required by the UC entertainment policy.

Risk and Impact

As catering services are provided before confirming proper approval, a department might be charged for catering which was never approved or properly documented. This could result in excessive use of catering for meetings and events which would never have been approved. As departments are responsible for policy compliance, it might be discovered too late that sufficient documentation was not obtained.

Recommendation

We recommend that departments requesting catering services obtain proper approval before the catered events. Departments should also upload all of the documentation required by the entertainment policy (lists of attendees, cost per attendee, etc.) so another department can efficiently verify that documentation was properly completed.

Management Corrective Action

With the implementation of the new UC Merced procurement system (Bobcat Buy) and the use of America to Go, new processes will be established for ordering catering. A workflow that documents approvals before catering is ordered will be required.

This action plan will be completed by August 31, 2019.

9. Compliance with P-Card Policies

Issue (What we noted)

During the testing of other expenses, we selected various P-card purchases by Dining Services. We noted purchases on the cards which UC policy does not allow on purchase cards or Low Value Orders. Examples of these purchases were for services and software.

Best Practice/Policy

P-Card policies include a list of items and services which should not be purchased with a P-Card or Low Value Order as the purchases require additional approval or documentation.

Cause of Issue

The P-Card holders were not aware that these items were not supposed to be purchased in this manner.

Risk and Impact

Procurement and IT should be reviewing all purchases of software as a service. The review should determine whether UC Merced information is being utilized in the system as these cloud services are required to complete a data security agreement (Appendix DS) when UC information is involved. The risk is that UC data could be breached if the vendor does not adequately safeguard it.

When a vendor is completing services for UC Merced, Procurement should evaluate whether proof of insurance is required. The risk is that the campus could have to cover losses if a vendor does not maintain sufficient insurance.

Recommendation

UC Merced is currently implementing a new Procurement system (Bobcat Buy) that should improve controls over purchases that require special reviews and approvals.

Management Corrective Action

Bobcat Buy is expected to deal with the majority of this issue. Dining will be discussing p-card purchases in the future and restricting p-cards starting early in FY 2020.

This action plan will be completed by July 31, 2019.

10. Monitoring Food Truck Safety

Issue (What we noted)

During the audit, food truck safety concerns were brought to our attention by the campus Fire Marshal. The concerns included recent safety issues with food trucks and the lack of guidance provided to food truck operations as to where food trucks are allowed to drive and park on campus.

The safety of food trucks is reviewed when the food trucks are originally brought on campus. Currently, there is no ongoing review of the trucks and their propane tanks.

After the concerns were reported by the Campus Fire Marshal, a Dining Services Manager was assigned to organize a committee to help manage the specific concerns.

Best Practice/Policy

Dining Services should have written guidance for food trucks regarding where they can drive and park on campus. As there have been recent safety incidents with food trucks and their propane tanks, there should be periodic inspections of food trucks to verify that they are adequately maintained.

Cause of Issue

The Fire Marshal brought up the issue at a committee meeting that was designed to share these types of concerns. It sounds like this was the first time that the issue of ongoing inspections of food trucks was brought to the attention of Dining Services management.

Risk and Impact

The risk is that food trucks are not adequately maintained as UC Merced only completes an initial inspection of safety concerns when trucks first come on campus.

Recommendation

We recommend that Dining Services management work with the Fire Marshal to establish written guidance regarding Food Truck safety.

Management Corrective Action

The Operational Manager of the food trucks was contacted and was provided a checklist which must be completed on daily basis and was also required to order a gas leak detector which must be used to check propane tank connection before service hours. The checklist will be submitted to EH&S with other temperature logs. The operator was advised to comply by the beginning of next semester with this new requirement. EH&S will also be ordering a leak detector which will be utilized during periodic health inspections. The action plan will be completed by August 31, 2019.

11. Verifying that Employees Complete Required Training

Issue (What we noted)

During the audit, we selected a sample of employees and followed up for evidence that these employees completed the required food safety training and cash handling training. There was not sufficient documentation to prove that the employees had completed their required training before working with food or handling cash payments. Poor documentation of training was also identified during the 2016 audit of Dining Services.

Best Practice/Policy

Employees should complete food safety training before handling food. If an employee will work as a cashier, UC policy requires that the employee complete cash handling training.

Cause of Issue

The purpose of the documentation is to verify that all employees have completed the required training. As a system for tracking training, such as the UC Learning Center, has not been utilized it is difficult to verify that the large number of student employees have all completed the training.

Risk and Impact

When an employee is hurt on the job, the first question usually relates to whether UC Merced properly trained the employee. In a similar manner, if payments are lost or stolen, it is important to prove that the campus provided adequate cash handling training. The campus could be determined to be negligent if it cannot be proved that required training was completed.

Recommendation

We recommend that Dining Services management work with Human Resources to set up and track all required training in the UC Learning Center, the systemwide Learning Management System that is utilized to track required training.

Management Corrective Action

Dining is in the process of transitioning one of their employees into an organizational development manager. She will be responsible for monitoring all employee trainings and reporting to management when there is an employee out of compliance. Dining will be putting together a rules manual that will detail that if employees do not complete their training they will not be allowed to work after a certain period of time.

This action plan will be completed by September 30, 2019.

12. Sales Tax and the Heritage Meal Plans

Issue (What we noted)

During the testing of meal plans, we reviewed the different meal plans set up for students living on campus and students living in the Heritage Apartments that are leased by UC Merced. We noted that students on the Heritage Apartment meal plan pay for \$2,400 worth of CatDollars per semester while on campus students pay for \$2,000 for a more traditional, declining balance meal plan.

Traditional meal plan funds are not charged sales tax, while CatDollar purchases are charged sales tax at campus locations. The decision to set up the different meal plans in this manner impacts the overall food purchasing power of the students in the Heritage Apartments. These off-campus students are required to pay \$400 more for their meal plans and each student is losing \$183 in purchasing power as they are required to pay sales tax (8.25%).

Best Practice/Policy

The Controller's Office and Tax Manager reviewed that sales tax was properly handled for meal plan purchases and CatDollar purchases. Details regarding the food purchases were evaluated to verify that the correct sales tax was charged and paid to the Board of Equalization. Food purchases with traditional meal plans are typically exempt from sales tax.

Cause of Issue

There are difficult issues related to properly charging sales tax on food. Many details have to be considered to verify that traditional meal plan funds are free from sales tax. Trade-offs had to be considered with the decision to utilize CatDollars for the off-campus meal plan.

Risk and Impact

Students on the Heritage plan end up paying more and then have their purchasing power diminished by paying sales tax. As CatDollars are refundable to these students, the plans may disincentivize students at the Heritage Apartments to find food elsewhere so they can eventually get the plan money repaid to them. Some students with the Heritage meal plans end up spending a portion of their meal plan money on non-food related purchases.

Recommendation

We recommend that the sales tax differences be evaluated if these plans continue during future semesters.

Management Corrective Action

During Fall 2019, Heritage meal plans will no longer be differentiated. There will only be meal swipe plans that will be offered to all on campus students.

VI. APPENDIX – SUMMARY OF TESTING COMPLETED

During the audit, Internal Audit completed the following audit testing.

Testing of Revenues

- Reviewed a sample of daily cashiering reports and deposits
- Reviewed amounts charged to other campus departments for catering services
- Tested meal plans for a sample of current students by reviewing account activity in the Catcard system and student accounts
- Verified that commissions negotiated with food vendors were accurately paid to the university
- Evaluated the accuracy of how sales tax was recorded and paid to the State Board of Equalization

Testing of Food Purchases and Control of Food Inventories

- Reviewed a sample of food purchases by tracing to purchase orders, receiving documentation, and vendor invoices. Traced amounts paid to the financial system.
- Reviewed contracts with food vendors to determine whether food prices were consistent with negotiated amounts.
- Reviewed menus to verify that items purchased seemed reasonable.

Testing of Payroll and Other Expenses

- Discussed how employees were scheduled to work
- Reviewed a sample of employee timesheets and verified appropriate approval of time worked.
- Reconciled time worked with amounts paid to employees in the UCPath system
- Tested a sample of expenses (which were not food purchases and non-payroll related) for compliance with UC policies

Other Testing

- Reviewed documentation related to food safety and cash handling training
- Evaluated how food safety and other safety concerns (such as food trucks on campus) were managed
- Discussed IT security practices of the CatCard system with the system administrator and Chief Information Security Officer.