HOUSING & HOSPITALITY SERVICES

UCLA CATERING

AUDIT REPORT #16-2224

Audit & Advisory Services
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Background

In accordance with the UCLA Administration fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated business practices of the UCLA Catering (Catering) operation.

Catering’s mission is to provide affordable food, service, and versatile meeting venues on a year-round basis. Catering is an auxiliary operation that offers full-service event planning and management to campus departments, and university affiliated organizations. Clients also include external business organizations, association, government and non-profit groups as well as individuals hosting weddings and other social events at UCLA.

Catering provides distinctive menus and presentations, served meals and themed buffets, and coordination of linen and floral arrangements, equipment rentals, deliveries, and audio\visual services. The operation relies upon two information systems, Delphi and Opera, to perform the booking and billing functions, respectively. The Housing & Hospitality Services (H&HS) Accounting Services Office (ASO) owns all processes and controls over Catering payments, accounts receivables, refunds, collections, etc.

Catering is comprised of sales and production units that are managed by the Director of Conferences, Catering & Marketing, who reports to the Assistant Vice Chancellor of H&HS. The sales and production staff are comprised of approximately 55 full-time career employees, 12 part-time employees and 71 limited appointment and per diem employees. For fiscal year ended June 30, 2015, total Catering revenue was approximately $6.3 million.

Purpose and Scope

The primary purpose of the review was to ensure that Catering’s organizational structure and controls surrounding the catering operation are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University requirements was also evaluated. The scope of the audit focused on the following areas:

* Financial Management
* Event Arrangements
* Revenue
* Information Systems
* Food Inventory

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

Summary Opinion

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

* Mandatory reviewers should read their Post Authorization Notifications (PANs) in accordance with the UCLA Financial Policy.
* Enable the hyperlink to Catering’s policies and procedures on the electronic Banquet Event Order (BEO) form to facilitate trouble-free access for clients.
* Monitor sundry debtor clients to ensure they have met their financial obligations prior to their scheduled event.
* Access to the Delphi system should be cancelled when an employee separates from the University or transfers to another department.
* Ensure that inventory physical count records are adequately maintained for reference, each inventory count sheet is clearly signed and dated by the assigned Catering manager, and the importance of timely invoice submission is reinforced with staff.

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

Audit Results and Recommendations

Financial Management

Catering’s accountability structure in the Distributed Administrative Computing Security System (DACSS) as of April 19, 2016, was evaluated for effective delegation of authority in reviewing cash receipt, recharge, and purchasing transactions, and for adherence to the UCLA Financial Policy on “Principles of Financial Accountability.” According to the UCLA Financial Policy, maintaining and securing an effective accountability structure should provide for the routine update of DACSS to ensure that proper access is granted to review transactions.

The June 2015 Chief Administrative Officer (CAO)/Departmental Security Administrator (DSA) Accountability Matrix, was evaluated to verify that current access is appropriate and consistent with the organizational structure and job responsibilities. During the evaluation of the accountability structure, it was determined that H&HS ASO owns Catering’s payment and cash collection process. Therefore, to maintain adequate separation of duties, Catering staff are not granted mandatory PAN reviewer privileges for Catering recharge and revenue accounts.

PANs from January 4, 2016, to March 31, 2016, for Catering’s cash receipt, recharge and purchase transactions were tested to ensure timely review in accordance with the UCLA Financial Policy. The Campus Data Warehouse Reviewers for a Specific Unit Report was used to identify the mandatory reviewers, and the associated audit logs were used to verify timeliness of the PAN review. Although the UCLA Financial Policy states that transactions must be reviewed within two working days of receipt, A&AS used a five-day criterion to account for weekends, holidays, alternative work schedules, and short absences.

A&AS verified that mandatory reviewers for Catering cash receipt, recharge and purchase transactions are appropriate. Catering’s DACSS Accountability Structure also agrees to the CAO/DSA Accountability Matrix and is in compliance with the UCLA Financial Policy. The following was noted:

A. Post Authorization Notifications (PANs) – Timely Review

Mandatory reviewers are not always reading their PANs in accordance with the UCLA Financial Policy. For the three month period tested from January 4, 2106, to March 31, 2016, the Director of Housing Services had 19 of 27 (70%) Catering PANs that went unread from 6 to 13 days; and for another account, an additional 22 of 41 (54%) Catering PANs that went unread from 6 to 15 days. In a separate instance, an Administrative Specialist had 22 of 200 (11%) Catering PANs that went unread between 6 to 8 days; and for another account, an additional 82 of 200 (41%) Catering PANs that were unread from 6 to 12 days.

Recommendation: Mandatory reviewers should read their PANs in accordance with the UCLA Financial Policy. In addition, management should consider evaluating the average volume of PANs for each mandatory reviewer to determine the reasonability and related effort required to complete daily reviews of transaction notifications received. If it is not practical, then management should consider revising their designated mandatory reviewers (mandatory versus non-mandatory) while still ensuring that adequate separation of duties, individual accountability, and appropriate control is maintained over financial resources as per the UCLA Financial Policy.

Response: Agree. In January 2016, the Catering Operation split the Sales Team and Production into two separate reporting structures. In addition, the Production team designated individuals to cover various duties to include Catering responsibilities for the Luskin Conference Center. Now with the transition of duties, the Director of Conferences, Catering & Marketing and the Assistant Director of Conference Services will carefully review the accountability structure to ensure that specifically designated employees have the necessary and adequate level of PAN review ownership in accordance with the UCLA Financial Policy. In addition, a PAN aging report will be generated monthly to ensure compliance.

Banquet Event Orders and Change Orders

A&AS obtained five event master lists from Catering management dated January 21, 2016, February 18, 2016, March 21, 2016, and April 1 and 6, 2016. Each master list contains the BEOs for a particular day. From the master lists, A&AS judgmentally selected a total of three BEOs for each month. Attributes used in selecting the sample were client type (recharge client or sundry debtor), applicability of sales tax, BEO amount, menu, BEO change orders (if any), and complexity of event arrangements.

For the sample selected, A&AS obtained supporting documentation such as Delphi system generated event reports, client correspondence, Catering contracts, BEOs, banquet checks, and banquet captain’s reports.

A BEO is an event planning document which expresses the objectives and details of an event between the client and Catering. It serves as a guideline for Catering to execute and communicate logistics to all necessary staff. A banquet check is a document provided by H&HS ASO to the client. It functions as a bill for the event and typically includes charges for food, beverage, location rental, equipment, linen, etc. An event captain’s report is a document that Catering’s event manager (captain) prepares and submits after the event that provides an event wrap-up overview including an event’s location and time, number of guests, comments on staff performance, client accolades or issues, etc. Generally, the captain’s report is where change orders that are requested by the client on the day of the event would be initially documented prior to revisions to the BEO.

The supporting documentation was evaluated to verify that advance notice of Catering policies and procedures were communicated to the client, e-mail authorization notice and BEO was provided to the client prior to the event, the Catering contract was fully executed prior to the event, and catering arrangements were properly itemized. For the sundry debtor clients, A&AS reviewed the Certificate of Liability Insurance to verify that liability insurance coverage of $1 million per occurrence was provided to the Catering Sales Team prior to the event. BEO change orders, if any, were also assessed to verify the adequacy of supporting documentation, and that any additional charges were properly itemized and agreed to by the client.

Test work indicated Catering’s policies and procedures are provided to clients through an electronic BEO and/or a catering contract. The majority of clients receive Catering’s policies and procedures electronically via a hyperlink embedded in their BEO.  BEOs are properly itemized and provided to clients on a timely basis prior to the event date. Catering contracts are approved by clients for events that occur on property managed by Catering. Proof of the proper liability insurance coverage was provided by sundry debtor clients as required. Client BEO change orders that occurred prior to the event date are properly documented on the BEO by the Catering sales staff. Change orders requested on the day of the event are documented on an on-site form and on the Captain’s Report as necessary. The following was noted:

1. Catering Policies and Procedures

Catering’s website hyperlink to its policies and procedures that is embedded on its client BEOs is disabled, and does not allow clients to access the policies and procedures. The policies and procedures are primarily communicated electronically when the BEO is emailed to the client and contain pertinent information such as:

* Payment requirements, charges and fees
* Insurance requirements
* Health code regulations
* Alcoholic beverages
* Safety and Security
* Event requirements, staffing levels, orders, cancellations, etc.
* Filming and Photography permits
* Other terms and conditions

Catering management confirmed that the hyperlink is embedded in the digital event order template and that it has probably been disabled for at least 18 months as a result of an application update. By not having a valid hyperlink to pertinent catering event policies and procedures, the University may be subject to increased risk exposure, loss of income, increased liability, and /or non-compliance with applicable laws, regulations and policies.

Recommendation: Management should ensure that the hyperlink to its policies and procedures on the electronic BEO form is enabled to facilitate trouble-free access for clients. By doing so, management will be strengthening its controls over timely conveyance of pertinent information to clients, reducing potential liability, and increasing operational effectiveness.

Response: Agree. Effective immediately, hyperlinks on the website will be monitored closely and tested monthly to ensure all hyperlinks are working properly.

Banquet Rates Charged

Interviews were held with Catering management, H&HS management, and H&HS ASO to determine Catering’s pricing methodology. A&AS also corresponded via email with the Director – Finance, Office of Academic Planning & Budget (POSSSE) regarding the applicability of UCLA Policy 340, Sales and Service Activities, to the catering operation. The sample BEO’s were reviewed to gain a general understanding of current prices being charged to clients.

A&AS verified that Catering is not subject to POSSSE review and/or Policy 340 since its operation is structured within the 7xxxx Auxiliary Fund Series. Catering’s Food Operations management team (including the Executive Chef) determines prices and mark-ups which are intended to be competitive with local third party catering operations. Prices are published on the Catering website along with Catering’s policies and procedures. Catering clients are provided a written estimate on the BEO as part of event planning process. The estimate is acknowledged and agreed to in writing when received by the client.

There were no significant control weaknesses noted in this area.

Billings and Recharges

Meetings were conducted with Catering management. For the selected sample, A&AS performed testing to verify that the agreed upon event arrangements and event change orders were properly documented and accounted for, and billed or recharged to clients on a timely basis. Supporting documentation including BEOs, banquet checks, event captain’s report, General Ledger detail and payment supporting documentation were reviewed to verify that payment was remitted or recharged on a timely basis.

Catering recharges to Campus departments is performed using the University’s billing system. Clients not using a university recharge account (aka sundry debtors) are required to pay the full balance seven business days prior to their event. For instances where there are client requested change orders near or on the event date, ASO provides the billing accommodation.

A&AS traced all charges from the BEO, to the banquet event check, and to the Campus General Ledger. A&AS also verified that Catering’s BEOs and associated change orders, if any, are properly billed or recharged to clients on a timely basis.

There were no significant control weaknesses noted in this area.

Sales Tax

For the selected sample, A&AS determined if each client was a campus recharge client or a sundry debtor. Campus recharge clients are non-taxable and sundry debtors are taxable. A&AS verified with the UCLA Tax Coordinator – UCLA Tax Services, that the current tax rate for Los Angeles County and UCLA is 9%. A&AS also verified that sales tax is generally applicable on Catering’s food and beverage, labor, handling & service fees, meeting room rental (if applicable), and any other third party charges. UCLA Tax Services works with Catering as needed to determine if an exemption applies in a particular situation. For the four selected sundry debtors in our sample, sale tax charged on the banquet checks was tested for accuracy and appropriateness. A&AS verified that sales tax is appropriately charged to sundry debtors and only for items where sales tax is applicable.

There were no significant control weaknesses noted in this area.

Accounts Receivable

Catering management, H&HS management, and H&HS ASO provided a general overview of sundry debtor account receivable processes including monitoring, aging, collection methodology and bad debt write-off. Catering’s outstanding accounts receivable as of May 31, 2016, was $69,052.41. There were no bad debts written-off during fiscal year 2014-15. A&AS reviewed accounts receivable business practices and assessed the April 2016 bad debt write-off supporting documentation for adequacy, completeness and proper approvals.

Test work indicated Sundry debtor accounts receivable are regularly monitored by both Catering management and H&HS ASO utilizing Opera system aging reports. As part of the collection effort, the Catering sales team provides the client courtesy reminders, and accommodates payment arrangements. Formal collection efforts are performed by H&HS ASO. Once collection efforts have been exhausted, bad debts are written-off with appropriate approval by the H&HS Assistant Vice Chancellor.  A complete audit trail including collection notes and supporting documentation is maintained by H&HS ASO. The following was noted:

1. Sundry Debtor Clients

The contractual deposit of $500.00 for the October 1, 2015, Volunteer Eco Students Abroad (the sundry debtor client) meeting was not collected prior to the event as required by Catering’s policies and procedures, and is being written-off as bad debt. The $500.00 charge was to be prepaid as a non-refundable deposit due to the late booking of the event. The event was overseen by the assigned Catering Sales Manager. The UCLA Catering Off-Campus Contract between the Regents of the University of California and Volunteer Eco Students Abroad was executed by all parties on September 28, 2015. Per the terms of the contract, the due date for the deposit was September 29, 2015.  Additionally, UCLA Catering’s published event policies and procedures require sundry debtor clients to pay the full balance due prior to their event.

Recommendation: Management should strengthen revenue management processes by verifying sundry debtor clients have met their financial obligations prior to their scheduled event. Management should ensure that amounts still due as of the event date are discussed directly with the client and adequately documented. Client contact information should also be verified as being current, complete and accurate. Management should also ensure that all sundry debtor client deposits are paid online with a credit card prior to the event date in order to ensure event arrangements are provided on time and complete.

Response: Agree. Effective immediately, policies on how to handle payments by non-University recharge clients will be re-emphasized with the Sales Team to ensure compliance. Any deviations or exceptions made to the policy will require authorization from Director of Conferences, Catering & Marketing and the Assistant Director of Conference Services in advance and will be properly documented.

Refunds

Catering management, H&HS Management, and H&HS ASO provided an overview of refund business practices and controls. A&AS obtained supporting documentation “packets” for the three most recent refunds as of April 2016. Each refund supporting documentation packet was summarized and assessed for adequacy, completeness and proper approvals. A&AS verified that refunds are paid in the same payment type as the source payment. All refunds have adequate supporting documentation, including Catering management authorization. Since H&HS ASO owns processes and controls over Catering’s refunds, once Catering approves the refund, the preparation and processing is performed by H&HS ASO.

There were no significant control weaknesses noted in this area.

Reconciliations

Reconciliation testing was performed for three recharge clients and three sundry debtors from the sample BEOs. The reconciliation testing was performed between the Delphi system BEO, Opera system banquet check, and the campus General Ledger. Reconciliation supporting documentation was obtained and evaluated to determine adequacy and the degree of management oversight. A&AS compared the BEO, banquet check, invoices, interdepartmental recharge report (if applicable), and detail General Ledger to verify that reconciliations are appropriately performed.  The H&HS ASO properly reconciles Catering’s events. Specifically, H&HS ASO Night Audit Staff perform daily reconciliations between the Delphi system and the Opera system. H&HS ASO then performs reconciliations between the Opera system to the campus General Ledger. Additionally, H&HS ASO and Catering management attend monthly meetings to review and discuss issues, if any.

There were no significant control weaknesses noted in this area.

Information Systems

Access rights granted to employees for the Delphi system were tested for appropriateness. Access rights are granted by H&HS Database Services management based on job responsibilities. The Delphi system active user list dated April 15, 2016, was obtained from H&HS Database Services management. For the 81 names on the list, A&AS queried the campus Oasis system to determine if they are active employees requiring Delphi system access. A&AS also verified inconsistencies due to spelling nuances, nicknames, hyphenated names, etc.

For each active employee identified as requiring Delphi system access, A&AS compared their job title on the list for reasonableness relative to the work-based need for having such access. Those job titles included campus units such as catering sales and related administration, food service, conference services, custodian services, accounting services, property management, etc.

1. Delphi System – User Access

Five former Catering employees still have access to the Delphi system. Four employees had separated from the University on June 20, 2014, October 28, 2014, October 31, 2015, and February 1, 2016, respectively. One employee transferred to another department on May 1, 2015. By not ensuring that access to the Delphi System is maintained on a current basis, unauthorized access to event orders and related revenue activity may occur.

Recommendation:Management should ensure that access to the Delphi system is cancelled when an employee separates from the University or transfers to another department. At the time management becomes aware of an impending employee separation or transfer to another department, it should provide timely written notification to H&HS - Database Services Management of the impending personnel transaction in order to effectively control access to the Delphi system. Additionally, management should perform a timely follow-up to the notification to verify that access has been canceled.

Response: Agree. Effective immediately, Management will work with Database managers in both Housing Services and IT departments to ensure that access to Delphi is continually monitored and updated accordingly. Notification with names and UID information will be provided to H&HS – Database Services Management for enhanced data integrity and timely follow-up to verify access has been annulled.

Food Inventory

Catering’s departmental inventory count procedures were reviewed for adequacy. Food inventory count sheets for January 26th, February 9th, February 23rd, and March 29th, 2016, associated Inventory Analysis Reports, and interim inventory spot reports were obtained and reviewed for accuracy and to identify significant variances. A judgmental sample of inventory group types was selected based on aggregate group dollar value as reported on the Inventory Analysis Reports. Inventory group types include bakery, coffee, freezer, dairy, produce, dry room, etc.

Based on the inventory groups selected, each inventory item was traced from the ending inventory from one period to the beginning inventory to the subsequent period. “Blind” inventory counts are performed by Catering management and staff (the count team). “Blind” counts use count sheets that are printed with inventory item numbers, descriptions and unit type, but with no quantity. The count team is provided the inventory count sheets by Dining Services Central Office (DSCO), with one team member “calling out” the item name, description and unit type, and the counting team member responding with the quantity on-hand. Before the amount is recorded, the caller repeats the units counted for accuracy.

Once the inventory count is complete, the count sheets are submitted to DSCO for comparison to the perpetual inventory records. All deviations from planned usage are investigated by management for data entry errors, recipe usage variances, operational issues, etc. Once resolved, explanations are noted on the analysis report. The following was noted:

1. Inventory Count Sheets

Catering management was unable to provide inventory count sheets for the period ended January 29, 2016.

The inventory count sheets for the periods ended February 9, 2016, February 23, 2016, and March 29, 2016, did not have each count sheet signed and dated by the reviewing manager prior to submitting the count sheets to DSCO as required by Catering management departmental procedures.

For the period ended March 29, 2016, 78 20-ounce units of coffee were physically counted. However, only 48 20-ounce units were recorded as inventory on-hand in the inventory records. Further investigation of this variance identified the cause as a late submission of the related coffee invoice. The invoice was later processed for payment, but not in time for the inventory variance analysis.

By not adequately maintaining inventory count sheets, evidencing management review of inventory counts, and submitting vendor invoices on a timely basis, there is increased risk of misappropriation of assets, not detecting errors, and unreliable financial reports.

Recommendation: Management should ensure that inventory physical count records are adequately maintained for reference, variance identification, and resolution. To comply with departmental procedures, upon completion of each inventory count the assigned Catering manager should clearly sign each inventory count sheet prior to submitting it to DSCO for processing. In addition, management should reinforce the importance of timely invoice submission with its staff in order to strengthen its control environment.

Response: Agree. In April 2016, Catering purchased and is in the process of installing a new Food Inventory system called Eatec®. This automated system will be implemented to handle all inventory sheets with proper processing and will comply with departmental procedures. Staff will be fully trained and the system operational by no later than October 2016.

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