UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONTRACT ADMINISTRATION
FOOD SERVICES

REPORT NO. AR2018-25

UNIVERSITY OF HOUSTON SYSTEM
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MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: August 8, 2018

SUBJ: Internal Audit Report – UHS Contract Administration – Food Services

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

The Internal Auditing Department conducted a system-wide review of the food services contract. The objectives were to determine whether management had adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and whether the Board of Regents and University of Houston System have adopted the rules and policies required by the Texas Education Code, Section 51.9337. In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and the Board of Regents and the University of Houston System have adopted all rules and policies required by the Texas Education Code, Section 51.9337. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract oversight, contract monitoring, and financial settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

This audit report is scheduled to be included in the agenda materials for the August 23, 2018, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM
CONTRACT ADMINISTRATION – FOOD SERVICES

BACKGROUND:

We performed a review of the food services contract for the University of Houston System universities. This review was scheduled in the annual audit plan for FY 2017.

UHS entered into a contract with Aramark Educational Services of Texas, Inc. to provide food services on August 31, 2005 and this contract was terminated on June 30, 2017. On July 1, 2017, UHS entered into a contract with Chartwells, a division of Compass Group USA, Inc., to provide food services. While the contract was executed for UHS, the System universities manage their food service operations.

The table below details sales revenue from the Aramark food services contract during FY 2017:

University	Sales FY 2017
UH	$27,867,568
UHD	$1,660,323
UHV	$1,203,851
UHCL	$729,231

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether management has adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions.

2. Determine whether the Board of Regents and the University of Houston System have adopted the rules and policies required by the Texas Education Code, Section 51.9337 (annual assessment by Chief Auditor required).

SCOPE OF WORK:

We interviewed personnel responsible for managing the food services contract, analyzed and reviewed the food services contract, commission settlement documents, quality assessments,

statutes, Board of Regents and UHS policies and procedures, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions and the Board of Regents and the University of Houston System have adopted all rules and policies required by the Texas Education Code, Section 51.9337. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract oversight, contract monitoring, and financial settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

Don F. Guyton
Chief Audit Executive
June 19, 2018

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Contract Oversight

System Administrative Memorandum (SAM) 03.A.05, Contract Administration, requires individual(s) responsible for ensuring that the terms and conditions of the contract are met shall sign an appropriate statement acknowledging this responsibility. Manual of Administrative Policies and Procedures (MAPP) 04.04.01A, Contract Administration, states that the originating unit is responsible for monitoring and assuring performance in accordance with provisions of the contract and for reporting non-compliance to the College/Division Business Administrator and, as appropriate, to the appropriate Vice President. MAPP 04.04.01A further states that the individuals responsible for ensuring that the terms and conditions of the contract are met shall sign an appropriate statement acknowledging this important responsibility.

During our review, we determined the following:

a) The individual signing the acknowledgement of responsibility for the system-wide contract for food services performed certain procedures at UH to help determine whether the terms and conditions of the contract were met at UH, but not at the other System universities.

b) When the individual that signed the acknowledgement of responsibility for the system-wide contract for food services left the university or was no longer responsible for ensuring the terms and conditions of the contract were met, acknowledgment of the change in responsibility was not made.

Recommendation (UHS): Management should modify SAM 03.A.05, Contract Administration, to require appropriate oversight of system-wide contracts and the acknowledgement of changes in responsibility for contract oversight.

Management's Response (UHS): We will modify SAM 03.A.05, Contract Administration, to require appropriate oversight of system-wide contracts and the acknowledgement of changes in responsibility for contract oversight by January 31, 2019.

Recommendation (UHS): Management should develop procedures to help ensure that the terms and conditions are met for system-wide contracts.

Management's Response (UHS): We will develop procedures to help ensure that the terms and conditions are met for system-wide contracts by December 31, 2018.

Contract Monitoring

System Administrative Memorandum (SAM) 03.A.05, Contract Administration, requires that System universities develop and maintain a contract management system to help ensure that the terms and conditions of each contract are performed in an appropriate manner. However, SAM 03.A.05 does not provide guidance on how to monitor contracts. The State of Texas Procurement and Contract Management Guide provides guidance on monitoring methods, such as desk reviews (progress reports, status reports, activity reports, financial reports, and vendor performance reports) and site visits (monitoring checklists and reports).

The system-wide food services contract contains several terms related to the following categories: market research, quality assurance, customer satisfaction, dining surveys, performance incentives, and financial performance. All of the System universities are required to comply with these contract terms. However, we determined that several contract terms were not being monitored for compliance by the System universities.

The System universities have implemented informal procedures to help ensure quality of services and compliance with the terms and conditions of the contract. These procedures are not standardized among the System universities. The procedures include periodic meetings with the Food Services Advisory Committee and/or food service managers, periodic review of vendor locations, and/or comparison of commissions received to information contained in the vendor's operating statements. In addition, there were no documentation standards and, as a result, there was limited documentation retained supporting compliance with the terms of the contract.

Recommendation (UHS): Management should update SAM 03.A.05, Contract Administration, to include requirements for monitoring contracts, including the use of a contract monitoring checklist and documentation standards.

Management's Response (UHS): We will update SAM 03.A.05, Contract Administration, to include requirements for monitoring contracts, including the use of a contract monitoring checklist and documentation standards by January 31, 2019.

Recommendation (UHS): Management should develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of contracts.

Management's Response (UHS): We will develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of contracts by December 31, 2018.

Financial Settlement/Reconciliation

The contract financial terms related to commissions are different for all of the System universities. The commission terms for the System universities are: UH commission is 7.5% of sales; UHCL has tiered commission rates based on gross sales with an annual guarantee; UHD commission is 8.5% of sales; and UHV is invoiced for any monthly operating loss and receives any operating surplus. In addition, UH, UHCL, and UHD receive 6.0% commission on food truck sales.

Due to the different terms in the contract, the procedures differ at the System universities (see below). However, we determined that UH, UHCL, and UHD did not have written procedures, focused on recalculating the actual commissions due and comparing it to the commission checks received from the vendor, and did not always ensure the accuracy of food truck commissions. All of the System universities did not have procedures to help ensure the validity of the sales information reported by the vendor to supporting documentation, such as point of sale records.

- UH calculated the commission amount due based on the amount of sales on vendor weekly sales reports. The vendor did not provide UH with profit and loss statements. They compared the commission check received to the calculated commission amount for accuracy.

- UHCL received monthly commission checks based on the annual financial guarantee. At the end of an operating year, UHCL calculated the actual commission amount based on annual gross sales and invoiced the vendor, as appropriate. For the operating year that ended in 2017, we determined that UHCL did not use the appropriate commission rate, and as a result, the invoice was understated (less than $1,000).

- UHD calculated the commission amount due based on the amount of sales on the vendor's monthly profit and loss statement. They compared the commission check received to the calculated commission amount for accuracy. However, according to the Director of University Business Services, the commission checks were generally more than the calculated amount. She also stated that she did not follow-up with the vendor if the calculated commission amount differed from the commission check.

- UHV reviewed the vendor's invoice and monthly profit and loss statement, including a listing of expenses, for accuracy and questionable items. Questionable items were discussed with the vendor and adjustments were made, as appropriate.

Recommendation (UHS): Management should work with the System universities to implement procedures to help ensure the accuracy of commission payments. In addition, procedures should include verifying the validity of the sales amounts by reviewing supporting detailed sales documentation, such as point of sale records.

Management's Response (UHS): We will work with the System universities to implement procedures to help ensure the accuracy of commission payments, including verifying

the validity of sales amounts by reviewing supporting detailed sales documentation by December 31, 2018.

University of Houston System
Internal Auditing Department

UHS Contract Administration - Food Services - AR2018-25
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
January 31, 2019	Emily Messa Associate VC/VP Administration	Modify SAM 03.A.05, Contract Administration, to require appropriate oversight of system-wide contracts, acknowledgement of changes in responsibility for contract oversight, and requirements for monitoring contracts.
December 31, 2018	Emily Messa Associate VC/VP Administration	Develop procedures to help ensure terms and conditions for system-wide contracts are met.
December 31, 2018	Emily Messa Associate VC/VP Administration	Develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for System universities to help ensure quality of services and compliance with terms and conditions of contracts.
December 31, 2018	Emily Messa Associate VC/VP Administration	Work with System universities to implement procedures to help ensure the accuracy of commission payments, including verifying the validity of sales amounts.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.