



**FLORIDA
INTERNATIONAL
UNIVERSITY**

Office of Internal Audit

**Audit of the
University's Office of Business Services -
Vendor Contracts Revenue**

Report No. 14/15-01

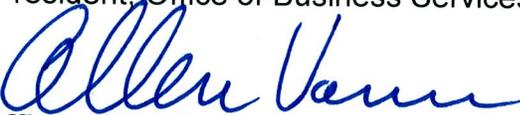
August 22, 2014



OFFICE OF INTERNAL AUDIT

Date: August 22, 2014

To: Aime Martinez, Associate Vice President, Office of Business & Finance
Jeff Krablin, Assistant Vice President, Office of Business Services

From: Allen Vann, Audit Director 

Subject: **Audit of the University's Office of Business Services - Vendor Contracts Revenue, Report No. 14/15-01**

Pursuant to our approved annual plan, we have completed an audit of the University's Office of Business Services - Vendor Contracts Revenue for the fiscal year ended June 30, 2013. The Office oversees and collects almost seven million dollars annually in income from merchants that provide a wide array of goods and services to the University community.

Overall, our audit disclosed that the Office of Business Services' controls and procedures over the collection of revenue from vendor contracts were satisfactory. However, there were areas where internal controls need strengthening. We found exceptions as it pertained to the review of sales data and documentation maintained and provided by vendors, commission calculations, delays in receiving payments from vendors, depositing procedures, employee background checks, and account classification of revenue. The audit resulted in 10 recommendations which management agreed to implement.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

- C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
- Mark B. Rosenberg, University President
- Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
- Javier I. Marques, Chief of Staff, Office of the President
- Andrew Lindsay, Director of Finance, Office of Business Services

TABLE OF CONTENTS

	<u>Page</u>
OBJECTIVES, SCOPE, AND METHODOLOGY	1
BACKGROUND	2
FINDINGS AND RECOMMENDATIONS	5
1. Vendor Records Submitted	6
2. Vendor Commission Calculations	8
3. Vendor Contract Compliance	10
4. Deposit Procedures	12
5. Employee Background Checks	13
6. Account Classification	15

OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the University's Office of Business Services (OBS) - Vendor Contracts Revenue for the fiscal year ended June 30, 2013. The primary objective of our audit was to ensure that retail and service providers are adhering to contract terms, and ensure that OBS adheres to University policies and procedures, and applicable laws, rules, and regulations.

Our audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from February 2014 to June 2014.

During the audit, we reviewed University policies and procedures, Florida statutes, and University rules, observed current practices and processing techniques, interviewed responsible personnel, reviewed vendor data when applicable, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

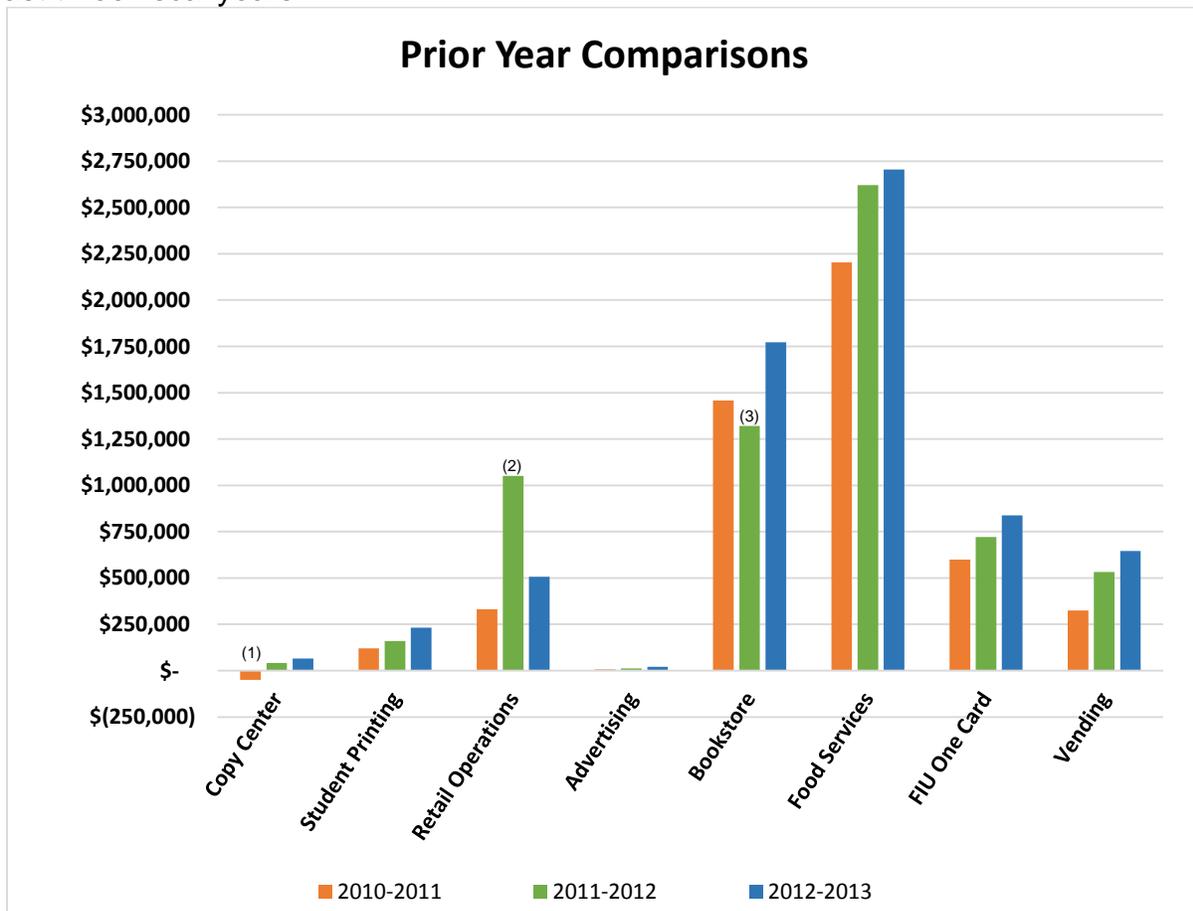
We also reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit. There were no prior recommendations related to the Office of Business Services.

BACKGROUND

The Office of Business Services (OBS) manages and oversees contracts with merchants that provide a wide array of goods and services to the University community. The goods and services are supposed to be provided to the University community either at or below the cost of comparable services found off-campus. Services provided at the University include:

- 27 Restaurants
- 4 Mini Markets
- Catering Services
- Healthcare Network
- Barber Shop
- Hair and Nail Salon
- 2 Bookstores
- 3 Car Washes
- Computer Store
- 2 Copy, Printing, and Shipping Centers
- 2 Banks (3 Branch Locations)
- 7 ATMs
- Video Game Store
- Bus Shelter Advertising
- Preferred Travel Vendors
- 123 Snack Vending Machines
- 138 Beverage Vending Machines
- Advancement Call Center

In the 2012-2013 fiscal year services were provided by 17 vendors and generated \$6.8 million in revenues to FIU. Below is a table comparing the revenues received over the past three fiscal years.

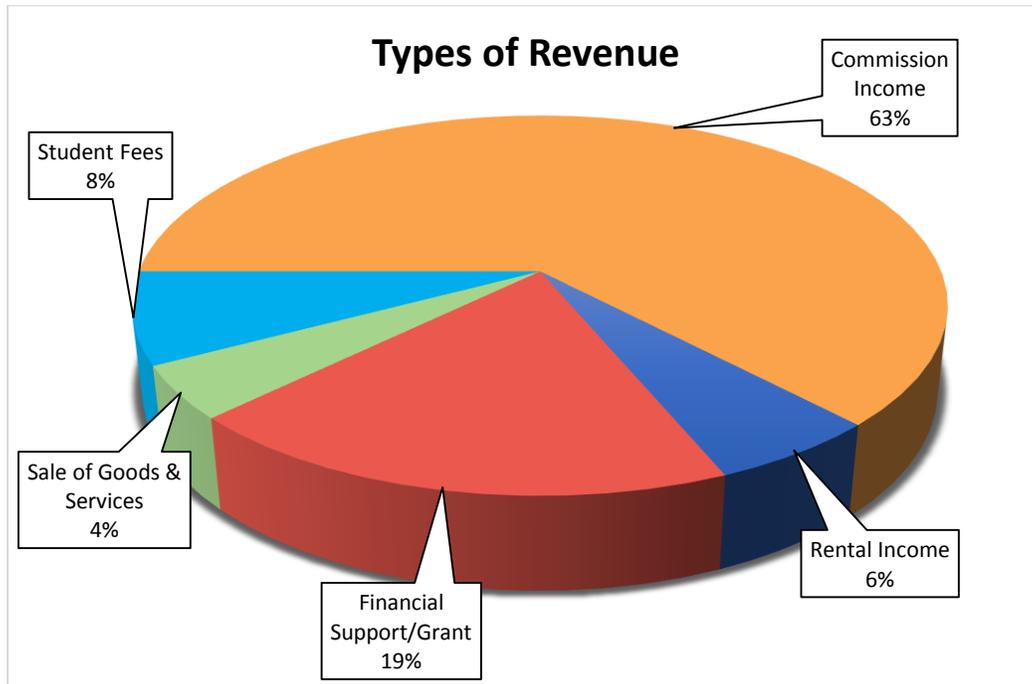


(1) Negative balance due to a reversal of accrued revenue of \$134,028 resulting from a settlement with Toshiba for the Copy Center rental.

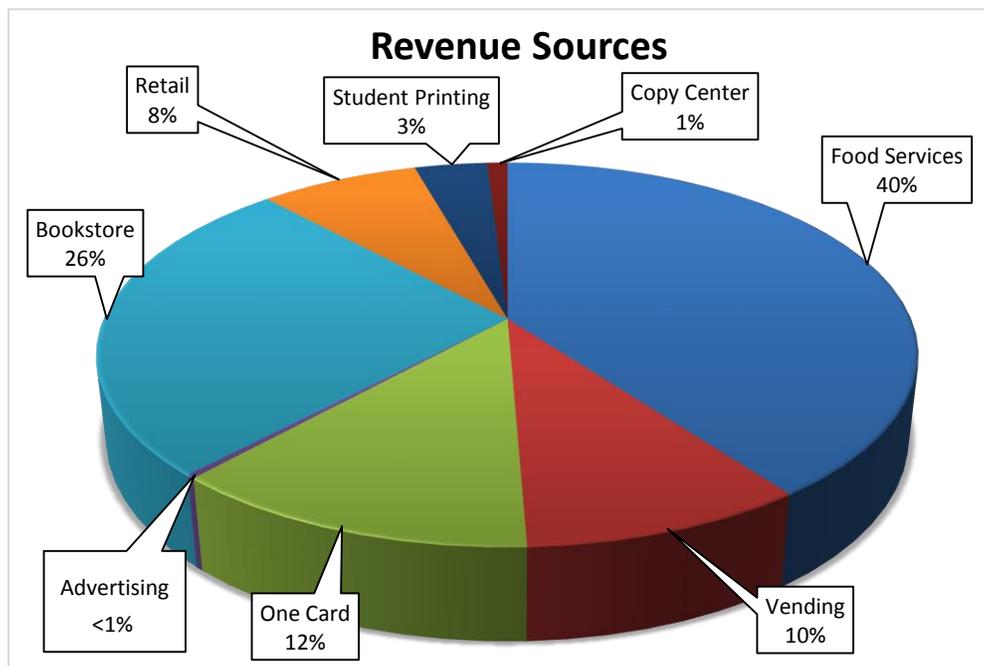
(2) Increase due to a one-time payment of \$650,000 from Office Max on the renegotiated contract.

(3) Decrease due to amended contract decreasing commissions to offset capital expenditures for store renovations by Barnes & Noble.

Revenue received is comprised of the following types of income: commission, rent, financial support/grant, the sale of goods and services, and student fees. Commission income, totaling \$4.3 million, represents the largest (63%) of these revenue types received by the University.



Revenue is recorded to a PantherSoft activity number based on the revenue source as indicated below. Food Services encompasses the largest source of revenue with a total of \$2.7 million collected.



FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the Office of Business Services' controls and procedures over the recording of revenue from vendor contracts were satisfactory. However, there were areas where internal controls need strengthening. We found exceptions as it pertained to the review of sales data and documentation maintained and provided by vendors, commission calculation, delays in receiving payments from vendors, depositing procedures, employee background checks, and account classification of revenue.

Our overall evaluation of internal controls is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		X	
Policy & Procedures Compliance	X		
Effect	X		
Information Technology Risk	X		
External Risk	X		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-Compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Technology Risk	System controls are effective in mitigating identified data risks	System controls are moderately effective in mitigating identified data risks	System controls are ineffective in mitigating identified data risks
External Risk	None or low	Medium	High

Detailed below are the areas identified by our audit testing where opportunities for improvement exist.

1. Vendor Records Submitted

Currently, the Office of Business Services receives commission payments, usually monthly, accompanied by the merchant's supporting documentation. OBS agrees the payment against the documentation provided and the contract. However, OBS does not perform a review of vendors' detailed sales records.

We reviewed the vendors' sales records for 11 revenue transactions, totaling \$766,571. Our review included examining the detailed vendors' documentation, including register receipts, when applicable, for the selected periods. As a result, we found that three vendors were not maintaining proper records. These three vendors were unable to provide the required documentation for the testing of commission payments totaling \$5,769.

- One vendor for food services could not provide receipts for the October 2012's sales of \$3,282. The contract with the vendor did not indicate that records must be maintained and available for review by University personnel. Documentation for only a portion of the sales of \$1,029 were obtained but the receipts provided did not agree with the sales reported to the University. Since complete and accurate documentation could not be provided the commission could not be verified for accuracy.

The contract also does not specify how accounting records should be maintained. This vendor also provides catering services but retains accounting records on a cash basis. Therefore, commission for those catering services are not reported and given to the University until payment is received, which can be up to four months after the catered event.

- A second vendor's contract states that the vendor shall maintain complete and accurate records of all revenues and expenses which may be inspected, reviewed or audited by University personnel at any time during regular working hours with or without prior notice. A subcontractor for this vendor was contacted for support of the commission payment of \$2,918 in September 2012 but the subcontractor was unable to provide detailed support, including register records, to ensure the payment's accuracy.
- The third vendor's contract states that all sales information would be available to the University for any date range. However, the daily sales information for August 2012's commission payment of \$596 was not provided. Thus, the commission could not be verified for accuracy.

Recommendations

Office of Business Services should:	
1.1	Ensure all vendor contracts contain a clause requiring vendors to maintain daily sales documentation allowing for University employees to review.
1.2	Perform periodic audits of vendor records to ensure proper records are maintained and commission is calculated accurately.

Management Response/Action Plan:

- 1.1 All vendor contracts are under review to ensure each includes language requiring vendors to maintain daily sales documentation and allows for university employees access to review the data. If contracts do not have the appropriate language they will be amended.

Implementation Date: December 15, 2014

- 1.2 A schedule of periodic audits of vendor sales records has been established for all vendors. Sales for one month at each vendor (including all brands under contract with vendors such as Aramark) will be audited annually. This procedure has been fully outlined in the Office of Business Services (OBS) Employee Handbook.

Implementation Date: Immediately

2. Vendor Commission Calculations

The examination of the records provided by the vendors for the 11 transactions disclosed two exceptions where the calculated commission was incorrect.

- During the review of the food services vendor we selected 5 of the 33 food services locations to ensure that commissions received by the University were accurate. The contract with the vendor states that commissions are calculated based on gross sales net of any returns and applicable taxes. The review of the selected months' support disclosed that commission payments were being calculated based on cash deposits instead of net sales. Commissions should be based on net sales regardless of whether cash registers were over or short. While the University's loss of commissions in this instance was nominal for the one month at the 5 locations tested, losses could potentially be more significant in the aggregate.
- During the review of the bookstore vendor a difference of \$62 was calculated between the vendor's records and the commission payment. According to vendor management this is due to a product incorrectly identified in their system. The item is considered a convenience store item in the system on campus but identified as a bookstore item at the corporate system. This item is taken out of the convenience store sales and included in the bookstore sales at the corporate level. Since the commission for the convenience store is 15% but the bookstore commission is between 11.5% - 14%, this leads to a loss on commission revenues. We are unable to determine the resultant loss incurred by the University. Vendor management is currently working on correcting this issue for future commission payments.

Recommendations

Office of Business Services should:	
2.1	Ensure that food services vendor calculates commissions on actual net sales in accordance with the contract.
2.2	Ensure that vendor has corrected the item identification error.

Management Response/Action Plan:

- 2.1 FIU's food service vendor has amended its procedures so all commissions are calculated on actual net sales per the agreement. Calculations for the month of July will be amended.

Implementation Date: August 30, 2014

- 2.2 The Office of Business Services has been notified by the vendor that the identification error has been corrected. Business Services will confirm in the system by testing July sales.

Implementation Date: August 30, 2014

3. Vendor Contract Compliance

We judgmentally selected 34 revenue transactions to test from 13 vendors, totaling \$2,690,065, from total revenues of \$6.8 million. We tested to ensure that funds received were appropriate, timely, and agreed to the requirements of the contract. The transactions included commissions, financial support/grant, rental income, student fees, and sale of goods and services. We found the following two exceptions.

- A total of 7 deposits (or 21%), totaling \$251,922, were received between 12 and 104 days (averaging 40 days) after the required due dates. The contracts with the vendors indicate when payments to the University are required to be submitted and OBS sends out invoices, where deemed appropriate, when revenue is due to facilitate the payment to the University.
- Documentary support for the commission payment provided by one vendor payment was insufficient and did not adhere to the contract requirements. The contract with the vendor states that a written report that describes in detail the vendor's calculation of the commission must be signed by an authorized representative included with the payment. The support provided did not provide the designated items and we were unable to verify if the commission received was accurate. The corrected support was later provided by the vendor upon our request and showed the payment to be correct.

Recommendations

Office of Business Services should:	
3.1	Consider alternative means to ensure revenue is received by deadlines designated in the contract.
3.2	Ensure that all reports received adequately support the commission payment and agree to the contract guidelines.

Management Response/Action Plan:

- 3.1 All vendor contracts are under review to ensure each includes appropriate and reasonable language regarding payment deadlines. Additionally, procedures associated with payment notification and invoicing are being revised to help ensure prompt payment. This procedure will be outlined in the OBS Employee Handbook.

Implementation Date: December 15, 2014

- 3.2 Detailed reports have been requested from the particular vendor in question and such reports will accompany all payments. Additionally, all vendor contracts are under review to ensure the Office of Business Services receives adequate support for commission payments. Procedures associated with payment reconciliation and supporting documentation will be updated within the OBS Employee Handbook.

Implementation Date: December 15, 2014

4. Deposit Procedures

University Policy Number 1110.010 requires that all checks received by the University be brought to the Student Financial Services Office for deposit within 48 hours of receipt. Currently, the Office of Business Services receives checks and enters them into a software program noting the date received. We tested 10 checks and found one exception:

- One check totaling \$30,000 was not entered into the system, thus, we could not verify when the check was received.

However, our testing also found that at times checks were being deposited prior to being “received” and recorded into the software program. Thus, the current process did not provide evidence that checks were being deposited on a timely basis, as we were unable to always determine when checks were physically received.

Recommendation

Office of Business Services should:	
4.1	Ensure that the all checks are entered into the system when physically received.

Management Response/Action Plan:

- 4.1 The Office of Business Services deposit procedures have been revised to delineate responsibility and ensure a log is kept to track receipt of checks. This revised procedure will be outlined in the OBS Employee Handbook.

Implementation Date: August 30, 2014

5. Employee Background Checks

University Policy Number 1710.257, effective in March 2009, requires the performance of criminal history checks on current employees who are final applicants for promotion to positions where criminal history checks are required by law. The policy also requires more in-depth criminal history checks including fingerprinting, through the Florida Department of Law Enforcement for new employees (or employees recently promoted) in sensitive positions. Included in this category of employees are individuals handling cash or managing cash transactions and all financial services positions.

Upon review of employment files for OBS personnel managing cash transactions, we found one employee in which HR did not have any records of a background check or fingerprinting having been conducted. The employee was hired before the requirement as an Office Assistant but was later promoted to Accountant with cash management responsibilities in September 2009. The promotion occurred subsequent to the Policy effective date, thus, fingerprinting should have been performed. OBS subsequently provided us evidence of fingerprinting records on file for the employee and stated they had been sent to HR for processing. Regardless, no evidence of the fingerprinting processing or background check results were available. In addition, HR stated they were unaware that the employee required a background check as the position description, as currently listed, does not mention the employee has cash management responsibilities.

A second employee in a financial services position was hired in November 2009 but no fingerprinting was performed. Employees in financial services positions require fingerprinting per the current Policy.

Recommendations

Office of Business Services should:	
5.1	Work with Human Resources to ensure that criminal background checks including fingerprinting are conducted for all applicable positions.
5.2	Ensure that employee positions are accurate and only individuals with cash management responsibilities manage cash transactions.

Management Response/Action Plan:

- 5.1 Per University Policy Number 1710.257, the Office of Business Services is confirming that all employees in financial service positions have completed the required background and/or fingerprint checks.

The Office of Business Services will work with the Office of Human Resources to identify any new financial services employees or any new employees with cash handling responsibilities so that Human Resources may perform the requisite background and/or fingerprint checks. This requirement has been noted in the OBS employee handbook. However, the Office of Business Services has no direct role in HR policy or background check practices. The Office of Business Services maintains that the responsibility to conduct background checks per policy should remain with HR.

Implementation Date: August 30, 2014

- 5.2 All job descriptions are being updated to reflect cash handling responsibilities.

Implementation Date: August 30, 2014

6. Account Classification

As part of the testing of the 34 revenue transactions, we also tested to ensure that the transactions were recorded in the corresponding account. We found two transactions, totaling \$35,777, posted to the incorrect account in the PantherSoft system. One transaction was posted to sale of services when receipt was from an unrestricted grant, and the other receipt was a commission payment posted to rental income.

Recommendation

Office of Business Services should:	
6.1	Ensure that revenue is always posted to the appropriate account.

Management Response/Action Plan:

6.1 The Office of Business Services will ensure all revenue is posted to the appropriate account. Additionally, monthly financial reports from business operations will allow for review and verification that expenses and revenues have been posted accurately.

Implementation Date: Immediately