



Office of Internal Audit

**Audit of the Procurement Process at the
Chaplin School of Hospitality & Tourism
Management**

Report No. 18/19-10

May 23, 2019



OFFICE OF INTERNAL AUDIT

Date: May 23, 2019

To: Michael Cheng, Interim Dean, Chaplin School of Hospitality & Tourism Management

From: Trevor L. Williams, Chief Audit Executive

Subject: **Audit of the Procurement Process at the Chaplin School of Hospitality & Tourism Management - Report No. 18/19-10**

As a result of our findings from an investigation of certain expenditures effected by the former Lab Manager of the Chaplin School of Hospitality & Tourism Management ("School"), we completed an audit of the School's procurement process. The audit included the School's financial transactions for the two years ended June 30, 2018, and an assessment of the current practices through January 2019. The objectives of the audit were to determine if the controls over the School's procurement process are: (1) adequate and effective; (2) being adhered to; and (3) in accordance with University policies and procedures, and applicable laws, rules, and regulations. Specifically, we focused on determining if controls are in place to prevent or detect errors or irregularities.

The School spent \$2.3 million to procure goods and services during the audit period. Approximately 85% of the School's procurements were paid for using purchase orders and University credit cards.

Our audit found no exceptions with the School's use of unencumbered payments and smart internal billings. In addition, we found that the supplier selection process for purchase orders also functioned well at the School. However, we found opportunities to improve internal controls particularly pertaining to: (1) the segregation of incompatible duties performed when executing purchase orders for the procurement of goods or services; (2) the lack of independent verification of purchases; and (3) the inappropriate use of funds. Additionally, based on our audit, we believe that greater operational and budgetary efficiencies could be achieved through fuller utilization of donations. The audit resulted in seven recommendations, which management agreed to implement.

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

Attachment

C: FIU Board of Trustees

Mark B. Rosenberg, University President

Kenneth G. Furton, Provost, Executive Vice President, and Chief Operating Officer

Kenneth A. Jessell, Chief Financial Officer and Senior Vice President

Javier I. Marques, Vice President and Chief of Staff, Office of the President

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OBJECTIVES, SCOPE, AND METHODOLOGY

We have completed an audit of the procurement process at the Chaplin School of Hospitality & Tourism Management (“School”). The objectives of the audit were to determine if the controls over the procurement process were: (1) adequate and effective; (2) being adhered to; and (3) in accordance with University policies and procedures, and applicable laws, rules, and regulations. Specifically, we focused on determining if the School had controls in place to prevent or detect errors or irregularities.

Our audit included testing of the School’s procurement processes and sampling of financial transactions for the two fiscal years ended June 30, 2018, and an assessment of the current practices through January 2019. The audit was conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing* and included tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances. Audit fieldwork was conducted from October 2018 to January 2019.

In order to meet these objectives, we:

- Reviewed University policies and procedures, FIU Board of Trustees (BOT) and Florida Board of Governors (BOG) regulations, and applicable Florida Statutes;
- Observed the School’s current procurement processes and practices;
- Interviewed responsible personnel; and
- Tested selected transactions.

Sample size and transactions selected for testing were determined on a judgmental basis applying a non-statistical sampling methodology.

BACKGROUND

On September 27, 2018, the Office of Internal Audit completed an investigation of suspicious financial transactions occurring at the School using a blanket purchase order issued to Carmel Coin Laundry, Inc. (“Carmel”). Our investigation concluded that there was no segregation of duties as it pertained to the specific blanket purchase order. The School’s former Lab Manager, who separated from the University on April 19, 2018, dropped off and picked up chef jackets worn by faculty and University banners at Carmel and also approved the invoices for payment. Our investigation concluded that the University paid \$4,136 in unallowable expenses for 1,070 chef jackets and 241 pounds of table linen that did not belong to the School. In light of the findings, and at the request of the School’s Interim Dean, we conducted this audit of the procurement process at the School.

Procurement Process

BOT Regulation FIU-2201 governs purchasing of commodities and contractual services. The Regulation requires competitive solicitation for purchase transactions of \$75,000 and above. The University has also developed the following procedures for competitive purchases under \$75,000:

- One quote for micro-purchases under \$10,000.
- A minimum of two quotes from qualified sources for purchases from \$10,000 to \$74,999.

The University's Procurement Manual ("Manual") serves as a resource for departments/colleges and outlines the purchasing requirements and processes. All purchasing transactions are initiated at the department/college level and must follow the requirements outlined in the Manual. Individual departments select suppliers and Procurement Services monitors adherence to the aforementioned requirements.

The procurement process at the School begins with the identification of the procurement needs and selection of a supplier, based on availability of goods/services and location. Quotes are requested from the supplier(s) based on limits outlined in the Manual.

The School's procurement function lies within four areas:

- Food instructional and laboratory ("Food Lab") – The Director of Food & Beverage Programs manages the procurement of all material and supplies for this area;
- Wine instructional and laboratory ("Wine Lab") – Each instructor is responsible for the procurement of wine for his/her classes. Other materials and supplies for this area are procured by staff members in the Dean's Office;
- Kovens Conference Center ("Kovens") – The Center's Assistant Director and Office Manager manage the procurement of its materials and supplies. Marketing and equipment purchases for Kovens are procured by staff members in the Dean's Office; and
- Dean's Office – Staff members in the Dean's Office manage the procurement of all other goods and services, such as marketing, computer and software purchases, office supplies, and travel.

Goods and services procured by the School are paid for using one of the following payment mechanisms:

- Departmental Card (credit card) – VISA credit cards were issued through JP Morgan Chase to eight full-time employees at the School to procure authorized commodities and services for official University business. Four full-time employees serve as designated approvers. These approvers are responsible for reviewing all transactions with the cardholder(s) and for reconciling the cardholder receipts to the transactions in the PantherSoft Financial Systems, in accordance with the University's Departmental Card Program requirements. Approvers cannot be subordinates of the cardholders.
- Unencumbered Payment – This payment mechanism must be used when purchased goods or services are under \$75,000 and are on the Allowable Unencumbered Payment List. For these payments, the School receives a quote from the supplier describing the scope of service, location and time of service, amount of compensation, and name of supplier. The supplier then registers with the University as a vendor and obtains a vendor ID. The supplier submits an invoice for payment after services are rendered. A staff member from the School creates a receipt in the PantherSoft Financial Systems as acknowledgement of the receipt of goods or completion of services, which then serves as the invoice approval for Accounts Payable to issue payment.
- Purchase Order (PO) – A PO establishes a contract, which binds the supplier to provide goods or services at a specified price and binds FIU to pay said cost. The School uses POs executed with pre-approved suppliers listed on the University's Marketplace ("myFIUmarket"), a new supplier, and blanket POs. Blanket POs are open for a specific period of time and allow for multiple purchases from a single supplier, up to the POs' dollar limits. The names of the School's employees authorized to use the blanket POs are noted on the POs.

The PO process at the School begins when an employee creates a requisition in the PantherSoft Financial Systems. Once the requisition is approved in PantherSoft by the School's Management, that is, the School's Interim Dean, Vice Dean, or Associate Dean, a PO is created and is dispatched to the supplier. After goods or services are rendered, the supplier submits an invoice for payment. A staff member from the School creates a receipt in the PantherSoft Financial Systems as acknowledgement of the receipt of goods or the completion of services, which then serves as the invoice approval for Accounts Payable to issue payment.

- Smart Internal Billing ("Smart Billing") – This payment mechanism is an electronic invoicing tool that enables University departments to procure and pay for services from other Auxiliary departments.

Financial Information

The School spent approximately \$1.1 million and \$1.3 million to procure goods and services for the fiscal years 2016-2017 and 2017-2018, respectively. Purchase orders and credit cards were the two most common payment mechanisms used by the School.

The following table provides the School's cost to procure goods and services by payment mechanism, by fiscal year.

	FY 2017	FY 2018	Total
Purchase Orders	\$ 606,511	\$ 462,073	\$ 1,068,584
Credit Cards	357,648	563,807	921,455
Smart Internal Billings	94,708	177,924	272,632
Unencumbered Payments	24,939	52,846	77,785
Total	\$1,083,806	\$1,256,650	\$ 2,340,456

OBSERVATIONS AND RECOMMENDATIONS

Our overall evaluation of internal control is summarized in the table below. The audit found opportunities to improve internal controls particularly pertaining to: the segregation of incompatible duties performed when executing purchase orders for the procurement of goods or services; the lack of independent verification of purchases; and the inappropriate use of funds. Additionally, greater operational and budgetary efficiencies could be achieved through fuller utilization of donations. Our observations and recommendations pertaining to these identified areas are detailed on the following pages of this report. We have also included management's response and action plan to our observations and recommendations.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		X	
Policy & Procedures Compliance		X	
Effect		X	
Information 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 Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Potential for damage	Severe risk of damage

We reviewed the School's procurement process, which included the ordering, receipting, and paying for goods/services for the two fiscal years ended June 30, 2018. A sample of 529 transactions, totaling \$508,036 (22% of the total purchases), was examined for the same period. The table below details the sampled amounts by area and payment mechanism.

Area	Purchase Orders	Credit Cards	Unencumbered Payments	Smart Internal Billings	Total
Kovens	\$ 101,584	\$ 32	\$ -	\$ -	\$ 101,616
Food Lab	16,407	53,075	-	-	69,482
Wine Lab	3,758	-	-	-	3,758
Others	310,867	4,109	17,135	1,069	333,180
Total	\$ 432,616	\$ 57,216	\$ 17,135	\$ 1,069	\$ 508,036

The areas tested during the audit and our observations and recommendations are detailed below.

Areas Within the Scope of the Audit Tested Without Exception:

Controls over Unencumbered Payments – For the two fiscal years ended June 30, 2018, the School made \$77,785 in unencumbered payments to procure services. We tested seven unencumbered transactions, totaling \$17,135 (22% of expenditures) and determined that they were appropriate, allowable, and executed in accordance with University policies and procedures, and applicable laws, rules, and regulations. The School's use of the unencumbered payment mechanism appears to have functioned satisfactorily, based on our audit, and we have no recommendation for this area of the School's procurement process.

Controls over the Supplier Selection Process for Purchase Orders – Our audit disclosed that the supplier selection process was compliant with the University's procurement requirements and that the purchases were appropriate, allowable, and in accordance with University policies and procedures, and applicable laws, rules, and regulations. As a result, we have no recommendation for this area of the School's procurement process.

Controls over Smart Internal Billings – For the two fiscal years ended June 30, 2018, the School made \$272,632 in smart billing payments to procure goods and services from other Auxiliary departments. We tested 12 smart billing transactions, totaling \$1,069 payable to the FIU Parking, Sustainability & Transportation Department for the purchase of guests parking. Our test determined that they were appropriate, allowable, and executed in accordance with University policies and procedures. The School's use of the smart billing payment mechanism appears to have functioned satisfactorily, based on our audit, and we have no recommendation for this area of the School's procurement process.

Areas Within the Scope of the Audit Tested with Exception:

1. Controls over Purchase Orders

Segregation of duties and verification of purchase receipts are internal control processes intended to prevent or decrease the occurrence of innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of the purchase transaction and that all goods/services received are verified prior to payment. As noted by our exceptions below, during our audit we observed that the School did not have adequate segregation of duties in place and that the receipts of goods/services were not verified prior to payment.

The School expended \$1,068,584 to procure goods and services via POs during the two fiscal years ended June 30, 2018. We reviewed the purchase requisition creation and approval processes for 58 POs, including blanket POs, encompassing 86 invoices, totaling \$432,616 (40% of the total expenditures). As a result of our original investigation, we focused our review on ensuring that the School had controls in place to prevent or detect errors or irregularities.

- Our audit disclosed that for 19 POs (33%) encompassing 31 invoices, totaling \$133,765 (31% of the total value tested) there was a lack of segregation of duties noted in the process. The same employee who created the requisition also ordered and received the goods/services, and acknowledged receipt in PantherSoft for invoice approval. Management informed us that subsequent to our investigation, the School's purchasing process changed. All invoices are now reviewed and approved by the Interim Dean or the Associate Dean. The approved invoices are provided to the School's Accountant who completes the purchase receipt acknowledgement process in PantherSoft. However, during our review, we noted that the change excluded Kovens' purchases.
- 14 POs totaling \$33,248 (3% of the total expenditures) were issued for the procurement of instructional wine. To determine if the School had adequate controls in place over wine purchases, we selected and reviewed four (4) POs (29%) and their eight corresponding invoices totaling \$3,758 (11%). Our review disclosed that the School does not have a process in place to verify the wine quantities received and delivered to the campus prior to payment.

Wine classes at the School are taught by three instructors. Each instructor is provided a wine procurement budget based on the number of courses taught. We reviewed the blanket purchase order and noted that each wine instructor was listed as an authorized user on the PO. Each instructor orders the wine, collects the inventory directly from the supplier location, and takes the wine directly to his/her classes, without independent verification of the purchase. Each instructor is also

responsible for securing any unused inventory in the School's pantry (pictured right). The supplier emails a copy of the invoice to the School's Accountant and the instructor also provides a signed copy of the invoice as proof of purchase and receipt of goods. The Accountant creates a receipt in PantherSoft as approval for the payment based on the signed invoice. However, since the instructors are the only ones involved in the purchasing process, without an independent verification of the purchases or a mitigating control such as an inventory tracking system, management cannot independently verify receipt of purchases. The lack of purchasing segregation of duties could result in misuse of University funds.



- During our review of the corresponding invoices, we noted that five invoices totaling \$14,191 for the purchase of promotional items were charged to the Educational and General Fund (E&G). Examples of the types of items purchased included:
 - 5,000 monogrammed note pads for the Kovens Conference Center costing \$2,000.
 - 7,500 imprinted pens, 860 logo decorated bags, 215 embroidered caps, 513 imprinted sunglasses, 150 monogrammed business card holders, and 144 monogrammed mugs, among other promotional items, in total costing \$12,191. These items were purchased for distribution to future students and guests.

The University's Expenditure Guide by Fund prohibits the purchase of promotional items using E&G funds. Management informed us that staff members were not aware that the use of E&G funds were prohibited for these purchases.

Recommendations

The Chaplin School of Hospitality & Tourism Management should:	
1.1	Ensure that proper segregation of duties exists in the procurement process at Kovens by eliminating purchaser's ability to acknowledge receipts and approve invoices in the PantherSoft Financial Systems.
1.2	Establish controls to ensure that all purchase receipts are independently verified prior to payment approval.
1.3	Ensure that Educational and General funds are spent in compliance with the University's Expenditure Guide by Fund.

Management Response/Action Plan:

- 1.1 A communication from Dean's Office was issued to Kovens staff for immediate implementation of the following procurement process: All purchases through purchase orders must be initiated by the Associate Director, requested in PantherSoft by the Office Coordinator and approved by the Associate Dean. The Conference Service Manager or AV Event Specialist will verify receipt of goods/services, the invoices will be approved by the Associate Director, and the Office Coordinator will create the receipt for payment in PantherSoft.

Implementation Date: Immediately

- 1.2 A communication from Dean's Office has been sent to the School staff members for immediate implementation of the following process: Purchase receipts will be verified and invoices will be preapproved by the related department heads or an employee other than the requisition/purchase order initiator. This is now a standard practice in the department.

Implementation Date: Immediately

- 1.3 Dean's Office has shared the Expenditure Guide by Fund Matrix (.XLS) with all related employees and will monitor to ensure that all purchases are made in compliance of Expenditure Guide by Fund.

Implementation Date: Immediately

2. Controls over Credit Card Purchases

The School expended \$921,455 using the department card to procure goods and services during the two fiscal years ended June 30, 2018. We tested 424 credit card transactions totaling \$57,216 (6% of expenditures), and determined that 98% were for goods or services that are typically related to the School's operations and in accordance with University policies and procedures, except that 90% of said transactions (383, totaling \$45,967) were effectuated by the former Lab Manager without proper verification of receipt of goods or services.

The former Lab Manager's department card approver is a staff member in the Dean's Office who did not independently verify the purchases prior to approving the transactions for payment. Due to the lack of independent verification of the receipt of goods/services at the time of delivery, it is unknown if the goods/services purchased were in fact used in the School's operations. Moreover, our review of available documents and inquiry of the School's staff did not provide a basis for determining whether the purchased goods/services were used in the School's operations. Proper acknowledgement of receipt of goods will prevent or reduce the School's exposure to incurring unauthorized or unnecessary expenses on University credit cards.

Additionally, there were other inconsequential matters that came to our attention pertaining to the use of the department card that were discussed with the School's management and staff for their follow-up.

Recommendation

The Chaplin School of Hospitality & Tourism Management should:

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| 2.1 | Establish controls to ensure credit card purchases are independently verified prior to approving for payment. |
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Management Response/Action Plan:

- 2.1 A communication from Dean's Office has been sent to all related staff that moving forward, all material and supplies purchases must be preapproved by a supervisor (other than food lab supplies). All purchased material and supplies picked up in person must be verified/certified by another team member upon arrival at the School. The team member must initial the receipt/invoice as proof of verification. All receipts/invoices must be reviewed and initialed by a supervisor to ensure accuracy and relevancy of purchase.

Implementation Date: Immediately

3. Utilization of Donations

The School spent \$143,331 to procure food and \$33,248 to procure wine supplies during the period audited. During this same period, the School had two in-kind donation agreements in effect for the purpose of procuring food and wine supplies. These agreements were as follows:

- In August 2016, the School was awarded in-kind donations from Quirch Foods (“Quirch”) of \$120,000 allocated equally over four years. Quirch is a local food distributor of beef and imported meats, seafood, pork, poultry, deli meats, and select Hispanic and tropical products. Annually, the School can procure up to \$30,000 worth of these food products to support materials and supplies required for select courses.
- A donation from Southern Glazer Wine and Spirits (“Southern”) of approximately 90 cases of wine annually. Southern is the largest wine and spirits distributor in the United States. This donation is effected by a verbal agreement between Southern and the School. The donation was secured by the Senior Instructor at the School.

Under both agreements, a staff member from the School may place orders for necessary supplies with the donor (distributor). The School determines the order intervals, item types, and quantity based on the donor’s inventory. The distributor delivers the items directly to the School.

We reviewed controls over the food and wine procurement and inventory processes at the School and identified the following areas needing improvement.

a) Quirch Foods Donation

As noted above, during the audit period, the School spent over \$143,000 to procure food products. However, we noted that the School used only \$21,835 (36%) of the \$60,000 in-kind donation available to it from Quirch during the same period. In 2017, the School used \$14,260 of the donation, while in 2018 it used \$7,575. Consequently, \$38,165 (64%) went unused.

The purchase of food instructional materials and supplies at the School are completed by the Program Director (Director). Faculty and staff members are required to inform the Director of their needs in a time frame sufficient for her to procure the items in an economic and efficient manner. Management informed us that some instructional materials could not be ordered through the donation because of time constraints as staff does not notify the Director of their needs with sufficient time to allow for the placement and delivery of the order from the donor. Also, according to management, the donor may not have the items in stock when needed. However, our review showed that the School continued to purchase items such as, poultry, beef, and seafood from local

stores such as Whole Foods and Publix which, with proper planning, could have been procured through the donor.

b) Southern Glazer Wine and Spirits Donation

During our review, we noted that the School has not established a wine inventory management system and found no evidence that the School leveraged the 90 cases of wine donated annually to decrease procurement cost, which exceeded \$33,000 during the audit period.

The Senior Instructor is responsible for selecting the inventory replenishment types and for placing the orders. He also receives the orders and stores the wine in locked, temperature-controlled cabinets in the Mel Dick Wine Tower (pictured below). Southern delivers the order directly to the School.



Keys to the cabinets were issued to the Senior Instructor, the two other wine instructors, and the Assistant Director of Academic Support.

During the audit, we were informed that 93 cases of wine were donated during fiscal year 2018. While the wine donated was intended for instructional purposes, we noted that the two other wine instructors were not authorized to use them in their classes. As a result, all wine needed for their classes were procured from outside suppliers. Additionally, we noted that the School does not have a process in place to determine the number and types of wines required by each instructor for his/her classes.

Management informed us that the School has not developed a wine inventory monitoring system and that the Senior Instructor has full control of the Wine

Tower and limits access to the other instructors. The Senior Instructor informed us that granting other instructors the authority to use the inventory would result in its rapid depletion and could have a negative impact on the donor's willingness to replenish.

Maximum utilization of donations can decrease the School's food and wine instructional materials cost. The lack of controls over wine inventory and the inadequate segregation of duties can result in the abusive use of the wine inventories and unnecessary spending of funds.

Recommendations

The Chaplin School of Hospitality & Tourism Management should:	
3.1	Assess the food and wine instructional materials needs for all classes and utilize the donations to its maximum.
3.2	Work with Southern Glazer Wine and Spirits and the Senior Instructor to formalize the wine donation agreement.
3.3	Establish an inventory monitoring process for all wine procured by the School.

Management Response/Action Plan:

- 3.1 The utilization of donated food for lab supplies has already been implemented and practiced as standard operating procedure for food courses. This is partially implemented and practiced for few wine courses. Management is in the process of implementing the access and use of donated wines for all wine courses.

Implementation Date: August 30, 2019

- 3.2 Administration is working on the development of a formal agreement with Southern Glazer Wine and Spirits for the wine donation.

Implementation Date: August 30, 2019

- 3.3 Administration will work with wine faculty to develop wine purchase verification and inventory procedures to ensure that all purchased wine bottles are accounted for prior to and after the class.

Implementation Date: August 30, 2019

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.