UNIVERSITY OF HAWAI‘I

KAPI‘OLANI AND LEEWARD COMMUNITY COLLEGES
CULINARY ARTS PROGRAMS

Status of Corrective Action

March 2015
To the University of Hawai‘i Board of Regents
and
Associate Vice President for Administrative Affairs, Community Colleges

The Kapi‘olani Community College and Leeward Community College Culinary Arts Programs prepare students for culinary careers through a combination of classroom instruction and practical experiences. Education and training are conducted in instructional kitchens, classrooms and on-campus dining facilities. The University of Hawai‘i (University) Office of Internal Audit (Internal Audit) completed operational reviews of both Culinary Arts Programs during the fiscal year ended June 30, 2013. The significant areas reviewed related to inventory management, financial operations and the sales and cash receipts process. The related reports identified operational and financial risks and presented recommendations in connection with the reviewed areas.

Internal Audit performed preliminary follow-up procedures during Spring 2014 noting that Internal Audit’s recommendations were at various phases of implementation. Accordingly, more extensive follow-up procedures were initiated during late 2014. Internal Audit noted that both Culinary Arts Programs have currently adopted and implemented a number of Internal Audit recommendations and have commenced complying with written guidance provided by the Office of the Associate Vice President for Administrative Affairs for the Community Colleges to assist their personnel implement policies and procedures consistent with Internal Audit’s recommendations.

As noted in the attached report, a financial operations recommendation that has yet to be implemented is the performance of procedures to reconcile sales and cash receipts, inventory purchased, and the cost of inventory sold/used recorded in the supplementary systems of the Culinary Arts Programs to the University’s general ledger. From an operational perspective, the Kapi‘olani Community College Culinary Arts Program must gain additional knowledge and familiarity with the functions and capabilities of their automated inventory management and catering/banquet systems to improve operations and obtain accurate financial information. Leeward Community College must work diligently to ensure that their planned installation of an automated inventory management and point of sale system during the Fall 2015 semester meets their operational and financial expectations.

Sincerely,
Background

The University of Hawai‘i (University) Office of Internal Audit (Internal Audit) completed operational reviews of the Culinary Arts Programs (CAP) of Kapi‘olani Community College (KCC) and Leeward Community College (Leeward) during the fiscal year ended June 30, 2013. The related reports identified operational and financial risks and presented recommendations relating to the inventory and cost of inventory sold/used process, financial analysis and reporting process, KCC’s Farmers’ Market operation, and the sales and cash receipts process.

During October 2013, the Office of the Associate Vice President for Administrative Affairs (AVPAA) for the Community Colleges in consultation with Internal Audit issued written guidance to assist KCC and Leeward CAP personnel implement policies and procedures consistent with Internal Audit’s recommendations. These policies and procedures were distributed to all Community College CAPs to ensure consistent application. Examples of these policies and procedures are as follows:

- Establishing a centralized and secured inventory storeroom to manage the receiving and distribution of all food and beverage inventory;
- Preparing and analyzing inventory purchased and cost of inventory sold/used reports on a monthly basis;
- Recording all accounts receivable transactions on a daily basis;
- The Campus Business Office is responsible to reconcile all Point-Of-Sale (POS) system information including sales, cost of inventory sold/used, accounts receivable, and inventory purchased to the University’s general ledger on a monthly basis.

In Spring 2014, Internal Audit performed preliminary follow-up procedures noting that Internal Audit’s recommendations and the written guidance provided by the Office of the AVPAA were at various phases of implementation. Internal Audit commenced the performance of additional follow-up procedures during late 2014 noting that certain recommendations and Office of the AVPAA guidance were adopted and implemented. Follow-up procedures consisted of numerous inquiries and meetings with KCC and Leeward CAP personnel and the Vice Chancellors for Administrative Services. Internal Audit also reviewed documents to support assertions and representations made by KCC and Leeward CAP personnel.

Overview

Kapi‘olani Community College
The KCC CAP is accredited by the American Culinary Federation Education Foundation Accrediting Commission with facilities consisting of 10 instructional kitchens, a 130 seat demonstration auditorium, an on-campus cafeteria and several dining facilities (cafeteria and dining facilities are collectively referred to as dining facilities). In addition, the Hawai‘i Farm Bureau Federation (HFBF) operates a Farmers’ Market at the KCC parking lot on Tuesdays and Saturdays and provides KCC CAP with vendor space.
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KCC CAP increased the periodic counting and inspection of on-hand inventory from annually to monthly and is segregating and tracking inventory used for instructional purposes versus sale by dining facility in their inventory management system (Adaco). However, inventory valuation issues were identified in Adaco inventory reports resulting in an incorrect calculation of the cost of inventory sold/used. Internal Audit determined that financial transactions recorded in supplementary systems (sales, cash receipts, accounts receivable, inventory purchased and cost of inventory sold/used) are not reconciled to the University's general ledger and recommended that KCC management obtain access to the supplementary systems and review KCC CAP’s monthly financial results. In addition, the lack of segregation of duties still exists with respect to the sales and cash receipt process.

A supplementary system (CaterPro) is used for managing catering/banquet events. According to a CaterPro report, revenues of $1,718,000 were earned for the period October 2011 to December 2014. Internal Audit determined that revenues and accounts receivable (if applicable) related to the catering/banquet events were not recorded to the University’s general ledger when goods and services were provided but upon cash collection. Accordingly, University and KCC management are unaware of these transactions until settled in cash. Subsequent to Internal Audit detecting this matter, the KCC CAP Chair informed Internal Audit that corrective action is in process. Internal Audit also noted processing and reporting errors in a report generated from CaterPro and determined that the KCC CAP Banquet Manager/Event Coordinator and the KCC CAP Chair have the discretion to waive or reduce the published catering/banquet deposit, service fee, and menu prices.

Leeward Community College
The Leeward CAP is accredited by the American Culinary Federation Education Foundation Accrediting Commission. Facilities supporting Leeward CAP include three instructional kitchens, a dining facility (The Pearl), classrooms, offices and other ancillary rooms. Leeward CAP conducts two eight-week instructional modules each Fall and Spring semester. Leeward’s cafeteria (Uluwehi Café) is not operated and managed by Leeward CAP personnel.

Leeward CAP and the Uluwehi Café stores and manages inventory separately in a shared central storeroom. Leeward CAP manages and monitors inventory purchased as well as inventory used for instructional purposes and/or sold at The pearl (Note: A negligible amount of Leeward CAP inventory is sold at Uluwehi Café.). Uluwehi Café personnel indicated that determining and managing the cost of inventory sold will commence upon the installation of an automated inventory management system that will be integrated with a new point-of-sale (POS) system.

Tips/donations collected at The Pearl are now deposited to a University of Hawaii’ Foundation (UHF) account established for the Leeward CAP. Internal Audit noted that sales and cash receipts from the point of sale (POS) system are not reconciled to the University’s general ledger. In addition, the recorded transactions in the UHF account are not periodically reviewed for propriety and reasonableness.
Inventory

Prior Observations and Recommendations
KCC CAP annually counted and inspected on-hand inventory stored in their central storeroom, instructional kitchens and dining facilities. Leeward CAP did not have a central storeroom and on-hand inventory was counted at the end of each semester. Uluwehi Café personnel counted and inspected inventory monthly. Both KCC and Leeward CAPs did not segregate and manage inventory by purpose (instruction or sale) or dining facility. In addition, both CAPs performed minimal procedures with respect to monitoring, safeguarding, and analyzing inventory purchased and distributed, and could not determine if the cost of inventory sold/used by their respective dining facility was meeting financial performance targets. Accordingly, Internal Audit determined that risks associated with inventory waste, theft and errors would be difficult to monitor and mitigate from both an accounting and operational perspective.

Internal Audit recommended KCC CAP increase the periodic counting and inspection of on-hand inventory. Internal Audit also recommended that both KCC and Leeward CAPs (including Uluwehi Café) prepare an analysis comparing the on-hand inventory count to inventory purchased (beginning inventory + purchases – usage/sales = ending inventory) to determine the cost of inventory sold/used for sale versus instructional purposes. Further analysis by dining facility comparing the cost of inventory sold as a percentage of sales to projected financial performance targets was also recommended. Internal Audit also recommended that Leeward CAP establish a central storeroom responsible for receiving, storing, and distributing inventory to mitigate risks such as theft and ordering excess levels of inventory.

Current Observations
KCC CAP:
KCC CAP increased the periodic counting and inspection of on-hand inventory from annually to monthly. KCC CAP is segregating, managing and accounting for inventory used for instructional purposes versus sale by dining facility. Since October 2014, KCC CAP has calculated the cost of inventory sold/used by comparing the valuation of on-hand inventory to inventory purchased. Internal Audit’s review of monthly Adaco inventory reports during the period July 2014 – February 2015 detected issues in the unit cost of on-hand inventory in addition to the extended cost computation. KCC CAP personnel told Internal Audit that they are unable to remediate these issues due to their unfamiliarity with Adaco’s functions and capabilities.

Although KCC CAP previously received Adaco system training, current KCC CAP personnel informed Internal Audit that the Adaco user manual provides insufficient guidance to remediate the noted inventory valuation issues as well as guidance to implement other programmed functions that could assist KCC CAP improve the management of their operations. Due to Adaco’s significant impact on KCC CAP’s operations, KCC CAP management should strongly consider engaging an external third party to provide supplemental training on Adaco’s functions and capabilities. (Note: The KCC CAP Chair informed Internal Audit that the extended cost computation issue was resolved during April 2015 with the assistance of Adaco personnel.)
Leeward CAP:
During fiscal 2015, Leeward CAP and the Uluwehi Café commenced storing and managing inventory separately in a shared central storeroom. Leeward CAP sales results from food prepared by Leeward CAP students and sold at The Pearl. Leeward CAP students occasionally prepare and sell short order cook lunches at Uluwehi Café. Leeward CAP determines cost of inventory sold/used at the end of each semester to manage and monitor inventory purchased and used. Internal Audit recommends that Leeward CAP determine and analyze cost of inventory sold/used on a monthly basis to assist in the more timely detection of inventory issues such as spoilage, theft and accounting errors.

Uluwehi Café monitors inventory purchased but does not determine and manage the cost of inventory sold. Uluwehi Café personnel informed Internal Audit that procedures to manage and account for inventory sold will be established during Fall 2015 upon the installation of an automated inventory management system that will be integrated with a new point-of-sale (POS) system.

Financial Operations

Prior Observations and Recommendations
Internal Audit noted that KCC and Leeward CAP personnel were unable to provide complete and meaningful financial information by dining facility. In addition, KCC CAP did not measure their financial performance against projected financial performance targets (e.g. inventory and/or payroll cost as a percentage of sales, cost of inventory used for instruction, etc.), while Leeward CAP (including Uluwehi Café) did not establish financial performance targets. Internal Audit recommended that financial performance targets be established at Leeward CAP and both KCC and Leeward CAP implement policies and procedures for preparing periodic and annual Statements of Revenues and Expenses, as well as comparisons to projected financial performance targets by dining facility. Both KCC and Leeward CAP did not reconcile sales and cash receipts from their POS systems to the University's general ledger. Accordingly, Internal Audit recommended that sales and cash receipts from the POS system be reconciled to the University's general ledger by KCC and Leeward Business Office fiscal personnel on a monthly and annual basis.

In addition, Internal Audit noted that KCC CAP lacked processes and controls with respect to the managing and monitoring of accounts receivable and gift certificates. Leeward's Business Office also lacked policies and procedures to monitor contract compliance of food vendors (Subway) operating in the Leeward cafeteria.

Current Observations
Financial Performance
Although verbal instructions and written guidance was provided by the Office of the AVPAA for the Community Colleges, KCC and Leeward Business Office fiscal personnel have yet to implement procedures to reconcile sales and cash receipts, inventory purchased, and the cost of
inventory sold/used recorded in their respective supplementary systems to the University’s general ledger.

**KCC CAP:**
Internal Audit determined that KCC CAP developed financial performance targets for instructional classes (food cost per student) and by dining facility (cost of inventory sold/used as a percentage of sales) and measured financial performance against projected financial performance targets. However, the inventory valuation issues previously discussed negated the usefulness of any financial analysis impacted by inventory. Although the KCC CAP Chair has asserted that the extended cost computation issue was resolved during April 2015, Internal Audit believes that KCC Business Office personnel should perform a detailed review of KCC CAP monthly financial information to detect additional inventory related issues and monitor compliance with guidance provided by the Office of the AVPAA for the Community Colleges.

**Leeward CAP:**
Leeward CAP compiles their financial performance at the end of each semester. Internal Audit believes that financial performance should be compiled monthly and compared against projected financial performance targets so that Leeward CAP management would have more timely financial information to assist in their operational decisions.

As discussed in the “Inventory” section above, Uluwehi Café does not determine and manage the cost of inventory sold. Uluwehi Café personnel stated that the development of financial performance targets and procedures to measure financial performance will be established during Fall 2015 upon the installation of the integrated and automated inventory management/POS system.

**KCC CAP Accounts Receivable and Catering/Banquet Events**

*Observations:*
KCC CAP’s net accounts receivable balance recorded to the University's general ledger as of June 30, 2012 was approximately $60,000 ($79,000 less a reserve for uncollectible accounts of $19,000). Approximately $14,000 was collected through December 31, 2014 with the remaining $65,000 recorded as an allowance for uncollectible accounts receivable.

Internal Audit has determined that KCC CAP is generating significant revenues through catering/banquet events hosted at the KCC dining facilities. KCC CAP generated reports from their catering supplemental system (CaterPro) for the period October 2011 through December 2014 noting revenues of approximately $1,718,000 and outstanding accounts receivable of approximately $90,000 as of December 31, 2014.

Further review of CaterPro reports by Internal Audit determined that the accounts receivable balance as of December 31, 2014 was approximately $96,000 rather than the reported $90,000. Accordingly, KCC CAP management personnel should perform a detailed review of CaterPro reports on a monthly basis to detect processing and reporting errors in addition to obtaining a thorough understanding of CaterPro’s functions such that identified errors are remediated immediately.
Internal Audit determined that the catering/banquet revenues are attributable to external third parties as well as functions internal to the University. KCC CAP personnel could not segregate revenues by external or internal source and stated that revenues generated from both external and internal catering/banquet events were not recorded when earned but only upon cash collection or the processing of University documents to settle charges from internal customers. Accordingly, revenues generated from catering/banquet events were not properly and timely recorded in the University's general ledger and any related accounts receivable was not recorded in the University’s general ledger. Internal Audit was informed that CaterPro access is limited to the KCC CAP Chair, KCC CAP Banquet Manager/Event and certain KCC CAP clerical personnel. Internal Audit was also informed that the KCC CAP Chair commenced utilizing the KFS Accounts Biller Receivable process during calendar 2015 to record catering/banquet revenues attributable to external third parties. Given that catering/banquet event revenues are generated from both external and internal sources, the KCC Business Office and KCC CAP must establish procedures to ensure that revenues are recorded when earned and that financial information initiated and recorded in CaterPro is reconciled monthly and annually to the KCC CAP POS and the University’s general ledger.

Internal Audit believes that University and KCC management have limited knowledge and could be unaware of the timing and extent of catering/banquet events due to the improper recordation of the related revenues and accounts receivable to the University’s general ledger in addition to the lack of access to CaterPro. Based on a review of certain catering/banquet invoices and responses from the KCC CAP Chair, Internal Audit determined that the KCC CAP Chair and KCC CAP Banquet Manager/Event Coordinator have the capability to waive or reduce the published catering/banquet deposit, service charge, and menu prices at their sole discretion. In addition, Internal Audit noted that the number of event guests documented on invoices ranged from 31 to 350 and charged revenues per event ranged from $1,085 to $13,251. Although a substantial number of guests attend catering/banquet events at the KCC campus, Internal Audit was informed that additional liability insurance is not obtained to cover risks below the University's self-insurance retention amount.

Based on the matters described in the prior paragraph, Internal Audit recommends that the Dean of Hospitality, Business & Legal Education or a KCC Vice Chancellor of Administration have access to CaterPro and be provided financial and catering/banquet event reports on a monthly basis to review the appropriateness of catering/banquet event price adjustments and to ensure that revenues, accounts receivable and cash receipts are recorded accurately and completely in the University’s general ledger. Additionally, KCC CAP should review and comply with the provisions of Executive Policy 10.201 “Use of University-Owned Facilities” specifically with respect to the cost recovery and insurance provisions that are required of external third parties using University-owned facilities.

KCC CAP Gift Certificates
KCC CAP ceased selling gift certificates effective during June 2013 but will accept sold gift certificates. As gift certificates will not be sold prospectively, KCC CAP determined that preparing policies and procedures were not necessary.
Leeward Subway
The contract with Subway requires rental payments to be remitted to the Leeward Business Office by the 20th of the subsequent month. Internal Audit noted that rental payments are presently received by the contracted due date. Leeward Business Office personnel informed Internal Audit that they are monitoring the monthly receipt of rental payments from Subway and that written policies and procedures to monitor contract compliance was not necessary.

KCC Farmers’ Market

Prior Observations and Recommendations
Internal Audit noted that the agreed upon monthly rental payments from the HFBF were not monitored and generally not received by the due date pursuant to the rental agreement. Internal Audit recommended that the KCC Business Office ensure that HFBF remit all payments timely.

Current Observations
The Farmers’ Market continues to be held on Saturday mornings and Tuesday afternoons in KCC’s parking lot. Internal Audit noted that KCC is monitoring and receiving HFBF’s monthly rental payments by the due date specified in the contract. However, Internal Audit also noted that rental payments for September and October 2013 were recorded to the improper UHF account. Accordingly, Internal Audit recommends that KCC management periodically review the recorded transactions in the University’s designated HFBF account for propriety and reasonableness.

Sales and Cash Receipts Process and Controls

Prior Observations and Recommendations
Internal Audit noted a lack of segregation of duties and controls in regards to sales and cash receipts at Ka ‘Ikena (KCC CAP’s fine dining facility), which increased the risk of theft of cash and errors in the recordation of sales. Specifically, the KCC CAP General Cashier had custody of cash, recorded the related sales and cash collected transactions in the University’s general ledger and performed the reconciliation control activity designed to detect errors and potential fraudulent activities. Internal Audit recommended that the KCC Business Office fiscal personnel reconcile POS system sales and cash receipts to revenues and cash deposits recorded in the University's general ledger on a monthly and annual basis to mitigate the risk associated with the lack of segregation of duties.

With respect to Leeward CAP, Internal Audit noted that tips/donations collected at The Pearl were used to pay for Leeward CAP student meals and student compensation rather than being deposited to a UHF account as required by University policy. Accordingly, Internal Audit recommended that Leeward CAP deposit tips/donations into a UHF account and comply with all applicable University and UHF policies.
Current Observations

*KCC CAP:* Through discussions with the KCC CAP Chair and General Cashier and review of the cash receipt process, Internal Audit noted a change in the performance of duties such that the KCC CAP Chair records the sales and cash collected transaction in the University's general ledger and performs the reconciliation control activity. Although an improvement from prior practice, a lack of segregation of duties still exists. Internal Audit's previous recommendation and written guidance issued by the Office of the AVPAA for the Community Colleges that the KCC Business Office fiscal personnel reconcile POS system sales and cash receipts to revenues and cash deposits recorded in the University’s general ledger would mitigate the risk associated with the lack of segregation of duties.

*Leeward CAP:* Internal Audit noted that Leeward CAP collects tips/donations at The Pearl and deposits the tips/donations to a UHF account established for the Leeward CAP at the end of the 8 week class module. Internal Audit was informed that Leeward CAP is complying with UHF policy with respect to the activity in the UHF account. However, Internal Audit believes that Leeward CAP should consider implementing a control to periodically review the recorded transactions in the UHF account to ensure the propriety and reasonableness of receipts and disbursements.