Florida Gulf Coast University Board of Trustees
June 17, 2014

SUBJECT: Business Operations Commissions Audit

PROPOSED BOARD ACTION

Accept the Business Operations Commissions Audit Report provided on April 22, 2014 to President Wilson Bradshaw, Vice President for Administrative Services and Finance Steve Magiera, Assistant Vice President of Business Services Joseph McDonald, and Director of Business Operations Loren Prive.

BACKGROUND INFORMATION

This report presents the results of a limited scope audit of the Business Operations department commissions from dining services and the bookstore for the 2012–2013 fiscal year. The audit objective was to determine whether commission payments received by the University are calculated appropriately and received timely as specified in the Aramark and Follett contracts and to determine whether protections against fraud or theft are in place and operational.

The audit was part of the 2013-2014 internal audit work plan approved by the FGCU Board of Trustees at its June 18, 2013 meeting.

Upon acceptance of the report by the FGCU Board of Trustees, a copy of the report will be sent to the Board of Governors as required.

Supporting Documentation Included: Business Operations Commissions Audit Report Issued April 22, 2014

Prepared by: Director of Internal Audit Carol Slade

Legal Review by: Vice President and General Counsel Vee Leonard (April 21, 2014)

Submitted by: President Wilson G. Bradshaw
INTEROFFICE MEMORANDUM

To: Steve Magiera, Vice President for Administrative Services and Finance
    Joseph McDonald, Assistant Vice President of Business Services
    Loren Prive, Director, Business Operations

Cc: Dr. Wilson Bradshaw, President
    Susan Evans, Vice President and Chief of Staff

From: Carol Slade, CPA, CIA, Director, Internal Audit

Date: April 22, 2014

Re: Business Operations Commissions Audit (FINAL REPORT)

Please see the attached final report of the Business Operations Commissions Audit, which includes the management response. The report is dated March 19, 2014, which is the date Internal Audit received the management response from the Director, Business Operations. The management response was approved by the Assistant Vice President of Business Services.

On April 21, 2014, Vac Leonard, Vice President and General Counsel, completed a legal review of the audit report.

The audit was performed by Carol Slade, Director, Internal Audit and reviewed by Deborah McEwan, Senior Auditor.
Florida Gulf Coast University

Business Operations Commissions

Internal Audit

Report Date: March 19 2014
BUSINESS OPERATIONS COMMISSIONS AUDIT

EXECUTIVE SUMMARY

This Report represents a limited-scope audit of Business Operations commissions from dining services and the bookstore for the 2012 – 2013 fiscal year. Dining services are provided under contract with Aramark Educational Services, Inc. (Aramark). The bookstore is operated under a contract with Follett Higher Education Group, Inc. (Follett). Both vendors pay the University sales commissions monthly. Business Operations is responsible for monitoring the accuracy and timeliness of the commission payments based upon the specifications in the contracts.

In our opinion, Business Operations provided the necessary monitoring to ensure that commissions received from sales at University dining venues and the bookstore were calculated accurately by the vendors and remitted on or before the monthly due dates specified in the Aramark and Follett contracts. There are operating processes and procedures to deter fraud and theft. Notwithstanding, as of the date of this Report, Business Operations management has begun implementing and will continue to deploy additional procedures to ensure that the University receives all commissions to which it is entitled. Included in the report are three recommendations: two that pertain to strengthening the review of sales amounts and one recommendation that pertains to incorporating language about summer meal plans into the contract with Aramark.

OBJECTIVES

A. Determine whether commission payments received by the University are calculated appropriately and received timely as specified in the Aramark and Follett contracts.

B. Determine whether protections against fraud or theft are in place and operational.

This limited scope audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. The audit procedures provided a reasonable basis for our opinion and the following reportable observations and recommendations.

SCOPE – End of field work was March 3, 2014

- Discussed procedures and guidance related to commissions revenue for dining services and bookstore operations with Business Operations Director
- Reviewed University’s contracts with Aramark and Follett
• Reviewed commission revenue processes and controls
• Reviewed sales made and commissions received during the 2012 – 2013 fiscal year
• Reviewed automated and manual supporting documentation for commission payments
• Discussed resources protection, employee training, and basic protections against fraud with the Follett Bookstore Manager and Aramark’s Senior Food Services Director

BACKGROUND

Eagle Dining Services (Food Service) is operated by Aramark. The University’s current contract with them ends July 31, 2016. The contract has already been extended twice as allowed under the original contract. The FGCU Bookstore (Bookstore) is operated by Follett. The current contract ends June 30, 2017, but it may be renewed for one three (3) year renewal period or a portion thereof, not to exceed three (3) years.

Both vendors pay commissions monthly. Payment to the University is due no later than forty (40) days from the last day of the month in which the sales occurred.

The Director for Business Operations, the Assistant Director for Contract Operations, and the Accountant for Business Services all participate in monitoring various aspects of food service and bookstore operations and the commissions received from sales.

During 2012 – 2013 (FY13) the University received approximately $829,000 in bookstore commissions from Follett and $846,000 in dining services commissions from Aramark. This represented an 11% increase from Follett and a 15% increase from Aramark in commissions from the prior fiscal year.

Follett (Bookstore)

Follett processes and pays sales commissions monthly through its national headquarters. The company provides a sales report and a commission computation along with the commission check. During a contract year Follett pays a commission rate of 12.75% on gross revenue up to $6,000,000 or $750,000, whichever is greater. Follett pays 14.25% commission on sales over $6,000,000 as sales did in 2012 – 2013. “Gross revenue” is defined in the contract and includes most sales.

Sales categories on which commissions are paid include, but are not limited to, used textbooks, new textbooks, supplies, clothing, textbook rentals, and digital textbooks. Examples of excluded sales include sales to University faculty and staff as well as University departments. Prices are discounted on this type of sales, and no commission is paid.

Although not routinely provided, detail for each sales type is available upon request.
The accountant in Business Operations insures that the Follett reports support the commission check and the check was received within the time limit specified in the contract. After obtaining the Business Operations Director’s approval, she processes the check through the Bursar’s Office.

**Aramark (Food Service) Sales Reporting**

Aramark sales reporting is more complex because commissions at various rates are paid on sales from more than a dozen food venues. In addition, some of these venues allow students to prepay for meal plans, which provide a specific quantity of meals for consumption throughout the academic year. Aramark pays commission on meals from these plans as they are deducted from the declining balance on the student’s Eagle ID card. In addition, there are a few other minor revenue sources on which commissions are paid, for example, meal plan cancellation fees.

Most venues report monthly sales by means of the University’s Blackboard transaction reporting system. However, certain venues including, but not limited to, Chick-Fil-A, the La Lola Loca food truck, and the Aramark catering service use other reporting systems that provide the necessary sales information to support the commission calculation.

The accountant in Business Operations assembles all the Aramark venue reports and calculates the anticipated monthly commission. Although Aramark provides an independently calculated monthly commission and issues a check to FGCU for the corresponding amount, the Business Operations calculation becomes the accepted commission amount. Accordingly, Business Operations reports any commission differences to Aramark, who carries the difference forward as an adjustment to future commissions.

Processing the Aramark commission check by the Business Operations accountant is similar to the process described above for Follett.

Detailed sales reports are not routinely provided but are promptly provided upon request.

**OBSERVATIONS AND RECOMMENDATIONS**

1. *Incorporating Summer Meal Plan Commissions Into Aramark Contract*

*Condition:* During 2012 – 2013, for the first time, a summer meal plan for students was provided at South Village (SoVi). Because Aramark accommodated the University in order to determine whether summer meal plan sales would be profitable, the University agreed to a 10% commission on meal plan sales rather than the 17% received for those meal plans sold for the regular academic year. By means of an email, the 10% commission rate was agreed upon by the University’s Director of Business Operations and Aramark’s Senior Food Services Director. The Assistant Vice President of Business Services was copied on the email.
**Criteria:** In any vendor relationship, all financial arrangements, and amendments thereto, should be included in a written contract and executed by both parties.

**Recommendation**

All Food Service financial arrangements, including commission rates, should be included in an Addendum or Amendment to the written Food Services Management Agreement between Florida Gulf Coast University and Aramark Educational Services, Inc. dated August 1, 2006 as amended.

**Management Response**

The Department of Business Operations agrees with this recommendation. Our intention with last year’s “trial” summer operation was to determine if it would be a feasible to open SoVi Dining during a period where 80% of the South Village residence halls were vacant. Our plan for the upcoming summer session as well as future years will be to continue to have SoVi Dining operational; however, the meal plan commission rate will revert back to 17% moving forward. The increase in the summer camp and conference programming as well as the potential for increased summer enrollment was considered in our decision. The additional summer operational hours will be incorporated into our annual contract amendment that I anticipate to be executed by the end of June 2014.

*Response Provided by:* Loren Prive, Director, Business Operations  
*Responsible for Implementation:* Loren Prive, Director, Business Operations  
*Implementation Date:* June 2014

2. **Meal Plan Deferred Dollars**

*Condition:* Aramark pays commission on revenues from prepaid meal plans as meals are deducted from the declining balance student Eagle ID cards. To verify the accuracy of the commissions paid on meal plans, Business Operations has relied on Aramark reports of the dollar value of meals used during each monthly commission period.

*Criteria:* Business Operations should use available University annual reports of total meal plans sold by type and number as well as the prices specified in the contract to calculate total meal plan revenue.
Recommendation

To ensure the University receives all the commission to which it is entitled, Business Operations should compare their records for the annual revenue of meal plans sold with the yearly dollar value of meals used on Aramark’s monthly commission reports. Business Operations should request from Aramark an explanation of any significant difference between the dollar value of meals used throughout the year and the department’s calculated amount of revenue from the total number of meals plans sold.

Management Response

The Department of Business Operations agrees with this recommendation. In order to efficiently obtain current information about adjustments to total calculated revenue of meal plans sold, I am participating in weekly meetings with Aramark to discuss meal plan cancellation appeals from students and monthly reports are being developed to provide greater detail on any other changes to existing meal plan holder contracts that may affect the total meal plan commission revenue anticipated by the University based on original plans sold.

Response Provided by: Loren Prive, Director, Business Operations
Responsible for Implementation: Loren Prive, Director, Business Operations
Implementation Date: Implemented by Report Issuance Date

3. Periodic Review of Food Venues and Sales Types Reports

Condition: For every food venue and type of bookstore merchandise, Business Operations receives a sales total for the commission period. Business Operations staff members calculate or recalculate the commission to ensure the amount received is correct. The vendors are notified if adjustments are needed in future commission payments. However, the supporting detail for each sales total has not been reviewed on a periodic or routine basis.

Criteria: Analytical review of sales amounts can disclose significant or unexplained changes. The sales detail can provide explanations for changes or it may focus the questions that need to be asked of the vendor. Periodic review of sales detail may also reveal changes in purchase choices.
Recommendation

We recommend that Business Operations periodically perform an analytical review on sales by food venue and sales by type of bookstore merchandise, and obtain and review the detail for sales totals that have significant or unexplained changes. We also recommend that, on at least an annual basis, the detail for any significant sales total should be reviewed. Requests for explanations should be made to the appropriate vendor as needed.

Management Response

The Department of Business Operations agrees with this recommendation. We have been actively working with Aramark on providing us with standard monthly, semester and annual reports by dining venue to enable us to match their reports with those generated from our system. These reports will show operating days, any sales promotions and/or staffing issues that may have affected sales for the given period.

Response Provided by: Loren Prive, Director, Business Operations
Responsible for Implementation: Loren Prive, Director, Business Operations
Implementation Date: Implemented by Report Issuance Date

Audit Performed by: Carol Slade, Director of Internal Audit
Audit Reviewed by: Deborah McEwan, Senior Auditor