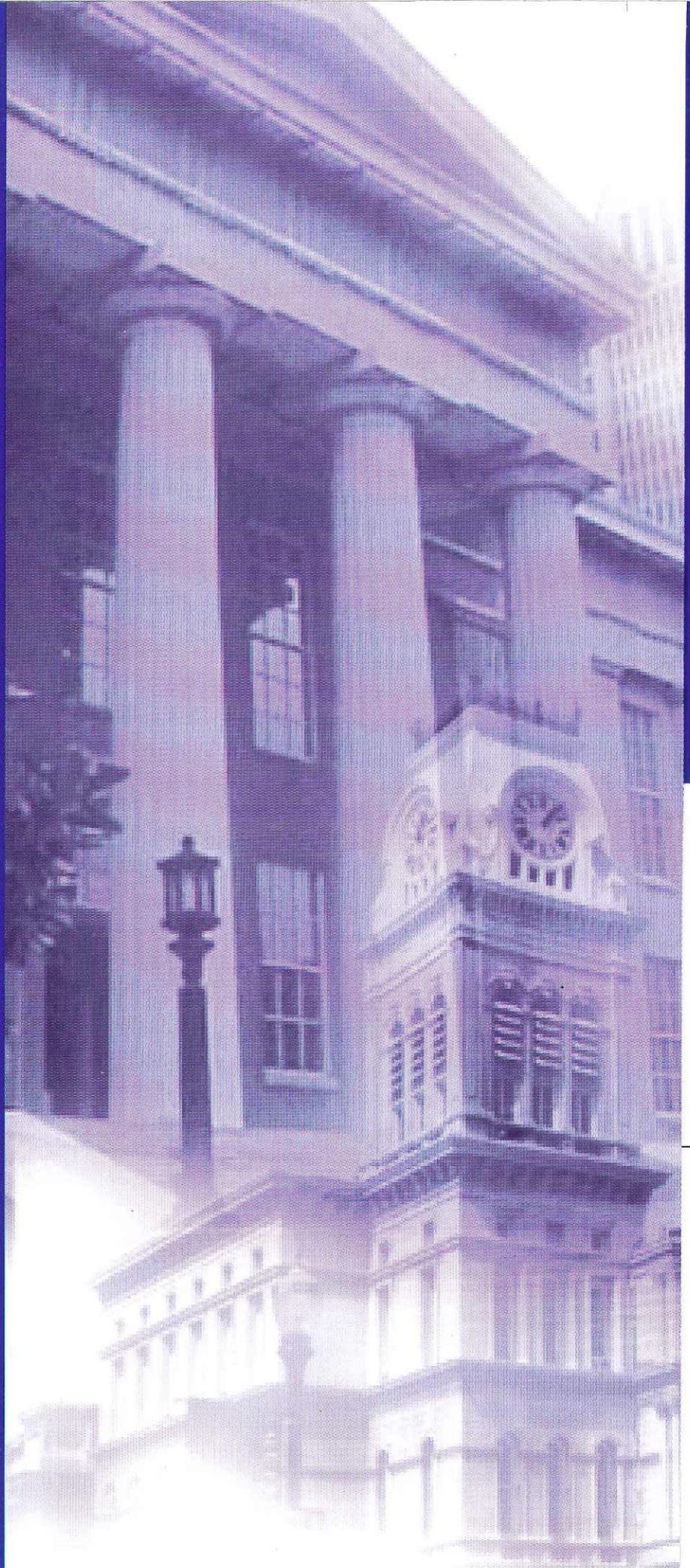




Greg Fischer
Mayor
Louisville Metro Council

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Office of Internal Audit

Louisville Zoo

Food Service Use Agreement
July 2013

Audit Report

Office of Internal Audit

Louisville Zoo

Food Service Use Agreement

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Food Service Use Agreement
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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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Transmittal Letter

July 1, 2013

Mr. John Walczak
Director of Louisville Zoo
Louisville Metro Government
1100 Trevilian Way
Louisville, KY 40213

Subject: Review of the Zoo's Food Service Use Agreement

Introduction

As requested, the Office of Internal Audit performed a review of Louisville Zoological Gardens (Zoo) Food Service Use Agreement. The primary focus was the verification of the monthly rental payment received by the Zoo from Sodexo Operations LLC (vendor) for the purpose of providing food service operations to visitors and employees of the Zoo. This involved verifying the accuracy and timeliness of vendor payments based on provisions specified in the contract and how the Zoo monitors this activity. Additionally, the review included a verification of documentation related to the vendor's capital contributions to the Zoo. The review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Scope

Weekly cash management reports and accounts receivable history reports were obtained from the vendor for the period November 2008 through October 2010. This period was agreed upon with Zoo management due to a change in the vendor's operational management. The contract effective during this time period was used to verify the accuracy and timeliness of the commission payments for both catering sales and concession sales. This included recalculating the commission amount due Louisville Metro based on the contractual rates for both concession and catering sales.

Documentation for capital expenditures the vendor contributed to the Zoo was reviewed for the periods May 2010 through February 2013. Documentation was reviewed to verify the accuracy of the capital contributions recorded by the vendor. In addition, a sample of items procured by the vendor was verified through visual inspections.

Background

The terms of the Use Agreement between the Zoo and Sodexo began November 1, 2008 and continue through October 31, 2018. The vendor retains all cash receipts realized from food service operations and pays operating expenses, with any profit or loss for the vendor's account. The vendor is to pay the Zoo a monthly rental based on a percentage of gross receipts for each contract year the agreement is in effect. Payments are due and payable on the 15th day of each subsequent month, and are calculated based on the following:

- A sliding scale/escalating percentage based on volume for concession sales, including vending machines and gross sales from contracted vendors, but excluding member discounted sales excluding sales taxes.
- An amount equal to twelve percent (12%) of all gross receipts from catering.
- A commission equal to ten percent (10%) of all discounted member sales. Discounted member sales are concession sales provided to members at a discounted rate of twenty-five (25%) off regular concession prices.
- Goods or services provided to the Zoo at the vendor's cost, or to its employees without charge, are not included in the calculation of gross receipts. In addition, as the vendor provides a discount of fifty percent (50%) to employees and volunteers on the days that they work, these sales are non-commissionable.

A summary of payment terms is provided in Table 1 below.

Table 1: Summary of Payment Terms			
Source of Sales:	Concessions		Catering
Sales Volume (Non-Discounted Only)	Commission	Commission (Discounted Sales)	Commission (Gross Sales)
Up to \$750k	20%	10%	12%
>\$750k to \$1.0M	23%	10%	12%
>\$1.0M to \$1.5M	31%	10%	12%
>\$1.5M	34%	10%	12%

The agreement also stipulates that the vendor make a capital investment of \$524,360 to the Zoo in the first year of the contract and an additional investment in year six of the contract in the amount of \$100,000. All alterations and additions made to the premises shall become the property of the Zoo upon complete amortization of the investment.

Results

Issues were noted with the accuracy and timeliness of the commission payments for both catering and concession sales based on the contract effective during the review period. Additionally, issues were noted with the documentation to support the capital

improvements completed by the vendor. Opportunities to improve the recording and monitoring of the activities were also noted.

The Zoo Director should be commended for proactively requesting this review. The Zoo's corrective action plan is included in the Recommendations section of this report. The corrective action plan demonstrates a commitment to addressing the issues noted.

Concession Sales

- Of the 24 monthly payments reviewed for concession sales, eight (33%) could not be reconciled to vendor sales records. The net unreconciled amounts represent an underpayment to the Zoo of \$843 in concession commissions.
- Of the 70 days sampled for recalculation of concession sales, 29 (41%) could not be agreed to reported sales by the vendor.
 - 15 days of sales were understated by \$3,008. It seems that shortages occurring at concession locations without a cash register were used to reduce the total sales reported. As a result, the Zoo was underpaid \$638 in concession commissions.
 - 14 days of sales were not recorded in the appropriate commissionable revenue accounts, with member food sales understated by \$8,000 and regular food sales overstated by \$8,000. As a result, the Zoo was overpaid approximately \$800 in concession commissions.
- The vendor's monthly payment for concession sales was not deposited on or before the 15th of the subsequent month for six (25%) of the 24 months reviewed. The Use Agreement between the vendor and the Zoo states "rental payments will be due and payable on the 15th day of each subsequent month". As a result, six payments were not in compliance with the agreement.

Catering Sales

- Of the 20 monthly payments reviewed for catering sales, two (10%) could not be reconciled to vendor catering records.
 - The vendor erroneously paid commissions on a non-commissionable catering account. As a result, the Zoo was overpaid \$3,078 in catering commissions. The error occurred two consecutive months. During this time period, the vendor changed procedures and began using a new non-commissionable catering account.
- Of the 193 catering receipts reviewed for accuracy, 108 (56%) were not properly recorded to the catering commissionable revenue account.
 - 106 of the catering receipts reviewed were not recorded in the appropriate commissionable account, which resulted in commissionable catering sales being understated by \$37,856. It seems the majority of the recording errors were for pre-planned meals that were ordered directly through the vendor without the knowledge of the Zoo. As a result, the Zoo was underpaid \$4,543 in commission.
 - One catering receipt was incorrectly recorded in the commissionable account. This was a reduction to the account due to the cancellation of the catered event; however there was no evidence the catered event was ever posted to the account. Commissionable catering sales were understated by \$2,741. As a result, the Zoo was underpaid \$328 in commission.

- It seems that for one catering receipt reviewed, the vendor paid the Zoo double the normal commission rate for a catered event. Commissionable catering sales were overstated by \$8,521. As a result, the Zoo was overpaid \$1,023 in commission.
- The vendor's payment for catering sales was not deposited on or before the 15th of the subsequent month for four (20%) of the 20 months reviewed. The Use Agreement between the vendor and the Zoo states "rental payments will be due and payable on the 15th day of each subsequent month". As a result, four payments were not in compliance with the agreement.

Capital Improvements

- Of the 11 capital expenditures reviewed, seven (64%) had issues with the documentation to support the capital improvement.
 - Five capital expenditures reviewed could not be reconciled to an invoice/purchase agreement. The invoice/purchase agreement amount did not agree to the amount recorded on the capital contribution statement provided to the Zoo on a monthly basis. The differences totaled approximately \$3,500. As a result, Zoo management does not have an accurate account of the remaining capital expenditures when considering future improvements.
 - For two capital expenditures reviewed, the vendor could not provide an invoice/purchase agreement. As a result, the accuracy and completeness of the record could not be verified.

Monitoring Activity

Some issues were noted with the recording and monitoring of concession and catering sales. Specifics include the following.

- The monthly sales report provided by the vendor for concession sales is not in compliance with the Food Service Use Agreement. The agreement states that the "vendor shall, at its own expense, provide to the Zoo weekly statements of gross receipts (these should include sales by day and by stand)." The monthly sales report currently provided does not provide sales data by day or by stand. As a result, Zoo personnel lack sufficient information to effectively monitor and reconcile the commission payments for concession sales.
- The vendor does not provide sufficient information for Zoo personnel to effectively monitor and reconcile catering commission payments to ensure compliance with the contractual agreement. The Food Service Use Agreement does not specify documentation requirements for catering sales. The current report provided by the vendor only lists the current months and year to date catering sales and does not allow for any type of reconciliation of catering sales or commission payments.

Recommendations

Appropriate Zoo personnel should review the results and determine the necessity of corrective actions. Specific recommendations include the following.

- ✓ The details of the discrepancies with commission payments for catering and concession sales were provided to appropriate Zoo personnel for review and determination of the extent of any remedial action needed.
- ✓ A major component of any reporting system is proper monitoring and reconciliation. Zoo personnel should review commission payments on a monthly basis to ensure vendor commission payments comply with agreed upon contract terms and conditions. This should include periodic spot checks to verify gross receipts, by day and by stand, agree to the vendor's total daily sales reported and that sales are recorded in the appropriate commissionable revenue account.
- ✓ Zoo personnel should require the vendor to adhere to the agreement and provide monthly catering and concession commission payments to the Zoo in a timely manner.
- ✓ Zoo personnel should require the vendor to provide the accounts receivable summary history report as supporting documentation to the monthly catering payment. This will allow appropriate Zoo personnel to monitor compliance with the terms and conditions within the agreement. This should include verifying catering receipts are posted to the appropriate commissionable revenue accounts.
- ✓ Zoo personnel should have knowledge of all catered events. The Food Service Use Agreement states "All catered events will be booked through the Group Sales Department or in coordination with the Group Sales Department".
- ✓ The vendor's accounts receivable invoices should be reviewed from the end of this review period to present to determine if any additional commission payments are due the Zoo for catered events which took place without their knowledge.
- ✓ Zoo personnel should require the vendor to include copies of paid invoices with the monthly statements of capital contributions to adequately monitor the accuracy and completeness of the information recorded.
- ✓ Zoo personnel should require the vendor adhere to the agreement and provide the necessary sales data to facilitate the reconciliation of the monthly commission payment. Gross receipts records, by day and by stand, should accompany the vendor's commission payment.
- ✓ A copy of the vendor's Accounts Receivable Summary History Report should accompany the vendor's catering commission payment to allow Zoo personnel to review catering sales at the invoice/customer level and reconcile the commission payment on a monthly basis.

Corrective Action Plan

Representatives from the Zoo have reviewed the results and are committed to addressing the issues noted. The Zoo's corrective action plans are listed below.

Concession Sales

The Zoo will implement the following points to address the concerns raised in Concession Sales findings:

- Monthly Concessions Sales reconciliation -
 - Ask Sodexo to review and reconcile their records and provide findings to the Zoo. Pending this outcome we will request reimbursement.
- Daily sales recalculations, concession locations -
 - We will request Sodexo to review and reconcile any locations without a cash register and provide findings to the Zoo. We will also ask them to provide detail outline of the current practice for inventory and revenue management from these locations. Pending outcome we will consider reimbursement.
 - We will request Sodexo to review and reconcile their member food sales for correct allocation to the rent payment structure. Based on outcome Zoo will need to consider repayment to Sodexo.
- Monthly payment submissions
 - We will require Sodexo to adhere to the agreement and provide monthly catering and concession commission payments by the monthly due dates.

Catering Sales

The Zoo will implement the following points to address the concerns raised in Catering Sales findings:

- Monthly payment reconciliation -
 - The Zoo will request Sodexo to review and reconcile the catering records.
 - Provide findings to the Zoo with details
 - Consider re-payment to Sodexo for the over payment.
- Catering event detail review –
 - School lunches not reported as commissionable sales.
 - Commissionable account incorrectly used by Sodexo
 - Sodexo paid double commissions on one event
 - Sodexo will be instructed to record commissions accurately.
 - A detailed summary of the monthly activity will be required with the monthly commission payment.
 - Reconcile accounts to determine payment or reimbursement required.
- We will require Sodexo to adhere to the agreement and provide monthly catering and concession commission payments by the monthly due dates.

Capital Improvements

The Zoo will implement the following points to address the concerns raised in Capital Improvements findings:

- Capital Improvement detail –
 - The Zoo will request reconciliation of the capital improvement projects and budgets to clear up any discrepancies.
 - The Zoo will request copies of invoices for any capital improvement expense, along with a running totals document.
 - The Zoo will request Sodexo contact the vendor for the missing invoices and provide them to the Zoo.

Monitoring Activity

The Zoo has taken the following steps to address the concerns raised in the Monitoring Activity findings:

- The Zoo will request Sodexo to adhere to the agreement and provide necessary sales data to facilitate the reconciliation of the monthly commission payment. Including Gross receipts record, by day and location to be submitted with the monthly payment.
- Concession Sales Monitoring
 - The Zoo has requested and started receiving a weekly sales summary by date and location. The Zoo will work with Sodexo on improving the format of the document.
- Catering Sales Monitoring
 - The Zoo has requested Sodexo to provide a monthly detailed summary of all catering events including:
 - Date
 - Number in attendance
 - Group name
 - Revenue broken out by commissionable and non-commissionable sales

We will continue to work with the Zoo to ensure the actions taken are effective to address the issues noted. Please contact me if you have any questions or need additional information

Sincerely,



Ingram L. Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Chief of Community Building

Office of Internal Audit

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