

## 19-118 Dining Services Review

### Executive Summary

In July 2013, the Institution entered into an agreement with Aramark to manage the Institution's daily operations of dining services for a period of (36) months ending June 30, 2016, with the total amount to be paid under this agreement not to exceed \$42 million. This contract was then renewed for an extended period of (48) months ending June 30, 2020 with a total cap of \$160 million.

Food and Nutrition Services management requested Internal Audit to perform a review of their contractual agreement with Aramark. The objective of the review was to independently validate management's evaluation of Aramark's compliance with the terms and provisions noted in the contract, including evaluating internal controls over related processes. In addition, Internal Audit was asked to provide recommendations to be considered as management prepares to issue a request for proposal for future dining services following the end of the current contract.

During our review, we substantiated management's assertions as noted in the detailed observations, as well as identified opportunities for improvement to ensure the following:

- Terms and conditions for future contracts are clearly defined in order to protect the interests of the Institution.
- Early payment discounts are calculated and received as outlined in the contract. Note that subsequent to our confirmation that an early payment discount was due, Aramark paid \$194,618 to Dining Services in resolution.
- All incentive payments to vendors are directly linked to the overall performance of the department.
- All vendor invoices are approved by Food and Nutrition Services management to avoid any potential conflict of interest.
- Institutional purchasing guidelines are followed including obtaining adequate supporting documentation for all expenses paid.
- A formal approval is obtained from management prior to the payout of sales commissions.
- All key decisions are discussed and agreed upon by the vendor and the Institution.

Further details are outlined in the Detailed Observations section below.

### **Management's Summary Response:**

*Management agrees with the observations and recommendations and has developed action plans to be implemented on or before July 1, 2020.*



**Appendix A** outlines the methodology for this project. The courtesy and cooperation extended by the personnel in Food and Nutrition Services are sincerely appreciated.

*Sherri Magnus*

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Sherri Magnus, CPA, CIA, CFE, CRMA  
Vice President & Chief Audit Officer  
July 1, 2019

## Detailed Observations

<b>Observation 1:</b> <b>Strengthen Terms and Conditions of Future Contracts</b>	<b>RANKING: High</b>
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Clearly defined contractual terms and conditions outline the roles and responsibilities, establish accountability for all parties, and are intended to protect the interests of the Institution. The terms and conditions of the current dining services agreement and the related amendments with Aramark do not adequately specify the following:

- Assignment of responsibilities for key decision-making
- Formal documentation supporting business agreements related to dining concept development and sales commission
- Documentation required to support monthly invoices
- Cost allocation methodology to be used in financial reporting
- Requirements for data protection and backup management

Absence of these terms and conditions could impact the ability of Food and Nutrition Services management to monitor the performance of the vendor, the quality of the services provided and get the information needed to make informed decisions.

Recommendation:

Management should strengthen the terms and conditions of future dining services contracts to ensure that the interests of the Institution are protected. This should include, but not be limited to, the following:

- Clearly defined roles and responsibilities
- Documentation requirements
- Cost allocation methodologies, and
- Requirements for data protection and backup.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: July 1, 2020

*The Management Action Plans below will address the following for future dining services contracts:*

- *See Management Action Plans for Observations 7 and 8 addressing clearly defined roles and responsibilities.*
- *See Management Action Plan for Observation 5 addressing documentation requirements.*
- *See Management Action Plan for Observation 11 addressing cost allocation methodologies*
- *See Management Action Plan for Observation 12 addressing requirements for data protection and backup.*

**Observation 2:**  
**Ensure Early Payment Discounts Are Received**

**RANKING: Medium**

According to the contract with Aramark, Rider 116 "Invoice Payment Requirements", Section 3.2.1, MD Anderson is eligible for an early payment discount ranging from 0.25% to 5% based upon the payment date of invoices. Food and Nutrition Services management has estimated the early payment discount due from Aramark for the periods FY14 through FY19 (ending Dec 2018) totals \$194,618, as confirmed by Internal Audit.

Failing to pay the discount amount due to the institution does not comply with the terms and conditions of the Dining Services agreement, resulting in a loss of funds.

**Recommendation:**

Management should continue to coordinate with Aramark to collect all discounts due per the agreement.

**Management's Action Plan:**

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: Implemented

- *Invoices FY14 through FY19 (ending Dec 2018):*
  - *Aramark provided MD Anderson's Food and Nutrition Services Administration Management a check dated 04/08/2019 for \$194,618.04.*
  - *Food and Nutrition Services Administration Management forwarded the check to the MD Anderson Treasury Services lockbox.*
  - *Internal audit reviewed copy of the check from Aramark.*
- *Invoices Jan 2019 forward:*
  - *A process for approval and submission of the monthly Aramark management fee invoices was developed to ensure MD Anderson receives early payment discounts.*

**Observation 3:**  
**Evaluate Incentive Payments against Overall Performance**

**RANKING: Medium**

According to the contract with Aramark, Rider 102 "Fee Schedule", Section 10.1 "Retail Sales Growth", Aramark is eligible to receive an incentive of 15% of the incremental increase in sales over prior year at any individual venue. However, they are not required to share in any losses.

The following schedule represents the financial results of Dining Services during FY14 through FY18, along with the incentive amounts paid to Aramark:



	2014	2015	2016	2017	2018
Sales	\$16,835,990	\$18,714,265	\$20,282,000	\$17,152,613	\$17,304,346
Operating Expense	(\$19,501,133)	(\$21,609,893)	(\$23,084,412)	(\$19,732,784)	(\$19,415,423)
Operating Loss	(\$2,665,142)	(\$2,895,628)	(\$2,802,412)	(\$2,580,171)	(\$2,111,077)
Aramark Growth Incentives	\$127,022	\$242,697	\$177,136	\$9,500	\$77,657

As the table depicts, Dining Services operated at a loss during the last five fiscal years. However, Aramark received \$634,012 in incentive payments during this same period since certain individual venues increased sales.

Recommendation:

Management should review the incentive methodology currently being used. In the best interest of the Institution, any incentives paid to vendors should be directly linked to the performance of the department as a whole.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: July 1, 2020

*Incentives in future contracts will be considered for performance related to objectives such as customer satisfaction, employee satisfaction and food quality. Financial performance incentives may be considered where appropriate.*

**Observation 4:**  
**Remediate Conflict of Interest** **RANKING: Medium**

Food and Nutrition Services management asserted that invoices for Aramark services were approved in PeopleSoft by the Aramark Managing Director, thereby creating a conflict of interest. Internal Audit subsequently confirmed this assertion. When a conflict of interest exists, the risks are increased that errors or irregularities may occur and go undetected in a timely manner.

Recommendation:

Management should ensure that payments for Aramark invoices are approved by Food and Nutrition Services management.



Management's Action Plan:

Responsible Executive: Frank Tortorella  
Owner: Leisa Bryant  
Due Date: Implemented

*Resolved – Leisa Bryant, Director, Food and Nutrition Services Administration, an MD Anderson employee is the Primary Signer for all Dining Services chartfield strings in PeopleSoft as of 11/30/2018.*

**Observation 5:**  
**Improve Supporting Documentation for Invoices** **RANKING: Medium**

Aramark bills the Institution for its services on a monthly basis. For a sample of monthly Aramark invoices, we noted the following:

- Adequate supporting documentation such as timesheets or description of the work performed was not provided for management salaries
- Expenses such as travel, freight, relocation, and mobile devices were not supported

Without adequate supporting documentation, the risks are increased that payments to the vendor may be inaccurate.

Recommendation:

Management should ensure all amounts charged by vendor are accurate and supported by proper documentation.

Management's Action Plan:

Responsible Executive: Frank Tortorella  
Owner: Leisa Bryant  
Due Dates:

Existing Contract Action: July 1, 2019  
Future Contract Action: July 1, 2020

- *Under the existing contract, Food and Nutrition Services Administration Management will require the vendor to provide a signed monthly work schedule as support for each position represented as a component of the Base Management Fee invoice. Due Date: July 1, 2019*
- *In future contracts, Food and Nutrition Services Administration Management will require the following from the vendor:*
  - *Management Salary expenses will be clearly identified as their Full-time Equivalent (FTE) basis and this will be attested by the vendor's signature on the monthly invoice.*

- *Non-personnel expenses such as travel, freight, relocation, and mobile devices will only be paid on an as-incurred basis with receipts or other proper documentation.*
- *Due Date: July 1, 2020*

**Observation 6:****Utilize Appropriate Payment Mechanism****RANKING: Medium**

According to institutional policy, a procurement card (procard) should not be used as a payment option when a purchase order is more appropriate. Food and Nutrition Services management asserted that the procard holder is not consistently using the appropriate payment mechanism for purchases. We confirmed that ten of the top fifteen vendors (based on the volume of procard purchases for FY18 and FY19) are currently set up in PeopleSoft to accept purchase orders. When the proper payment mechanism is not used, required purchasing guidelines may not be followed. In addition, Food and Nutrition Services management asserted that they are not involved in the current review or approval process for procard transactions or reconciliations, which we confirmed.

Without proper oversight by Food and Nutrition Services management procard transactions may not comply with institutional guidelines or management's expectations.

Recommendation:

Management should ensure that purchases are made using the appropriate payment mechanism in accordance with institutional guidelines, with proper oversight by Food and Nutrition Services management.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: January 1, 2020

- *Food and Nutrition Services Administration Management in collaboration with Aramark management will develop financial operating guidelines for the department to ensure all procurement practices are in accordance with institutional guidelines and sufficient internal controls are maintained. Within these guidelines, the review and approval processes for procard transactions will specify the proper oversight by MD Anderson Food and Nutrition Services management.*
- *The department financial operating guidelines will be based on the following institutional guidelines:*
  - *Supply Chain Management Policy (UTMDACC Institutional Policy # ADM0128)*
  - *MD Anderson General Accounting Department - Procurement Card Program User's Guide*
  - *Internal Control Policy (UTMDACC Institutional Policy # ADM0123)*
  - *Policy on Department Fund Transaction Reviews (UTMDACC Institutional Policy # ADM1100)*



**Observation 7:**  
**Collaborate on Key Financial Decisions**

**RANKING: Medium**

According to the contract with Aramark, Rider 101, Attachment No.1 “Management Services”, Section G.1, parties to the contract agree to work collaboratively and cooperatively. However, the contract does not specify how this collaboration should be executed, which may lead to confusion in decision-making.

Management informed Internal Audit that Aramark changed to a new chemical and cleaning material vendor. However, there was no prior coordination with Food and Nutrition Services management, who learned of the change after-the-fact.

When Food and Nutrition Services management is not involved in key business decisions, the risks are increased that the consequences of the decision may negatively impact the Institution.

Recommendation:

Management should coordinate with Aramark to ensure that all significant financial decisions are properly discussed and approved prior to execution.

Management’s Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: May 22, 2019

*Food and Nutrition Services Administration Management will implement a process for review and approval related to changes in vendors/suppliers.*

**Observation 8:**  
**Require Management Approval for Aramark Sales Commissions**

**RANKING: Medium**

**Cat Cora (Olilo):** Aramark has partnered with Chef Cora to introduce a concept called OLILLO by Cat Cora. With a focus on eating well, the concept offers a delicious, healthy, made-your-way menu, featuring Cora’s signature Mediterranean tastes and flavors.

Management asserted that during the period from May 2017 to Apr 2018, approximately \$11,000 (5% sales commission) was paid to Cat Cora (Olilo), an internally branded concept by Aramark. While Food and Nutrition Services management discussed the sales commission with Aramark management, we found no formal agreement or approval of the 5% sales commission.

According to the contract, contractor must provide oversight and assistance, as well as meet agreed-upon timelines and budget once approval of a new concept occurs. Therefore, formal approval is necessary to establish proper accountability for these obligations.



Recommendation:

Management should formally document agreements related to Aramark and its concepts.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: May 22, 2019

*Food and Nutrition Services Administration Management will implement a process for review and approval related to changes in vendors/suppliers.*

**Observation 9:**

**Strengthen Controls over Meal Vouchers**

**RANKING: Medium**

According to Food and Nutrition Services, Aramark issued 10,700 meal voucher tickets totaling \$45,000 from January to October 2018. Our review of Aramark's Meal Ticket Procedure Manual indicated that procedures do not include requirements for tracking voucher usage, performing reconciliations, or the resolution of expired vouchers.

When monitoring and reconciliations are not performed, the risks are increased that the meal ticket vouchers may be lost or misused.

Recommendation:

Management should strengthen controls over meal vouchers by updating the procedure manual to require appropriate internal controls such as tracking, reconciliation and resolution of expired vouchers.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: September 1, 2019

*Food and Nutrition Services Administration Management in collaboration with Aramark management will revise the department's cash handling policy/procedures and incorporate internal controls for meal vouchers.*

**Observation 10:****Use Auxiliary Funds (Fund Group 70) Appropriately****RANKING: Low**

Management asserted that \$14,411 in auxiliary funds were used inappropriately for food and beverage expenses for employees during the period from FY14 to FY18. Internal Audit confirmed these expenses were paid with auxiliary funds during our review. Auxiliary funds are only to be used for the purchase of goods and services directly supporting the auxiliary operation.

**Recommendation:**

Management should establish controls to ensure that auxiliary funds are used only for allowable expenses. In addition, management should reimburse the funds that were spent inappropriately.

**Management's Action Plan:**

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: September 1, 2019

- *To reimburse the auxiliary fund for the inappropriate food & beverage expenses related to management and staff use from FY14 to FY18, Food and Nutrition Services Administration Management will initiate an expense transfer of \$14,411 to the auxiliary fund from an appropriate fund.*
- *Food and Nutrition Services Administration Management in collaboration with Aramark management will develop operating guidelines for the department to ensure auxiliary funds are used only for allowable expenses.*
- *Dining Services stopped the practice of providing food and beverages for management and staff use effective May 2018.*

**Observation 11:****Require Detailed Financial Reporting from Vendor****RANKING: Low**

Food and Nutrition Services management requested information on monthly sales and expenses for the Cat Cora restaurant during FY18. However, Aramark management did not provide the financial information, responding in May 2018 that because Cat Cora (Olilo) is a concept within Lantern Café, they did not have an individual costing or Profit & Loss information for this concept.

Without the necessary detailed financial information for various restaurant concepts and activities within venues, Food and Nutrition Services management will not be able to adequately monitor performance or make informed decisions.



Recommendation:

Management should coordinate with Aramark to obtain financial information including revenues and expenses by branded concept.

Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: September 1, 2019

*Under the existing agreement with Aramark, Food and Nutrition Services Administration Management advises Aramark management to provide individual costing on branded concepts only and acknowledges that individual costing will be theoretical based on shared expenses within each venue or location. Assumptions related to shared expenses will be clearly stated for each branded concept. Aramark will provide monthly reports on each of the branded concepts to further enhance financial reporting.*

*Aramark will provide a proforma to Food and Nutrition Services Management on any new brand concepts before implementation. This can be used as a basis for evaluating initial performance.*

*Food and Nutrition Services Administration Management and Aramark will continue collaboration to increase the accuracy of costing methodologies and financial reporting to support financial planning needs of the Institution.*

<p><b><u>Observation 12:</u></b> <b>Protect Financial Data</b></p>	<p><b>RANKING: Low</b></p>
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According to a September 2018 email, the Aramark Finance Manager lost several years of computer data during a recent institutional outage. The Institution's IT team was not able to recover the data. When data is not appropriately backed up and secured, recovery is not possible when unforeseen events occur, and important business information may be lost.

The loss of this information had no impact on the reliability and accuracy of the Institution's financial accounts, since monthly invoices and payments were recorded to PeopleSoft. However, it may impact Aramark's ability to comply with the agreement's Right to Audit clause, by which the vendor is obligated to provide all records requested without limitation.

Recommendation:

Management should ensure that financial data is regularly backed up and tested frequently. Future contract with vendors should include this requirement.



Management's Action Plan:

Responsible Executive: Frank Tortorella

Owner: Leisa Bryant

Due Date: July 1, 2019

- *Food and Nutrition Services Administration Management will require all data pertaining to MD Anderson be stored on Institutional network drives and/or Box.com to ensure backup of the data. This data must be accessible to MD Anderson management as needed.*
- *Financial Data requested from the vendor must be provided within two (2) business days. Exceptions to this timeline may be mutually agreed upon on a case-by-case basis.*



## Appendix A

### Objective:

To independently validate management's current evaluation of contract compliance, as well as evaluate internal controls over related processes. In addition, to provide recommendations for consideration as management prepares to issue a request for proposal for future dining services following the end of the current contract.

### Scope:

Our scope was limited to concerns communicated by Food and Nutrition Services management based on their current evaluation of contract compliance, as well as to evaluate internal controls over related processes.

### Methodology:

- Reviewed Dining Services agreement with Aramark and related amendments.
- Interviewed Nutrition and Food Services management.
- Reviewed supporting provided by Food and Services Management.