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State of New Mexico  
**OFFICE OF THE STATE AUDITOR**

August 18, 2015

Dr. Toni Hopper Pendergrass, Ph.D.  
San Juan College  
460 College Boulevard  
Farmington, NM 87402

Via Email: pendergrasst@sanjuancollege.edu

Re: Agreed-Upon Procedures Report – San Juan College Food Service Management Agreement

Dear President Pendergrass:

On August 17, 2015, the Office of the State Auditor (OSA) released the agreed-upon procedures report concerning San Juan College's food service management agreement with Sodexo America. The review, which was requested by the College, was conducted by the independent public accounting firm, Accounting & Consulting Group, LLP, and covered transactions occurring within fiscal year 2014.

The report found overbillings totaling \$20,771; charges that should have received the prior approval of the College before being processed, including \$19,826 to cover the relocation costs of moving a Sodexo general manager from Wyoming to New Mexico and \$1,049 provided to management as bonuses; and \$16,004 in various charges that lacked documentation to support the expenditures.

The report highlights the importance of maintaining financial controls and oversight of business agreements. In the management response, San Juan College demonstrated a commitment to improve financial practices and controls to prevent these problems in the future. We appreciate the College's attention to addressing these issues through appropriate corrective action.

Respectfully,

  
Sanjay Bhakta CPA, CGFM, CFE, CGMA  
Deputy State Auditor

cc: Russell Litke, Vice President for Administrative Services

**STATE OF NEW MEXICO**  
**SAN JUAN COLLEGE**  
**AGREED UPON PROCEDURES**  
**FOOD SERVICES MANAGEMENT AGREEMENT**  
**YEAR ENDING JUNE 30, 2014**

**State of New Mexico**  
San Juan College  
Agreed Upon Procedures  
Food Services Management Agreement  
Year Ending June 30, 2014  
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**Accounting & Consulting Group, LLP**  
Certified Public Accountants

### **Independent Accountant's Report on Applying Agreed Upon Procedures**

The Board of Trustees  
Russell Litke, Vice President for Administrative Services  
San Juan College  
460 College Boulevard  
Farmington, NM 87402

We have performed the procedures which were specified by San Juan College (College), solely to assist the College in evaluating Sodexo America's (Sodexo) compliance with the Food Service Management Agreements in effect during the year ending June 30, 2014. Sodexo and the College's management are responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified party in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of San Juan College and is not intended to be and should not be used or viewed by anyone other than this specified party.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, NM 87120  
March 9, 2015

**State of New Mexico**  
San Juan College  
Agreed Upon Procedures  
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**1. Agreed Upon Procedure #1: Confirm that San Juan College was invoiced based on the contract terms conditions.**

*Procedures:*

General Procedures

We scanned the revenue and expense detail reports that accompany each monthly invoice and reviewed each line item billed against the management agreement's terms and conditions in effect during the period billed.

Non-labor Costs Procedures

From Sodexo's monthly invoicing we selected 60 non-labor billed items to test for fiscal year 2014. These items were indicated on Sodexo's monthly revenue and expense detail reports that accompany each monthly invoice. Sodexo's monthly revenue and expense reports segmented billed items into product, controllable and non-controllable cost categories. Approximately 5 billed items were haphazardly selected from each month and category in fiscal year 2014 based on the dollar amount of non-labor costs in each category relative to the total non-labor costs. We compared the billed item to the allowed items per the terms and conditions specified in the management agreement in effect during fiscal year 2014.

Labor Costs Procedures

Sodexo provided us a listing of employees for fiscal year 2014 and indicated the rate of pay for each employee. From this listing we compared the billed labor amounts consisting of wages, taxes, and benefits to the contract terms and conditions specified in the management agreement in effect during fiscal year 2014. Based on our analytical review Sodexo's invoiced amounts for labor costs appear reasonable.

*Results:*

We noted 6 instances in which the College was not invoiced based on the contract terms and conditions as indicated the findings below:

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**1. Agreed Upon Procedure #1 Confirm that San Juan College was invoiced based on the contract terms conditions-(continued).**

1. Method of Calculating and Billing Product Costs and Controllable Costs

*Condition:* Sodexo calculated and billed product costs and controllable costs using the following formula (Beginning Inventory + Purchases –Ending Inventory = Cost of Goods Sold) each month during fiscal year 2014. The amount charged by Sodexo during fiscal year 2014 using the method described above was \$580,034; however, their invoiced cost totaled \$567,164 for fiscal year 2014.

*Criteria:* The management agreement dated September 16, 2013 paragraph 2.7 allowed Sodexo to bill the College for the invoiced amounts to Sodexo of goods and services. Paragraph 1.6 stated the Client shall retain ownership of the inventory at their own costs of all food and nonfood products for use within the College. Paragraph 6.4 allowed Sodexo to bill the College for the excess of ending inventory over the opening value in the event of termination.

*Effect:* This method of calculating product costs and cost of controllable resulted in overbilling the College in the amount of \$12,870 for fiscal year 2014.

*Cause:* Sodexo’s monthly revenue and expense report that accompanies each invoice automatically calculates the product costs and controllable costs using the calculation described above.

*Recommendation:* We recommend Sodexo reconfigure their monthly revenue and expense report to calculate product costs and controllable costs based on the invoiced amounts of goods provided.

*Management response:* We concur with the finding and accept the recommendation as stated.

2. Lack of College Approval for Relocation Costs

*Condition:* Sodexo in February 2014 billed the College \$19,826.11 for relocation costs associated with employing the new general manager without the approval by the College. The general manager relocated from Wyoming to New Mexico.

*Criteria:* The management agreement dated September 16, 2013 paragraph 2.7 (B) states operating expense including relocation expense of an approved management candidate as approved by the Client.

*Effect:* Lack of appropriate oversight and approval of relocation costs could provide opportunities for fraud or other abuses to occur.

*Cause:* Sodexo did not seek and obtain approval of the relocation costs by the College.

*Recommendation:* We recommend the College approve all relocation costs billed by Sodexo prior to paying the monthly invoice. We recommend the College compare the billed amounts to actual receipts related to the relocation costs and communicate their approval through signature and date on prescribed relocation cost form. We recommend the College amend the management agreement to define the conditions on which relocation costs will be reimbursed. We recommend that Sodexo provide the College invoices and receipts that support the relocation costs.

*Management response:* We concur with the finding and accept the recommendation as stated.

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**1. Agreed Upon Procedure #1 Confirm that San Juan College was invoiced based on the contract terms conditions-(continued).**

3. Lack of College Approval for Bonuses Paid to Management Staff

*Condition:* Sodexo for fiscal year 2014 billed the College \$1,049.34 for bonuses paid to management staff without the approval of the College.

*Criteria:* The management agreement dated September 16, 2013 paragraph 2.7(B) states operating expense include salaries (including bonuses for management staff as approved by the Client).

*Effect:* Lack of appropriate oversight and approval of bonuses could provide opportunities for fraud or other abuses to occur.

*Cause:* Sodexo did not seek and obtain approval of the bonuses by the College.

*Recommendation:* We recommend the College approve bonuses billed by Sodexo prior to paying the monthly invoice. We recommend the College compare the billed amounts to criteria for which bonuses are to be paid and communicate their approval through signature and date on prescribed bonus approval form. We recommend the College amend the management agreement to define the conditions on which bonuses will be reimbursed.

*Management's response:* We concur with the finding and accept the recommendation as stated.

4. Management Fee Not Prorated for the Month of September 2013

*Condition:* Sodexo did not prorate their September 2013 management fee when the management agreement was renewed on September 16, 2013.

*Criteria:* The management agreement renewed on September 16, 2013 did not contain a provision for a management fee to be billed; however, Sodexo billed a full month's management fee totaling \$5,255 for the month of September when it should have billed a prorated amount of \$2,577. The management agreement dated October 2, 2008 item 7.3 stated the Client shall pay Sodexo a "Management Fee" equal to five thousand dollars (\$5,000) plus three and one-half percent (3.5%) of Net Sales each year. The management fee shall be computed at the end of each accounting period and prorated for any partial accounting period.

*Effect:* Failure to prorate the September 2013 management fee resulted in overbilling the College by \$2,678.

*Cause:* Sodexo's billing system automatically calculated a full month's charge for September 2013 and the overcharge was not detected by Sodexo or the College internal controls. Sodexo's District Controller does not review the bills prior to presentation to the College.

*Recommendation:* We recommend the College and Sodexo provide more scrutiny over billing statement that overlap management agreement termination and renewal dates to ensure contract provisions are adhered to.

*Management's response:* We concur with the finding and accept the recommendation as stated.

5. Incorrect Monthly Marketing Fees

*Condition:* Sodexo's monthly marketing fee for the months of October 2013 through June 2014 was based on gross sales that included New Mexico Gross Receipts Tax. The gross sales between October 2013 and June of 2014 were \$648,938.12 and the sales net of New Mexico Gross Receipts Tax was \$618,036.60. The applicable governmental gross receipts tax rate is 5%.

*Criteria:* The management agreement dated September 16, 2013 item 2.7c allowed Sodexo to charge .3% of net sales as a marketing expense.

*Effect:* Sodexo overbilled the college in the amount of \$92.70. Future billings for marketing charges are likely overstated and could accumulate to material amounts over time.

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**1. Agreed Upon Procedure #1 Confirm that San Juan College was invoiced based on the contract terms conditions-(continued).**

5. Incorrect Monthly Marketing Fees

*Cause:* Sodexo billing system automatically calculated the marketing fee based on sales reported in the monthly revenue and expense detail report that include New Mexico Gross Receipts Tax.

*Recommendation:* We recommend the Sodexo use the net sales number to input into monthly revenue and expense detail report for purposes of calculating the monthly marketing fee.

*Management's response:* We concur with the finding and accept the recommendation as stated.

6. Vehicle Lease Billed

*Condition:* Sodexo's monthly billing included a vehicle lease fee for approximately \$405 per month. The total billed amount for the vehicle lease was \$4,860.65 for fiscal year 2014. The vehicle lease did not represent an invoiced costs incurred by Sodexo. In addition \$269.98 was billed for vehicle insurance during fiscal year 2014.

*Criteria:* The management agreement dated September 16, 2013 did not contain a provision that allowed Sodexo to charge a monthly fee for the vehicle lease. Paragraph 6.6 of the management agreement dated September 16, 2013 required Sodexo to provide a fully insured vehicle for use in the food service operation. It stated Sodexo shall be responsible for the vehicle's gas, oil, maintenance, repair, and automobile liability insurance and will be solely liable for the operation and use of the said vehicle.

*Effect:* Sodexo overbilled the College in the amount of \$5,130.63. Future overbillings for vehicle lease and vehicle insurance will likely occur.

*Cause:* Sodexo billing system automatically calculated the vehicle lease amount for inclusion on the monthly revenue and expense detail reports.

*Recommendation:* We recommend that Sodexo discontinue billing for the vehicle lease.

*Management's response:* We concur with the finding and accept the recommendation as stated.

**2. Agreed Upon Procedure #2 Tie out and agree the contractor's invoicing to San Juan College to the invoices the contractor received for products and services.**

**Agreed Upon Procedure #8 Inspect for mark-ups charged to San Juan College by the Contractor.**

*Procedures:*

Non-labor Costs Procedures

From Sodexo's monthly invoicing ACG selected 60 non-labor billed items to test for fiscal year 2014. These items were indicated on Sodexo's monthly revenue and expense detail reports that accompany each monthly invoice. Sodexo's monthly revenue and expense reports segmented billed items into product, controllable and non-controllable cost categories. Approximately 5 billed items were haphazardly selected from each month and category in fiscal year 2014 based on the dollar amount of non-labor costs in each category relative to the total non-labor costs. The source documents reviewed to support Sodexo's costs included Sodexo's invoices, receipts, contract rates and other documentation that supported journal entries that were recorded as operating expenses and billed to the College. Examples of journal entries include monthly marketing fees, management fees, and insurance costs allowed under the terms and conditions of the management agreement. For each item tested we traced billed amounts to Sodexo costs indicated by invoices, receipts, contract provisions, allocation schedules and other documentation supporting journal entries recorded by Sodexo and billed to the College.



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**2. Agreed Upon Procedure #2 Tie out and agree the contractor's invoicing to San Juan College to the invoices the contractor received for products and services-(continued).**

**Agreed Upon Procedure #8 Inspect for mark-ups charged to San Juan College by the Contractor-(continued).**

Labor Costs Procedures

Sodexo provided us a listing of employees for fiscal year 2014 and indicated the rate of pay for each employee. From this listing we analytically reviewed payroll and benefits costs billed based on theoretical wages and estimated hours worked to identify any markups. We compared the tax and benefit ratios to similar clients and expectation based on tax rates in effect during fiscal year 2014. Based on our analytical review Sodexo's invoiced amounts for labor costs appear reasonable.

*Results:*

We identified 3 instances out of 60 billed items tested in which the contractor's invoices to San Juan College could not be traced to invoices the contractor received for products and services as indicated the findings below:

1. No Receipts for Relocation Costs

*Condition:* Sodexo in February 2014 billed the College \$19,826.11 for relocation costs associated with employing the new general manager. The general manager relocated from Wyoming to New Mexico. No receipts could be provided to us to support that the costs billed related to relocation expenses.

*Criteria:* The management agreement dated September 16, 2013 paragraph 2.7 (B) states operating expense including relocation expense of an approved management candidate as approved by the Client.

*Effect:* We could not trace the billed item to cost incurred by Sodexo for relocation expenses. Consequently we could not determine whether the cost benefited the College's food service operation or if there were any markups on the requested items described in the condition paragraph above.

*Cause:* It could not be determined if the receipts pertaining to relocation costs were lost, misplaced or were ever there to begin with.

*Recommendation:* We recommend the College approve all relocation costs billed by Sodexo prior to paying the monthly invoice. We recommend the College compare the billed amounts to actual receipts related to the relocation costs and communicate their approval through signature and date on prescribed relocation cost form. We recommend the College amend the management agreement to define the conditions on which relocation costs will be reimbursed.

*Management's response:* We concur with the finding and accept the recommendation as stated.

2. No Receipts for Credit Card Purchases

*Condition:* Sodexo in June of 2014 billed the College \$567.71 for credit card purchases by the former General Manager at Walmart and Supervalu retail stores. There were no receipts to substantiate whether the costs related to operating cost for the College's food service operation.

*Criteria:* The management agreement dated September 16, 2013 paragraph 2.7 allowed Sodexo to bill the College for the invoiced amounts to Sodexo of goods and services.

*Effect:* We could not trace the billed item to cost incurred by Sodexo for operating expenses. Consequently we could not determine whether the cost benefited the College's food service operation or if there were any markups on the requested items described above.

*Cause:* It could not be determined if the receipts pertaining to the retail store purchases were lost, misplaced, or were ever there to begin with.

*Recommendation:* We recommend the College amend the agreement to require the contractor to submit for its review receipts that support invoiced amounts for credit card purchases.

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**2. Agreed Upon Procedure #2 Tie out and agree the contractor's invoicing to San Juan College to the invoices the contractor received for products and services-(continued).**

**Agreed Upon Procedure #8 Inspect for mark-ups charged to San Juan College by the Contractor-(continued).**

2. No Receipts for Credit Card Purchases-(continued)

*Management's response:* We concur with the finding and accept the recommendation as stated.

3. Agreed Upon Procedures Requests Not Responded to by Sodexo-Inadequate Responses

*Condition:* As part of our agreed upon procedures we requested invoices, receipts, and other supporting documentation for 60 non-labor billed items for fiscal year 2014. Sodexo could not provide any documentation for 33 non-labor billed items with a corresponding invoiced amount of \$20,297.01. We requested the items on January 30, 2015 and had not received the documentation as of the date of our report.

*Criteria:* The management agreement dated September 16, 2014 paragraph 7.6 Statements and Records stated Sodexo shall submit operating statements to Client for each Accounting Period and maintain books and records in accordance with generally accepted accounting principles. The operating statements submitted by Sodexo will reflect all sales and operating expense as defined in Section 2.11C. Client at its expense reserves the right to audit all operating statements.

*Effect:* We could not trace the billed items to cost incurred by Sodexo for operating expenses. Consequently we could not determine whether the cost benefited the College's food service operation or if there were any markups on the requested items.

*Cause:* It could not be determined if the invoices, receipts, and other supporting documentation for the items requested but not received were lost, misplaced, or were ever there to begin with. The Sodexo District Controller responsible for monthly billing to the College could not readily explain multiple billed items that appeared on Sodexo's monthly revenue and expense detail report as the process is automated. For example, during fiscal year 2014 invoices totaling approximately \$13,816.89 were directly paid to vendors through an electronic data interchange payment origination service (EDI). This included payments for a vehicle lease, supplies, products, taxes, and other items. This included billed amount for the vehicle lease which totaled \$4,861 for fiscal year 2014. The District Controller could not explain which vendors were being paid through the EDI system or provided any documentation as to the good or service received in exchange for the payments. Also the College is billed for payroll processing fees totaling \$6,123.04 in fiscal year 2014. The District Controller could not explain the reason for the fee or how the fee was calculated each month. The District Controller employed by Sodexo does not appear to review the monthly billing statement prior to presenting the invoices to the College for payment, and does not have even a working knowledge of how Sodexo's procurement, payroll, and disbursement functions interface with its billing system to create the monthly billing statements and monthly reports for review by the College. Consequently the District Controller does not know where to retrieve the requested information either for audit or other explanation purposes.

*Recommendation:* We recommend the College require the contractor to keep better records and improve the College's accessibility to source documents that support the contractor's invoiced amounts. We recommend the College interview key personal assigned to the management of its food service operation and demand to be served by qualified professionals that can readily explain their monthly billing statements. We recommend the College require future contractors to explain their billing process as part the proposal review process. We recommend the College amend the management agreement to require annual audits of the food service operation and to require the contractor to submit monthly its invoices, payroll records, and other supporting documentation in addition to its monthly billing statements and monthly revenue and expense detail reports.

*Management's response:* We concur with the finding and accept the recommendation as stated.

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**3. Agreed Upon Procedure #3 Determine that San Juan College is charged for purchases only and verify items purchased are properly tracked in inventory.**

**Agreed Upon Procedure #4 Determine if inventory procedures are documented and there are adequate safeguards in place.**

*Procedures:*

We interviewed Sodexo's General Manager and District Controller regarding how Sodexo ensures the inventory purchased for San Juan College is properly tracked and safeguarded. We requested Sodexo written inventory procedures. We also observed the month-end inventory process on January 30, 2015 and safeguards in place. We reviewed each the inventory activity in each month on Sodexo's monthly revenue and expense detail reports. We also reviewed invoices related to inventory purchases and looked specifically for evidence items were ordered were received at the College

*Results:*

It could not be determined if San Juan College is charged for purchases only (Please refer to findings in Agreed Upon Procedures #2 above). There were no other findings as a result of this procedures. We noted that individual purchases are not tracked in an inventory account; rather, they are recorded as expenditures in the period purchased. Inventory is tracked periodically at month-end through a physical count of items on hand. The ending inventory balance is then adjusted to what is observed at month-end. We noted during our observation of the month-end inventory process that access to the freezer and storage areas is restricted to Sodexo employees and the freezers are pad-locked. Access to the pad-lock key is restricted to Sodexo employees. External doors to the dining room lock automatically at 10:00pm and the dinning room areas are patrolled by security guards. We noted Sodexo does have documented procedures. We reviewed Sodexo's administrative and finance manual item AF-832-01 which discusses inventory control. We determined that inventory procedures are documented and there are adequate safeguards in place.

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**4. Agreed Upon Procedure # 5 Determine if costs (specifically depreciation, moving costs, uniforms) associated with the contract are being properly accounted for and accurately included in the College's general ledger.**

*Procedures:*

We reconciled the College's fiscal year 2014 general ledger accounts related to its food services operation to Sodexo's Revenue and Expense Detail reports that accompany its monthly invoices.

*Results:*

Sodexo's fiscal year 2014 depreciation costs associated with the food services contract totaling \$5,280.12 are recorded in the College's Program Supplies general ledger account 33-20-90-7002-6515 once the monthly invoice is received by the College for payment. The amount appears to be accurately recorded in the College's general ledger.

Sodexo's fiscal year 2014 moving costs associated with the food services contract totaling \$19,826.11 are recorded in the College's Program Supplies general ledger account 33-20-90-7002-6515 once the monthly invoice is received by the College for payment. The amount appears to be accurately recorded in the College's general ledger.

Sodexo's fiscal year 2014 uniform costs associated with the foods services contract totaling \$2,199.50 are recorded in the College's Program Supplies general ledger account 33-20-90-7002-6515 once the monthly invoice is received by the College for payment.

All other costs other than the costs indicated below associated with the contract appear to be reflected in the College's general ledger including certain expense the College pays for purposes of determining the surplus in accordance with paragraph 2.10 of the management agreement dated September 16, 2013. Such costs include electricity, telephone, copy and printing, and other expenses.

**1. Cost of Goods Sold and Halo Terminals Capital Assets**

*Condition:* We noted costs of goods sold appear to be recorded twice in the College's COG-Food general ledger account 33-20-90-7002-6855. The Cost of Goods Sold is recorded once when Sodexo bills the College for its calculated cost of goods sold and then again when the College adjust its ending inventory balance at month-end.

We noted the costs and accumulated deprecation on Halo terminals do not appear to be reflected in the College's fixed asset report. The costs and accumulated depreciation on the Halo terminals is \$16,626.90 and (\$15,763.07) and should be included in the College's general ledger as the amount exceeds the \$5,000 capitalization threshold. The costs and accumulated deprecation on small wares is \$4,045.15 and (\$4,045.15) at June 30, 2014 should have been expensed when purchased as the value is below the \$5,000 capitalization threshold.

*Criteria:* Per review of the management agreement dated September 16, 2013 paragraph 6.1 and the management agreement dated October 2, 2008 paragraph 7.8, the College appears to retain the ownership of Point of Sale Halo Terminals and Small Wares. Good accounting practices require cost of goods of sold to accurately reflect the inventory consumption for the period.

*Effect:* The College's capital asset records appear incomplete and do not include halo terminals. Cost of goods sold in the College's general ledger appears to be overstated for FY14 and in future years if Sodexo's billing procedures remain unchanged.

*Cause:* Sodexo's billing procedures include a calculated cost of goods of sold which results in the College having to record cost of goods twice.

*Recommendation:* We recommend Sodexo amend its billing procedures to exclude billing for cost of goods sold amounts.

*Management's response:* We concur with the finding and accept the recommendation as stated.

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5. **Agreed Upon Procedure #6 Confirm the contractor's revenues are recorded properly in its subsidiary ledgers and that San Juan College is accurately receiving its portion of revenues; i.e. on a sample basis perform test of the following: cash registers tied out to daily deposits, daily cash and credit /debit card receipts are tied to the cash register receipts and the Contractor's general ledger and San Juan College's deposits.**

*Procedures:*

Note: Sodexo tracks all revenues on monthly sales sheets using Excel (Sodexo's subsidiary ledger). The total revenues for the College per the sales sheet is reported as the College's revenue on the monthly revenue and expense detail reports that accompany each invoice.

- 1) For dining room receipts we selected a sample of 40 daily deposits and 1) traced deposits per cash registers to daily deposits at the bank and to inclusion in the Sodexo's monthly sales sheets. 2) We traced credit and debit card receipts per the cash registers to what was deposited per the bank statement and to inclusion in the Sodexo's monthly sales sheets.
- 2) Also Sodexo uses billing software to track and bill for internal and external catering services. We compared the revenues per Sodexo's monthly sales sheets to the revenue reported per Sodexo's billing software reports.
- 3) For day care revenues we compared the revenues per Sodexo's monthly sales sheets to the monthly invoices from Sodexo to the College that detailed the invoiced amount and number of meals served to children.
- 4) We compared the monthly sales per Sodexo's monthly sales sheets to the Colleges portion of revenues reported on the monthly revenue and expense detail reports that accompany each invoice.
- 5) We compared the total revenues per Sodexo's sales sheets and revenue and expense detail reports to what was recorded in the College's general ledger.

*Results:*

*Condition:*

- 1) With respect to dining room receipts, there were 4 instances in which cash register amounts did not agree to the daily deposits at the bank in excess of a \$5 tolerance level per Sodexo's policy. The total dollar amount is a shortage of (\$67.29) between the cash register totals and the daily deposit totals.
- 2) For internal and external catering during fiscal year 2014 there was a \$1,399 dollar difference between the monthly sale sheets revenue and the fiscal year 2014 catering revenue reported on per Sodexo's billing report provided to us. Catering revenue per the sales sheet was \$347,778 and catering revenue per the billing report totaled \$349,177.
- 3) For day care revenues during fiscal year 2014 there was a \$314.04 difference between the sales sheets and the total invoices reviewed. Total invoiced amount for FY14 was \$50,926.93 and the total from the monthly sales sheets was \$51,240.97.
- 4) We noted a net \$211.96 difference between Sodexo's fiscal year 2014 sales sheets and the revenue reported on the monthly revenue and expense detail reports that accompany each invoice. Total revenues per the sales sheets for fiscal year 2014 totaled \$1,013,144.49; however, revenues per the monthly revenue and expense detail reports totaled \$1,012,932.53.
- 5) We noted the College's general ledger reports revenues net of New Mexico Gross Receipts tax; however, Sodexo's sales sheet reported revenues include New Mexico Gross Receipts tax. We noted internal catering and day care revenues are not subject to New Mexico Gross Receipts tax. Adjusting Sodexo's sales sheet numbers to remove New Mexico Gross Receipts tax for comparison to the College recorded revenues resulted in revenues totaling \$973,707.81. Total revenues per the Colleges general ledger totaled \$952,524.40 a difference of (\$21,183.41) from Sodexo's sales sheets.

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- 5. Agreed Upon Procedure #6 Confirm the contractor's revenues are recorded properly in its subsidiary ledgers and that San Juan College is accurately receiving its portion of revenues; i.e. on a sample basis perform test of the following: cash registers tied out to daily deposits, daily cash and credit /debit card receipts are tied to the cash register receipts and the Contractor's general ledger and San Juan College's deposits-(continued)**

*Criteria:* Good accounting practices require all discrepancies detailed in the condition paragraph to be researched and resolved.

*Effect:* The potential impact is that Sodexo could have lost, stolen, misplaced customer receipts without researching and resolving cash discrepancies.

*Cause:* Sodexo does not record in its subsidiary ledgers revenues the same way as the College records the revenues in its general ledger.

*Recommendation:* With regard to monthly sales, we recommend the College reconcile Sodexo's reported sales to its general ledger revenue accounts and question any shortages monthly and investigate cash shortages monthly.

*Management's response:* We concur with the finding and accept the recommendation as stated.

- 6. Agreed Upon Procedure #7 Verify (on a sample basis) all transactions are recorded in the Contractor's General Ledger. Verify monthly financial statements include a balance sheets and tie to the Contractor's General Ledger and monthly billing statements.**

*Procedures:*

We inquired of the Sodexo Division Controller to obtain a general ledger. We requested all operating statements and balance sheets from Sodexo that pertained to fiscal year 2014 for inspection and comparison to the Sodexo's general ledger. We compared the operating costs on Sodexo's monthly billing statements to the Sodexo operating statements for each month.

*Results:*

Per inquiry of Sodexo's District Controller Sodexo does not have a general ledger for its San Juan College business unit so it could not be determined if all transactions are recorded and reflected in Sodexo's operating statements and balance sheets for fiscal year 2014. We did obtain balance sheets for each period in fiscal year 2014 and operating statements for each period in fiscal year 2014. We agreed Sodexo's operating expenses per their monthly billing statements to their operating statements for each month. There were no findings as a result of this procedure.

- 7. Agreed Upon Procedure #9 Ascertain if payroll amounts are reasonable within industry standards.**

*Procedures:*

We compared the rate of pay per hour for Sodexo employees to industry pay rates for other Sodexo employees detailed on [www.payscale.com](http://www.payscale.com) and [www.glassdoor.com](http://www.glassdoor.com). We also requested Sodexo provide us payroll wage data from two other schools in New Mexico for comparison to Sodexo employee wages at San Juan College.

In addition we analytically reviewed payroll and benefits costs billed based on theoretical wages and estimated hours worked to determine if labor cost is reasonable. We compared the tax and benefit ratios to similar clients and expectation based on tax rates in effect during fiscal year 2014. Based on our analytical review Sodexo's invoiced amounts for labor costs appears reasonable.

*Results:*

Below are the results of our comparisons of employee wage data.

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**7. Agreed Upon Procedure #9 Ascertain if payroll amounts are reasonable within industry standards – (continued)**

| Employee Position     | San Juan College | Provided by Sodexo |          | Pay Scale Website | Glass Door Website |
|-----------------------|------------------|--------------------|----------|-------------------|--------------------|
|                       |                  | School A           | School B |                   |                    |
| Banquet Support       | 9.15             | 9.54               | -        | -                 |                    |
| Cashier 1             | 8.88             | 9.00               | 8.80     | 9.10              | 8.98               |
| Cashier 2             | 9.26             | 13.72              | 11.35    | 9.10              | 8.98               |
| Cook 1                | 9.66             | 9.46               | -        | 10.82             | 12.48              |
| Food Service Worker 1 | 8.67             | 9.07               | 8.88     | 9.77              | 8.59               |
| Food Service Worker 2 | 10.01            | -                  | -        | 9.77              | 9.41               |
| Lead Worker           | 12.59            | 12.8               | 12.68    | 14.81             | -                  |
| Supervisor            | 11.69            | -                  | 10.87    | 14.39             | -                  |
| Utility Worker        | 8.64             | 9.36               | -        | 10.39             | -                  |
| General Manager       | 982.59/week      |                    |          |                   | 1,443.90/week      |

Based on these comparisons we concluded the payroll amounts are reasonable within the industry standard. There were no findings as a result of this procedure.

**8. Agreed Upon Procedure #10 Determine how the contractor’s employee meal allowances are factored in the contract with San Juan College, taking into account that San Juan College owns the food; i.e. are the employees paying for the meals; are meals consumed without recording costs.**

*Procedures:*

ACG interviewed Sodexo’s General Manager and District Controller regarding free meal consumption and reviewed Sodexo’s policy regarding free meals for employees. We reviewed Sodexo’s monthly revenue and expense detail statements that accompany each invoice to identify how the employee meal allowance are factored into the monthly billings. We reviewed the contract for any specific provisions that pertained to employee meal allowances. We estimated the value of free meals provided to employees for fiscal year 2014.

*Results:*

1. Free Meal Consumption

*Condition:* Sodexo employees generally do not pay for meals. Sodexo’s policy with respect to employee meal allowances is detailed in the criteria paragraph below. The consumption of meals is recorded by Sodexo as cost of goods sold. Employee consumption of food decreases inventory balances and increases cost of goods sold thus the costs is recorded by Sodexo and billed to the College. The College does not receive a reduction in the billed amount for employee consumption of free meals.

*Criteria:* “You will receive a free meal if you work six or more hours. The meal will be consumed during your one-half (½) hour non-paid meal period. You will also be permitted to consume a beverage during your paid breaks. The company will determine the meals and beverages that are available for employee consumption.”

There is no specific provision in the management agreement that allows for Sodexo employees to consume meals purchased by the College for free.

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**8. Agreed Upon Procedure #10 Determine how the contractor's employee meal allowances are factored in the contract with San Juan College, taking into account that San Juan College owns the food; i.e. are the employees paying for the meals; are meals consumed without recording costs-(continued)**

*Effect:* The estimated value of free meals provided to Sodexo employees for fiscal year 2014 is \$10,000. The estimated is based on a working staff of 20 employees who work 250 day a year and consume food costing \$2 per day. The method used to estimate the value is based on NMAC 3.2.11.10 (9B) which is the same method utilized to determine a value for New Mexico Compensating Tax purposes

We noted Sodexo charged the College a use tax for free meals totaling \$395.66 in fiscal year 2014. This implies the tax value of free meals provided to employees during fiscal year 2014 totaled \$7,913.20 based on a 5% compensating tax rate.

*Cause:* Sodexo disregards the College's ownership of the food and instead adheres to its own internal policy which allows Sodexo to provide free meals to its employees.

*Recommendation:* With regard to employee meals allowances we recommend the College amend the management agreement to include a provision that discusses how the College will be compensated for providing free meals to Sodexo employees. The tax value of free meals provided to employees during fiscal year 2014 is estimated to be \$7,913.20 based on a 5% compensating tax rate in effect during the year and \$395.66 in taxes billed to the College during fiscal year 2014.

*Management's response:* We concur with the finding and accept the recommendation as stated.

**9. Agreed Upon Procedure #11 Provide recommendations for improved managing of the contract.**

*Procedures:*

Based on our procedures we offer the following recommendations:

*Results:*

1. With regard to product costs billed, we recommend Sodexo reconfigure their monthly revenue and expense report to calculate product costs and controllable costs based on the invoiced amounts of goods provided to the College to conform with the management agreement's terms and conditions.
2. With regard to relocation costs billed, we recommend the College approve all relocation costs billed by Sodexo prior to paying the monthly invoice. We recommend the College compare the billed amounts to actual receipts related to the relocation costs and communicate their approval through signature and date on prescribed relocation cost form. We recommend the College amend the management agreement to define the conditions on which relocation costs will be reimbursed.
3. With regard to bonuses billed, we recommend the College approve bonuses prior to paying the monthly invoice. We recommend the College compare the billed amounts to criteria for which bonuses are to be paid and communicate their approval through signature and date on prescribed bonus approval form. We recommend the College amend the management agreement to define the conditions on which bonuses will be reimbursed.
4. With regard to management fees billed, we recommend the College and Sodexo provide more scrutiny over billing statement that overlap management agreement termination and renewal dates to ensure proper proration of fees and to ensure contract provisions are adhered to.
5. With regard to reporting sales, we recommend the Sodexo use the net sales number to input into monthly revenue and expense detail report for purposes of calculating the monthly marketing fee and reporting the results of operations.
6. With regard to credit card purchases billed, we recommend the College amend the management agreement to require the contractor to submit for its review receipts that support invoiced amounts for credit card purchases.



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**9. Agreed Upon Procedure #11 Provide recommendations for improved managing of the contract-(continued)**

7. With regard to monthly billing processes, we recommend the College require the contractor to keep better records and improve the College's accessibility to source documents that support the contractor's invoiced amounts. We recommend the College interview key personal assigned to the management of its food service operation and demand to be served by qualified professionals that can readily explain their monthly billing statements. We recommend the College require future contractors to explain their billing process as part the proposal review process. We recommend the College amend the management agreement to require annual audits of the food service operation and to require the contractor to submit monthly its invoices, payroll records, and other supporting documentation in addition to its monthly billing statements and monthly revenue and expense detail reports.
8. With regard to monthly sales, we recommend the College reconcile Sodexo's reported sales to its general ledger revenue accounts and question any shortages monthly.
9. We recommend the College record in its general ledger the costs and accumulated depreciation on the Halo terminals in the amount of \$16,626.90 and (\$15,763.07).
10. We recommend the College require future contractors to maintain a general ledger to account for its food services operations that can be reconciled to its monthly billing statements and operations reports.
11. With regard to employee meals allowances we recommend the College amend the management agreement to include a provision that discusses how the College will be compensated for providing free meals to Sodexo employees. The tax value of free meals provided to employees during fiscal year 2014 is estimated to be \$7,913.20 based on a 5% compensating tax rate in effect during the year and \$395.66 in taxes billed to the College during fiscal year 2014.
12. We noted paragraph 7.7 of the management agreement dated September 16, 2013 required Sodexo to provide for dining service renovations in amount not to exceed \$100,000. As of the day of our report no dining room renovations have been provided for. We recommend the College discuss with Sodexo management its plans for dining room renovations.