

**Audit Report of the  
Business Enterprises Program Cafeteria at the Department of  
Justice Building in Sacramento (Location 3-828)**

**Date: September 9, 2011**

**Control Number: 2011A-103**

**DOR Audit Services Team:**

**Russell Nakata, Auditor**

**Rachel Lanoza, Auditor**

**Kerry Gantt, Audit Chief**

## **Introduction**

The Department of Rehabilitation (DOR) Audit Services has completed our audit of the October 2010 through March 2011 Monthly Operating Reports (MORs) submitted by BEP Vendor Larry Brecht (BEP Vendor), to the DOR for the cafeteria operation at the Department of Justice Building in Sacramento.

The Business Enterprises Program (BEP) provides DOR consumers, who are legally blind, opportunities to be trained in the operation of cafeterias, wet vending stands, and snack bars, with the ultimate goal of becoming independent food service professionals in California. The program was created through federal legislation, the Randolph-Sheppard Act of 1936, which was enacted to provide blind persons with remunerative employment, enlarge the economic opportunities of the blind, and stimulate the blind to greater efforts in striving to make themselves self-supporting.

BEP Vendors operate their own facility and retain the profits from the facility they manage, excluding a percentage (set-aside fee) prescribed by law. This fee is placed in the Vending Facility Trust Fund, is matched with federal funds, and is then used to establish new facilities, refurbish/maintain established facilities, and pay health and dental insurance for active vendors.

State regulations require each BEP Vendor to submit a MOR by the 25<sup>th</sup> day of the following month. The MOR is a report of operations as well as the basis for calculating fees such as set-aside fees, worker's compensation and liability insurance. BEP Vendors are required to remit these fees to the BEP program each month with their MORs. As set-aside fees are the primary source of income for the Vending Facility Trust Fund, inaccurate and unsupported MORs could result in underpayment of fees.

DOR also uses information reported on the MOR to assist BEP Vendors in making decisions on improving their locations, as a source for required Federal and State reports, and for the establishment of fees.

## **Background**

BEP Vendor Brecht began operating the BEP cafeteria, Side Bar Cafe, located at the State Department of Justice building on November 12, 1999. It is a large, full service cafeteria facility consisting of approximately 6,000 square feet of space. BEP Vendor Brecht indicates that his operations offers:

- Large spacious well lit dining room that can seat 180 customers

- Recipes prepared the old fashion way
- High quality products purchased from long standing reputable suppliers
- A company wide commitment to serving safe food
- Fast friendly service at a very reasonable price

### **Audit Scope/Procedures**

An audit includes examining, on a sample basis, evidence supporting the information on the MORs. Our audit also included a limited review of the internal controls as they relate directly to our audit of the MORs through use of accounting system and internal control questionnaires and interviews with the BEP Vendor. Audit fieldwork was conducted in July 2011. We conducted our audit in accordance with Government Auditing Standards as defined by the General Accountability Office, except Standard 3.52 requiring an external peer review.

The audit included a review of the BEP Vendor's accounting systems and internal controls related to sales, sales tax, purchases, inventory, and payroll to obtain reasonable assurance that the expenses reported on the MORs were compliant with applicable federal and state requirements, MOR Instructions and were adequately supported by appropriate records.

Our audit is subject to the inherent risk that all significant errors and irregularities, fraud, or non-compliance will not be identified.

### **Summary of Findings/Recommendations**

During our review of the MORs and the BEP Vendor's records, we identified only a few areas of non-compliance with regulations and the MOR instructions identified in Appendix A.

### **BEP Vendor Response to Audit**

I want to thank you for your professionalism, patience, and thoroughness of my recent audit of Side Bar Cafe. You pointed out some discrepancies in the spreadsheet we use to generate the MOR, the formulas been corrected. You also explained the importance of having all receipts for audit purposes. I appreciate your input and suggestions on how to grow my business. I agree with the audit results and have made steps to improve the processes and corrected the issues. Overall, I am happy with the results and missing only 7 source documents, in my opinion, is quite acceptable. You confirmed that our POS, Inventory and Accounting System are in compliance and that I made good decisions in choosing my software and accounting support. Thank you.

**Details to Findings****Cost of Goods Sold Incorrectly Reported**

1. The BEP Vendor incorrectly reported Merchandise Purchases on Line 8, Cost of Goods Sold (COGS) instead of Line 5 on his March 2011 MOR. The BEP Vendor records the purchase amounts from invoices and receipts into his accounting system under the accounts COGS - Sales Related (51000) and COGS - Materials/Supplies (52000). The total purchases amount for the month is transferred from the accounting system to an Excel worksheet used to prepare the MOR. The excel worksheet populated the merchandise purchases amount as line 8, COGS, rather than line 5, Merchandise Purchases, resulting in it being reported incorrectly on the MOR.

The COGS reported on the MOR was \$16,325, but should have been \$17,222 based on beginning inventory (\$6,454) plus purchases (\$16,325) less ending inventory (\$5,557). The COGS reported on the March 2011 MOR was underreported by \$897.

The MOR Instructions state, Line 5 - Merchandise Purchases, enter total merchandise purchases for the reporting period, including disposable goods, paper and plastic which are made available to the customer. Line 8 - Cost of Goods Sold, subtract Line 7 (Closing Merchandise Inventory) from Line 6 (Merchandise Available for Sale). Enter the difference on Line 8 in the "Total Entries" column.

**Recommendation**

The BEP Vendor accurately report merchandise purchases on Line 5 - Merchandise Purchases rather than in Line 8 - COGS and calculate COGS in accordance with the MOR Instructions to ensure the reported amount is accurate.

The BEP Vendor informed the auditors that he corrected the population of amounts into the Excel worksheet and reported Merchandise Purchases and COGS on the June 2011 MOR in accordance with the MOR Instructions. He will continue to report the amounts accurately on future MORs.

## **Missing Documentation to Support Reported Amounts**

2. The BEP Vendor was unable to provide adequate documentation to support the following reported expenses on the February and March 2011 MOR:
- The BEP Vendor could not locate three invoices and receipts to support merchandise purchases of \$518.89. In addition, the BEP Vendor could not locate three receipts to support laundry and janitorial of \$135.08. The BEP Vendor misplaced the invoices and receipts after recording the expenses into his accounting system.
  - The BEP Vendor could not locate the invoice to support the dental insurance expense of \$34.53 reported on the MOR. The BEP Vendor makes one annual payment online for dental insurance in December and 1/12 of the amount is reported on the MOR every month.

The department has no assurance that the expenses reported on the MOR are related to the BEP Vendor's Location when there is missing documentation.

The California Code of Regulations (CCR), Title 9, Section 7220 (I) requires the vendor to maintain required records on the operation of the facility for the current year plus the three preceding years or until completion of the action and resolution of all issues which may arise as a result of any litigation, claim, negotiation, audit, or other relevant action involving the records prior to the expiration of the three year period, whichever is later. Upon written request, books of accurate account and records pertaining to a vending facility operation should be made available for examination and audit by the Department at any reasonable time and place. Such records shall include: Invoices from purveyors (cash, check and credit payment).

### **Recommendation**

The BEP Vendor shall ensure invoices are obtained and retained to support all merchandise purchases, operating expenses and employee benefits recorded in his accounting system and reported on the MOR.