City of Austin

A Report to the Austin City Council

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AUDIT REPORT

Audit of ARAMARK Financial Statements Reporting

June 2012

REPORT SUMMARY

OCA is unable to provide reasonable assurance that ARAMARK's reported net profit is accurate. We found that the audit documentation provided by MHM in support of their audits of ARAMARK's financial statements did not provide sufficient and appropriate evidence.

AUDIT NUMBER: AU12100

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

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June 2012

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Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's FY 2012 Strategic Audit Plan, as requested by the Audit and Finance Committee.

What We Recommend

We did not issue any recommendations in this audit.

For more information on this or any of our reports, email oca_auditor@austintexas.gov

Mayor and Council,

I am pleased to present this audit of ARAMARK financial statements reporting.

BACKGROUND

The Office of the City Auditor (OCA) conducted this audit at the Audit and Finance Committee's request. In an April 2011 audit, OCA found that the City could not reasonably assure the validity of net profits reported by, and received from, ARAMARK. This was because ARAMARK had not provided contractually-required audited financial statements to the City since 2003 to support the net profits reported.

OBJECTIVE AND SCOPE

Our objective was to determine whether audited financial statements and supporting audit documentation prepared by Mayer Hoffman McCann P.C. (MHM) in June 2011 for fiscal years 2006 to 2010 provide reasonable assurance that reported net profit is accurate.

WHAT WE FOUND

OCA is unable to provide reasonable assurance that ARAMARK's reported net profit is accurate. We found that the audit documentation MHM provided in support of their audits of ARAMARK's financial statements did not provide sufficient and appropriate evidence.

We appreciate the cooperation and assistance we received from MHM staff during this audit.

Kenneth J. Mory, City Auditor

BACKGROUND

This project was included in the Fiscal Year (FY) 2012 Strategic Audit Plan at the request of the Audit and Finance Committee. The Office of the City Auditor (OCA), in an April 2011 audit of the contract between the Austin Convention Center Department (ACCD) and ARAMARK Sports and Entertainment Services of Texas, LLC (ARAMARK), found that the City could not reasonably assure the validity of net profit received from ARAMARK because ARAMARK had not provided contractually-required audited financial statements to the City since 2003. That prior audit also found that the ACCD did not comply with contractual and City requirements for internal controls, which reduced accountability for funding decisions and transparency of operations.

In June 2011, the public accounting firm Mayer Hoffman McCann P.C. presented the results of their audits of the Austin Convention Center – Catering and Concession Services managed by ARAMARK for the five fiscal years from 2006 to 2010 to the Audit and Finance Committee.

By agreement, ARAMARK receives, disburses, and maintains the accounts for all funds from Concession and Catering operations, providing the ACCD the net profit from operations. In return, ARAMARK receives a fixed fee and is eligible for an annual productivity reward.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the Office of City Auditor's FY 2012 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objectives

The objective of this audit was to determine whether the audited financial statements and supporting audit documentation prepared by Mayer Hoffman McCann P.C. (MHM) in June 2011 provide reasonable assurance that reported net profit is accurate.

Scope

The audit focused on the audited financial statements and audit documentation for fiscal years 2006 to 2010.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Reviewed the Catering and Concession Service Agreement – Austin Convention Center Department (herein after referred to as the "Contract"), including amendment numbers one through five, effective October 1, 1997.
- Reviewed the ARAMARK Contract Audit report issued by the OCA in April 2011 (report number AU11107).
- Reviewed ARAMARK's audited financial statements for FY 2006 through 2010.
- Selected the FY 2006, 2008, and 2010 audited financial statements for testing.
- Conducted a detailed review of the work papers prepared by MHM that supported the opinions expressed in the Independent Auditor's Reports for the three selected FYs.
- Interviewed the MHM auditors that conducted the audit of ARAMARK's financial statements.

Our audit included procedures to determine whether MHM's audit documentation meets the minimum standards established for OCA auditors, which require auditors to prepare supporting

documentation in sufficient detail to enable an experienced auditor, having no connection to the audit, to understand:

- The nature, timing, extent, and results of the procedures performed,
- The audit evidence obtained and its source, and
- The conclusions reached, including the evidence that supports the auditors' significant judgments and conclusions.

AUDIT RESULTS

The audit documentation prepared by MHM contained significant deficiencies. Due to the weaknesses in the audit documentation, we cannot provide reasonable assurance that reported net profit is accurate.

As a result of insufficient audit documentation prepared by ARAMARK's external auditors, OCA cannot provide reasonable assurance that the amount of net profit reported for ARAMARK is accurate. Our review found several weaknesses in the documentation prepared by MHM to support their audits of ARAMARK's financial statements.

A significant portion of the audit documentation prepared by MHM did not contain sufficient and appropriate evidence with regard to the audit procedures that they performed. MHM did not document their sampling methodology or their specific procedures, and did not document which records they tested. For testing of reimbursements to ARAMARK from City funds, MHM judgmentally selected what it called "high dollar value" transactions, but did not define" high dollar" or document how many, or which, reimbursements were selected for testing.

We also found that audit work documented by MHM was insufficient with regard to accounting processes and control procedures. The audit documentation lacked details about the transactions selected for walkthroughs or the sources that MHM used to document the controls.

A summary of OCA observations on MHM's audit documentation is included in Appendix A of this report.

SUBSEQUENT EVENTS

In June 2012, MHM performed additional work to reconfirm their original opinion. MHM indicated that in addition to identifying supporting documents used in original audit, they selected and tested additional items to reduce document substitution risk. According to MHM, they found no exceptions or errors when performing the additional work and their original audit opinion remains unchanged.

Notwithstanding the additional post-audit work, OCA concluded that it would be inappropriate to consider it due to the following:

- The lack of information that would identify the supporting evidence in the original audit documentation and allow OCA to verify the additional work was in fact the supporting evidence for the original audit opinion.
- The time during which the records purported to support the audit were uncontrolled by the auditors.
- The repeated assertions by MHM that OCA had been provided all audit documentation.

As a result of the above concerns, our conclusion remains unchanged.

APPENDIX A

MHM AUDIT DOCUMENTATION FOR TESTING OF REIMBURSEMENTS TO ARAMARK

Area of Testing	MHM's Documented Procedures	OCA Observations
Gross Payroll Reimbursement	▪ Obtained reports detailing weekly charges by employee class as well as outsourced labor. ▪ Judgmentally selected components of multiple classes of employees across multiple weeks. ▪ Vouched the amount in weekly charges with the supporting payroll registers and time cards. ▪ Obtained copies of selected agency labor charges and vouched invoice amount to weekly charges.	It is not documented how many and which specific payroll registers, time cards, agency labor charges, and associated invoices were selected for testing
Employee Payroll Taxes	▪ Traced payroll taxes to payroll runs, applicable to employees "selected above"	It is not documented which employees were "selected above."
401(k) Retirement	▪ MHM traced 401(k) contributions to payroll runs, applicable to employees selected above."	It is not documented which employees were "selected above"
Cost of Sales	▪ Obtained weekly detail supporting the amount. Each weekly amount is related to an invoice batch. ▪ Judgmentally selected the invoice batches to get "significant coverage" of the amount. ▪ Received copies of all invoices for batches selected ▪ Verified that all invoices met the terms of the contract, were originally paid by ARAMARK, and agreed in total to the batch amounts.	It is not documented which batches or invoices were selected for testing. It is also not possible to determine, based on the documentation, what is considered "significant coverage."
Subcontractors	▪ Viewed supporting invoices to amounts paid by contractors.	It is not documented how many, or specifically which, invoices were selected for testing. It is also not documented what MHM did with the invoices aside from viewing them.
Sales taxes	▪ Obtained detail of sales tax paid by ARAMARK on behalf of Austin Convention Center.	It is not documented what "detail" consists of. It is also not documented what MHM did to ascertain that the sales tax payable is reasonable, such as recalculation based on prevailing tax rates.

SOURCE: OCA Analysis of MHM's documented procedures for reimbursement testing for fiscal years 2006, 2008 and 2010.