

Tomdra, Inc.

September 2015

FY15 - #06

Submitted to:

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Summary

Our audit of the University's snack vending agreement with Tomdra, Inc. ("Tomdra") was included in the approved Fiscal Year ("FY") 2015 Audit Plan. Management of vendor contracts supports the "Synergy" pillar of the University's Never Settle strategic plan through effective and efficient business practices. This is our first audit of the agreement with Tomdra, Inc.

Background: Tomdra is a vending company that is in its 49th year of operations in Arizona. In 2013 Tomdra, Inc. was awarded the "Vending Operator of the Year" as selected by the National Automatic Merchandising Council ("NAMA").



Tomdra owns and operates 117 vending machines located on University property. The vending machines dispense a large selection of snacks, food, ice cream, coffee, milk, and nutritional drinks. The types of vending machines consist of snack, chilled snack, chilled snack combo, frozen glass front and coffee\expresso machines.

The University entered into the current agreement with Tomdra on July 1, 2008. The agreement term with Tomdra was for five years and expired on June 30, 2013, with a yearly option to renew for five additional years. The University is currently in the second year of renewal. The agreement outlines payment schedules and terms for minimum monthly rent payments, minimum annual rent payments, commission percentages, and annual student sponsorship payments (considered a charitable donation).

The monthly rent payments range from \$7,500 in FY08 to \$12,155 in FY18. Currently, the monthly payment is \$11,000. Actual monthly rent payments can be less than the stated amount; however, a yearly minimum is included in the agreement and that amount must be met or penalty will be applied. The agreement includes a guaranteed gross sales percentage that was 28% of sales for the first five years of the agreement and is currently 35% for the option years. Tomdra advised the auditor that the higher sales percentage paid to the University is possible due to Tomdra's efficient operations model and the use of automation in the vending equipment.

The Arizona Student Unions' business office is responsible for payment processing, as well as, management and monitoring of the agreement. The Student Union is also responsible for customer service and refunds. Tomdra handles monitoring and maintenance of the vending machines according to the agreement terms and provides sales and commission data.

Tomdra, Inc.

Tomdra has worked with University customers to accommodate special requests or requests for healthier snack and food options. Recently they collaborated with the University's student government to implement the Fit Pick¹ program to provide healthy vending alternatives.

According to Tomdra, 98% of the vending machines accept cashless payments in the form of credit\debit cards and the CatCard (meal plan). Some machines have the capability to accept mobile payments such as Apple Pay and Android Pay. Advanced technology in many machines allows Tomdra to remotely manage many aspects of the business such as temperature, equipment malfunction, inventory, and sales.

Discussions with the Executive Director of the Student Unions indicated that the role of the Assistant Director for Retail Development\Contract Management includes monitoring and revenue analysis for the Student Union agreements. However, the Assistant Director has been with the University less than two years and has been performing the duties of the Marketing Director in addition to his primary duties. This has limited his capacity to perform contract management and monitoring for all agreements.

Audit Objective: Our primary objective was to determine whether guaranteed annual payments were in compliance with the agreement including timely receipt and deposit by University staff. We also reviewed selected sections of the agreement to assess monitoring levels and compliance with University policy and procedure.

Scope: The scope of the audit is the current agreement with Tomdra, selected payment information for FY15 and the following sections of the agreement:

- Section 8 Taxes
- Section 11 Use of Premises (including access)
- Section 14 CatCard\Meal Plans
- Section 15 Equipment
- Section 16 Installation, Maintenance, and Operation
- Section 17 Repairs

Methodology: The audit objectives were accomplished by performing a review of general controls in place for financial and operational compliance. This was done by completing the following activities:

- Reviewed the snack vending lease agreement.

¹ The National Automatic Merchandising Association created the Fit Pick vending program to assist schools and workplaces to identify products that meet specific nutrition guidelines.

- Interviewed University personnel to determine the systems and processes in place to monitor the agreement and to receive and process payments.

Arizona Student Unions:

- Executive Director, Arizona Student Unions (former)
 - Assistant Director, Retail Development\Contract Management
 - Associate Director, Finance and Administrative Services
- Interviewed the Vice President of Tomdra to determine procedures for monitoring vending machines and discuss payment information related to the agreement.
 - Verified Student Union payment logs and UAccess Financials deposits to the snack vending agreement.
 - Visually assessed a sample of eight vending machines located in the Student Union Memorial Center and the University Services Building.

Conclusion: We found that the monthly rent\commission payments were received and processed in a timely manner. Data analysis indicated that the annual payments from Tomdra have consistently been above the yearly minimum. In the first year (FY08), the payments exceeded the annual minimum by \$20,307 and in FY14 the payment exceeded the annual minimum by \$90,262. The University received the Student Sponsorship payment (currently \$1,000) annually. However, review of the payment log indicated late payments for some years. There is no penalty stated in the agreement for late payment of the sponsorship payment. The Student Union verifies that the Student Sponsorship payment is received during periodic review of the rent\commission payment log.

Although sufficient processes were in place to manage the risk of non-payment and for timely payment processing, we made the following suggestions to the Student Union for process improvement:

- Meet with the Bursar's Office to review current cash handling processes to possibly improve efficiency.
- Modify UAccess Financials data entry practices to enable vendor payments to be easily queried in the financial system or by using UAccess Analytics.
- Request that Tomdra provide the monthly sales report electronically to reduce time spent entering and validating the data.

Tomdra, Inc.

We found that although periodic monitoring practices were not in place for some sections of the agreement, the University is not at risk. The sections of the agreement related to taxes, use of premises and the meal plan were sufficiently monitored. Tomdra appears to be effective at monitoring the equipment and keeping pace with industry trends and product offerings. Since the agreement with Tomdra is in the lower revenue tier of the contracts managed by the Student Union and has not been problematic, it is considered low risk by management. The Student Union management demonstrated that they have sufficient plans in place to begin monitoring the agreement terms in FY16. They will also perform revenue analysis and projections for vending in preparation for the Tomdra agreement expiration in FY18.

We recommend that the Student Union continue to implement their plan for periodic monitoring of the agreement and complete a revenue analysis before the agreement goes out for bid.

According to the Institute of Internal Auditors (“IIA”) International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- The organization’s strategic objectives are achieved;
- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve established objectives;
- Assets are safeguarded; and
- Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Tomdra, Inc.

Our assessment of these control objectives as they relate to the snack vending agreement with Tomdra is presented on the chart below.

General Control Objectives	Control Environment	Audit Result	
		No.	Page
Achievement of the Organization's Strategic Objectives			
<ul style="list-style-type: none"> Business practices enable the contract to be effectively managed. 	Reasonable to Strong Controls in Place		
Reliability and Integrity of Financial and Operational Information	Not Applicable		
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> Payments are processed in a timely manner. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Agreement provisions related to vending equipment are monitored periodically. 	Reasonable to Strong Controls in Place		
Safeguarding of Assets			
<ul style="list-style-type: none"> Facility access by Tomdra, Inc. employees complies with University policy. 	Reasonable to Strong Controls in Place		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> Payments are received and processed according to University policy. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Payments are in compliance with agreement provisions. 	Reasonable to Strong Controls in Place		

We appreciate the assistance of UA Staff and Tomdra, Inc. during the audit.

/s/

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