Purchasing Controls

Learning Objectives

After reading this chapter, you should be able to:

- understand how to audit purchasing functions;

- understand the importance of receiving controls and be able to create a credit memo and credit invoice;

- identify methods of spotting quality problems in receiving;

- perform proper receiving procedures, using an understanding of tare weight;

- conduct a receiving procedures weekly audit;

- perform the roles and responsibilities of storeroom personnel;

- understand the meaning of first in, first out (FIFO) and last in, first out (LIFO) inventory rotation procedures;

- understand the importance of the following storeroom functions:

  - direct issue and storeroom issue items

  - requirements for different refrigeration temperatures

  - the term *dead stock*

  - storeroom security

  - meat tag system.

In Practice

After the walk-through with Myla, chef Robert decided to take action. "Well, Scott," he said, "let's talk about setting up departmental control evaluations. This will show our efforts to correct any control issues from our last audit." Scott had no time to respond before chef Robert's phone rang and he answered. It was Myla.

"I just wanted to thank you and Scott for the hospitality and warm welcome. I really appreciated it! I wanted to call and give you the heads-up: I just received a letter from our corporate office regarding a visit from our internal auditors," said Myla.

"What a coincidence," Robert replied. "Scott and I were just talking about that. We intend to conduct a self-evaluation of our internal controls."

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"A self-evaluation? Shouldn't someone independent of your department do that?" Myla asked.

"Yes, you're right, of course. But that doesn't absolve us of our responsibility to make sure that the controls are working. In the last audit report, I was reading where it says, 'The primary objective of auditing the purchasing functions is to make sure that the purchaser is carrying out the primary responsibility of the department: obtaining the best value for the establishment, the best quality, and the most appropriate merchandise at the lowest possible price and at the required time. The secondary objective is to verify control of valued merchandise throughout the receiving, storing, and issuing process.'" Robert was taking this responsibility very seriously, and knew he had a vital part to play.

Introduction

In your role as a consumer, you don't make purchasing decisions just once. You re-evaluate over time, assess your practices, and make adjustments for various purposes, such as preventing spoilage or obtaining discounts. While your individual buying happens on a smaller scale than restaurant buying, that doesn't mean you want to spend money unnecessarily. One of your roles as a professional purchaser is to control receiving and purchasing functions with an eye toward improving practices. You can make minor improvements that streamline efficiency, cut waste, and provide oversight, thus contributing to the bottom line of your company. To do so, you will have to set and adhere to a schedule of audits, maintain an appropriate and useful database, create receiving controls, and train staff when necessary. You will also need to monitor the storeroom and the issuing procedures and set up requisition systems with the staff of the entire restaurant. These controls are the focus of this chapter.

Audits are usually carried out by an external accountant or, in a large organization, by an internal auditor. Ultimately, responsibility rests with the department manager.

The accountant or auditor should:

- ensure that all price quotations are in writing and accessible at all times, and that vendors adhere to the quoted prices.

- verify price compliance through record reviews and physical inspections of purchase orders and invoices.

- examine merchandise inventories on hand to determine compliance with purchase specifications.

- identify opportunities for revision of food specifications or menu revisions whenever prices rise to an uneconomical level or products go out of season.

- verify that all products are accurately inventoried to establish true asset value.

- verify that orders are placed with the lowest bidder based on set management criteria (any exceptions should be approved by management).

- establish and maintain par levels.

- distribute copies of the vendors' weekly price updates to the receiving clerk and the executive chef (vendors should send you these weekly price updates on products with highly variable prices, such as seafood, meat, produce, and poultry, to help you with price comparisons and to identify "special" buys).

- distribute copies of the weekly audit forms to the receiving clerk and chef as part of conducting, documenting, and monitoring receiving procedures.

- continuously monitor all high-cost items in order to readjust selling prices and/or food recipes if costs get too high.

- ensure that standing orders are not commonly used to purchase products other than milk, eggs, and breads.

Receiving Controls

Whoever is receiving deliveries has a unique perspective on a food-service operation, as well as an important responsibility in ensuring that the company is obtaining the quality and quantity of merchandise ordered at the quoted price. He or she helps to provide crucial receiving controls. It may be the purchaser who receives deliveries, or there may be a staff of receiving clerks; in either case, the person in this role is responsible for accurately noting the status of all orders received. We'll use the term *clerk* here, though the person who actually receives shipments may have a different title.

The clerk should verify the supplier, quality, quantity, and price of products delivered before signing any receipt. The receiving clerk needs to ensure that a prenumbered, three-part credit memo is issued. Whenever the weight or product count varies from what was ordered, one copy of the credit memo should be forwarded to the vendor; the second copy should be attached to a daily record of all receipts; and the third copy should be sent to accounts payable. In general, a **credit memo** is used to record a credit due from a supplier when the merchandise received does not conform to what was ordered. The discrepancy could involve quality, quantity, specification, or price. The clerk should also notify the chef or manager immediately when such discrepancies occur, since production needs may be affected right away.

At times a delivery will arrive without an invoice. The receiving clerk should write what is called a **memo invoice** when this happens. A memo invoice is simply a list of all items received. This documentation is critical for accrual and end-of-month cut-off totaling to ensure accuracy of the accrual.

The clerk acts as the eyes and ears of the purchaser. The person receiving deliveries must make sure that all invoices are marked with a receiving stamp that includes when and by whom the order was received. The receiving clerk signs and dates the invoices and verifies quantities, unit prices, and price extensions. Each item must have been ordered using a prenumbered purchase order, and its number must be verified before delivery is accepted. This is the only way to ensure that the items were approved before they were ordered.

The clerk must also bring issues to the attention of the purchasing manager—for example, when a vendor consistently delivers products early or late. The purchaser can then inform the vendor to ensure that it adheres to posted delivery hours. Similarly, the purchaser should be notified when a supplier repeatedly provides merchandise that is substandard in quality or quantity. The clerk should review the product specifications for quality indicators. The following are some examples of quality problems associated with prepared produce products:

- Cauliflower or broccoli with dark spots and wet florets

- Shredded cabbage, diced bell peppers, sliced or diced onions, or carrots that are wet and viscous or have excess liquid in the bottom of the bag

- Sliced radishes that are turning brown or are dry and cracked

- Salad mix or prepared lettuce that is brown or reddish-pink

- Sliced mushrooms that are brown and slimy.

credit memo Used to record a credit due from a supplier when the merchandise received does not conform to what was ordered. The discrepancy could be in terms of quality, quantity, specification, and/or price.

memo invoice A list of all items received.

Auditing the Receiving Function

As the purchaser, you are responsible for proper receiving procedures. Management should also verify that proper receiving procedures are in effect. A random audit of the actual receiving process will help to ensure that all prescribed procedures, as listed below, are followed. This audit should be performed regularly to ensure that all staff members involved are carrying out the functions properly.

tare weight The weight of various empty containers used to determine the net weight of perishables in these containers.

- The quantity of merchandise delivered should be compared to the quantity ordered (weight, volume, and/or unit count).

- All goods purchased by weight must be weighed without wrapping, ice, containers, or packaging materials. The receiving department should keep a record of the weight of various empty containers in order to determine the net weight of perishables in these containers. This is called **tare weight**. If you use a printing scale, receiving clerks won't need to empty any containers, so they won't risk endangering the contents.

- Products bought by count and by containers should be counted individually when received.

- Goods that are purchased in cases should be examined to ascertain that the entire contents of the case are present and of the specified quality.

- In a manual purchasing system, all cases should be marked with price per unit.

- Perishable goods are to be stored promptly and properly using appropriate rotation procedures.

- Clerks should inspect all items for quality, uniformity, and adherence to specifications. The receiving clerk should notify the purchasing manager of discrepancies.

- Perishable goods should be dated and priced on the container, or tagged or labeled if they lack suitable surfaces for direct marking.

- Delivery documents or invoices should be stamped with a receiving stamp and appropriately noted. All food and beverage merchandise is classified as direct or storeroom issue by the purchasing manager or receiving personnel. (See below for a discussion of direct versus storeroom issue items.)

- The accountant should compare the price on the invoice against the price on the purchase order before processing the invoice for payment.

- The accountant should verify that receiving personnel complete credit memos and memo invoices not requiring a specific form when appropriate.

Figure 6-1 is an example of a credit memo.

The credit memo form is used to record a credit due from a supplier. The receiving clerk completes this form when the merchandise received does not conform to what was ordered in terms of quality, quantity, specification, or price. Be sure to train the receiving clerk to have the delivery person sign this form as well. This form may be prepared in triplicate. The original is sent to the vendor to alert them of the discrepancy. The duplicate is sent to the accounts payable department for payable verification. The triplicate is filed in the receiving department.

Random Audit of Receiving Procedures

Use the form in Figure 6-2 to audit the procedures of the receiving department randomly and frequently. In Column 1, describe the item. Note the vendor and the invoice number

Figure 6-1 Credit Memo

CREDIT MEMO				
To:_____		No:_____		Date:_____
Please Issue Your Credit Memo For Items Listed Below				
Quantity	Unit	Item	Unit Cost	Total
Reasons:				
Acct. Department:		Party to whom delivered:		By:
White: Accounting		Yellow: Purchasing		Pink: Vendor

Figure 6-2 Weekly Audit Form

Date: _____		Receiving Personnel: _____				Prepared By: _____		
1	2	3	4	5	6	7	8	9
Item description	Vendor Name	Invoice Number	Does a bid sheet exist for this item?	Is this the lowest bid at the required specification?	Was the item's weight or count checked?	Was the item's quality checked?	Does the quality match what was ordered?	Comments

in Columns 2 and 3. In Columns 4 through 8, write *Yes* or *No* for each question. This audit should be performed while watching receiving personnel in their work; you want to see exactly how they check a product's quality, for example. In this way, you can praise complete work and provide extra coaching if the clerk is not checking the deliveries sufficiently.

Storeroom Functions

The storeroom is an area that requires special security and planning considerations to minimize risks to valuable inventory. You will have to train storeroom personnel to conform to a set of clear requirements that are not to be sacrificed when the establishment is busy or when other pressures exist. The protection of the assets you have purchased is a key to successful cost control. This need for security and accountability must, however, be balanced with the need of your outlets to access the raw materials they are serving your customers. Once procedures are established, however, the operation can be very smooth and consistent.

Storeroom personnel are responsible for controlling how and when merchandise is issued and preventing loss from theft and spoilage. Specific functions include:

- ensuring that storeroom operation hours comply with management standards in order to minimize off-hours entry, as this is a common breach of security.

- maintaining strict control of storeroom keys to ensure security.

- inspecting sanitation in all storage areas and bringing deficiencies to the attention of the purchasing manager.

- verifying that food products are stored in the proper refrigeration units and that proper temperatures are maintained and units are de-iced if necessary, so food quality does not deteriorate and compromise sanitation standards.

- verifying that meat and seafood products in the freezer are wrapped.

- reporting any slow-moving items to the chef and the manager at the end of every month.

- ensuring that all food products have been marked with unit prices and that perishables have been dated and stamped with the vendors' origin.

first in, first out (FIFO)
Method of inventory valuation and management in which cost of goods sold is charged with the cost of raw materials, in-process goods and finished goods purchased first and in which inventory contains the most recently purchased materials.

- practicing either **first in, first out (FIFO)** or **last in, first out (LIFO)** inventory rotation procedures according to your company's policy. FIFO means that you will use the oldest products first. This is advantageous for storeroom purposes and for avoiding spoilage. However, in times of rapid inflation, a FIFO system causes an overvaluation of your inventory. This is because the least expensive (i.e., oldest) inventory item is valued at the new prices. When your inventory is overvalued, you appear to have more profit than you actually do, and you must pay additional taxes.

In inflationary times, you may wish to use a LIFO system to value your ending inventory. In a LIFO storeroom, the most recently purchased products are used and charged, thus reducing current taxes by eliminating inventory profits. However, FIFO should always be used for product rotation in the storeroom, even when an accountant uses LIFO for inventory evaluation.

last in, first out (LIFO)
An inventory costing method that assumes the most recent units purchased are the first units used. The result is that ending inventory consists of the oldest costs and the most recent costs are in the cost of sales.

Issuing Functions

When issuing food to outlets, the objectives are to ensure proper authorization for the release of merchandise and to account properly for daily use. In doing so, issuing personnel must observe the following procedures:

- Correctly record and update all food and beverage issues

- Allocate all direct issue amounts (see below) to the correct outlet each day

- Verify that proper requisition procedures are being followed

Verification of requisition procedures should include both auditing after-hours requisitions and checking who is allowed to take items from the storeroom.

Direct Issue and Storeroom Issue Items

The term **direct issue** means that a purchase is charged directly to a receiving outlet, such as the kitchen. The accounting system presumes that these purchases are consumed on the date of purchase or transferred, so the purchase cost for these items is charged directly to the daily food cost. Direct issue goods are not usually stored in the food storeroom; depending upon space, they are usually delivered to the kitchen outlet that ordered them. The goods most commonly classified as direct issue are bread, dairy products, fruits, vegetables, fish, and meats. Often they are the most perishable products, so leaving them in a storeroom only makes them more likely to spoil before use.

Storeroom issue items, on the other hand, are food purchases that are sent to the storeroom to be stored and, within a reasonable period of time, issued to the outlet when they are requisitioned. Storing and issuing products can be very secure when you use the procedures outlined in the following sections.

direct issue A purchase charged directly to a receiving outlet.

storeroom issue Purchases sent to the storeroom to be stored and issued to the outlet when they are requisitioned.

Storeroom Procedures

Valuable inventory needs to be protected from theft, spoilage, and waste. Particularly with perishable products, you must follow specific procedures to maintain sanitation and refrigeration. You must also keep and audit records of all products as they enter and leave storage. This is what is called a **perpetual inventory** system—a running tabulation of goods received and issued. A month-end inventory is used as a starting place, and then refigured with each receipt and issuance. At the end of every month, the perpetual inventory should be reconciled to the **physical inventory**, and discrepancies investigated. Discrepancies should be noted as adjustments to the physical inventory in the perpetual inventory report and reported to the manager.

Food products must be kept safe, as defined by federal regulations. This involves storing the goods off of the floor, thereby avoiding problems with insects, rodents, floods, and other sources of contamination. To further ensure safety from rodents and insects, schedule regular exterminator visits.

Another important safety measure is to control refrigeration temperatures. Note the temperature guidelines for various products shown in Figure 6-3.

perpetual inventory A system of accounting for inventory changes, in which beginning and ending inventories are noted along with any sales or purchases.

physical inventory A count of actual inventory items, in order to note quantities and values.

Figure 6-3 Fridge Temp Form

Item	Temperatures
Fresh fruits/vegetables *	42° Fahrenheit/6° Celsius
Dairy products	38° Fahrenheit/4° Celsius
Meat	32–34° Fahrenheit/0–2° Celsius
Fish	32° Fahrenheit/0° Celsius
Freezer items *except bananas, grapefruit, potatoes, and yellow onions, etc. which can be stored at room temperature	−10° Fahrenheit/−20° Celsius

As soon as perishable products are received, they must be transferred to their respective refrigeration units. In the case of fish and seafood, ice is the best preservative. Ice prolongs the shelf life of these fragile products; be sure to store them so that the water drains off the ice constantly.

The storeroom should be well ventilated, with fans to provide air circulation. In addition to removing smells, this makes the storeroom a more pleasant place to work. Finally, sanitation must be maintained at the highest standard. Spills of any kind must be cleaned and disinfected immediately, and staff should clean all surfaces on a frequent and regular basis. This will mean moving inventory in order to clean underneath packages and shelving, which is crucial to storeroom cleanliness.

The storeroom must be organized logically and in a manner that preserves flavors and shelf lives. Store heavy items that are issued in bulk, such as flour and sugar, closest to the storeroom door. Do so as well with items that are most frequently used. This eases the physical strain on personnel who must lift them. Organize all products by aisle and bin for easy location.

Overall, store different classes of foods according to their special storage requirements. For example:

- Do not store eggs alongside foods with strong odors, such as fish or cheese, since egg-shells are porous and can absorb flavors.

- Store tomatoes in the refrigerator to control how quickly they ripen.

- Avoid storing citrus fruits in the same area with vegetables and greens, as this will diminish their shelf lives.

- Do not store mushrooms and berries with potatoes and onions, as they will tend to mold.

- Store meat with the fat side facing up. If you store meat in Cryovac or other plastic, check the packaging to make sure it is not punctured. This helps meat maintain its taste and quality and keeps it from spoiling.

Facilitating storeroom record keeping is much easier with a system for marking or tagging every inventory item. Immediately after receiving items, mark the date and price on perishables with a wax crayon or colored sticker. These should be stored in a way that facilitates FIFO rotation. In practice, the physical rotation of products is far more important than simply dating products. Place new items behind older items. When employees are stressed and busy, they are unlikely to look for the oldest date, and they will simply grab the most convenient product. You want a system that encourages this common-sense rule: Items should be used as soon as possible after receiving, and before newer items of the same type are used.

If you price your goods manually (i.e., without a computerized system), also price all canned goods and staple items with a stamp or crayon before storing them. If you are using an actual cost system (explained in more detail in Chapter 10), storeroom personnel should then calculate the unit cost from the invoice and write the cost on the goods. These cost calculations can be used as a basis for your total cost figures or inventory values.

dead stock Stock without significant inventory movement in sales due to menu or service changes.

Storeroom personnel should also keep track of how the inventory moves—or fails to move. The chef must be advised, for example, of any perishables reaching the spoilage stage. These should be used as a restaurant special or for employee meals and should be issued to an outlet as soon as possible via the regular procedures. The storeroom supervisor should perform daily spot-checks of perishables to prevent spoilage from occurring. He or she should also maintain and update a list of **dead stock** items. The term dead stock is used to describe obsolete or discontinued stock items that are no longer in regular use due to menu or service changes. Dead stock items should be kept physically segregated in the storeroom. The value of these items should be updated regularly, and management should consider how to utilize these products as soon as possible.

Monitoring and recording incoming and outgoing products is an important function in the storeroom. Standardize hours of operation, and then post them in a conspicuous place. It is important to impose strict limits on people who enter the storeroom to pick up the items they need for their outlets. Ensure that the staff abides by these hours of operation by proper

mise en place. Allow after-hours entry only on an exceptional basis, and only in the presence of a manager or security person. Keep a logbook to note the names and departments of people who enter after hours; check this logbook to determine who is using this privilege excessively.

Require that requisitions from outlets be submitted at least 24 hours in advance of needed delivery, in order to allow adequate time to fill the orders. Require greater notice for special-order or limited-delivery items. Schedule staggered delivery times for each outlet or area. This serves two functions: first, the outlet will know when to expect delivery and will plan accordingly; second, you and the issuing staff can plan your day around the deliveries. Each outlet should have a par stock amount, which is a standard amount of each item it should have on hand. These amounts can be based on the chef's and manager's experience, plus an assessment of the outlet's average use. This will help greatly in the requisitioning process. If you serve banquet functions under a separate department, however, banqueting needs should be ordered separately and on the basis of upcoming functions, rather than on a strict par stock basis.

Storeroom security is a vital concern. Stolen goods can be an enormous source of loss for your company if security is not maintained. Take the following measures to minimize the risks of loss from theft:

- Use adequate padlocks or strong locks. Replace locks at least once a year, or change the combination of a combination lock on a weekly basis.

- Issue keys to as few individuals as possible, and let each person know how strictly you expect those keys to be used. Keyholders should never give their keys to anyone, and they should always accompany any storeroom entry. Also, whenever they allow someone into the storeroom after hours, they should enter the visit in the logbook. Keys should be signed out on a daily basis rather than issued indefinitely.

- If you install alarms on coolers and freezers, connect the alarms outside the storeroom to enable other personnel to hear them when the storeroom staff is absent.

Storeroom Requisitions

A storeroom requisition is used to obtain food items from the storeroom. It is prepared in duplicate by the requesting outlet. The original is signed upon issue of the merchandise and is filed in the storeroom; outlet costs are calculated from these issued requisitions. The duplicate copy is retained by the department issuing the requisition.

When writing prices on the requisitions, copy the item price directly from the containers or the weekly price quotation sheet. Alternatively, an automated system can eliminate this step. Direct issue requisitions do not require pricing, as they already have been charged to the receiving outlet. The combination of direct issue items, transfers, and the prices tabulated from requisitions equals the outlet's food cost. This process is known as extension of the price, and it must be carried out consistently in order to measure costs accurately.

After completing the price extensions, food items should be categorized and recorded. When goods are used, they must be accounted for and replaced; the food-item record standardizes this process. The purchaser should then reconcile the record with the physical inventory. This method is used primarily in manual (nonautomated) purchasing systems. The Appendix includes a form called the Daily Storeroom Requisition Recap Form, which can be used for this purpose. You can also design your own form. Simply include the items requisitioned and issued to each outlet.

Meat Tag Systems

When meats are stored centrally and are not issued directly to outlets, storeroom personnel will need to establish a **meat tag** system to identify and price all meat issued. The use of meat

meat tag A system for controlling meat by tagging, used for identification and verification of actual use.

tags can ensure an accurate issue price and weight on storeroom requisitions. Further, the system aids in controlling meat waste in the storeroom. One copy of the meat tag is attached to the item or kept in the storeroom until the item is issued. The second copy is sent to the person performing accounting functions so that he or she can reconcile the expense.

As each meat item is received, it is tagged for identification and accurate pricing. You may choose to set up a system in which one meat tag is prepared for each meat item, or one in which a tag is prepared for lots of five or more items. In the case of a banquet order, you might choose to set up the system to tag the entire shipment as a unit. Choose the system that works best for your circumstances, and then prepare the meat tag (shown in Figure 6-4) as follows:

1. Each meat tag has a preprinted number for identification and control purposes.

2. The date is entered on the tag when the item is placed in the storeroom.

3. The vendor or supplier is entered on the tag when the item is received.

4. The meat cut (e.g., strip, loin, prime rib, tenderloin) is entered on the tag.

5. The weight of the item is entered.

6. The unit price of the item is entered, usually on a per-pound basis.

7. The total cost is calculated and shown as an extended price.

When the item is issued and recorded for daily cost purposes, the original meat tag is sent to the person performing accounting and reconciliation functions, where it is stapled to the second copy and filed. If an item is taken without a proper storeroom requisition, it will be easy to identify from the second copy, and the appropriate cost can then be charged. The accounting person should always follow up and determine the cause of any deviation.

Figure 6-4 Meat Tag

MEAT TAG
Serial Number: (pre-printed)
Date:
Vendor:
Cut:
Weight:
Unit Price (per pound):
Extension:

Summary

The value of strict controls in purchasing cannot be overstated. Every dollar saved in purchasing goes directly to profit, and there are many ways to save your company's money. Success in purchasing works for all employees; a profitable company is usually a much better place to work.

About 90 percent of products purchased in the industry are food and beverage products. While similar in many respects, they also have great differences. An endless number of vendors and products makes determining the best buy a great challenge. Throughout the entire process, ethical relationships must be maintained. Additional factors to consider include price, quantity, consistency, reliability, availability, service, and product safety. Often, the factors conflict; for

example, the supplier with the best price may not offer the best quality or service. Balancing these factors to optimize purchasing requires a careful analysis of your company's specific objectives. Ultimately, the end user, the consumer, plays a vital role by spending money where he or she intends to get the best value. Each company needs to set appropriate purchasing standards to meet the needs of its target market.

All of your care is for naught, however, if proper receiving, storage, issuing, and inventory controls are not maintained. Proper receiving requires that quality, quantity, and price adhere to standards and are duly recorded. Then the products must be stored securely in the appropriate environment. Depending on cost, frequency of use, and shelf life, some items are issued directly, while others require a requisition and are issued from the storeroom. Use of the products must adhere to recipe and production standards to ensure proper control from purchasing to use. Only by using these control procedures can expenditures for food and beverage procurement be optimized.

CHAPTER QUESTIONS

Critical Thinking Questions

1. What are the primary objectives of receiving? What procedures should be followed to ensure these objectives are met?

2. What are the objectives of auditing the purchasing department?

3. What are the advantages and disadvantages of FIFO and LIFO systems?

4. What are the differences between direct issue and storeroom issue items?

5. Define the following terms: *credit memo, memo invoice,* and *tare weight.*

Multiple Choice Questions

1. Proper receiving procedures require checking
    A. the product's quality.
    B. the product's quantity.
    C. the product's price.
    D. all of the above.

2. What common-sense approach in determining how much to purchase is utilized by many food-service operations?
    A. purchase order
    B. stockpiles purchasing
    C. bid sheet
    D. par stock

3. Which of the following is a business form that reduces the amount of the invoice when items are refused or missing in the delivery?
    A. credit memo
    B. transfer memo
    C. pickup memo
    D. invoice addendum

4. Which of the following is a purchase that goes directly into production and is immediately assigned to the outlet that ordered it?

    A. direct purchase

    B. storeroom purchase

    C. seafood

    D. produce