



***Internal Audit***

***Art and Design Year-End Inventory***

***October 17, 2014***

**Office of Internal Audit**



**Missouri State**  
U N I V E R S I T Y

**DATE:** October 17, 2014

**TO:** Dr. Carolyn Cardenas, Department Head: Art and Design

**FROM:** Donna Christian, Director of Internal Audit and Compliance  
Tami Reed, Senior Internal Auditor

**CC:** Dr. Gloria Galanes, Dean: College of Arts and Letters  
Dr. Frank Einhellig, Provost  
Clifton M. Smart III, University President

**RE: INTERNAL AUDIT: ART AND DESIGN YEAR-END INVENTORY**

**BACKGROUND**

The Art and Design Department operates a small retail store in Brick City with ceramic, graphic design, jewelry, photography, printmaking and sculpture supplies available for sale to the students. An \$18 differential fee was approved by the Board of Governors starting in the Fall 2014 semester. This fee is to be used to purchase studio supplies for use in the classes.

**OBJECTIVE AND SCOPE**

To review inventory procedures and test the annual physical count of the Art and Design inventory for June 30, 2014.

**SUMMARY**

During July 2014, Internal Audit reviewed and tested the annual physical inventory count of the Art and Design inventory. Individual inventory counts were substantially accurate and any quantity exceptions noted were corrected by management prior to finalizing the inventory balance. Some recommendations were made to improve inventory controls and procedures.

We wish to thank the Art and Design staff for their support during this review.

Donna Christian, CPA, CGFM  
Director of Internal Audit and Compliance

Senior Internal Auditor: Tami Reed  
Audit Fieldwork Completed: July 14, 2014

## OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### 1. FINAL INVENTORY COUNT AND OBSERVATIONS

The retail store in Brick City maintains inventory items for each of the studio areas -- ceramics, graphic design, jewelry, photography, printmaking and sculpture--to be sold to the students. Photography and printmaking are the only two areas where year-end inventory is counted and valued. The total inventory at June 30, 2014 for photography and printmaking was \$25,970. Internal Audit verified inventory counts of \$17,465 of the \$25,970 of inventory items. No significant exceptions were noted.

Inventory for the other studio areas (ceramics, graphic design, jewelry, and sculpture) are not documented, counted or valued for presentation in the University's financial statements. The largest of these areas would be the jewelry inventory. Jewelry sales during the year-ended June 30, 2014 totaled approximately \$9,400. To maintain adequate controls over inventory items and properly track the costs of goods sold, all items for sale in the retail store should be counted, valued and included in the year-end inventory totals.

#### Recommendation:

Ensure all inventory items available for resale are documented, counted and included in the year-end inventory totals.

#### Management Response:

*All supplies will be fully counted and maintained for semester and summer review, three times a year. Before 2012, photography and printmaking were the only two areas utilizing bulk material sales. All other areas were previously handled on a course by course system. Every area of the department is now purchasing materials at bulk prices to sell to students via the Bear Card system. Inventory is being kept in the store and department office on a monthly basis.*

### 2. ACCOUNTING FOR INVENTORY AND FEES

- A. Beginning with the Fall 2014 semester, an \$18 per credit hour differential fee is assessed to applicable Art and Design Department students. This fee is to be used to cover the cost of items used in the classroom in each of the studio areas (ceramics, graphic design, jewelry, photography, printmaking and sculpture).

In the Fall 2014 Semester, \$71,028 in new fees were collected and posted to the College of Arts and Letters "B" Fund (B02534 COAL-Differential Fees account) in the University's accounting system. Twenty percent of these fees should be allocated to University Administration with the remaining 80 percent allocated to each studio area (ceramics, graphic design, jewelry, photography, printmaking and sculpture) based upon the number of students enrolled in each area.

- B. Some studio supplies are purchased for inventory and sold to students in the Brick City retail store for use in special projects or assignments. Other studio supplies are purchased for use in the studio as part of the instructor's class assignments. These two types of studio supplies should be accounted for separately in the University's accounting system to properly monitor inventory and expenses.

The costs of supplies purchased for resale should be charged to the *materials for resale account* (code 54905). This would allow the retail sales to be matched with the cost of materials for resale and subsequently a review of the inventory. The costs of the supplies used in the classroom should be charged to the *supplies-educational account* (code 73219). This would allow for these expenses to be matched against the \$18 per credit hour fee revenue that is assessed to students for this purpose.

**Recommendations:**

- A. Allocate 80 percent of the differential fees collected to each Art and Design Studio based upon student enrollment census data, and allocate the remaining 20 percent to University Administration.
- B. Code the purchase of supplies to the proper account within the University's accounting system.

**Management Responses:**

*These procedures are now strictly followed. We will leave 20 percent of the funds in the original account, 10 percent will be held at the department level as a reserve, and the department will request two new "B Funds" to accommodate each area's accounting for the remainder of the funds.*

**3. EQUIPMENT CHECK-OUT FORMS**

Cameras and other University owned equipment are available for the students to check out for project assignments. Certain conditions for use of the equipment are described on a check-out form signed by the students. Penalties for damage or destruction of the equipment are also documented on the form. To ensure University assets are properly protected, the wording on the check-out form should be reviewed and approved by the University's legal department.

**Recommendation:**

Request the University's legal department to review the equipment check-out form to ensure it includes all criteria that would make all conditions and penalties binding.

**Management Response:**

*All new forms requiring agreements and with binding signatures will be forwarded to the university attorney.*