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Internal Audit

University Bookstore Year-End Inventory

October 17, 2014

Office of Internal Audit

Missouri State
UNIVERSITY

DATE: October 17, 2014

TO: Sonda Reinartz, Springfield Bookstore Director

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

cc: Dr. Denita Siscoe, Vice President of Student Affairs
Clifton M. Smart III, University President

RE: **INTERNAL AUDIT: UNIVERSITY BOOKSTORE YEAR-END INVENTORY**

BACKGROUND

The Missouri State Bookstore provides the campus and surrounding community with textbooks, Bear Wear clothing, and other educational/personal merchandise. The Bookstore has been serving the community as a University-owned operation since 1905. A total of fifteen full-time employees support the bookstore, including the Director, five departmental managers, four supervisors, four buyers, and one customer service specialist. In addition, seventeen part-time members support the operations, and over 100 student employees assist the full-time staff members during various periods. BookLog System software supports the operational/business functions such as point of sale, inventory control, text, and general merchandise, as well as other functions. Since an automated interface is not in place between BookLog and Banner (the University's accounting system), monthly journal transaction support is provided to Financial Services by the Bookstore. Below are recent sales and inventory data:

Year	Sales (retail)	Inventory (cost)
2014	$15,571,547	$4,007,757
2013	$15,776,401	$4,735,104
2012	$15,169,936	$3,864,269
2011	$15,092,110	$3,698,825
2010	$14,148,526	$3,301,139

The Bookstore continues to be a fiscally successful operation. It has not only been able to contribute to the direct needs of the students, faculty and staff, but it also financially contributes to the University's operating fund through budget transfers.

OBJECTIVE AND SCOPE

To review inventory procedures and test the annual physical count of the Missouri State Bookstore. The physical count was performed on May 30, 2014 with follow up procedures performed to arrive at a year-end inventory balance for the University's June 30, 2014 financial statements.
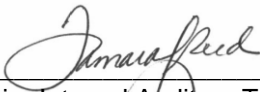
SUMMARY

Historically, the benchmark retail sales metric documented by the University of Florida report from Dr. Hollinger has been used in our analysis; the "2012 National Retail Security Survey Report" documented the average shrinkage rate at **1.47%.** For fiscal year 2014, the Bookstore shrinkage level was calculated as **1.07%** of sales, an improvement over last year and significantly under the benchmark percentage. The point of sale system, BookLog, continues to contribute to accounting errors such as incorrect cost of goods sold calculations, average costs inconsistencies, and inaccurate costs in the ending inventory balances. The degree and frequency of the errors noted warrants a closer look at the current system with consideration of replacing it with a more reliable system.

We wish to thank the University Bookstore staff and management for their support during this review.

Sincerely,

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

Senior Internal Auditor: Tami Reed
Audit Fieldwork Completed: September 21, 2014

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. PHYSICAL INVENTORY COUNT AND SHRINKAGE

On May 30, 2014, Internal Audit observed and tested the annual physical inventory at the Bookstore. This count totaled **$4,007,757**:

Department	Value (Cost)
New Textbooks	$ 1,723,173
Used Textbooks	1,111,246
Total Textbooks	2,834,419
Greeting Cards	4,909
Clinique	51,729
Clothing	304,008
Electronics	381,801
Food	43,825
Gifts	9,379
Graduation	43,545
Greek	47,043
Souvenirs	187,648
School and Art Supplies	78,511
Tradebooks	20,940
Grand Total	$ **4,007,757**

Internal Audit verified inventory counts of items valued at $**396,188** of the $**4,007,757**. After completion of the physical inventory, the inventory amounts in the Bookstore's Booklog system was compared to the University's Banner system accounts for June 30, 2014. The initial difference between the inventory amounts in these two systems was $288,920 (wholesale cost) or 2.61% of retail sales. After considerable review of the detailed entries posted in the Booklog system and the Banner system, several errors were identified and corrected. These errors are explained in #2 below.

Once corrections were made, the difference (inventory shrinkage) was reduced to $118,434 (wholesale cost) or 1.07 percent of retail sales. This is an acceptable rate and considerably less than the 1.47 percent national benchmark rate used as a guide by many retailers.

To improve inventory monitoring and reduce the amount of time spent at the end of the year searching for posting errors that occurred throughout the entire year, bookstore management should periodically reconcile the inventory amount in the Booklog system to the Banner system.

Recommendation:

Periodically reconcile the inventory amount in the Booklog system to the Banner system.

Management Response:

Bookstore Management well begin periodic reconciliations of Booklog to Banner for September 2014.

2. BOOKLOG SYSTEM

Areas of concern continue to exist with the Bookstore's point-of-sale and inventory management system, Booklog.

In July 2003, BookLog was implemented by the Bookstore which was a considerable improvement over the previous periodic inventory system. Since that time, Booklog has implemented many improvements as well as consolidating Courseworks, previously a separate but linked program, as an integral module in their system. Bookstore management is in the process of drafting a request for proposal for a new system; however, this process may still be several years in the future. The following areas of concern continue to exist:

A. A return packing list electronically created in the Booklog system to return textbooks on April 28, 2014 did not properly post all amounts returned within the Booklog system. The return packing list totaled **$60,885.64**, but only **$12,618.49** was posted as a reduction from the textbook inventory. Review of the detailed inventory confirmed **$48,267.15** of the returned inventory remained in the Booklog inventory totals at the time of the physical inventory. It is unclear if this is a system error or an operator error; however, Bookstore management should consult with Booklog system personnel to determine the source of this error. An adjustment for $48,267.15 was posted to Booklog to correct this error at the time of the physical inventory.

B. The Booklog system is not always properly calculating the average cost of inventory items. The valuation of the ending inventory is determined by using the average costs methodology in BookLog, and when this calculation is not accurate, the cost of goods sold and inventory values are incorrectly reported. A scan of the fiscal year 2014 detailed sales report indicated the following instances where the cost of an inventory item sold was not properly calculated:

1. There was a total of 4,707 inventory items where the cost assigned by the Booklog system was zero at the time of the sale, even though there were costs recorded in Booklog totaling $170,486. As a result, the cost of goods sold was understated by $170,486.

2. We identified 103 inventory items in which the average cost assigned by Booklog at the time of the sale equaled the retail sales price. In most of these instances the retail sales price was wrong resulting in under-collected sales of $2,564.

3. We selected and reviewed 10 new textbook titles from the fiscal year 2014 detailed sales report based on extreme fluctuations in their average costs at the time of the sale.

   - Of the 10 textbook titles, the average costs at June 30, 2014 did not agree to the calculated average costs based on the purchasing history within BookLog for 5 textbooks. The differences ranged from $1.58 more than the calculated average cost to $26.93 less than the calculated average cost.

   - Also, a textbook that was only purchased at a cost of 197.00 (no other cost recorded in the Booklog system), showed the following average costs on the fiscal year 2014 sales report:

Date Range	Quantity	Average Costs
07/11/2013 -3/24/2014	128	197.00
10/16/2013	1	85.00
05/13/2014	1	197.00
06/02/2014	1	40.00
06/05/2014	1	197.00

It is not clear why the Booklog system understated the average cost of this book on two occasions. Based on this one textbook alone, the cost of goods sold during fiscal year 2014 was understated by $269.00.

To ensure the cost of goods sold and inventory values are incorrectly reported, management should consult with Booklog system personnel to determine the exact cause of these errors.

Recommendations:

Management should consult with Booklog system personnel to determine the exact cause of these errors, and periodically review the detailed sales report to determine if significant errors are identifiable and make any adjustments accordingly. Additionally, management should continue to review reliable systems to replace BookLog.

Management Response:

Management has reported these errors to BookLog on numerous occasions and will continue to work to resolve them. The RFP for a new inventory management/POS system will be completed in FY15 at which time we will work with Financial Services to determine funds available.

3.   BOOKSTORE CASH COUNT

On May 30, 2014, the cash assigned to the Bookstore, including all cash in the safe as well as all cash in the various drawers at all locations, was counted and verified.   The following was determined:

- Total cash counted was **$8,800**. This agrees to the amount recorded in the University's accounting records and to the petty cash worksheet maintained by Financial Services.

- Our review of the cash logs at the bookstore showed that the prescribed procedures and controls are being followed:

  ➢ Cash in drawers are counted by the Manager each day and entered into the 'Booklog Till' (an application within the Booklog System to record cash in drawers and compare to cash sales per registers).

  ➢ Cash in safe is counted twice each day by two different employees. One count is performed in the morning and one in the evening. Each count is entered into the Booklog Till.

Recommendation:

None