



Internal Audit

Drago College Bookstore Inventory and Campus Cash Counts

November 1, 2016

Office of Internal Audit and Compliance



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

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DRAGO COLLEGE BOOKSTORE INVENTORY AND CAMPUS CASH COUNTS

BACKGROUND

On April 1, 2016, Internal Audit reviewed the annual physical inventory at the West Plains campus Drago College Bookstore and performed unscheduled cash counts and reviewed cash controls at various cash collection points on the West Plains campus.

OBJECTIVE AND SCOPE

The objective was to evaluate the accuracy of the Drago College Store inventory, account for cash funds assigned to various campus locations, and assess the adequacy of internal controls over cash receipts. The scope of the audit was fiscal year ended June 30, 2016.

SUMMARY

Included in this report are recommendations to improve inventory accountability and strengthen controls over employee sales at the bookstore. Additionally, Internal Audit applauds management for implementing prior audit recommendations and increasing sales at the bookstore by approximately \$70,000 since FY2014. Recommendations also address the use of official prenumbered receipt slips for all cash collection sites and the need to better segregate duties of related employees.

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Audit Field Work Completed: November 1, 2016

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Bookstore Physical Inventory Review

The inventory balance for the West Plains Drago College Store at June 30, 2016 was \$190,470. Internal Audit observed and tested the annual physical inventory at the bookstore on April 8, 2016 with no significant exceptions. This inventory count was reconciled through June 30, 2016 for financial statement presentation.

The physical inventory count was compared to the inventory value in the bookstore's point of sale system, BookLog, and to the Banner accounting system. The BookLog system continues to reflect costing errors which has resulted in a BookLog inventory balance of \$20,596 less than the physical inventory count. This is the inverse of the typical year-end inventory comparison for a retail bookstore, but is the same uncharacteristic type of adjustment that had to be made by the Springfield Bookstore.

It appears that BookLog occasionally produces some programing errors when calculating the cost of an item sold resulting in the calculated cost being significantly more than the actual cost. As a result, the inventory balance is reduced by the calculated cost when the item is sold; therefore, leading to a total inventory balance that is less than it should be.

The Springfield Bookstore is currently in the process of replacing the BookLog system with a new point of sale system. After the Springfield store has fully implemented the new system, the West Plains Drago College Store should consider utilizing the same new point of sale system. Until the West Plains store can replace the BookLog system, monthly reconciliations should be performed to identify inventory differences on a timely basis.

Recommendation

Perform periodic reconciliations between Booklog and Banner inventory balances. Once the Springfield bookstore's new system is operable, inquire as to the availability as being a remote location within their system.

Management Response

Monthly reconciliation between Booklog and Banner will be the standard process going forward. Due to the discovery of the programming error in Booklog, which effects not only the West Plains campus but also the Springfield campus, the West Plains Drago College Store will regularly complete the following process:

A spreadsheet of credit memos will be kept. A spreadsheet of invoices-not-yet-received/not yet paid will be kept. Business Office personnel will run a Banner report and the two spreadsheets will be compared to the Banner report. This process will be completed to better identify programming errors as they relate to the physical inventory of the Drago College Store

2. Controls over Sales

Established internal control procedures are not followed by the Bookstore Manager and employees. A review of detailed sales between January 1, 2016 and August 31, 2016 identified the following:

- Seven employees sold items to themselves under their own log-in credentials for a total of thirty transactions. While most of these sales were for small food items, procedures have been established directing employees not to process their own sales. Instead, for better internal controls another Bookstore employee should be used to record the sales transaction.

- Employees did not always record student/employee identification numbers when processing sales. During the review period, there were thirty-eight sales without an identification number that included an employee discount. Established procedures provide that all student's/employee's identification numbers are recorded at the time of sale. This is especially important when employee discounts are given on sales transactions.

Recommendation

Ensure Bookstore employees do not process the sale of items to themselves and ensure employee and student identification numbers are recorded for all applicable transactions.

Management Response

The processes of the Drago College Store were adjusted to discourage employees from selling items using their own log-in credentials. Between January 1, 2016 and August 31, 2016 there were several new student employees added to the personnel listing. This finding has emphasized the need to have more training on this item as new student employees are on-boarded. Beyond explaining the required process, training will include a signed policy sheet by all new employees indicating they will abide by the process or employment discipline will be pursued. Required training on this item for all Drago College Store employees was once again conducted on November 3, 2016.

The Drago College Store employees are required to key in the identification number as purchases are made. Research will be conducted to identify how the Booklog system can be re-configured with the ability to use the scan system, and more education will be utilized for the campus population to have the ID card available for purchases.

3. Bookstore Income

The West Plains Drago College Store has improved their financial condition in recent years. An audit of the store in 2014 noted a decreasing profit margin, decreasing book sales, and increasing expenses resulting in a decreasing net income. Recommendation made in that audit have been implemented by bookstore management. Since June 30, 2014 the store's revenue has increased from approximately \$240,000 to over \$310,000, and expenses have remained relatively constant during this time period. As a result, the store has gone from a net loss at June 30, 2014 of -\$22,600 to a net income at June 30, 2016 of \$40,300.

Management is to be applauded for the increase in net income at the Drago College Store. See page 5 for the store's complete financial statement.

4. West Plains Campus Cash Counts

In conjunction with on-campus inventory tests, unscheduled cash counts were performed, as well as a review of some cash controls.

Assigned cash funds are at the following campus locations:

Location/Office	Cash Assigned April 1, 2016
Business Office	\$400.00
Library	102.00
Civic Center	85.00
Admissions	20.00
AACCESS	100.00
Friends of Library	100.00
Drago College Bookstore	500.00
Food Service	75.00
Mountain Grove	25.00
Total E&G and Auxiliary Funds	\$1,407.00

Our review included cash counts at the Business Office, Admissions, Friends of the Library, Food Service and the Drago College Bookstore. All funds counted were verified with no exceptions.

- A. Receipt slips issued at some University locations are generic and not official University receipt slips. In order to provide adequate control over remote cash collections on campus, the Business Office should obtain official receipt books that are uniformly printed with the university logo, numerically accounted for and issued to departments. Departments collecting funds from individuals must give each individual an official prenumbered receipt. Then completed receipt books must be returned to the Business Office for accountability and retention purposes
- B. The University holds a surplus property auction periodically for the disposal of surplus equipment and supplies from university departments. Auctions are open to the public. The sale is administered by the Superintendent of Physical Plant with the assistance of his wife, a cashier with the Business Office for cash collections. Adequate internal controls would not allow two individuals from the same household to administer the auction and serve as cashier. In the future, consideration should be given to another staff member in the Business Office performing the cash collection responsibilities.

Proceeds from the auction fluctuate based on the surplus property available for sale. Auction proceeds were \$4,262 and \$11,617 during FY15 and FY13, respectively.

Recommendations

- A. The Business Office should obtain official prenumbered receipt books, and maintain a log of the receipt books log issued to each department, recording the number sequence, date issued and employee in receipt of the book. Completed receipt books should be returned to the Business Office for accountability and retention.
- B. Ensure duties of related employees are adequately segregated.

Management Response

- A. *Prenumbered receipt books have been purchased and distributed to departments that have the need to issue receipts for payments taken. These receipt books have a unique numbering system that help identify the department that issued the receipt. Additionally, a log of receipt books issued to each department is maintained by Business Office personnel.*
- B. *This recommendation was implemented at the most recent surplus auction on October 21, 2016. Employees that were not related or of the same household took part in the cash collection*

responsibilities of the auction. Future surplus auctions will continue to use this type of segregation of duties.

Drago College Bookstore Three Year Comparative Income Statements

	Year Ending June 30,		
	2014	2015	2016
Net Sales Revenue	220,783.49	243,180.22	292,495.67
Book Rental Fees	8,540.00	9,900.00	10,800.00
Commissions	3,299.82	3,717.16	1,208.21
Miscellaneous Income	2,838.16	3,062.45	946.77
Investment Income	5,374.04	7,175.32	6,130.73
	\$ <u>240,835.51</u>	<u>267,035.15</u>	<u>311,581.38</u>
Personal Service/Fringe Benefits	150,817.80	148,021.53	155,310.45
Utilities	4,053.06	4,268.86	3,495.46
Travel	1,333.46	1,361.54	3,105.14
Supplies	3,784.76	11,384.05	6,996.46
Services	17,650.35	15,615.55	21,241.72
Other Expenses	7,519.27	1,179.15	2,773.63
	\$ <u>185,158.70</u>	<u>181,830.68</u>	<u>192,922.86</u>
Net Operating Income	55,676.81	85,204.47	118,658.52
Transfer to West Plains Operating	<u>78,320.00</u>	<u>78,320.00</u>	<u>78,320.00</u>
Net Income (Loss)	(22,643.19)	6,884.47	40,338.52
Beginning Net Assets	941,588.20	918,945.01	925,829.48
Ending Net Assets	\$ <u><u>918,945.01</u></u>	<u><u>925,829.48</u></u>	<u><u>966,168.00</u></u>