



***Review of West Plains
Drago College Bookstore Inventory,
Campus Cash Counts,
and Auxiliary and Designated Funds***

October 4, 2018

Office of Internal Audit and Compliance



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

DATE: October 4, 2018

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**REVIEW OF DRAGO COLLEGE BOOKSTORE INVENTORY,
CAMPUS CASH COUNTS,
AND AUXILLARY AND DESIGNATED FUNDS**

BACKGROUND

On May 7, 2018, Internal Audit reviewed the annual physical inventory at the West Plains campus Drago College Bookstore, performed unscheduled cash counts and reviewed cash controls at various cash collection points on the West Plains campus. In addition, a review of Auxiliary and Designated fund balances was performed at June 30, 2018.

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. A review of the financial condition of all Auxiliary and Designated funds was also performed. The scope of the audit was the fiscal year ended June 30, 2018.

SUMMARY

- During fiscal year 2018, the bookstore's sales dropped resulting in a net loss of (\$35,208). Replacing textbooks with other course materials and a decrease student enrollment has contributed to the drop. Administration, faculty and bookstore personnel have recently met to correlate efforts to provide students with affordable course materials through the bookstore. These correlated efforts as well as identifying additional revenue sources are central to the bookstore staying current and profitable.

- Some Auxiliary and Designated Funds continue to operate with deficit balances as follows:

Fund	Balance at June 30, 2018
Dormitory Fund	\$ (85,105)
Food Service Fund	(5,334)
Student Recreation Center Fund	(108,358)
Professional Services Fee Fund	(40,060)

- We again recommend that all funds be actively monitored to avoid operating with deficit balances. Additionally, consideration could be given to reallocating the common fee.
- Lastly, this report includes a recommendation to increase online payment options by allowing payment by e-check.



Senior Internal Auditor: Tami Reed
 Audit Field Work Completed: September 10, 2018



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 Director of Internal Audit and Compliance

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Bookstore Physical Inventory Review

Internal Audit observed and tested the annual physical inventory at the bookstore on May 7, 2018 with no significant exceptions. The inventory balance in Booklog, the point of sale system for the West Plains Drago College Store, was \$111,792 (wholesale cost) at June 30, 2018. The University's Banner accounting system inventory balance for the Bookstore was \$114,071, resulting in only a \$2,279 difference. This year-end inventory shrinkage of \$2,279 is only 0.66% of retail sales. Historically, the National Retail Security Survey Final shrinkage percentage has been used as a benchmark. The NRSSF reported the national shrinkage average was 1.33% of retail sales. The year-end shrinkage was well below that average.

During fiscal year 2018, the Bookstore Director performed monthly reconciliations between Booklog and Banner as recommended in our previous audit reports. This allowed any differences to be analyzed and reviewed on a timely basis.

Recommendation

None.

Management Response

The West Plains campus is appreciative of the guidance and time spent assisting the Bookstore as they have worked to increase controls and identify issues in a much more timely manner.

2. Bookstore Income

In fiscal year 2018, the West Plains Drago College Store experienced a significant decrease in sales resulting in a net loss of (\$35,208). This is the second year the store has recorded an operating loss.

		For the Year Ended June 30,			
		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenue	\$	267,035	311,582	259,136	235,853
Expenses*		<u>260,151</u>	<u>271,243</u>	<u>263,759</u>	<u>271,061</u>
Net Income (Loss)	\$	<u>6,884</u>	<u>40,339</u>	<u>(4,623)</u>	<u>(35,208)</u>

*Includes an annual transfer of \$78,320 to the Operating Fund. Complete financial statements presented at the end of this report.

A variety of circumstances continues to affect the store's sales, such as replacing textbooks with online, loose-leaf, or faculty-authored materials to help reduce costs for students. Additionally, the decrease in student enrollment at West Plains results in a lower customer base.

While the main mission of most campus bookstores has historically been to give students a convenient source of textbooks, this mission is changing. The challenge is for the bookstore to redefine their mission in order to stay current and profitable.

At the inception of the Fall 2018 semester, the Chancellor, Dean of Student Services and the Dean of Academic Affairs met to collaborate efforts for the campus community to consciously use the Bookstore

to provide class materials and goods to the students and campus community. As a result, a week into the semester sales were slightly higher than the previous timeframe last year. Continued support by administration and faculty will allow the Bookstore to be a contributing function for the university.

Recommendation

Continue the collaboration with university administration and faculty to increase the Bookstore presence on the university campus. The bookstore's mission and services should continue to concentrate on identifying additional revenue sources.

Management Response

There will be continued collaboration to find ways to be supportive of the university's Bookstore operation as well as identifying additional revenue sources. Efforts will be made to increase communication throughout the campus to encourage use by the campus community for necessary supplies.

3. Campus Funds

Some West Plains Auxiliary and Designated funds continue to operate with deficit balances.

The **Dormitory Fund** (H92002) had a deficit balance of (\$45,892) at June 30, 2017 and has continued to decrease to (\$85,105) at June 30, 2018. The Grizzly House was financially profitable until June 2016. Since that time, apartment options for students were discontinued and beginning in the Spring 2017 semester, the Grizzly Lofts became an alternative option for student living. Dormitory Fund revenues have dropped from \$191,965 (fy16) to \$177,833 (fy17) to \$159,794 (fy18) in the last three years. As a result, revenues are no longer sufficient to cover the expenses.

The **Food Service Fund** (H92001) ended with a deficit balance of (\$5,334) at June 30, 2018. This is the first time this fund has ended with a deficit balance. While Food Service does provide some on-campus catering and some walk in meals, most of the revenue is generated from board fees associated with dorm residents. As the occupancy of the dorm decreases, the Food Service is directly impacted.

The **Student Recreation Center Fund** (H92003) had a deficit balance of (\$108,358) at June 30, 2018. This is a continued drop from the deficit balance of (\$78,944) at June 30, 2017. The Student Recreation Center Fund receives income from student fees to pay the bond payment and maintain the center. Since June 2011, the fund's expenditures have exceeded the revenue with the largest loss of almost \$30,000 in fiscal year 2018. Effective fiscal year 2019, the Student Recreation allocation of the Common Fee was increased from 2.08 to 3.08 per credit hour, which will increase revenue and may be sufficient to cover the 2019 current year expenses. However, it will not materially reduce, if at all, the deficit balance of (\$108,358).

The **Professional Services Fee Fund** (B92027) ended the year with a deficit fund balance of (\$40,060) at June 30, 2018. The June 30, 2017 ending balance was a deficit (\$22,385). This fund receives income from the common fee to cover health care related costs for students. Effective Fall 2018, the Professional Services Fee was increased from \$1.25 per credit hour to \$1.75 for all part-time and full-time credit hours. However, based on estimated credit hours for 2018-19, it does not appear the increase will be sufficient to cover the annual expenses.

These auxiliary and designated funds should be actively monitored by administrators and action should be taken to discontinue operating these funds in the deficit. Additionally, administrators should evaluate the allocation of the common fee. For example, the **Graduation Fee Fund** (B92049) and the **Transcript Fund** (B92132), which are funded through the common fee, have large balances at June 30, 2018 of \$55,696 and \$29,900, respectively. A reallocation of the common fee may help reduce the deficit balances in the Student Recreation Center Fund and the Professional Services Fee Fund.

Recommendations

We again recommend administrators monitor all auxiliary and designated fund balances, identifying funds with declining fund balances so that the financial condition can be addressed on a timely basis.

Management Response

At the close of fiscal year 2016, it was recognized that there was a payment required from the Grizzly House to avoid an overage, however many other programmatic changes were made at the time. The additional income from external apartments was eliminated and we also signed the management agreement for the Grizzly Lofts. The athletic program did not have the typical number of students in fiscal year 2018 and all of these worked to our detriment. However, in fiscal year 2019 our Grizzly House number is up with additional athletes in the program and we are working to find a positive balance for the housing program between our management of the Grizzly Lofts and the occupancy of the Grizzly House.

The SGA voted to increase the common fee for the fiscal year 2019 as indicated in the report. The feasibility of a one-time adjustment using only the designated funds to bring all funds back into balance will be reviewed by the West Plains Administration.

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
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	700.00
Food Service	75.00
Mountain Grove	25.00
Total Cash	\$1,607.00

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

The West Plains campus has established a storefront allowing students to pay their dorm deposits online. Currently, storefront payment options at West Plains only allow for credit card payments. Some students do not have access to credit cards, however for a one-time set-up fee, the storefronts could accept e-checks like the Springfield campus.

Recommendations

Consider increasing online payment options to include e-checks.

Management Response

The option to provide e-checks for storefronts for the West Plains campus will be implemented. Working with Financial Services on the Springfield campus, Southern Bank and the vendor CashNet, the process will take approximately 60 days to complete.

Drago College Bookstore
Four years Comparative Income Statement
For The Years Ended June 30,

	2015	2016	2017	2018
Net Sales Revenue	\$ 243,180	292,496	232,070	189,694
Book Rental Fees	9,900	10,800	10,000	9,600
Commissions	3,717	1,208	251	2,233
Miscellaneous Income	3,063	947	1,312	838
Investment Income	7,175	6,131	15,503	33,488
Total Operating Income	\$ 267,035	311,582	259,136	235,853
Personal Service/Fringe Benefits	\$ 148,021	155,311	155,250	162,900
Utilities	4,269	3,495	3,688	4,340
Travel	1,362	3,105	2,018	2,800
Supplies	11,384	6,996	4,593	2,469
Services	15,616	21,242	18,754	18,542
Other Expenses	1,179	2,774	1,136	1,690
Total Operating Expenses	\$ 181,831	192,923	185,439	192,741
Net Operating Income	\$ 85,204	118,659	73,697	43,112
Transfer to West Plains Operating	78,320	78,320	78,320	78,320
Net Income (Loss) Less Transfers	\$ 6,884	40,339	(4,623)	(35,208)
Beginning Net Assets	918,945	925,829	966,168	961,545
Ending Net Assets	\$ 925,829	966,168	961,545	926,337