Follow-Up Audit

February 16, 2023

Report No. 182-23

Office of Internal Audit & Risk Management

DATE: February 16, 2023

TO: Dr. Ken Brown, Interim Dean, William H. Darr College of Agriculture
Katy Hensley, Bursar's Office Supervisor
Sharon Holland, Drago College Store Manager
Dr. Angela Totty, Vice-Chancellor for Student Services
Crockett Oaks, Associate Vice-Chancellor for Business and Support Services

CC: Lori Swindell, Accounting Manager & Bursar
Stephen C. Foucart, Chief Financial Officer
Matt Morris, Vice-President for Administrative Services
Dr. Dennis Lancaster, Chancellor
Dr. John Jasinski, Provost
Rachael Dockery, General Counsel
Zora Mulligan, Executive Vice President
Clifton M. Smart III, University President

FROM: Natalie B. McNish, Director of Internal Audit and Risk Management
Arti Arti, Internal Auditor
Grant Jones, Internal Auditor

Follow-Up Audit

BACKGROUND

The Office of Internal Audit and Risk Management has completed review procedures to follow up on four audit reports issued between January 1, and December 31, 2021, to formally report on actions taken by University management in response to audit recommendations.

We interviewed responsible parties and when applicable, requested documentation to determine and support the status of each recommendation. The title and date issued for each of the four audit reports is listed along with a summary of each finding, the recommendation, and the status of the recommendation. The status is classified as one of the following:

> **Implemented**: Management fully implemented the recommendation, either as originally described in the audit report or in a manner that resolved the issue.
>
> **In Progress**: Management has begun to implement the recommendation and intends to complete the implementation process.
>
> **Not Implemented:** Management has not taken action to implement the recommendation.

SUMMARY

These four audit reports included 11 recommendations of which 9 have been implemented and 2 are in progress. The Office of Internal Audit and Risk Management applauds University management on the action taken to address each recommendation.

Natalie B. McNish, CFE, CGAP
Director

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Internal Auditor

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Audit Field Work Completed: January 30, 2023

Summaries, Recommendations, and Statuses

Letter to William H. Darr College of Agriculture
RE: Operating Policy 3.06, Disposing of Excess Agriculture Animals and Products

At the former Dean's request, the Office of Internal Audit and Risk Management performed limited procedures to assess the needs and risks of current operations and make recommendations for updates to the policy. The policy, at the time of the audit, focused on each type of product sold and did not consider the appropriate or available marketplace for each commodity. As a result, the policy was overly restrictive and was determined to have a potential negative impact on the learning experience.

Recommendation:

Management to develop a new policy for the sale of agricultural product which would address each type of sale and the controls used to ensure a fair and competitive marketplace exists and is documented.

Status:

Implemented – A new policy was developed and approved in August 2022.

Bursar's Office

The primary function of the Bursar's Office is the processing and recording of receipts. Receipts of various types and compositions are forwarded to this office for processing from students, faculty, staff, other offices and departments and community businesses, etc. These receipts are processed through payment windows, an overnight drop-box located on the first floor of Carrington Hall, through both campus and U.S.P.S mail service, and through an online payment portal for students, employees, and the general public. The office accepts cash, check, e-check, money order, cashier's check, credit/debit card, ACH (electronic payments), and Bear Pass Card as method of payment. The Bursar's Office experienced nearly complete turnover in staffing due to retirements, which prompted the Chief Financial Officer to request an audit.

1. Receipt Processing

The Bursar's Office did not have a process to track receipts received but not processed the same day. In addition, security cameras did not capture all processing activities.

A. Mail Log

The Bursar's Office did not have a process to track receipts received but not processed the same day. As a result, these receipts were not endorsed, and final disposition was not always recorded in the computerized cashiering system.

Adopting a mail log process would increase the accountability of receipts and may also allow the Bursar's Office to open methods of processing currently prohibited by Operating Policy 8.04, Cash Handling Procedures.

B. Security Cameras

The location of security cameras inside the Bursar's Office did not provide adequate view of all areas where transactions are processed. For security cameras to be most effective, a view of all transaction processing areas should be established.

2. Armored Car Service

At the request of management, we reviewed the use of armored car services by the Bursar's Office including the contractual background, a review of costs for car service, a review of cash collected as a percentage of total receipts, and a neighborhood risk profile. This information was provided for management's use in decision making and no recommendation regarding the continued use of this service was made by the Office of Internal Audit & Risk Management. Our office acknowledges there are other risk factors such as employee comfort and time management which are not quantifiable and not included in this analysis but do weight management's decision making. As such, no follow-up status is provided.

Recommendations:

1.A. The Bursar's Office should develop a mail log to track the receipt and disposition of all items not processed the day received.

1.B. Review processes occurring in each area where no camera has a view and add additional cameras, as necessary.

Statuses:

1.A. **Implemented** – A mail log was developed and is maintained to track receipt and disposition of all items not processed on the date received.

1.B. **Implemented** – Additional cameras were installed, and full view of all processing areas is now available.

Drago College Store
Inventory and Financial Review

The Drago College Store serves as the official West Plains campus retail store for course materials, supplies, electronics, souvenirs, food items and clothing. Gross sales average more than $650,000 per year. The store is staffed with a manager, a buyer, and eight to ten part-time student employees.

Dr. Angela Totty, Vice-Chancellor of Student Services, and Dr. Dennis Lancaster, Chancellor, requested Audit evaluate the financial condition and practices of the store. The industry has been struggling to adapt to declining traditional book sales, decreasing enrollments, and increased online competition.

1. Financial Condition

The financial condition of the Drago College Store has deteriorated and without diligent effort to reverse this trend, the audit determined the store could require subsidization by the end of fiscal year 2025. Financial reporting used at the time of the audit did not provide sufficient information to monitor the financial condition. Monthly income statements and other financial reviews should be prepared and shared with administration to ensure changes made have the desired impact and the overall condition does not worsen. These reviews should include comparisons of operating income and expenses and inventory turnover and gross margin as compared to available benchmarks.

It is essential for management, in collaboration with administration, to address the financial condition of the store in both the immediate- and long-term future. The current financial trends in both income and expenses are not sustainable.

2. Inventory Management

Improvement was needed in the store's management of inventory on hand.

A. Inventory procedures

Auditors provided commendation for inventory procedures and noted the stores shrinkage ration was far below the national benchmarks. As such, no follow-up status is provided.

B. Aged inventory (non-course material)

The store had not developed a system to review inventory by order date or last sale to determine the age and obsolescent status of items, apply consistent or significant markdowns to reduce inventory, and when necessary, dispose of non-moving items. Our review determined 49 percent of inventory on-hand was more than 10 years old, and 15 percent of inventory had no recorded sales in prior 2 years. As a result of holding these aged items, the store did not have space for new, more sellable items which could offer a larger profit and help reverse the financial condition noted above.

C. Unsold course materials ("dead books")

The store did not adequately dispose of unused course materials ("dead books") in a timely manner. As of April 30, 2021, the store held 294 "dead books" with a value of nearly $9,000. Of these books, 238 were last adopted for the Spring 2020 term or before, and 100 were last adopted at least three (3) academic years prior, with the oldest book being last adopted for the Fall 2013 term.

To limit unsold course materials and maximize return allowances, books should be returned to publishers after the third week of classes in the associated term. If a book cannot be returned to the publisher, it should be liquidated via wholesalers, donated in accordance with policy, or destroyed.

D. Tradebooks

The store's inventory also includes Tradebooks, which are books intended for general reading (e.g., novels, biographies, cookbooks, etc.), but also includes study aids and preparation materials for standardized tests (e.g., GRE, GMAT, MCAT, etc.). Of the 612 Tradebooks in inventory at April 26, 2021, 70 percent of the items in this department had no sales activity in one (1) year or more. Many of these items are included in the aged inventory numbers reported in B above.

3. Course Materials

The store had not embraced non-traditional course material delivery methods in a comprehensive fashion. In addition, the established "rental program," which provides course materials to athletes and ambassadors at no cost to the student, resulted in losses for the store because materials provided in new condition were returned as used which required an adjustment to value in inventory. Nearly 25% of write-offs recorded for the five (5)-year period ending June 30, 2020 related to losses related to this program.

Recommendations:

1. Management, in collaboration with administration, should develop additional financial monitoring procedures to carefully and consistently monitor the financial condition of the store, work together to increase operating income and decrease operating expenses where able, and adjust procedures to bring financial ratios into line with industry standards. As the administration addresses campus enrollment, the store should be engaged and align its procedures to attract those students comprising the current and future targeted populations.

2.B. Take action to dispose of aged inventory on hand and develop procedures to routinely analyze the age of inventory items and items which are not selling. Further, the store should adopt a more aggressive markdown and disposal policy.

2.C. Adopt procedures to return unsold course material to the publisher after the third week of classes in the associated term. For items which are no longer returnable, management should dispose in the most beneficial method while complying with applicable policies.

2.D. Consider elimination of the Tradebook department.

3. Research the various course material delivery options available through established vendors and potential joint ventures with the Baker Bookstore on the Springfield campus, develop a strategy that meets the student body needs, implement new programs with significant marketing, and monitor the financial viability of new programs to ensure the store's financial condition is not worsened.

Statuses:

1. **In Progress** – Financial reporting has been developed and are completed to provide needed insight. The required transfer to the Operating Fund has been eliminated and changes to the "rental" program were made which improved the financial impact of that program. Also, food and drink inventory has increased which the Vice-Chancellor for Student Success feel has increased traffic into the store.

To determine the result of these activities, we compiled the below income statement using actual income and expenses of the Drago College Store.

Comparative Income Statement

Year Ended June 30,

		2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Operating Income	$	311,582	259,136	236,404	224,602	198,682	193,305	192,680
Less: Operating Expenses		192,923	185,439	192,741	254,307	217,914	184,791	213,935
Net Operating Income (Loss)	**$**	**118,659**	**73,697**	**43,663**	**(29,705)**	**(19,232)**	**8,514**	**(21,255)**
Less: Transfer to Operating	$	78,320	78,320	78,320	78,320	78,320	0	0
Add: CARES Act Monies		0	0	0	0	0	23,583	0
Net Income (Loss)	**$**	**40,339**	**(4,623)**	**(34,657)**	**(108,025)**	**(97,552)**	**32,097**	**(21,255)**
Beginning Net Assets	$	925,829	966,168	951,545	926,888	818,863	721,311	753,408
Ending Net Assets	**$**	**966,168**	**961,545**	**916,888**	**818,863**	**721,311**	**753,408**	**732,153**

Based upon this compilation, it appears the changes made have improved the projected the financial condition; however, the overall net position continues to decline. The store provides needed services to the campus community and we recommend continued efforts be made to strengthen the financial position of this operation as opportunities present themselves in the future.

2.B. **In Progress** – According to Dr. Angela Totty, Vice-Chancellor for Student Services, a more aggressive markdown schedule was applied throughout the year. However, a review of aged inventory found that the aged inventory did not move and in fact has increased by 5 percent over the past year.

2.C. **Implemented** – Procedures were created to track each vendors' return policy and returns are now monitored by the Senior Buyer to ensure return deadlines are met. Any dead books which are no longer returnable are checked for value through Nebraska Book Company buyback each semester as well as other third-party book buyers.

2.D. **Implemented** – Management has nearly eliminated the Tradebook department, leaving only 13 titles in the current inventory and each having a specific purpose.

3. **Implemented** – According to the Vice-Chancellor for Student Services, management held a discussion with key members of the faculty regarding course materials and how selection of course materials impact the financial stability of the Store. Several concerns were shared from faculty that they are being "pushed" to use electronic versions of materials by the publishers and realize that our students do not prefer those materials. Management plans to conduct a survey of the faculty regarding course material preferences in the Spring term.

Grizzly Lofts

In 2016, the University entered into a Facilities Management Agreement with the Howell Creek Shoe Factory Commons, LLC for the exclusive right to lease, operate and sublease a building called "Grizzly Lofts." Through this agreement, the University increased its ability to provide housing to students by 274 beds. This agreement was due for renewal June 30, 2021. In conjunction with the pending renewal, Chancellor, Dr. Dennis Lancaster and President, Clif Smart requested a review to provide additional insight and information for use in making future operational decisions.

1. Cost to the University

The University absorbed approximately $97,000 in losses/costs from reduced capacity at the Grizzly House and payroll and benefit expenses not reimbursed during the first four years the University managed the Grizzly Lofts. This amount includes approximately $58,000 due to vacancies at the Grizzly House between the Fall 2017 and Fall 2019 terms and at least $39,000 in payroll and benefit expenses between January 1, 2018 and February 28, 2021 where amounts paid were determined to be directly related to the operation of the facility.

In the recitals of the agreement, it was affirmed, "the University is interested in offering additional student housing facilities to students attending the West Plains campus and is willing to assume management of the Facility to provide such additional student housing so long as the University incurs no out of pocket expense to do so."

2. Terms of the Agreement

The terms of the agreement did not align with actual procedures used to operate the Grizzly Lofts and, in some instances, were not clearly written to ensure accurate application. In addition, non-compliance with some terms was noted for both parties.

- Payment of rent collected was not always remitted to the owner within the guidelines of the agreement. Similarly, payment of payroll expenses was not always received by the University within the guidelines of the agreement.

- The agreement states the University will be responsible for staffing the facility and the owner will reimburse the University for payroll and benefit costs related to three (3) specific positions, not including Resident Assistants, at stated rates of pay and benefit percentages. A review of payroll and fringe benefit amounts paid to employees and reimbursed by the owner identified discrepancies between the amounts stated in the agreement and the amounts actually paid.

- Some housing exceptions allowed by the University were not specified in the agreement or were not applied in compliance with the agreement.

- University personnel were responsible for periodically removing change from the laundry machines, depositing into a University bank account, and recording monies in the University accounting system. These monies were then periodically remitted to the owner. The agreement did not address this responsibility.

While non-compliance was noted, no harm to either party was identified in the items selected for review. If the adopted procedures for payment of rent and reimbursements were agreeable, the parties should evaluate changing the agreement to align.

3. Communications

Communications between the University and the owner were not always timely, were not always complete or clear, and were not always documented to support approvals granted by the owner. The agreement provided requirements for reports to be provided by specific dates to communicate various operations of the Grizzly Lofts; however, reporting was not always completed by the deadlines provided. In addition, the agreement requires the University, "obtain the consent of the 'owner' before commencing ... repairs or replacement" costing more than $1,000. In our review of 20 expenses of more than $1,000 each, 18 had no documented approval from the owner.

To ensure compliance with the agreement and a clear understanding of the University's management of the facility, communications should be clear, complete, timely, and when approval is required, it should be documented and filed with the supporting documentation for the expense.

Recommendations:

1. University management should reassess risk of lost revenue and unreimbursed expense related to the management of the Grizzly Lofts to ensure the risk is acceptable, properly managed, and to ensure operations are sustainable for any future term.

2. University management should work with the Office of the General Counsel and the owner to draft a revised Facilities Management Agreement which aligns with actual procedures regarding responsibilities of all parties in the operations of the Grizzly Lofts.

3. Provide required reports in a timely fashion, ensure approvals for expenses over $1,000 are documented, and ensure all necessary information is provided to the owner in a clear and complete manner.

Statuses:

1. **Implemented** – Adjustments were made to ensure the Grizzly House was filled before moving room assignments to the Lofts. We reviewed occupancy data for Fall 2022 and determined the Grizzly House was fully occupied. Management has reviewed the additional unreimbursed payroll expense incurred by the University but has opted to absorb those expenses in favor of maintaining the current relationship with the owners.

2. **Implemented** – An amended and restated Facility Management Agreement was ratified in June 2021. This has since been followed by a first amendment in June 2022 and a second amendment in January 2023. Each of these agreements addresses concerns noted in the report. The payment of rent collected has been extended from seven days to thirty days, the reimbursable payroll expenses has been updated to reflect current needs, the University housing policy was updated and is correctly referenced by the new agreements, and the collection and remittance of laundry monies is now included in the agreements.

3. **Implemented** – When updating the contract as outlined above, the threshold for expense approval was changed from $1,000 to $5,000. Auditors selected a transaction above this threshold and found approval from the owners was provided prior to incurring the expense.