



# ***UNIVERSITY BOOKSTORE INVENTORY***

***December 1, 2016***

**Office of Internal Audit and Compliance**



**Missouri State**  
UNIVERSITY

**DATE:** December 1, 2016

**TO:** Ray Presnell, Springfield Bookstore Director

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

**CC:** Dr. Dee Siscoe, Vice President of Student Affairs  
Clifton M. Smart III, University President

**UNIVERSITY BOOKSTORE INVENTORY**

**BACKGROUND**

On May 27, 2016, Internal Audit reviewed the annual physical inventory count at the Missouri State Bookstore. The physical inventory on this date was reconciled to the inventory balances recorded in the Bookstore's point of sale system and the University's accounting system at the fiscal year end of June 30, 2016 for the University's financial statements. The Bookstore's inventory balance during the last six years is as follows:

| <u>FYE June 30,</u> | <u>Sales (retail)</u> | <u>Inventory (cost)</u> |
|---------------------|-----------------------|-------------------------|
| 2016                | \$15,767,532          | \$6,190,350             |
| 2015                | \$15,279,233          | \$3,948,774             |
| 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             |

The June 30, 2016 inventory balance was considerably higher than previous years because the new textbooks for fall had been received prior to June 30, 2016.

Effective November 14, 2016 the Bookstore replaced their point of sale (POS) system (BookLog) with a new system (Ratex). Internal Audit also performed test counts on the transfer of inventory balances from the old POS system to Ratex to provide assurances of an accurate transition.

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

The objective was to review inventory procedures, test the accuracy of the annual physical inventory count of the Missouri State Bookstore, and test the accuracy of the transfer of inventory balances from the old POS system to the new Ratex system. The scope of the audit was fiscal year ended June 30, 2016 for year-end inventory balances, and November 14, 2016 for inventory balances transferred to the new Ratex system.


## SUMMARY

Again, a detailed analysis of the Bookstore's BookLog inventory value and the inventory recorded in the University's Banner system was completed for June 30, 2016. The BookLog system balance of \$6,190,350 was \$238,929 (wholesale cost) higher than the Banner recorded inventory or an increase of 1.38% of retail sales. Similar to last year, this is the inverse of the typical year-end inventory comparison and did not allow any evaluation of shrinkage. The errors in the BookLog system appear to be the cause. The BookLog system, was replaced with a new program, Ratex, effective November 14, 2016. We applaud Bookstore management for making the transition to a new system and also applaud Bookstore personnel for the accurate transfer of inventory balances from the BookLog system to the Ratex system.

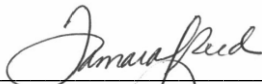
Included in this report are recommendations addressing the following:

- Reconciliations between inventory costs in the Banner and Ratex system
- Destruction procedures for old, unused gift cards
- A review of student accounts receivable policies to ensure compliance
- A textbook inventory and adoption date analysis for the timely return of textbooks
- Review of the System Analyst duties for internal control purposes
- Documentation of inventory purchases

Sincerely,



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



Senior Internal Auditor: Tami Reed  
Audit Fieldwork Completed: November 22, 2016

## OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### 1. PHYSICAL INVENTORY COUNT AND SHRINKAGE

Internal Audit observed and tested the annual physical inventory at the Bookstore. The Bookstore inventory totaled **\$6,190,350**:

| <u>Department</u>       | <u>Value (Cost)</u>        |
|-------------------------|----------------------------|
| New Textbooks           | \$ 3,984,597               |
| Used Textbooks          | 993,360                    |
| Total Textbooks         | 4,977,957                  |
| Greeting Cards          | 5,289                      |
| Clinique                | 50,146                     |
| Clothing                | 367,075                    |
| Electronics             | 387,345                    |
| Food                    | 52,695                     |
| Gifts                   | 19,704                     |
| Graduation              | 42,472                     |
| Greek                   | 30,241                     |
| Souvenirs               | 165,641                    |
| School and Art Supplies | 69,041                     |
| Tradebooks              | 22,744                     |
| Grand Total             | \$ <u><u>6,190,350</u></u> |

After completion of the physical inventory, the inventory amounts in the Bookstore's BookLog system were compared to the inventory values recorded in the University's Banner system for June 30, 2016. The BookLog system balance of \$6,190,350 was \$238,929 (wholesale cost) higher than the Banner recorded inventory, or an increase of 1.38% of retail sales. Similar to last year, this is the inverse of the typical year-end inventory comparison.

In the past two years, it has been noted that BookLog randomly assigns an average cost at the time of sale that does not agree to the cost that was assigned at the time of receiving. In some cases, the assigned average cost even exceeds the sales price. Consequently, the cost of goods sold is occasionally inflated and results in the Banner inventory balance being understated. For example, a donut with a sales price of 59 cents had an average cost in BookLog at the time of sale of \$48.13. In another example the sales price of a used textbook was \$99.50 and the assigned cost at the time of sale was \$207.25. Receiving reports indicate the items were received with the accurate costs but BookLog randomly assigned another cost.

This situation was identified and reported in last year's audit. The BookLog POS system was replaced with Ratex, a new program, effective November 14, 2016. The periodic reconciliations performed by Bookstore personnel have helped to identify the inaccurate cost of goods sold amounts calculated by BookLog. These reconciliations should be continued with the new point of sale system to ensure accurate inventory costs are recorded.

## **Recommendation**

Continue to perform periodic reconciliations of inventory costs to monitor any differences between the Banner general ledger inventory accounts and the new Ratex system balances.

## **Management Response**

*To ensure the accuracy of the new Ratex system, management will continue to perform periodic reconciliations between the Banner and Ratex inventory accounts. With the implementation of this new system, management believes that past issues with varying cost of goods amounts and inaccuracies are in the past as the store relies on a more accurate system.*

## **2. TRANSITION TO THE NEW POINT OF SALE SYSTEM**

We commend Bookstore management and staff for a smooth and accurate transition from the BookLog POS system to the Ratex system.

Our comparison of inventory balances noted that there were 209,948 inventory items with a retail sales price of \$3,512,868 in BookLog on the last day in use, and 209,741 inventory items with a retail sales price of \$3,514,844 in Ratex on the first day in use. This is a difference of only 207 items or 0.09%. The retail value difference was only \$1,976 or 0.05%.

Bookstore management and staff worked hard during this transition and we applaud their efforts.

## **3. GIFT CARDS**

Since a change in Bookstore management in 2012, over 1200 gift cards with a value exceeding \$22,000 have been retained in the Bookstore safe awaiting the determination of proper disposition. Previous management purchased the gift cards with Bookstore funds, and kept various values of gift cards on hand to distribute to groups and organizations as a means of advertisement. This manner of advertising was abandoned with new management and a more controlled advertising method has been implemented.

Since these cards have not been utilized in four years and with the implementation of the new point of sale system, current Bookstore management has determined it is an appropriate time to remove the gift cards from the system and the store's general ledger balance.

## **Recommendation**

The gift cards in the safe should be destroyed under independent supervision and a journal entry should be posted to the University's accounting system to remove the gift card balance from the general ledger account.

## **Management Response**

*As per the recommendation, the gift cards that have been stored in the safe the last four years will be discarded. This manner of advertising is no longer in place. The balance will be removed from the general ledger account.*

#### **4. STUDENT ACCOUNTS RECEIVABLE**

A policy has been established limiting students to charge up to \$500 in merchandise to their university accounts receivable (AR) at the Bookstore. An exception is made during the first two weeks of each semester to allow students to charge all textbooks without dollar limitations. After the first two weeks of the semester, textbooks are subjected to the same \$500 limitations as other merchandise. Internal Audit reviewed 25 students with excessive charges to test compliance with the policy. Of the 25 students, 19 students were allowed to charge purchases in excess of \$500 after the exception period. While this matter was discussed in the prior audit of the bookstore, compliance was sometimes difficult due to limited communication between the University's accounts receivable system and the Bookstore's old point of sale system, BookLog. The new point of sale system provides some AR monitoring features that should improve policy compliance. Management should also review the established limits in this policy considering the increased costs of textbooks.

Additionally, in Spring 2016 the Bookstore established a policy that gaming consoles and accessories are not to be charged on a student's AR. This policy is also not always followed. We noted 3 students with charges for gaming consoles since Spring 2016.

##### **Recommendation**

Bookstore management should review student AR limitations and establish specific guidance for exceptions. As these policies are redefined to meet current needs, controls should be established within the new point of sale system to ensure these policies are followed.

##### **Management Response**

*With the new system Ratex, specific spending limits can be set, and adjusted throughout the semester if necessary. Bookstore management will work with the Financial Services Department and establish credit limit guidelines that ensures we can continue to serve our students at the beginning of the semesters with their textbook and supply needs, and at the same time protect the Bookstore and students from over extending themselves and their charging privileges.*

*Also, the gaming hardware policy will be reviewed with students who work at the PawPrints store, and the new students who are hired to work in that store, to ensure compliance.*

#### **5. TEXTBOOK SALES TO WHOLESALERS**

While textbook inventory management procedures for dead or obsolete textbooks have been emphasized over the past years, management needs to continue to improve the process since the loss in this area continues to increase.

Textbook inventory management and control is extremely important in bookstore management. In FY 2016, textbook sales were \$10.3 million of the Bookstore's total \$15.8 million sales. There are three options for unsold textbooks: 1) return textbooks to the vendor for a full credit/refund if within time restraints, 2) sell textbooks to wholesale book buyers for a discounted amount 3) sell textbooks through a Monsoon account (eBay).

Our prior report recommended that the Bookstore analyze textbook inventory based upon the textbook adoption date and ensure textbooks are returned to vendors timely for full credit. While the textbook manager has established some procedures to manage the textbook inventory, regular management of text book inventory is critical to ensure the maximum

amount of value is received for unsold textbooks. Improvement is not evident in the reported information. As previously reported in FY15, textbooks costing \$287,895 were sold to wholesale book buyers for \$145,059, for a loss of \$142,836. In FY16, textbooks costing \$308,218 were sold to wholesale book buyers for \$124,710, for a loss of \$183,508.

Recovering some of the costs of excess textbook inventory is definitely better than a total loss; however, it is important to ensure all textbooks are returned to the publisher or vendor within the return timeframe to avoid any loss.

### **Recommendations**

We again recommend the Bookstore establish procedures to continually analyze textbook inventory based on the semester of adoption and ensure textbooks are returned to the vendors on a timely basis for full credit to minimize any overstocking loss.

### **Management Response**

*Management will continue to work on our purchasing and returning procedures to ensure improved performance in this area. The implementation of Ratex and its built-in tools and features will aid in this effort.*

## **6. SUCCESSION PLANNING**

Between December 2015 and May 2016, a new point of sale system for the Bookstore was placed out for bid, bids were evaluated, and the new system was selected. The entire process was led by the part-time Systems Analyst at the Bookstore. During July 2016, the part-time Systems Analyst accepted a full time position with another University department to become effective August 15, 2016. Because of the implementation of the new point of sale system, an agreement was made between the employee's new department and the Bookstore that the employee would continue to work at the Bookstore on an as-needed basis until implementation of the point of sale system was complete in November 2016.

As of December 2016, the Bookstore has not actively sought a replacement for the Systems Analyst position. Other employees at the Bookstore have absorbed some of the responsibilities, such as establishing operators, setting administration settings and other responsibilities that comprise some of the internal controls previously established. Because of some of the sensitive duties previously performed by the Systems Analyst, an adequate succession plan should have been developed to avoid compromising internal controls.

### **Recommendation**

Review the duties previously held by the System Analyst and determine a succession plan that does not compromise the Bookstore's established controls.

### **Management Response**

*Management is actively pursuing the employment of a systems analyst either in a part-time or full-time role.*

## **7. INVENTORY PURCHASE DOCUMENTATION**

In May 2016, the Bookstore transferred \$2,382 to the Foundation's Football Special Projects Fund for 181 t-shirts that were reportedly left over from the coach's 2015 football camps. These shirts were posted to inventory by the Bookstore at values ranging between \$11.69

and \$13.49 with no invoice or other documentation to determine these values. Documentation provided to Internal Audit by the football camp indicated the camp paid at most \$5.75 per t-shirt or \$1,041. The documentation also shows that 17 more 2XL shirts were purchased by the bookstore than were on the original camp shirt order.

An additional transfer to the Foundation's Football Special Projects Fund for \$4,888 was initiated in August 2016, but was stopped before being finalized for lack of adequate documentation. This transfer was for 56 t-shirts left over from 2016 football camps and another 283 shirts that were part of an inadvertent double order placed by the University football program. Upon detailed review it was determined that the actual cost of the camp shirts was \$259 and the actual cost paid by the football program's budget for the remaining 283 shirts was \$2,123 (\$2,382 total).

The transactions between the bookstore and the coach's football camps appears to violate University Policy G1.02 *Conflict of Interest and Financial Disclosure* which provides that no employee shall sell any property to the University in excess of \$500 annually unless the transaction is publically bid and that bid is the lowest received. Additionally, when the bookstore purchases clothing from the University's athletic department the cost of the clothing should agree with the actual cost paid by the University and the bookstore should obtain documentation to support the cost.

### **Recommendations**

Maintain adequate documentation to support all inventory purchases, discontinue any future purchases from any sports camps or related parties that exceed \$500, and if inventory is purchased from any University athletic program it should be purchased for the actual cost of the item.

### **Management Response**

*Moving forward, if this type of opportunity arises again, management will follow policy and only make such purchases after verifying the invoiced costs of those goods from that department; and the transaction amount is less than \$500.*

## **8. BOOKSTORE CASH COUNT AND CASH REGISTER CONTROLS**

On May 27, 2016, 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 **\$10,000**. 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 is counted by the manager each day and properly recorded into BookLog.
  - Cash in the safe is counted twice each day (morning and evening) by two different employees. Each count is properly recorded in BookLog.

### **Recommendation**



None.