



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

September 18, 2017

Office of Internal Audit and Compliance



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

DATE: September 18, 2017

TO: Sharon Holland, Drago College Bookstore Manager
Christina Kerley, Accounting Manager- West Plains Business Office
Dr. Angela Totty, Dean of Student Services – West Plains
Scott Schneider, Director of Business and Support Services

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

CC: Dr. Drew Bennett, Chancellor – West Plains
Clifton M. Smart III, University President

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

BACKGROUND

On April 1, 2017, 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, 2017.

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, 2017.

SUMMARY

This report again recommends Bookstore personnel perform periodic reconciliations of inventory balances throughout the year to better manage inventory errors related to the point of sale system. Consideration should also be given to changing the point of sale system to the one currently being used by the Springfield Bookstore.

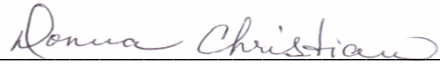
During fiscal year 2017, the bookstore's sales dropped resulting in a net loss of (4,623). With numerous changes taking place in the campus community, the bookstore's mission and services should be reviewed with a concentration of identifying additional revenue sources. The pending move to the new campus location provides an opportunity to establish a new business plan, including new services, new revenue sources and more online purchasing options as they strive to be a profitable operation.

Several Auxiliary and Designated Funds ended June 30, 2017 with deficit balances. Recently, the student fees providing revenue to many of these funds were combined into one common fee per credit hour which is expected to provide more revenues to several of these funds. While this fee change may help the financial position of some of these funds, it is still imperative that all funds be actively monitored and any reduction in fund balance be addressed timely before deficit balances occur.

Lastly, this report includes a recommendation to consider implementing the online collection process of a University storefront to replace some cash collection locations.



Senior Internal Auditor: Tami Reed
Audit Field Work Completed: July 31, 2017



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

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Bookstore Physical Inventory Review

The inventory balance for the West Plains Drago College Store at June 30, 2017 was \$159,586 (wholesale cost). Internal Audit observed and tested the annual physical inventory at the bookstore on April 1, 2017 with no significant exceptions. This inventory count was reconciled through June 30, 2017 for financial statement presentation.

After completion of the physical inventory, the Bookstore's BookLog system inventory balance of \$159,586 was compared to the University's Banner accounting system inventory balance of \$138,989. This difference, \$27,198, is similar to last year, and the inverse of a typical year-end inventory comparison for a retail bookstore. Our review again noted that BookLog programming errors are inflating the cost of an item sold. These inflated cost of goods sold amounts are posted to the Banner system throughout the year with corresponding sales activity resulting in lower than actual inventory balances in Banner.

Our prior audit of the West Plains Drago College Store inventory recommended periodic reconciliations between BookLog and Banner to identify inventory differences more timely. While completed reconciliations were not available at the time of our inventory testing on April 1, 2017, reconciliations are now being performed monthly. Going forward, these monthly reconciliations will help to determine how much of the inventory difference is related to programming errors and to calculate an inventory shrinkage rate. The West Plains store should also consider utilizing the new point of sale system the Springfield Bookstore is now using to better account for inventory.

Recommendation

We recommend Bookstore personnel continue performing periodic reconciliations between Booklog and Banner inventory balances throughout the year. Inquire as to the availability as being a remote location within the Springfield bookstore's new point of sale system.

Management Response

Following guidance from the previous audit, Bookstore personnel instituted monthly reconciliations. Timing on invoices/payments requires completion of the previous month no earlier than the 15th of the following month. The February reconciliation was the only one possible at the time of the audit visit in April. Bookstore personnel has continued the practice of monthly reconciliation and will continue to do so as a part of best practices for the management of the facility.

Due to several concerns shared by Springfield bookstore about utilizing the Point of Sale system as a remote location, it has been determined that this recommendation will not work at this time. The cost of the system, increased workload on store personnel for conversion, training, migration, increased IT support and unsuccessful attempts to utilize remote locations by Springfield bookstore make this recommendation unfeasible at this time.

2. Bookstore Income

In fiscal year 2017, the West Plains Drago College Store experienced a significant decrease in sales resulting in a net loss of (\$4,623). For the prior two years, the store had improved their financial condition with increasing sales and increasing profits.

**West Plains Drago College Store
Statement of Income and Expenses
For the Years Ended June 30,**

	2015	2016	2017
Revenue \$	267,035	311,582	259,136
Expenses*	260,151	271,243	263,759
Net Income (Loss) \$	6,884	40,339	(4,623)

*Includes annual transfer of \$78,320 to operating fund.

Detailed financial statements presented at the end of this report.

A variety of circumstances has affected the store's sales. For example, the faculty has been focusing on reducing student textbook costs by moving to online materials, less expensive loose-leaf textbooks, and some faculty-authored materials. These options produce less revenue for the bookstore and items like loose-leaf textbooks don't provide for a secondary market of used textbooks. Additionally, the continued decrease in student enrollment at West Plains results in a lower customer base.

Beginning this school year (August 2017), some digital codes that have historically been sold by the bookstore are now being rolled into a common fee to benefit the student. As a result, the Bookstore manager anticipates another reduction in net sales of approximately \$15,000.

While the main mission of most campus bookstores has historically been to give students a convenient source of textbooks, this mission is being challenged by the digital world and the ease of online purchases. The challenge is for the bookstore redefine their mission in order to stay current and profitable. As the West Plains Drago College Store prepares to move into their new campus location, the mission and services provided by the bookstore needs to reviewed with a concentration of identifying additional revenue sources.

Recommendation

The bookstore's mission and services should be reviewed with a concentration of identifying additional revenue sources. With the pending move to their new campus location, a new business plan, including new services and more online purchasing options should be considered to continue to be a profitable operation.

Management Response

All departments have undergone a review of the individual department mission and goals as a part of the Long Range Plan initiative for the campus. Additionally, services provided by the Drago College Store have been under review since plans began for moving the store to Hass-Darr Hall.

Administrators are working together with faculty to determine the source of concern with use of the Drago College Store in providing the needed materials for students. A solution that addresses the need for low cost options for students while also providing the full opportunity to utilize scholarship and financial aid funding will be pursued. One such solution was piloted in Fall 2017 and will be recommended for further use by academic departments.

In Fall 2017, all incoming Freshmen were given a survey to ask about the services provided and seek input on additional services which could be provided through the Drago College Store. That input will be used to assist in determining services and options.

3. Campus Funds

During our review, we noted some West Plains Auxiliary and Designated funds with deficit balances.

The **Dormitory Fund** (H92002) had a deficit balance of (\$45,892) at June 30, 2017. The Dormitory Fund began the year with an available balance of \$10,692 at July 1, 2016. During the year, revenue totaled \$179,592, but significant maintenance costs caused expenditures to total \$234,418.

The **Student Recreation Center Fund** (H92003) had a 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. However, with decreasing enrollment and an increasing number of students taking online classes, revenues from the student fee has declined significantly. As a result, revenues are not sufficient to make the bond payment and operate the center. Because of the declining financial condition of this fund only a portion (\$14,640) of the actual utility costs (\$65,015) for the center have been charged to this fund since 2013. The difference (\$50,375) was paid by the West Plain Operating Fund and represented as utility costs for the campus. To more accurately reflect the actual cost of the center, all associated costs should be charged to the Student Recreation Center Fund and at the discretion of Administration, a transfer can be made from the operating fund to the center's fund.

The **Professional Services Fee Fund** (B92027) ended the year with a deficit fund balance of (\$22,385) at June 30, 2017. This fund receives income from a designated student fee that is used to cover various health care related costs for students. In 2004, students approved paying the required international student health insurance premium from this fund instead of passing the costs on to each international student. The premium for this insurance has increased over the years while the revenue from student fees have decreased resulting in the deficit fund balance. This fund did have a deficit balance of (\$56,630); however, a \$35,000 transfer from the Student Government Association (SGA) Capital Projects budget was posted on June 30, 2017. Although the transfer received the proper approvals from the students, these monies were not used for capital projects. It would have been more appropriate for administrators to ask the SGA to use their capital project student fees to help fund capital project related expenses such as the Dormitory Fund or the Student Recreation Center Fund noted above. Going forward, the international student health insurance premiums will no longer be paid from this fund; however, administrators should have been more alert to the declining balance in the fund and this premium discontinued several years ago.

The **Nursing Test Income Fund** (B92049) had a deficit fund balance of (\$21,042) at June 30, 2017. The Nursing Department switched from one type of testing material to another which resulted in additional expenses and placing the fund in a deficit. The department was not reviewing the fund balances and was unaware of the deficit. Administrators are planning to transfer Allied Health monies to put this fund in a positive balance.

For the 2017/2018 school year all student fees were combined into one common student fee per credit hour which is expected to provide more revenue. This may help to reduce some of the deficit balances, but it is not expected to completely resolve the deficit balances. It will continue to be imperative that administrators actively monitor fund balances and operate within the parameters of their budget.

Recommendations

Administration should 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

***Dormitory Fund** – the deficit balance of (\$45,892) was a result of a miscommunication between the two offices responsible for tracking revenue and expenses of the budget. The transfer amount from housing to the E&G budget was thought to be communicated, however, the information was not visible*

to the major administrator through the budget information viewable on the system. This has been corrected and will not be an issue moving forward.

Student Recreation Center – all costs associated with the operation of the Student Recreation Center will be appropriately assigned as indicated. Additionally, SGA will be reviewing a proposal to make adjustments to the fee structure, and pursue additional income opportunities in order to provide the necessary funding for coverage of operating costs.

Professional Services Fee –SGA determined it was an appropriate use of student fees to cover the deficit of a student fee program that was overspent. SGA did not want to risk having to discontinue the Professional Services program altogether due to not having adequate funds to cover the expenses of this student program. Administrators working with SGA will continue to provide guidance and information to the students which will assist them with making appropriate decisions for student fee driven programs.

Nursing Test Income – This designated account is used to pay for Nursing Student Testing Products. Until 2014, Elsevier Inc. was utilized for these services. Elsevier Inc. billed each student for two years (\$666 per student up front times 35 students) so the amount deducted needed two years to recuperate costs. Therefore, the account had run in the deficit for several years. In 2014 the department switched to Kaplan Inc. for testing services. Kaplan Inc. bills out each semester and in hindsight, it was discovered there was an overlap that could not be covered by course fees but in our view would be eventually. Also, there was an increase in Kaplan fees in 2016 as well as two invoices from 2013 from Elsevier which were paid out of the account in 2016. While the department was aware of the deficit, again it was believed to be the same ongoing problem which would correct itself when all course fees came in. Upon recognition that it was not the same ongoing issue, a discussion took place between the department and financial services and it was decided to make up the deficit with the allied health fund as there was a surplus in that account from the same year. The account is to be used for nursing and allied health improvements so it is an appropriate expenditure. The department is watching the issue to be sure it does not occur again and has made some curricular changes as well. Furthermore, the department is working to determine if the testing package is appropriately priced or if a course fee increase should be considered.

Funding in all areas will continue to be struggle for the campus. All auxiliary and designated fund balances will continue to be monitored and administration will make adjustments or make recommendations for review/adjustments as needed

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	700.00
Food Service	75.00
Mountain Grove	25.00
Total E&G and Auxiliary Funds	\$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.

As recommended in the last audit, West Plains has adopted official prenumbered receipt books with a stamp designation of the office issuing the receipt. During the cash count, it was noted that a receipt was not written for a \$100 dorm deposit received through the mail. Since the cash count, the West Plains campus has plans to establish a storefront allowing students to pay their dorm deposits online.

Additionally, recent discussions about cash collection of testing fees on the Mountain Grove campus has also revealed a need for a storefront on that campus. This will provide students the convenience of online fee payment options, as well as improve controls over the collection of fees and reduce the need to deliver monies from Mountain Grove to West Plains for deposit.

Management should review for other areas of cash collections that could be converted to the online payment option of a storefront.

Recommendations

Review all areas of cash collections, especially remote collections, for the option of a storefront.

Management Response

The MSU-West Plains housing program began working at the end of the 2015-2016 to establish a storefront to provide students the ability to pay the housing deposit online. We will continue to work to achieve that functionality.

Other areas will be reviewed for the feasibility of establishing a storefront. The continued collaboration between IT, Springfield's Financial Services department and the West Plain's Financial Services department is crucial for the implementation of this new functionality. As new initiatives are undertaken which requires the taking of money, the option to establish a storefront will be considered from the beginning of the project.

Drago College Bookstore
Three year Comparative Income Statement
For The Year Ended June 30,

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