



***FOLLOW-UP: UNIVERSITY BOOKSTORE
INVENTORY PROCEDURES AND CONTROLS***

February 21, 2019

Office of Internal Audit and Risk Management



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

DATE: February 21, 2019

TO: Ray Presnell, Springfield Bookstore Director

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

CC: Dr. Dee Siscoe, Vice President of Student Affairs
Rachael Dockery, General Counsel
Clifton M. Smart III, University President

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SUMMARY

On October 4, 2018, the annual internal audit of the Missouri State Bookstore was presented to the Board of Governor's Risk Management and Audit Committee. A commitment was made to present a follow-up report to the Committee in February 2019 that formally reports on actions taken by Bookstore management in response to audit recommendations.

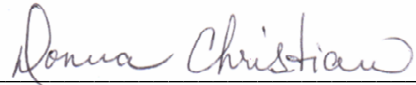
We requested documentation to support the status of each recommendation from responsible management and reviewed the validity of the documentation provided. This report includes a summary of each finding and the recommendation from the October 2018 report along with the current status of each recommendation. The status is classified as one of the following:

- Implemented:*** Management fully implemented the recommendation, either as original 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.
- Partially Implemented:*** Management has implemented a portion of the recommendation; however, more action is needed.
- Not Implemented:*** Management has not taken action to implement the recommendation.

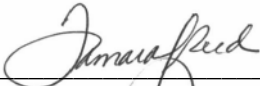
The University Bookstore Inventory Procedures and Controls audit report, dated October 4, 2018 included 10 recommendations of which 5 recommendations have been implemented, 1 recommendation is in progress of implementation, 2 have been partially implemented, and the remaining 2 recommendations are not implemented.

The fieldwork of the next annual Bookstore audit will begin in June 2019.

Sincerely,



Donna Christian, CPA, CGFM
Director of Internal Audit and Risk Management



Tami Reed, Senior Internal Auditor:
Audit Fieldwork Completed: February 21, 2019

OBSERVATIONS, RECOMMENDATIONS AND FOLLOW-UP STATUS

1. PHYSICAL INVENTORY COUNT AND YEAR-END CALCULATIONS

Periodic reconciliations were not performed to evaluate differences between the inventory balance in the Ratex system and the University's Banner accounting system.

Recommendation:

Perform periodic reconciliations of inventory costs to monitor any differences between the Ratex system balances and the University's Banner accounting system balances.

Status:

Implemented. *Reconciliations were prepared for the months July through December by the 20th of the following month.*

2. INVENTORY ADJUSTMENTS

A. Adjustments posted to inventory were not always accurate. A duplicate shipment of textbooks from Fall 2017 were returned to the vendor, but were recorded as an adjustment to inventory for missing books. As a result, a credit for \$48,896 was not requested from the vendor until our review identified the error.

B. Duties were not adequately segregated with respect to the employees who order textbooks and posted inventory adjustments to the Ratex system.

Recommendations:

A. Ensure adjustments posted to inventory balances are accurate and follow up to ensure the Bookstore receives credit for the \$48,896 in returned textbooks.

B. Adequately segregate duties by ensuring someone other than the department manager/buyer posts accounting entries to adjust inventory balances. If proper segregation of duties cannot be achieved, a documented supervisory review should be performed.

Status:

A. **Partially Implemented.** *No additional inventory adjustment errors were noted during our follow-up review. A credit totaling \$22,100 of the \$48,896 was received in August 2018 prior to the completion of the audit report. Since that time, minimal contact has been made with the vendor to secure the remaining \$26,796. Three emails were sent to the vendor during September and October 2018; however, no additional contact was made with the vendor until after our inquiry in January 2019. No credit has been received for the remaining \$26,796.*

B. **Implemented.** *Management has developed a new procedure requiring all inventory adjustments to be reviewed by the Bookstore Director and verified with the management team during the first meeting of each month. The department managers must be prepared to explain significant adjustments and provide documentation if requested. Auditors reviewed manager notes and supporting documentation from the January 7, 2019 meeting to confirm the process was in place.*

3. OBSOLETE INVENTORY

- A. Textbook inventory management procedures for dead or obsolete textbooks continued to be a systemic problem for bookstore management. This problem had been highlighted in four audit reports. At June 30, 2018, a loss of \$676,597 was recognized in the bookstore's financial statements for obsolete textbooks. Improving inventory management for textbooks could have avoided this significant loss.

There was a serious need for the bookstore to establish and implement written policies and procedures to properly monitor and manage textbook inventory, including better ordering and return procedures.

- B. Written procedures have not been developed to handle obsolete merchandise. At June 30, 2018, over \$44,500 in merchandise inventory was purchased prior to June 30, 2014. Of this amount, \$8,627 is electronic merchandise which becomes obsolete very quickly.

Recommendations

- A. We again recommended that Bookstore personnel improve inventory management for textbooks. A written plan should be developed outlining the procedures that will be followed to improve the ordering process, increase monitoring procedures and sell/return excess textbooks timely. The plan should be immediately implemented and periodic reports on the progress should be provided to the Vice President of Student Affairs and the Office of Internal Audit.
- B. We again recommended that bookstore management establish written procedures for selecting, discarding, and writing off obsolete merchandise. Additionally, since electronic merchandise becomes obsolete quickly, management should more closely monitor this inventory and determine if there are ways to sell this inventory before it becomes obsolete.

Status:

- A. **Partially Implemented.** During fiscal year 2019, more effort has been made to return excess textbooks to the vendor for a refund; however additional effort is needed. The obsolete textbook inventory costs per the Ratex System for the Fall 2018 semester was \$171,053. Of this obsolete inventory we reviewed 1,368 textbooks totaling \$136,961 to determine why the textbooks were still on hand. As shown in the table below, \$60,326, nearly half of the textbooks, should have been returned, but were not. These textbooks were overlooked and not returned by bookstore staff until we brought this to their attention. For many of these books, the vendor had a strict 60-day return policy. As a result, the Bookstore will not receive a refund for all these textbooks. Instead, the anticipated minimum loss for these books is \$35,757.

Description	Quantity	Amount
<i>Should have been returned to the vendor</i>	<i>515 Textbooks</i>	<i>\$ 60,326</i>
<i>Contractual limits prevented return of these textbooks</i>	<i>29 Textbooks</i>	<i>5,259</i>
<i>Books from previous terms – not returnable</i>	<i>750 Textbooks</i>	<i>69,913</i>
<i>Textbooks not obsolete, should be transferred to Spring 2019 semester</i>	<i>74 Textbooks</i>	<i>1,463</i>
<i>Total reviewed</i>	<i>1,368 Textbooks</i>	<i>\$ 136,961</i>

While written procedures were prepared for how to return textbooks, a written plan was not developed outlining the procedures to be followed to improve the ordering process, increase monitoring procedures and sell/return excess textbooks timely. A plan, with periodic reports on the progress was not provided to the Vice President of Student Affairs and the Office of Internal Audit.

- B. Not Implemented.** *Management discarded a small amount of electronic merchandise that had no value in October 2018, however as of December 2018, \$22,212 of merchandise purchased prior to June 30, 2014, (\$7,050 in electronic merchandise) was still carried in inventory. No written procedures were developed to direct staff on how to select, discard and write off obsolete merchandise.*

Additionally, during our follow up review we noted approximately \$13,000 in tradebook inventory from the closed PawPrints bookstore that has been stored in boxes on the receiving dock since May 2018.

4. RETURNED MERCHANDISE

When merchandise was returned to vendors for credit, follow up procedures were not performed in a timely manner to ensure the bookstore received credit for the return. When credit was not received the reason was not documented for the write-off. All write-offs should be approved by the Bookstore Director.

Recommendation

Follow up on all merchandise returns in a timely manner and if credit is not going to be received from the vendor, the reason should be documented and a write-off of the inventory should be posted. Additionally, textbook ordering procedures should be reviewed to avoid ordering excessive amounts of textbooks.

Status:

Not Implemented. *Follow up on merchandise returns continues to be untimely.*

A textbook return totaling \$158,232 from Spring 2018 showed a balance of \$32,097 that had not been received as of December 2018 (\$126,135 had been received). The Bookstore sent a letter dated July 3, 2018 and an email dated August 27, 2018; however, no additional communication with the vendor to inquire about the remaining \$32,097 has been made. After we questioned bookstore staff about this balance, an email was sent on January 31, 2019 to inquire about the open balance.

Additionally, during our review of merchandise returns, we identified a credit memo for \$48,350 that was received from a vendor in September 2018, but had not been posted to the University's Banner accounting system as of January 2019. The credit memo was being held in the Bookstore business office to determine if other credit memos would be received from this same vendor. As a result, the University had not benefitted from the credit memo by deducting the \$48,350 from future payments to this vendor. Additionally, by not posting credit memos timely to the University's Banner accounting system internal controls are weakened.

More effort by Bookstore personnel is needed to ensure credit memos for merchandise returned are received, recorded and applied in a timely manner.

5. SALES AND PROFITABILITY

Textbook Sales

Textbook sales declined over \$2 million during the last two and a half years. As textbook sales have plummeted, so have the bookstore's profits. With textbook sales accounting for about 65% of the total retail sales, the continuing decrease was a significant concern. Bookstore management needed a business plan that addressed opportunities to increase revenue and decrease operating expenses.

Additionally, Bookstore management was not monitoring affiliate stores profit/loss on a monthly basis.

Recommendation

With decreasing sales and decreasing profits, bookstore management needs to develop a written business plan that moves the bookstore into the future under a new business model.

Status:

In Progress. A written business plan was prepared for fiscal year 2019. However, the plan needs to be a working document that is updated periodically during the year to reflect current operations. For example, the plan anticipates an increase in sales, but as of December 31, 2018 sales are continuing to decrease. Further steps have not been taken to reduce operating expenses as sales continue to decline. The chart below show how much sales have decreased.

Decrease in Sales				
	FY 2017	FY 2018	First 6 months of FY 2019	Total Decrease in Sales
Textbook Sales	\$ 567,133	991,707	662,449	\$ 2,221,289
Total Sales	\$ 1,025,828	1,147,910	835,627	\$ 3,009,365

Continued improvement is needed in the area of textbook ordering and availability. A review of unfilled textbook orders at the end of the second week of classes for Spring 2019 indicated 236 orders had at least one textbook still needed to complete the order. In total, there were approximately 2,100 textbooks still to be received from vendors/publishers. While many of these textbooks are reorders or late adoptions, this contributes to the delay and availability of books for students for the Spring 2019 semester and consequently the loss of sales.

Some action has been taken to address declining textbook sales. A dedicated team of Bookstore employees has now been assigned the task of filling all online orders to improve the timeliness of filling online orders. The Bookstore lowered the price on 186 textbooks in an effort to offer more competitive pricing. Additionally, there has been added marketing through social media.

The Bookstore has implemented some cost saving measures at affiliate stores, including reducing operating hours. As of December 31, 2018, the affiliate stores continue to record decreasing sales, so continued emphasis on affiliated stores is needed.

6. SYSTEM CONTROLS

- A. Duties of the former Systems Analyst were delegated in a manner that compromised internal controls.
- B. A Bookstore Manager continued to share his system login credentials with student workers by placing his login name and password taped to workstations at the front desk.

Recommendation

If the System Analyst position is going to be eliminated, duties of the former System Analyst should be delegated in such manner as to establish adequate segregation of duties and proper internal controls. Additionally, continue to monitor user login information and ensure employees refrain from disclosing their login credentials.

Status:

- A. **Implemented.** *The duty of creating login information for new employees has been delegated to the administrative assistant.*
- B. **Implemented.** *Management has expanded the capabilities of our student employees in the RATEX system, therefore no longer needing a shared login to accomplish the day to day tasks.*

7. BOOKSTORE CASH COUNT

The book buy-back cash drawer, which maintains an imprest cash balance of \$3,000 had not been reconciled since the previous year end. A shortage of \$210 cash was identified during our review.

Recommendation

Reconcile the book buyback drawer monthly and investigate any differences on a timely basis.

Status:

Implemented. *The drawer is now being reconciled daily and any variances are reviewed.*