



UNIVERSITY BOOKSTORE INVENTORY PROCEDURES AND CONTROLS

September 30, 2019

Office of Internal Audit and Risk Management



DATE: September 30, 2019

TO: Dr. Dee Siscoe, Vice President of Student Affairs

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

CC: Rachael Dockery, General Counsel
Clifton M. Smart III, University President

UNIVERSITY BOOKSTORE INVENTORY PROCEDURES AND CONTROLS

BACKGROUND

On June 28, 2019, 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, 2019 for the University's financial statements. The Bookstore's inventory balance during the last five years is as follows:

FYE June 30	Sales (Retail per Banner)	Inventory (At Cost)
2019	\$12,154,538	\$2,057,317
2018	\$13,557,669	\$3,333,505
2017	\$14,705,579	\$6,340,006
2016	\$15,731,407	\$6,190,350
2015	\$15,194,887	\$3,948,774

As of June 30, 2019, the inventory balance continues to be considerably less than recent years because the majority of the Fall 2019 textbooks had not been received and the dead book stock was depleted.

The Bookstore continues to be a fiscally successful operation, ending with a net operating income. 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, and account for cash funds assigned to the Missouri State Bookstore. The scope of the audit included, but was not limited to the fiscal year ended June 30, 2019.

SUMMARY

A larger than expected shrinkage difference was identified during the year ended June 30, 2019 inventory count. While monthly reconciliations are being performed, large differences are not investigated to determine if the shrinkage value represents accounting errors or the actual loss of inventory items.

During our physical count of inventory items, a computer was discovered missing. It was later determined that a computer product code was intentionally scanned twice to prevent the missing computer from showing up on an inventory discrepancy report. It is recommended that computer items be tracked by serial numbers instead of product codes to ensure each item is accounted for properly.

In addition, a Generation 2 iPad was also discovered missing from the obsolete inventory items. Based upon inventory records it is not clear when the iPad became missing.

Over \$35,000 of activated \$2 and \$5 gift cards were used for marketing the Bookstore to potential students; however, gift cards carry several financial and legal requirements. Instead, Bookstore management should consider using coupons in the place of gift cards. In addition, some of these gift cards were not stored in a secure location.

Sincerely,



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



Senior Internal Auditor:
Audit Fieldwork Completed: August 26, 2019

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. PHYSICAL INVENTORY COUNT AND YEAR-END CALCULATIONS

Internal Audit observed and tested the annual physical inventory at the Bookstore. The Bookstore inventory value at June 30, 2019 totaled **\$2,057,317**.

Department	Value (cost)	
	June 30, 2019	June 30, 2018 (comparative purposes)
New Textbooks	\$ 801,957	1,625,842
Used Textbooks	292,403	704,897
Total Textbooks	1,094,360	2,330,739
Accessories & Furnishings	73,286	75,438
Campus Living	5,899	2,627
Clinique	29,978	42,330
Clothing	335,837	334,731
Electronics	244,091	222,363
Food	46,342	47,478
Gifts	125,120	139,332
Graduation	20,673	67,003
Greek	8,625	6,432
Souvenirs	8,454	13,734
School and Art Supplies	63,468	44,680
Tradebooks	1,184	6,618
Grand Total	\$ 2,057,317	3,333,505

A physical inventory count was performed on June 28, 2019. The physical inventory value was compared with the values in the Bookstore's Point of Sale (POS) system, Ratex. We selected 225 items (15% of the inventory cost value) for verification. No material differences were observed, and audit differences were posted by the bookstore at the time of verification.

After all known errors were corrected, the inventory balance was reconciled to the University's general ledger inventory balances in Banner for financial statement presentation at June 30, 2018. We found that the inventory balance in Ratex was lower than the inventory value in Banner by \$160,233. This year-end adjustment at the time of the physical inventory was 1.84% of retail sales. Historically, the National Retail Security Survey Final (NRSSF) shrinkage percentage has been used as a benchmark. The NRSSF reported the national shrinkage average was 1.38% of retail sales. As a result, the year-end shrinkage was above the national average.

Although reconciliations between Ratex and Banner inventory values are performed monthly, investigations into the cause of the differences do not always occur. Our review identified the largest shrinkage occurred in the new textbook inventory which accounted for approximately \$128,323 of the difference. Some smaller inventory values also carried large shrinkage amounts. For example, the trade book inventory of \$8,344 required a shrinkage adjustment of \$7,159 for an 86% shrinkage rate. Differences such as these were not investigated by

Bookstore staff to determine if inventory items were actually missing or an accounting error caused the differences.

To ensure shrinkage values are properly computed, significant differences identified during the monthly reconciliation process should be investigated to determine the cause.

Recommendation

Investigate any significant differences identified during the monthly inventory reconciliation process to determine the cause of the difference.

Management Response

Bookstore Management will investigate any future significant differences when performing the monthly reconciliations report by the 20th of each month.

2. PHYSICAL INVENTORY DISCREPANCIES

Some inventory discrepancies were identified during our review of the physical inventory on June 28, 2019.

- A. One Apple 13-inch MacBook Pro retailing for \$1,449 could not be located during our physical inventory verification process. The inventory scans in June 2019 indicated there were two 13-inch MacBooks on hand in the electronics department; however, when we attempted to verify the two computers were in inventory, only one computer could be located. Initially the Director indicated he would look into the discrepancy, then he subsequently provided email correspondence documenting that he was aware of the missing MacBook dating back to February 2019. It was later determined that the one remaining computer was intentionally scanned twice to cover up the fact that a computer was missing. Additionally, the computer inventory was scanned by product number and not by serial number to prevent each individual computer in the electronics department from being verified.
- B. On June 5, 2019, an entry was made to remove six iPads (Generation 2) from the Ratex inventory balance because they were old and obsolete. The iPads carried a retail value of \$449 each. On July 15, 2019, we verified only five of the iPads were on hand with no documentation indicating what happened to the sixth iPad. According to the Bookstore Director, he removed the I-pads from the shelf, put them in bags and placed them on his desk, then ultimately moved them to a box on the floor of the Apple closet in the Bookstore. Although the Ratex inventory balance indicated the bookstore was holding six Generation 2 I-pads, the Bookstore Director said he did not verify the physical existence of six iPads when he reduced the Ratex inventory balance. As a result, it is not clear when the iPad became missing.

Recommendations

- A. Computers and other applicable electronics should be scanned by serial number to track each item individually, and the practice of scanning one inventory item multiple times to misstate inventory balances is unacceptable.
- B. When electronics are removed from the Ratex system; they should be removed using the serial number of each unit to ensure each item is accounted for properly. In addition, better controls should be in place over the disposition of obsolete inventory.

Management Response

Management will comply with audit recommendations.

3. GIFT CARDS

In 2019, the Bookstore implemented a marketing plan to issue gift cards to book buy back and SOAR participants valued at \$2 and/or \$5 to attract students into the Bookstore. As a result, the Bookstore activated over \$35,000 of gift cards in fiscal year 2019. At June 30, 2019, \$18,509 of those cards remain unredeemed.

Using gift cards instead of coupons to attract students into the Bookstore creates several financial and legal requirements. For example, the value of these cards must be recorded as a liability on the University's financial statements until the cards are redeemed. Further, since the funding of these cards is University money, it is possible that any unredeemed value could potentially be required to be turned over to the State Treasurer resulting in a loss of funds for the University.

On June 29, 2019, a cash count revealed the Bookstore was holding 1,164 activated gift cards valued at \$5 each totaling \$5,820. These gift cards were to be given to students at future SOAR sessions. Some of the gift cards were stored in unsecure locations, such as at the service desk and in the marketing office. Additionally, there was no accountability of the total number of gift cards that should be on hand. Canceling these cards and returning the funds to the Bookstore should be considered. As an alternative, issuing coupons in lieu of gift cards improve controls and does not carry the same financial and legal requirements.

Recommendations

Cancel all gift cards currently on hand and as an alternative, consider using coupons as an incentive for current and prospective students.

Management Response

All activated gift cards have been cancelled and the funds returned to the Bookstore. Coupons will be utilized for textbook buyback and SOAR promotions.

4. BOOKSTORE CASH COUNT AND CASH REGISTER CONTROLS

On June 29, 2019, the cash assigned to the Bookstore, including all cash in the safe as well as all cash at all locations, was counted and verified. The following was determined:

- Of the \$13,000 assigned to the Bookstore, \$12,350 cash was counted, \$650 pending reimbursement for book buy back payout.
- Our review of the cash logs at the Bookstore showed that established procedures were being followed.

Recommendation

None