Internal Audit

*University Bookstore
Prior Audit Follow-Up*

October 17, 2014

Office of Internal Audit

Missouri State
UNIVERSITY

DATE: October 17, 2014

TO: Sonda Reinartz, Springfield Bookstore Director
               Dr. Denita Siscoe, Vice President of Student Affairs

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

CC: Clifton M. Smart III, University President

RE: **INTERNAL AUDIT: UNIVERSITY BOOKSTORE PRIOR AUDIT FOLLOW-UP**

BACKGROUND

In May 2013, Internal Audit performed an audit of the business operations and procedures of the Missouri State Bookstore – Springfield campus. This report provides information on the status of each recommendation made in that audit report.

OBJECTIVE AND SCOPE

The objective of this review is to report on the status of prior audit recommendations from the Missouri State Bookstore audit report dated May 30, 2013. Our methodology was limited to communication with the Bookstore Director and a review of various documents provided by bookstore personnel.
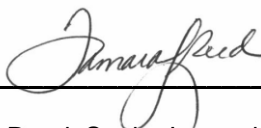
SUMMARY

This review found that 14 of the 21 recommendations from the May 2013 Internal Audit report are implemented, and the remaining 7 recommendations are in progress. Overall, significant strides have been made by bookstore management to address the recommendations made by Internal Audit.

In conclusion, we wish to thank the Bookstore Director and the Vice President of Student Affairs for assisting in this follow-up review.

Sincerely,

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

Tami Reed, Senior Internal Auditor
Audit Fieldwork Completed: June 30, 2014

(1) Bookstore Operations
Several procedures were not included in the Bookstore Operations Manual.

Recommendation:
Procedures for the following areas should be added to the operations manual or other procedural sites for the Bookstore:

- Textbook purchasing
- Merchandise and other non-textbook purchasing
- Book buy-back (Follett operated)
- Wholesale book sales
- Online book sales
- Internal asset tracking

Status:
In Progress: Work is being performed to finalize the various procedures in the Bookstore Operations Manual.

(2) Booklog System
Various weaknesses existed in the Bookstore's BookLog system. Management was considering a replacement system.

Recommendation:
Internal Audit supports Management's efforts to assess a replacement system for BookLog.

Status:
In Progress: The Bookstore Director is currently developing a draft Request For Proposals (RFP).

(3) Bookstore Gift Cards
As of December 31, 2012 there were 7,611 unredeemed gift cards totaling $82,913.71, according to the Bookstore's BookLog system. This amount was not reconciled to the University's accounting records which reflected a liability of only $79,418.34. (A $3,495.37 difference.)

Recommendation:
Process the appropriate journal entry to agree the unredeemed gift certificates per Booklog to the correlating liability account in the University's accounting system, and reconcile these balances monthly.

Status:
In Progress: A request has been made to record a journal entry into Banner to reconcile these amounts and eliminate the difference. A reconciliation was performed in July and September 2014. A computerized report is being made to perform monthly reconciliations.

(4) Required Budget Analysis and Banner Access
The Operations Manager position at the Bookstore was responsible for monitoring the Bookstore's budget; however this individual was not provided the necessary access to Banner reports and had to request the reports from Financial Services. Similar Banner reporting access is provided to budget officers in other departments, but not at the Bookstore, and their duties are very similar.

Recommendation:
Banner access (similar to that provided to Budget Officers) should be provided to the Operations Manager.

Status:
In Progress: The Operations Manager and the Student Affairs Budget Manager have received additional access to Banner reports; however, the additional access does not provide enough information to properly reconcile Banner financial information to BookLog. We recommend the Bookstore Director continue to work with the University's Financial Services Department to obtain the access needed to appropriately reconcile.

(5) Individual Store Performance

A location-by-location analysis of profit/loss was not performed, and two locations (*Paw Prints* and *It's a Greek Thing*) reflected operating losses during the 18 months ended December 31, 2012.

Recommendation:
Request and review the profit/loss of each affiliate store monthly, and evaluate the *Paw Prints* and *It's a Greek Thing* locations to determine a business plan to operate with a profit or reconsider maintaining these locations.

Status:
In Progress: Profit/Loss reports of all affiliate stores are provided to the Director weekly. Plans are being made to address those areas losing money while weighing losses against providing services to our students.

(6) Business/Marketing Plan

The Bookstore invested substantial money in advertising and promotion without a documented plan or adequate monitoring of advertising expenses.

Recommendation:
Establish a business/marketing plan with documented goals, targeted market and budgeted expenses.

Status:
In Progress: A Marketing Graduate Assistant was hired in August 2014. This individual will work with the Director on a marketing plan.

(7) Inventory and Merchandise Purchases

The duties of purchasing, receiving and invoicing within BookLog were not adequately segregated. This was mainly caused by limitations within the BookLog system. While some compensating controls were in place, management should continue to review this process.

Recommendation:
Continue to assess the process of purchasing, receiving and invoicing within the constraints of the BookLog system.

Status:
In Progress: Duties have been segregated where possible within the constraints of the BookLog system. This will be further addressed with a future RFP to replace the BookLog system.

(8) Textbook Buy-Backs and Wholesale Purchases

A contract for book buy-backs was not in place with Follett until December 2012. Contracts were also not in place with other wholesale book vendors.

Recommendation:
Document written agreements for purchases and services (including normal book buy-back relationships and wholesale relationships).

Status:
Implemented: A written agreement with Follett was signed in Fall 2012.

(9) Contract Maintenance and Security
A central filing location was established for all contracts, but only five contracts were observed in the file.

Recommendation:
Ensure all contracts are maintained in the centralized file.

Status:
Implemented: Contracts are now maintained in a centralized file.

(10) Controls Over Checks/Mail Received
The former Bookstore Director ensured he personally received checks from textbook companies and subsequently cashed the checks at the Bursar's Office. Controls were immediately put in place to log in checks received in the mail and segregate the duties of receiving and accounting for these checks.

Recommendation:
None: Previous control issue has been corrected.

Status:
Implemented: A check log was implemented prior to the release of the audit in May 2013. Checks received in the mail are entered on the log upon receipt. When possible payments are received direct deposit into the University's account to provide added controls.

(11) Access to Bookstore Safe and Inventory
Numerous controls were put in place to restrict access to the Bookstore safe and to textbook inventory.

Recommendation:
Continue to monitor controls and access.

Status:
Implemented: Access to the Bookstore safe is now controlled, and access to the textbook inventory is limited.

(12) Surprise Cash Count
During a surprise cash count $150,000 was being stored in the Bookstore safe by Follett for book buy-back purposes. This cash was in the safe in a book bag, in several locking cash bags with the key inserted in the bag (unlocked and unsecured). An agreement with Follett allowed for the storage of cash; however, the University's legal counsel had proposed certain liability protection for the University.

Recommendation:
Continue to pursue contractual revisions with Follett.

Status:
Implemented: A letter releasing the University from liability regarding the storage of cash was signed by Follett in 2013.

(13) Employee Purchases and Suspended Sales
The BookLog system's suspended sale module was being used inappropriately by Bookstore employees, and security over these transactions was not sufficient to ensure valid sales were finalized and payment received.

Recommendations:
1. Discontinue using the suspended sales function for extended credit to employees.
2. Clear out suspended sales at the end of each day. Suspended sales that are not finalized by the end of a working day should be reversed and inventory returned to the shelf.
3. Employees should no longer be allowed to extend their staff discount to family members/others. Staff discounts should only be applied to purchases under the staff's name.
4. No employee at the Bookstore should be allowed to ring up their own purchases.

Status:
Implemented: Items 1, 3 and 4 were implemented prior to the release of the audit in May 2013, and a policy addressing item 2 was put in place in May 2013.

(14) Controls over Supplies Expense:
Employees were allowed to take items available for sale from the Bookstore shelves to be used as supplies. Complimentary coffee was provided to customers, but mostly consumed by Bookstore employees. Also, University money was used to purchase personal supplies utilized in the break room.

Recommendations:
1. Terminate the practice of allowing staff to take items off the shelf to be used as supplies.
2. Discontinue providing complimentary coffee.
3. Discontinue using University monies to provide supplies in the break room for personal use.

Status:
Implemented: These items were implemented prior to the release of the audit in May 2013.

(15) Bookstore Supplies Recorded as Sales
A significant part of the Bookstore supplies were recorded as inventory and then sold back to the bookstore

Recommendations:
1. Discontinue using departmental charge forms to sell Bookstore items to itself.
2. Items purchased solely for use in the Bookstore should be appropriately charged to the proper expense category when purchased and never run through inventory.
3. Donated items available for sale should be written off and charged to the appropriate general ledger expense account on a monthly basis.

Status:
Implemented: These items were implemented prior to the release of the audit in May 2013.

(16) Student Employment Reporting and Monitoring
Some student employees worked in excess of the 1,000 hour per year maximum.

Recommendation:
Work with University Student Employment to monitor student employee hours worked to ensure compliance with the 1,000 hour limit per calendar year.

Status:
Implemented: Employee hours are now monitored to ensure compliance.

(17) Employee Leave Reporting and Monitoring
Exempt employee leave reporting and approvals did not comply with University policy.

Recommendation:
Poor controls over employee leave reporting should be immediately corrected. It is critical that each employee timely report his/her leave and that the appropriate supervisor/manager approve leave reports in a timely manner.

Status:
Implemented: Leave reports are now submitted monthly and approved by the Bookstore Director.

(18) Bookstore Equipment Assigned to Employees
Some assets, such as scanners, cameras and other assets highly subject to theft or loss, were not recorded and tracked in asset inventory records.

Recommendation:
Ensure a process is in place to track assets assigned to employees and that these assets are returned to the University when an employee terminates employment.

Status:
Implemented: Asset listings are now kept by the Technology Buyer and Information Technology Specialist.

(19) Data Protetion and Compliance
The Bookstore had been adequately supported by the University's Information Security Office, and no known violations of policy and compliance requirements existed. This support should be ongoing.

Recommendation:
Continue to work with the Information Security Officer regarding information security and compliance matters for Bookstore operations, including selection and implementation of a replacement system for BookLog.

Status:
Implemented: The Bookstore continues to work with the University's Information Security Officer on all security and compliance matters.

(20) Accounting Automated Charges and Daily Book Buy-Back Transactions
Some expenses, such as credit card charges and zip card administration expenses, were automatically charged to the control inventory account without review and were not posted to the proper detailed inventory account number. Daily book buy-back transactions (managed by the Bookstore, not end of semester buy-back managed by Follett) were recorded as a reduction of sales rather than an addition to inventory.

Recommendations:
1. Review all automated charges to the control inventory account and update the charges to the proper general ledger account number.
2. Discontinue recording daily book buy-back as paid out on the daily sales journal entry. Post the retail book buy-back to the used book inventory account and the wholesale book buy-back to a clearing account until they are either purchased by a wholesale textbook buyer or transferred to Monsoon.

Status:
Implemented: Automated charges are now being recorded to the proper account and daily book buy-back amounts are also now posted to the proper inventory account.

(21) Accounting for the Sale/Disposition of Obsolete Inventory
Obsolete inventory (inventory remaining after being offered to a wholesale buyer, listed on-line and offered to a recycler) sales could not be identified within the Booklog system. It is uncertain as to whether these funds were accounted for properly. No contract was in place for the sale of obsolete textbooks. Obsolete/sample merchandise was given to employees or donated.

Recommendation:
The disposition of obsolete/sample inventory must be disposed of in compliance with policy and documented through written contracts. Any funds received should be recorded through the point-of-sale system.

Status:
Implemented: Guidelines for the disposal of obsolete inventory have been created with the assistance of legal counsel. Additionally, the inventory of obsolete textbooks and their subsequent sales or disposal is reconciled periodically with all differences investigated and resolved.