



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

DATE: March 26, 2013

TO: Dr. Earle F. Doman, Vice President – Student Affairs

FROM: June McHaney, Director, Internal Audit

CC: Mr. Clif Smart – University President
Ms. Penni Groves, General Counsel
Mr. Thomas Lane, Assistant Vice President – Student Life
Mr. Kent Thomas, Special Assistant to the President
Ms. Sonda Reinartz, Bookstore Director

RE: INTERNAL AUDIT: SPRINGFIELD CAMPUS UNIVERSITY BOOKSTORE

In June 2012, Internal Audit began its testing of the University's FY12 bookstore physical inventory, reconciliation of Banner general ledger reports to the bookstore BookLog reports, confirmation of cash on hand at the bookstore, and other tests related to inventory.

During the audit, in early August 2012, specific inventory markdowns were observed that included reference to a check from an outside vendor that should have been received and accounted for by the University. The former Bookstore Director (who was on vacation at the time) was contacted, and Internal Audit determined that it was necessary to access the former Director's office/desk drawers to confirm the location of the check. Over \$81,000 in cash and over \$500 in coins were found in his office/desk drawers, but not the referenced check.

The former Director was placed on administrative leave by the Vice President of Student Affairs, and later resigned from the University. The President immediately assigned oversight of the bookstore to a transition team under the Special Assistant to the President and the Assistant Vice President – Student Life.

The internal audit of the bookstore was extended to include a special investigation of business transactions with specific textbook vendors and other practices and controls within the Bookstore.

This report includes two sections:

Section I: Results of the planned FY12 internal audit of the Bookstore Inventory and Cash Count; and

Section II: Results of the Internal Audit investigation regarding actions by the former Bookstore Director which resulted in over \$1.1 Million in net missing funds to the University.

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Very recently, the University conducted a formal search process chaired by the Vice President of Student Affairs and selected a Bookstore Director. During the past several months, the Assistant Vice President - Student Life and the Special Assistant to the President have been working with all bookstore staff and university management to identify opportunities to improve controls, business practices, vendor agreements, and organizational structure and training at the Bookstore. As a result, much has been implemented by the University that has resulted in enhancements to controls and practices.

While this report documents observations and recommendations made by Internal Audit at this time, our plan is to revisit the bookstore within six months to follow up on the status of implementation of recommendations and to continue the review of all business processes/controls within the bookstore.

We wish to thank each bookstore staff member (including Operations Manager Mr. Grant Jones) for the extensive time and effort contributed during this process, as well as the extensive support of the bookstore transition team, Dr. Thomas Lane and Mr. Kent Thomas.

Please find detailed observations, recommendations and management responses or actions taken regarding the University Bookstore internal audit and investigation.

Sincerely,

June McHaney, Director, Internal Audit

Tami Reed, Senior Internal Auditor

SECTION I: BOOKSTORE INVENTORY AND CASH COUNT

BACKGROUND

The Missouri State University Bookstore provides the campus and surrounding community with textbooks, Bear Wear clothing, and other educational and personal merchandise. The Bookstore currently has multiple locations and continues to expand. The perpetual inventory "BookLog" system software supports the operational/business functions such as point of sale, inventory control, text and general merchandise. Since an automated interface is not in place between BookLog and Banner, monthly journal transaction support is provided by the Bookstore to Financial Services. Below are annual sales data and year-end inventory balances since 2008. Bookstore sales were up slightly from FY2011:

<u>Year</u>	<u>Sales (retail)</u>	<u>Inventory(cost)</u>
2012	\$15,168,936	\$3,864,269
2011	\$15,092,110	\$3,698,825
2010	\$14,148,526	\$3,301,139
2009	\$12,694,965	\$2,900,807
2008	\$12,153,167	\$2,642,315

On June 1, 2012, Internal Audit conducted a review of the annual physical inventory and an unscheduled cash count and review of procedures of various cash and inventory areas at the Missouri State University Bookstore. The physical inventory was conducted in advance of the June 30, 2012 fiscal year-end to allow for advance review and analysis, as well as to enable the Bookstore to remain open on June 30, 2012, during the heavy traffic of SOAR (Student Orientation, Advisement and Registration) sessions. After accruals, the Banner inventory account was reconciled to the BookLog inventory balance. On June 30, the Banner inventory account was again reconciled to BookLog; however a physical inventory was not performed at the time. In addition to inventory observation and testing, Internal Audit provides Financial Services and outside auditors the support for the year-end inventory final adjustment to the books based on reconciliation and inventory observation.

SUMMARY

The MSU Springfield Bookstore continues to support the direct needs of the students, faculty and staff, while its net financial fund surplus consistently contributes to the university's operating fund through budget transfers. The bookstore inventory **shrinkage level** was addressed in the prior internal audit (FY11) as requiring management action, as well as the year before. Shrinkage is defined as the loss of inventory that can be attributed to factors including employee theft, shoplifting, administrative error, vendor fraud, damage in transit or in store and cashier errors that benefit the customer. Shrinkage is the difference between recorded and actual inventory. In the past two prior audits, it was recommended that monthly comparisons between Banner (University ledger) and BookLog (Bookstore perpetual inventory system) be fully performed to identify and resolve errors or omissions in inventory accounting during the year.

This recommendation that was made in FY10 and again in FY11 has been implemented in FY12. As a result, the level of inventory shrinkage has decreased significantly. Inventory shrinkage for FY12 is **\$22,866**, versus **\$371,170 for FY11** and **\$238,330 for FY10**. The Operations Manager identified and corrected significant accounting and administrative errors throughout the year that provided the actual shrinkage for FY12.

The audit also observed an inaccuracy in accounting for sales tax payable for the bookstore (and corresponding credit due the University), amounting to **\$8,156.12**. Other areas addressed controls over issuance and documentation of bookstore gift cards, controls over inventory accounting and markdowns, and controls related to the Amazon (Monsoon) system sales of wholesale books.

Please see detailed audit observations, recommendations and management responses below.

DETAILED AUDIT OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

(1) Observation - Inventory Shrinkage:

Internal Audit observed and tested the annual physical inventory at the Bookstore as of June 1, 2012. The University's total inventory at June 1, 2012 was **\$3,339,622**, and **\$3,864,269** as of June 30, 2012. No significant errors were noted during the verification of the physical inventory. Although immaterial, some errors were identified during testing, including textbooks that had been written off earlier, but were still available for sale and on the shelves. Textbooks is the only department in which mid-year physical inventory is taken by the Bookstore staff and the perpetual inventory records are adjusted to accurately reflect the physical inventory count. This step is necessary to optimally support the textbook adoption process.

The perpetual inventory records as of June 30, 2012 were again reconciled to the inventory reported on the general ledger, and the Accounts Payable balance as of May 31, 2012 was verified. It was noted that accounts payable was **understated** for budget transfers, and copyright charges were not included in the balance. These charges are transferred and paid at year-end rather than throughout the year. As a result, the inventory adjustment that was posted on May 31, 2012, was recalculated and adjusted as of June 30, 2012.

After all required adjustments were posted, it was determined that the FY12 year-end inventory shrinkage amounted to **\$22,866**. This represents a **significant decrease** over the previous year's shrinkage of **\$371,170**. Historically, the Bookstore shrinkage has been compared to the benchmark retail sales information documented by the University of Florida report (Dr. Hollinger). The "2011 National Retail Security Survey Report" determined that the theft percentage of revenue was **1.41%** for 2011. This year, the Bookstore's shrinkage level was **.21%** of retail sales, which is substantially less than the University of Florida report.

This improvement in the level of shrinkage may be attributed to two factors:

- Increased security measures implemented by the Bookstore during FY12: During FY12, the Bookstore restricted physical access to the textbook areas and provided counter service only during the majority of the year. When the textbook area was open to the public (only two weeks at the start of each semester), a contracted uniformed off-duty Springfield police officer was in the area monitoring any activity; and
- The monthly reconciliation of the Banner to BookLog inventory balances was performed during FY12 as recommended during the previous two internal audits. It was confirmed that the Bookstore Operations Manager began performing monthly reconciliations of the Banner inventory account to the BookLog inventory account. Performing this monthly, rather than waiting until year-end, enables errors and omissions to be identified and addressed on a timely basis, helping to ensure that accounting or posting errors do not add to the shrinkage amount.

Recommendation:

Continue the security measures and monthly inventory reconciliation to better manage shrinkage. In addition, greater care needs to be taken when finalizing the Accounts Payable totals. Ensure all accounts payable are included in the final Accounts Payable listing, including all transfers that are made annually.

Management Response:

Management agrees and this will be implemented.

(2) Observation - Monthly Write-offs and Inventory Adjustments:

Periodically, Bookstore departments submit their mark-downs, write-offs and inventory adjustments to be posted to the Banner inventory account. In FY12, these adjustments totaled **\$170,870**. Of this amount, **\$156,708** was in the textbook departments (new, used or special orders). Many of the items written off had reasonable explanations, such as defective, damaged, or dead books. However, other explanations did not appear as reasonable, such as "wrong account" which would appear to be a wash between departments or "short shipped," which would appear to have never been received in the first place.

In addition, of the above **\$170,870**, there was **\$9,175** in write-offs that had no explanation at all. None of the write-offs in the Greek, Gifts, Graduation or Trade books and other departments had explanations noted. Also, manual adjustments to textbook inventory were noted throughout the year that were not reflected on the write-off

schedule. It was explained that the adjustments were made when inventory could not be located. However, no documentation was found to support the adjustments.

Recommendation:

- Discontinue making undocumented adjustments to textbook inventory.
- All write-offs should have reasonable explanations and be approved at an appropriate second level. The write-offs process should not be used to monthly post shrinkage without specific reasons such as identified theft (name, when, and amount).

Management Response:

Management has agreed and this is being implemented.

(3) Observation – Sales Tax Accounting:

A net overpayment of sales tax was observed and discussed with Financial Services for correction. A total of **\$8,156.12** was noted as overpayments from the Bookstore sales tax account between June 2009 and April 2012. It appeared that the sales tax accounts for the bookstore were not reviewed timely. Several errors were noted (for example, certain days when the store had a debit in sales tax, the tax was treated as a credit (payable) and thus incorrectly paid.) These errors and source of errors were communicated with Financial Accounting for correction.

Recommendation:

Timely analyze sales tax payable each year-end, to ensure the balance is either zero or is consistent with prior year-end payable.

Management Response:

Internal Audit has confirmed that appropriate accounting correction has been made.

(4) Observation – Bookstore Gifts:

The audit noted that controls over gifts issued by the bookstore of both gift cards (inventory and activation) and merchandise are inadequate. For example, a **significant** number of gift cards were activated and held at the Bookstore Manager's desk. Upon discussion, he confirmed that use of gift cards was not formally documented. The current practice is to provide gift cards to students or student organizations, as well as to department heads, VP's and others for use in supporting the University. **744** activated gift cards were found in his office amounting to **\$13,695.15**. When asked why the University Gift Policy was not followed (in terms of who received a gift, in what amount and business purpose,) the former Director stated that he did not agree with the University policy.

Recommendation:

All gift cards should be inventoried and adequate documentation should be in place regarding both gifts of merchandise and gift cards issued.

Management Response:

Implemented. Procedures have been established to control gift card requests and track issuance. In addition, all merchandise donations are being tracked by SKU (inventory identification) number.

(5) Observation – Amazon.com (Monsoon) Sales:

When there are textbooks in inventory that are no longer being used in any class, the Bookstore attempts to return the books to the vendor or sell them to another vendor. Once all means to recoup the expense are exhausted, the books are written-off from inventory. In FY12, a total of \$156,708 was written off the textbook inventory.

Several years ago, the bookstore began using Monsoon to dispose of these books and still be able to recognize some income from their sale. Monsoon is a software program that lists these books on Amazon. It is an integrated system that continuously updates the pricing based on market and initiates the purchasing process. The consumer pays the asking price plus shipping costs to Amazon. The books are shipped from the Bookstore to the consumer. Amazon then transfers the sales proceeds, less a minimal fee, to the MSU bank account.

Starting in FY12, the Monsoon sales proceeds are recorded in income accounts separate from the routine Sales account. In FY12, Monsoon income totaled **\$60,478**. The inventory is maintained in a secured storage area away from the Bookstore premises. Once an item is written off from the inventory, the book is then listed in Monsoon until it sells. As a result, there is no complete listing of books posted and being held for sale on Monsoon.

Recommendation:

Maintain a separate spreadsheet of all books removed from inventory and available for sale on Monsoon. As with other inventory, maintain an accurate and complete listing of books available on Monsoon. (It was recently determined that Monsoon cannot be maintained in BookLog as the system cannot have the same ISBN numbers within two departments).

Management Response:

A current listing of Monsoon books has been prepared and an inventory spreadsheet is being maintained for control over Monsoon inventory and includes all books actually shipped.

(6) Observation - Cash Count, Bookstore Operations:

In addition to the physical inventory procedures, on July 1, 2012, cash at the Bookstore was counted and verified. This consisted of all the cash that is maintained in the safe, as well as the amount allocated to the various drawers and satellite locations. The following was determined:

- Total per physical cash count was **\$7,701**.
- Per the Petty Cash Worksheet maintained by Financial Services, the Bookstore has been assigned **\$7,701** (amount recorded in the General Ledger).
- The imprest cash fund for *It's a Greek Thing*, which is required to be turned in physically to the bookstore daily, was left at the store location in the Plaster Student Union. The store is not open regularly during off peak times.
- Regarding cash at the bookstore, the prescribed procedures and controls are being followed:
 - Cash in drawers is counted by the Manager each day and entered into the 'BookLog Till' (application within the BookLog System to record cash in drawers and compare to cash sales per registers).
 - Cash in the safe is counted twice each day, once in the morning and once in the evening, and entered into the BookLog Till (by two separate employees).

Recommendation:

Ensure all cash is returned to the Bookstore in compliance with established procedures. When a location is closed for an extended period of time, all cash should be returned to the Bookstore to be retained in the safe.

Management Response:

Management agrees; this will be implemented immediately.

(7) Observation - Results of Physical Inventory:

Total bookstore inventory **per year-end inventory balance** totaled **\$3,864,269**:

Department	Value (Cost)
New Textbooks	1,309,225
Used Textbooks	1,283,560
Non-book course materials	90,270
Total Textbooks	2,683,055
Greeting Cards	7,075
Clinique	37,191
Clothing	338,594
Personal Care/Drugs	4,131
Electronics	419,743
Food	26,751
Gifts	6,092
Graduation	3,744
Greek	48,418
Souvenirs	168,486
School and Art Supplies	92,441
Trade books	28,548
Grand Total	\$ <u>3,864,269</u>

Recommendation:

None.

(8) Observation - Other actions that have been taken by Interim Management:

From August 2012 until very recently, the University's bookstore operations have been overseen by an interim management team, the Assistant Vice President - Student Life, Dr. Thomas Lane, and the Special Assistant to the President, Mr. Kent Thomas. Internal Audit acknowledges a number of actions and improvements have been addressed, planned, or implemented by the interim team in areas such as bookstore organizational structure, approvals, segregation of duties, inventory controls, cash on hand, practices and documentation related to outside vendors (including textbook vendors), gift cards, and research regarding a possible new inventory system. For example:

- In August, a formal search for the Bookstore Director was launched. The Search Committee selected a candidate for the position, which the President approved. Four candidates were selected for visits to the campus and open forums were held with each candidate to obtain feedback from both staff and faculty. Ms. Sonda Reinartz was selected as the Bookstore Director.
- Actions are underway to formalize a written document supporting the next University buy-back arrangement, with the goal of an RFP released to the market to determine an optimal book buy-back partner going forward. Bookstore staff will work with the new Bookstore Director to develop the RFP. Although such an agreement is not required by Missouri law, it has been recommended to fully document business practices.
- Management continues to assess and reconstruct the entities that have received gift cards in the past. Going forward, all gift card requests, determinations, and issuances are part of a controlled process. All gifts are reviewed to ensure the impact of the gifts to the benefit of the University, the bookstore, and the student.

- Research to determine options regarding a new Inventory Management System are in process. This project will be continued under the responsibility of the new Bookstore Director.
- During its organizational review and discussions with Bookstore staff, management identified and reclassified two Bookstore staff positions to more fully represent the actual job responsibilities of the positions. For example, duties were enhanced to accurately define and advertise the position of Course Materials (Textbook) Manager. A current bookstore employee was recently promoted to this position.
- In addition, the position of Convenience Store Supervisor has also recently been created and filled to better meet the needs of the Bookstore.
- Long-standing maintenance issues with equipment and facilities have been reviewed by management. Where improvements can be easily made, they have been done. The issue of a major renovation has been deferred until the Bookstore Director position is filled.

SECTION II: INTERNAL AUDIT INVESTIGATION: BOOKSTORE MISSING FUNDS

BACKGROUND

Missouri State University utilizes Follett Corporation to manage the major bookstore buy-back process at the end of each semester. The end-of-semester book buy-back process managed by Follett can total \$1.5 million or more a year. Follett provides the required up-front funds, staff, and computers/registers, and Follett oversees the buy-backs, with coordination/support from Bookstore staff and management. Funding for the end-of-semester buy-back is wire-transferred from Follett to the University's bank account, with draw-downs of cash at the Bursar's Office as required to support the used textbook purchases.

The Bursar's office maintains a manual log documenting amounts and signatures of draw-downs. In the past, however, the receipt of the wired cash and the actual draw-downs was not recorded on the University general ledger. (For example, debit Cash, credit Payable to Follett). Also in the past, prior to wire transfers, Follett pre-written checks payable to the University or University Bookstore were brought to the Bursar's office to be cashed as needed for book buy-back needs. In both cases, the Follett employee and the former Bookstore Director were authorized to draw-down wired funds or to cash Follett checks made payable to the University. At the end of the process, a manual document listed the receipt and disposition of the funds received from Follett, with initials or signatures, and upon completion of the buy-backs, a 'settlement' between the parties was documented.

It should be noted that the **normal book buy-back process** is not the primary subject of this audit investigation. Rather, Internal Audit identified specific transactions between the University and textbook companies (including Follett) that were the subject of missing University funds.

The following types of transactions represent missing funds that were under the custody and responsibility of the former Bookstore Director: (1) checks from textbook companies payable to the University or University Bookstore for purchase of wholesale inventory; (2) normal buy-back commission cash or checks from Follett payable to the University or University Bookstore; (3) checks made payable to the University or University Bookstore from Follett for its purchase of University Athletics Department-owned textbooks which had been returned by the student athletes to the Athletics Office; (4) checks made payable to the University or University Bookstore from Follett for certain shared/"cooperative" expenses during the normal end-of-semester buy-back process; and (5) checks made payable to the University or University Bookstore from Follett for certain sales of textbooks online.

It should also be noted that although the calculated **bookstore shrinkage level** was substantial in the two years FY10 and FY11, and had not been adequately addressed by management until FY12 (as reported within Section I of this report), inventory shrinkage is not directly related to missing funds. It is true that some missing funds were related to wholesale book transactions; however the related inventory had already been marked down and accounted for within the BookLog system (also noted within Section I of this report).

In summary, the checks and cash that were determined to be missing and unaccounted for under the responsibility of the former Bookstore Director represent unrecorded University income that is outside the normal retail sales operation. When these checks were exchanged for cash by the former Bookstore Director at the Bursar's Office, this income (and related cash) was never accounted for on the University books.

SUMMARY

The audit confirmed that a **significant loss of University funds** occurred while under the stewardship and fiscal responsibility of the former Bookstore Director. For the period July 2003 through July 2012, missing and unaccounted funds represent a total of **144 transactions (checks or cash received)** from outside textbook companies, amounting to **\$1,324,280.68**. After considering the funds found in the former Director's office/desk and the cost of extended book buy-backs not recorded on the books, the **net amount** found to be missing and unaccounted for totals **\$1,210,701.18**.

The audit observed failure by the former Bookstore Director to: (1) ensure basic stewardship and accounting over funds entrusted to him (checks cashed by him, made payable to the University); (2) ensure that all bookstore

transactions are recorded; (3) comply with University policies and procedures; and (4) produce to the University the amount of missing cash as determined by the internal audit that was under his stewardship and responsibility. Further, governing and business policies of the University have been violated such as the University's Fiscal Responsibility Policy (G1.13), Cash Handling Procedures (Op8.04), and the University's Gift Policy (Op8.11).

This loss of University funds was reported to the Springfield Police and federal authorities involved in the investigation, and the University cooperated fully with the federal and local authorities. (During their investigation, the authorities requested that the University provide no further information to the public until the investigation was completed.) Information has also been provided as necessary to claim recovery under the state's employee theft coverage.

Please see below detailed audit observations, recommendations and management responses.

DETAILED AUDIT OBSERVATIONS / STATUS

(1) Checks payable to the University or University Bookstore and cashed by former Bookstore Director:

It should be noted that the first 'missing' check was observed by Internal Audit while the former Director was on vacation. When asked why the check had not been deposited, he responded via email: "I haven't rang it up yet... I was waiting for a slow sales week to do so." When asked where the check was, he stated "locked in my desk..." Further investigation revealed that the check was not in the former Bookstore Director's desk and had not been processed through the point of sale system. Rather, the former Director cashed the check at the Bursar's Office (ostensibly under the exception noted above), and the funds were unaccounted for.

It was determined that **\$1,324,280.68** is missing or unaccounted for (prior to adjustments such as cash in desk drawer). This includes checks and cash for various types of University business transactions with textbook companies. The former Bookstore Director cashed these funds but failed to follow standard bookstore procedures of processing these checks (as any checks) through the bookstore point of sale system/registers which create Bookstore accounting on the BookLog system. Based on a prior course of conduct and communications with the former Bookstore Director, Bursar Office employees believed that these checks were part of the exception to policy for cashing checks intended for book buy-back funds.

When Internal Audit presented to the former Director these funds as missing and not accounted for, while under his custody and stewardship, the former Bookstore Director did not provide an adequate explanation of the use of the funds nor did he produce the missing funds.

Total missing funds are comprised of the following types of payments/transactions:

- Checks from Follett (Follett Corporation), NBC (Nebraska Book Company), or MBS (Missouri Book Systems) textbook companies for **purchase of wholesale textbooks** from the bookstore. Checks (made payable to Missouri State University or Missouri State University Bookstore) from these companies since FY2004 were cashed personally by the former Bookstore Director at the Bursar's office. **Total: \$645,732.71**
- Checks from Follett for **purchase of used textbooks owned by the Athletics Office**. These funds were due the University Athletics Office (payable to the University or University bookstore) most of which were not transferred by the former Bookstore Director to the Athletics Office. **Total: \$385,294.00**
- Payments from Follett representing **commission checks (or cash) from normal buy-backs to the Bookstore**. These were commissions due the University from Follett for used textbooks during normal buy-back that the University did not purchase and were retained by Follett. In some cases, the former Director was paid cash for commissions. Per the Follett Corporation representative, the former Bookstore Director asked him for cash instead of checks, as cash was needed for buy-backs / bookstore funding. The former Director was thus paid in cash, but was required to initial/sign documentation retained by Follett. Until May of 2011, commissions were primarily paid by check. **Total: \$275,555.64**
- Checks from Follett representing **co-op costs** agreed to by the parties, such as advertising, to be repaid to the University. **Total: \$5,155.03**

- Checks made payable to the University or University Bookstore from Follett for certain sales of textbooks online. **Total: \$12,543.30**

(2) Summary of Checks Cashed by Year:

Detailed review of Bursar’s CashNet banking system records and third party records (such as bank and vendor records) was performed to identify specific checks that were provided to the former Bookstore Director (from the textbook companies by mail or in person), and in turn were cashed at the Bursar’s office by the former Bookstore Director. The following is a summary of 144 transactions for the past nine years (earliest date when records were available). Detailed review was performed to confirm that these transactions were cashed at the Bursar’s office, but were **not** accounted for on the University general ledger:

<u>Fiscal Year</u>	<u>Bookstore Missing Funds</u>	<u>Total Sales</u>
2004	77,923.45	\$ 8,850,544
2005	102,142.55	9,758,677
2006	101,468.95	11,207,253
2007	132,367.15	11,556,011
2008	150,014.67	12,153,167
2009	165,606.95	12,694,965
2010	193,177.75	14,148,526
2011	196,521.80	15,092,110
2012	<u>205,057.41</u>	15,168,936
Total	\$1,324,280.68	
Less: Desk Drawer	(81,669.10)	
Less: Desk Change	(548.65)	
Less: Payouts	(31,361.75)	
NET	\$1,210,701.18	

(3) University practices that contributed to the lack of detection of these missing funds:

These transactions were not recorded on the books.

University Bookstore

The checks at issue were not recorded on the University books when cashed at the Bursar’s office. (The Bursar’s Office believed that the funds from the cashed checks were for valid bookstore funding/buy-back purposes). Recording these transactions would have eventually enabled detection of missing funds upon reconciliation of bookstore cash and income. Upon receiving the cash, the former Bookstore Director also did not process these funds through the Bookstore’s “BookLog” point of sale / accounting system; thus, the receipt of cash and related income was not recorded on the books.

Status / Actions Taken: All checks received at the Bookstore are now processed through the Bookstore point of sale system. The Operations Manager at the Bookstore reconciles all sales to the bookstore cash (trial balance). The Operations Manager has completed a thorough Operations Manual (which will be updated periodically) to document this and other control procedures. In addition, Financial Services reviews the daily Bookstore reconciliation report from the Operations Manager.

Bursar’s Office

As addressed above, a long-standing practice at the Bursar’s Office was to allow the former Bookstore Director to cash checks payable to the University while not recording the transaction on the books, which were understood to be book buy-back funds. This policy exception was not documented and was not written or communicated to the current CFO and other key administrators.

The former Bookstore Director took advantage of this policy exception and cashed Follett checks that were not valid buy-back funds, as well as unrelated checks from MBS and NBC. In addition, several years ago, University department heads, deans, etc. were requested to provide all departmental / office policies for the University online policy library. This exception to policy was not provided for inclusion in the policy library.

Lastly, regarding the normal book buy-backs with Follett, the wired funds received from Follett were not recorded on the University's books. (However, these funds were controlled and reconciled via a manual log documenting the dates and the two individuals who withdrew Follett funds at the Bursar's Office for book buy backs).

Status / Actions taken: Ensuring that all checks payable to Missouri State University or Missouri State University Bookstore are properly deposited and accounted for is a critical preventative internal control within the Bursar's Office, and should have been in place.

The above unwritten policy exception has been terminated. The CFO has reviewed and confirmed Bursar Office policies requiring that no personal checks may be cashed in an amount over \$50. Checks from the University (for travel reimbursement, etc.) may be cashed. The Bursar's office also allows students and employees to cash third party checks such as payroll checks or income tax refunds, with approval of the Bursar or Head Cashier. Further, no checks (except the above referenced) may be deposited or cashed without proper accounting (correct departmental Fund, Org Code, Account, and Program Code) in Banner.

Accounting principles and Financial Services policy require that **all** transactions must be recorded on the books. The CFO has established that wired funds for normal book buy-back purposes received from Follett (or any other company) must be recorded on the books (debit Cash; credit payable to Follett), as well as the draw-downs. No employee of the University may draw down monies that are for Follett use during normal book buy-back.

Former Bookstore Director Access to Vendors and Vendor Checks

The former Bookstore Director had frequent personal contact with textbook company representatives. Evidence indicates the former Director took steps to ensure that he personally obtained checks that were received from these textbook companies. For example, a prior employee (Bookstore administrator/bookkeeper) received a check from a textbook company on March 2, 2011. The former Director was out of the office, and she emailed the following note to him: "We received a check from Follett for reimbursement for postcard mailing. Do you want me to send it to Financial Services for deposit in our postage account?" His response: "How much is the check?" Her response: "\$1,977.98." His response: "Please hold off on processing it for now, if you would just put it in the safe until I get back... I will take care of it then." This check was one of the checks cashed by the former Bookstore Director. The bookkeeper's role should include monitoring of cash receipts and Bookstore income; however this function was overridden by her supervisor, the former Bookstore Director.

In addition, the relationship with textbook companies is often in person – the companies view and purchase books onsite. There were no written agreements that specified the fees, terms, conditions, and method of payment. In the past, the bookstore did not utilize written agreements with textbook companies, as Missouri law does not require it. Typically, 'site drafts' were issued (guaranteed checks) for wholesale book purchases by the textbook company and often handed to the former Director personally. In a more recent meeting onsite with the Follett representative, per discussions with the representative, the former Director requested that he be paid in cash rather than a site draft/check for commissions. (The Follett representative obliged, but did require the former Director to sign for receipt of the cash). Finally, regarding checks received by mail, there was no separately maintained mail log or cash receipts log in place at the Bookstore, and as such, a trail was not evident of checks received from textbook companies.

Status / Actions Taken: Management has reviewed vendor relationships and practices, and formal agreements and/or RFP's (requests for proposal) are planned or in process for all key vendor relationships. In addition, a separate log of mail and cash receipts at the Bookstore is maintained by a separate staff member at the Bookstore.

With the recent organizational changes, the Course Materials Manager (Textbook Manager) will be primarily responsible for relationships with textbook vendors, and the newly hired Bookstore Director will be responsible for

oversight and approval of agreements. Management has prepared draft procedures (roles, responsibilities, etc.) for the end of semester normal book buy-back process.

Follett did not detect short shipments from the MSU bookstore

The former Bookstore Director on occasion appears to have taken Follett owned inventory awaiting shipment to Follett, and 'resold' a portion of these books to other companies, also cashing these checks. In total, this amount is over \$200,000. Follett did not report shortages to the University.

Status / Actions Taken: All sales are processed through the bookstore Point-of-Sale system, and cash collections are recorded through Point-of-Sale system. It is our understanding that Follett has implemented stronger guidelines for confirming receipt of used / wholesale textbook inventory.

Limited Supervision over the former Bookstore Director

There was limited supervision over the former Bookstore Director. The Director position reports to the Vice President - Student Affairs, who has no budget officer position to assist in monitoring division/auxiliary financial controls and policy compliance on an ongoing basis.

Status / Actions Taken: Management has enhanced the position description for the new Bookstore Director. The Course Materials Manager (Textbook Manager) will be primarily responsible for relationships with the bookstore companies, with the Bookstore Director responsible for oversight and approval of agreements with vendors. Draft procedures for the end-of-semester buy-back process have been prepared. In addition, the University's Office of General Counsel has proposed contracts for book buy-backs. The Vice President – Student Affairs is currently evaluating a position to provide financial oversight to all operations within the division (including bookstore operations, Res-Life, Taylor Health Center, and other division operations).

Lack of organizational segregation of duties

In 2000, the former Bookstore Director was promoted from Textbook Manager to Bookstore Director, while continuing to also perform the role of Textbook Manager. It was his decision to not fill the Textbook Manager position. As a result there was no segregation of duties regarding approval of receipts and write-downs resulting from sales of wholesale books. (See Section I – Course Materials (Textbook) Manager has been formally filled, and Bookstore Director has been filled.)

Status / Actions Taken: Segregation of the responsibilities is now clearly defined between the Textbook Manager and the Bookstore Director to allow for an additional approval level.

Other bookstore income transactions were recorded on the books

The audit observed other sales of wholesale books sold through Amazon.com / Monsoon that were not recorded on the Bookstore POS register system, but were properly recorded on the University books (general ledger). The audit also observed refund and rebate checks received such as Apple and Clinique rebates that were properly recorded through the point of sale system and thus were recorded on the University books.

Status / Actions Taken: All checks to the Bookstore are now processed through the point of sale system and booked to the BookLog records. The Operations Manager reconciles all sales (processed through point of sale) to the bookstore cash (trial balance.) The Operations Manager has completed a thorough Operations Manual (which will be updated periodically) to document this.

Athletics Office did not fully monitor its expected proceeds from sale of books

Athletics Office did not fully monitor its proceeds due from the sale of department-owned textbooks. In 2012, the Athletics Office business manager inquired about funds not transferred of **\$52,996.50**, which were immediately transferred by the former Bookstore Director to the Athletics Office budget. However, the position was relatively new, and prior years' amounts due Athletics were not reconciled. From 2006 until 2012, the Athletics Department failed to receive **\$264,290.25** owed for sale of its books.

Status / Actions Taken: Upon recovery of missing funds, this amount will be returned to the Athletics Office. In the future, these checks will be made payable to Missouri State University Athletics and the Athletics Office will sign for the checks at the Bookstore, and deposit the funds into their own University fund/account.

Internal Audit Testing

The internal audit for the Bookstore that is performed each year focuses on the physical inventory of over \$3 million and related sales of over \$15 million, as well as controls over cash on hand. As the above referenced checks (that the former Bookstore Director received and cashed) were not recorded on the University books, and the cash was missing, these transactions were difficult to identify during testing. In addition, these checks from textbook companies represent a limited number of transactions which are outside the normal retail operations. For example, in FY11, a total of 17 such checks were identified. Internal Audit testing of certain Bursar transactions had also been performed during 2010, which included testing of all checks processed by Bursar for various periods. Unfortunately, none of the checks related to this investigation occurred within the Internal Audit test periods.

Status / Actions Taken: An internal audit of the Bursar's Office is also in process at this time. It should be noted that testing for various periods to date has not identified any other checks made payable to the University for University business that were not accounted for; thus confirming that this appears to be an exclusive exception to Bursar policy extended to this one employee, the former Bookstore Director.