



**Missouri
State**[®]
U N I V E R S I T Y

Baker Bookstore Inventory Review & Follow-Up

Report # 192-24 : October 10, 2024

Executive Summary

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|---|--|--------------------|--------------|----------------|--|--|----------------|--------------|--------------------|--------------|----------------|
| What did we do? | On May 24, 2024, the Office of Internal Audit & Risk Management (herein “Office”) conducted limited procedures to confirm physical inventory counts for the Baker Bookstore. Subsequently, we also performed limited procedures to determine the accuracy of the Ratex to Banner reconciliation. In addition, auditors followed up on prior recommendations from report #186-23. | | | | | | | | | | |
| Why did we do it? | The Office receives and reviews inventory records from all departments with recorded inventory values each fiscal year. Based upon our analysis of risk at the time of the review, inventories are selected to be physically confirmed. | | | | | | | | | | |
| What did we find? | Continued improvement of inventory and financial controls at the Baker Bookstore. | | | | | | | | | | |
| Affected Enterprise Risks | Cybersecurity, Student, Financial | | | | | | | | | | |
| Impact to Enterprise Level Risk (based on the ERM Framework scale) | <table><tr><td></td><td></td><td>X</td><td></td><td></td></tr><tr><td>Extreme</td><td>Major</td><td>Significant</td><td>Minor</td><td>Minimal</td></tr></table> | | | X | | | Extreme | Major | Significant | Minor | Minimal |
| | | X | | | | | | | | | |
| Extreme | Major | Significant | Minor | Minimal | | | | | | | |
| Summary of Recommendations | <p>Reconciliations between the Ratex and Banner systems are still not completed throughout the year, which created additional issues with the management of the bookstore and the end of year reconciliation process. In addition, we noted no improvement in the journal entry accuracy. Lastly, a formalized and comprehensive mark down or disposition policy is necessary to ensure aged inventory is properly disposed of when no longer marketable.</p> <p>Our follow-up on the seven prior audit recommendations determined two were fully implemented, three are still in process, and two were not implemented and are repeated in the above.</p> | | | | | | | | | | |
| Acknowledgement | Management agreed to implement all findings | | | | | | | | | | |

Details of Engagement

Background

The Office of Internal Audit and Risk Management (herein “Office”) receives and reviews inventory records from all departments with recorded inventory values each fiscal year. Based upon our analysis of risk at the time of the review, inventories are selected to be physically confirmed. On May 24, 2024, the Office conducted limited procedures to confirm physical inventory counts for the Baker Bookstore. Subsequent work was completed to determine the accuracy of the Ratex to Banner reconciliation and to follow-up on prior audit recommendations.


Objective(s) and Scope

The objective was to review the bookstore’s procedures to confirm and adjust inventory values at year end, and to follow-up on prior year recommendations. The scope included the fiscal year ended June 30, 2024.

Overall Results

The results of the physical inventory determined shrinkage as a percentage of sales was less than 1%. While shrinkage was low, error rates associated with initial scans continued to be high. Overall error rates were 25.82% and these rates were largely attributed to miscounts. For example, one section of inventory was missed completely and in another, the accidental scanning of over 6,200 extra pencils created significant discrepancies.

Procedures to reconcile inventory balances between the Ratex and Banner systems continues to need significant improvement as the two main findings from the prior year were not implemented. Reconciliations are still not completed periodically during the year and journal entries are not accurate or reviewed. In addition, we noted issues with aged/obsolete inventory items.



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|---|---|--|
| Unsatisfactory - Related risks are not managed. Management is required to IMMEDIATELY remediate the control exposures. | Satisfactory but improvements noted - Overall risks are adequately managed. Deficiencies may exist and require Management’s attention for remediation. | Satisfactory - Overall risks are adequately managed. Few deficiencies may exist and require Management’s attention. |
|---|---|--|

Other findings of lower significance were reviewed with Management.

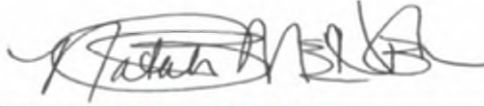
Appendix 1 provides a visual representation of the findings based on residual risk.

Appendix 2 provides a detailed listing of all observations, recommendations, and Management’s action plans. All recommendations were reviewed and accepted by Management.

Appendix 3 provides the status of prior recommendations.

Baker Bookstore Inventory Review & Follow-Up

Internal Audit would like to thank the Baker Bookstore employees for their support in this engagement.



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Director of Internal Audit and Risk Management

Internal Auditors

Grant Jones, Internal Auditor

Cailyn Cordell, Audit Intern

List of Appendices:

Appendix 1 - Risk Analysis of Engagement Findings

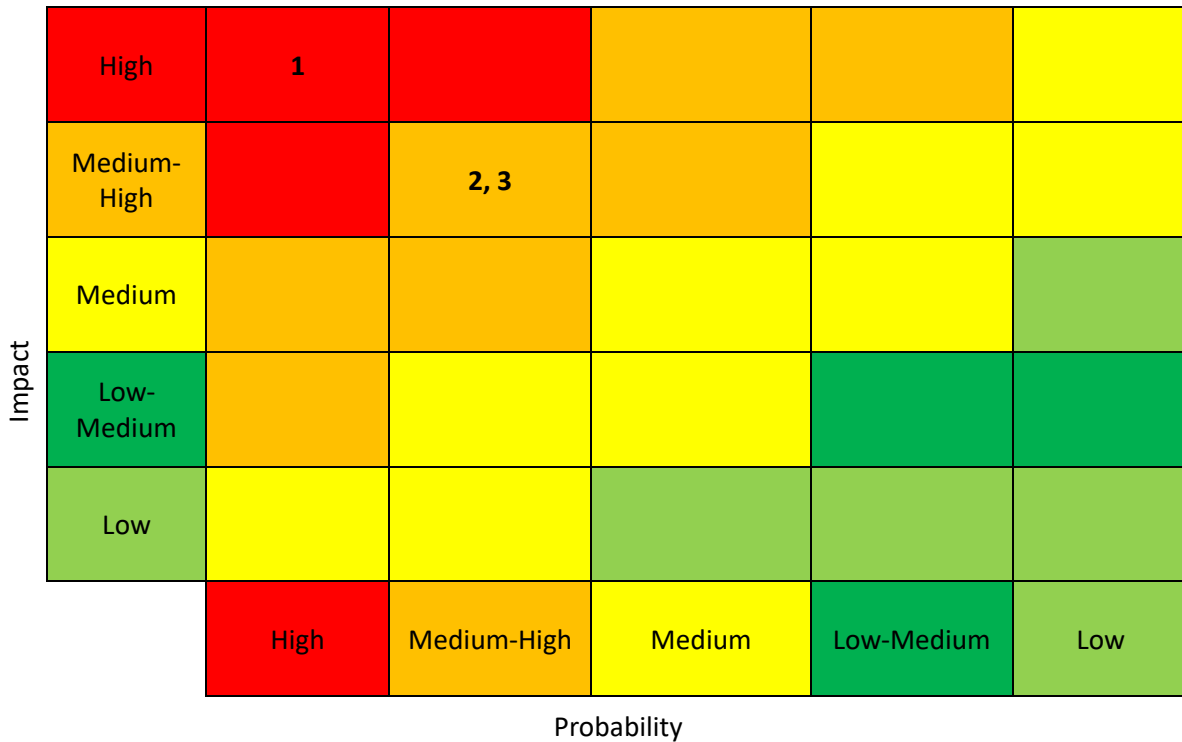
Appendix 2 - Detailed Observations / Recommendations

Appendix 3 – Follow-up on Prior Recommendations

Appendix 1- Risk Analysis of Engagement Findings

Probability is the relative likelihood that an event will occur, while impact is an estimate of the harm that could be caused by that event. The more likely or severe an event, the greater the associated risk. The cumulative risk level of the findings supports the overall risk assessment indicated in the Executive Summary. High and Medium-High risks should be addressed by management immediately. Medium risks should be addressed by management at the next possible opportunity. Low-Medium and Low risks should be considered.

The heatmap is a prioritization of the findings in this engagement, based on residual risk. It maps the probability of an adverse event or threat occurring, against the impact of that event on the University



Appendix 2- Detailed Observations / Recommendations

| ISSUE | OBSERVATION SUMMARY | RECOMMENDATION | MANAGEMENT RESPONSE |
|-------|---|--|--|
| 1 | <p>Reconciliations As previously reported, reconciliations of the Ratex and Banner systems are not being consistently completed in a timely manner. No reconciliations were completed for July 2023 through April 2024. A reconciliation for May 2024 was provided at auditor’s urging after the end of the fiscal year, and while the June 2024 reconciliation was submitted on July 16th, it was missing information and contained significant errors. The final corrected version of the reconciliation was not submitted until August 14th.</p> | <p>Develop procedures to complete monthly reconciliations and ensure the end of year reconciliation is prepared timely and includes complete and accurate information.</p> | <p>We experienced a delay in implementing monthly reconciliations in 2024. The first one we were able to complete was for May 2024. June 2024 has been provided and we will be preparing reconciliations monthly moving forward into FY25. The reconciliations will be reviewed monthly by the Business Manager and Bookstore Director and then filed in the current FY for if/when needed. Also, have already discussed a plan to meet with Financial Services quarterly in FY25 to review reconciliations and cost of goods sold reports to ensure financial data accuracy on a more timely basis.</p> |

| ISSUE | OBSERVATION SUMMARY | RECOMMENDATION | MANAGEMENT RESPONSE |
|-----------------------------|--|--|---|
| 2 | <p>Journal Entries As previously reported, journal entries submitted as part of the end of year reconciliation contained errors. These errors were caused by incorrect methodology and logic used in the manual creation and formatting of the entries. Further, the entries were not reviewed or approved by management prior to submission.</p> | <p>Ensure journal entries prepared are accurate and develop procedures for managerial review and approval prior to submission.</p> | <p>To align with our plan for quarterly reconciliation review with Financial Services, we will have a trial journal entry tab available for review. The Bookstore’s Business Manager will complete any/all entries, and the Bookstore Director will review before the meeting with Financial Services. Before submitting our end-of-year reconciliation for FY25, the Business Manager and Bookstore Director will review all entries for accuracy.</p> |
| <p>Continued next page.</p> | | | |

| ISSUE | OBSERVATION SUMMARY | RECOMMENDATION | MANAGEMENT RESPONSE |
|-------|---|---|---|
| 3 | <p>Aged Inventory The bookstore does not have a formalized comprehensive markdown/disposition policy. As a result, some items held in inventory have been on hand up to 20 years. In addition, 65% of used textbooks on hand, representing \$118,185 in inventory value, had not been adopted for a class in over a year.</p> | <p>Develop and implement a comprehensive markdown/disposal policy to address aged/obsolete inventory.</p> | <p>We are currently reviewing our FY24 inventory for aged merchandise. After the review is completed, we will be taking the appropriate action to mark down through a clearance process and/or dispose of aged inventory with a mark out of stock for any inventory deemed not to be in resalable condition. We are also in the process of finalizing written documentation of clearance and/or markdown procedures for all store inventory areas. This would include: textbooks, clothing, souvenirs, school supplies, technology, convenience store merchandise, and trade.</p> |

Appendix 3 – Follow-Up of Prior Recommendations

| ISSUE | RECOMMENDATION | STATUS |
|----------------------|--|--|
| 1.A. | Develop procedures to complete periodic reconciliations of Ratex and Banner accounting data, ensure all end of year reconciliations are prepared timely and include complete and accurate information. | Not implemented. See finding 1 in Appendix 2. |
| 1.B. | Ensure journal entries prepared are accurate and develop procedures for managerial review and approval prior to submission. | Not implemented. See finding 2 in Appendix 2. |
| 1.C. | Actively pursue all outstanding chargebacks and, when deemed uncollectible, adjust the appropriate accounting records. | In progress. During our review of chargebacks for the year ended June 30, 2024, we noted items over one year old were held without write-off. The total of these items is \$6,612. |
| 1.D. | Ensure bookstore employees understand the importance of complete and accurate initial inventory counts to minimize future error rates. | Implemented. The bookstore provided training for all employees to ensure the importance of complete and accurate initial inventory counts was understood. |
| 2.A. | Establish procedures that facilitate the tracking and timely payment of invoices. | In progress. Our review of invoices for June 2024 determined 5 were held for more than 45 days. |
| Continued next page. | | |

| ISSUE | RECOMMENDATION | STATUS |
|-------|---|---|
| 2.B. | Require purchase orders be prepared when orders are placed and require reconciliation of delivery logs and invoices before processing for payment. In addition, the bookstore should investigate if any credit or balance is due to the vendor. | Implemented. A haphazard review of purchases was completed without any identified errors. |
| 2.C. | Provide and require use of a unique user identification for all employees and terminate or deactivate access upon termination of employment or contract. | In progress. A review of current user access determined 12 terminated users retained access and various generic user ids were retained. |