

May 15, 2013

**VICE CHANCELLOR LAWRENCE**

Subject:        Audit Report No. M13C003  
                  Limited Scope Audit – Campus Store

Attached is the final report for the Limited Scope Audit No. M13C003: Campus Store. It includes action plans that were developed by members of your staff. These action plans will be entered into the TeamCentral Database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by the Campus Store staff during the review. If you should have any questions, please feel free to contact me.



Todd Kucker  
Internal Audit Director  
UC Merced Internal Audit Services

Attachment

cc:     SVP Vacca  
          Chancellor Leland  
          Vice Chancellor Miller  
          Associate Vice Chancellor Nies  
          Assistant Vice Chancellor Ahmed  
          Executive Director Deegan  
          Director Storms  
          Director Groesbeck

**UNIVERSITY OF CALIFORNIA, MERCED  
INTERNAL AUDIT SERVICES**

**Limited Scope Audit – Campus Store  
Report No. M13C003**

**May 15, 2013**

Work Performed by:  
Todd Kucker, Internal Audit Director

## **Purpose and Scope**

As part of the fiscal year 2012-2013 audit plan, Internal Audit has completed a limited scope audit of the UC Merced Campus Store. The purpose of the limited scope audit was to review internal controls and physical security over cash and the campus store textbook and retail merchandise inventories.

The scope of the audit was to identify and document the current internal controls through discussions with campus store employees. Work processes and other evidence for the existence of the controls were reviewed to verify that the controls were functioning as described by the employees. After internal controls were documented, the design of the controls was evaluated to verify that the controls adequately safeguard inventories and cash and other payments received by the store. Inefficiencies caused by duplicate controls and manual processes were also evaluated.

## **Background**

The UC Merced Campus Store sells textbooks, class materials, computers, and other general merchandise. The store has two locations in the Kolligian Library Building: the store and the Textbook Annex. Besides these two locations, the store also maintains inventory in an offsite warehouse.

To manage the textbooks and general merchandise inventories, the store utilizes a specialized system that is used by many University bookstores, called "MBS" (Missouri Book Services). MBS is also the Point of Service system used by the registers to record daily sales.

The campus store is an auxiliary in the Student Affairs division. The store employs around seven permanent employees and many student employees. During fiscal year 2011 – 2012, the store had sales totaling close to \$2.5 million (including recharges to other departments).

## **Conclusion**

Based upon the review, we concluded that the campus store maintains adequate control over textbook and general merchandise inventories. While overall control of cash and payments was adequate, accountability over individual change funds could be improved. Internal Audit observed the campus store inventories during June 2012. Since then, it was evident that there have been recent improvements as older inventory items have been sold and the inventory generally appears more organized. Also, we noted that the recent financial performance of the store has improved compared with prior years. We did identify some inefficient processes and the following areas for improvement:

- An interface between MBS and the campus financial systems could improve processes and improve reporting of the store's financial results
- Individual accountability for change funds could be improved

- Security measures required for transporting cash should be followed
- Proper training should be provided to campus store employees
- Physical inventory counts should be completed by employees who have no inventory handling responsibilities
- Procedures for tracking commission checks and promotional items should be implemented

## **Observations and Management Action Plans**

### **1. An interface between MBS and the campus financial systems could improve processes**

The campus store utilizes a system designed for University bookstores called "MBS" (Missouri Book Services). The system is used to purchase textbooks and retail items and is the point of service system for the registers.

There is not an interface between MBS and the campus financial systems. As a result, after purchases are set up in MBS, the information is manually rekeyed into the campus purchasing system, CatBuy. All information in the two systems is then reconciled, reviewed, and approved by campus store employees.

After the day's sales are recorded in MBS, campus store employees rekey summary sales information into the campus cashiering system, CashNet. The CashNet system is used to record the daily sales information in the campus financial system.

This duplication of effort results in the inefficient use of employee time and the additional risks of keying errors results in additional reviews and reconciliations. This issue was identified in a 2011 report regarding the campus store.

We recommend reviewing the costs and benefits of paying to set up an interface between the systems. It is expensive to make changes to the UCLA financial system and the system may be abandoned for a new system in the years ahead. We also recommend reviewing how other UC campus bookstores set up interfaces between MBS and their campus financial systems. Other campus bookstores utilize the MBS system, so it might be beneficial to review how other bookstores record purchases and sales in MBS and also obtain the financial information necessary to report the bookstore's financial results in the campus financial system.

#### ***Management Action Plan:***

The campus store management will evaluate the costs and potential benefits of setting up interfaces between MBS and the campus financial system. As UC Merced utilizes the UCLA system and as a new financial system may be implemented during the years ahead, the costs versus the short term benefits of making the changes will be evaluated. As other UC campus stores utilize MBS, store management will discuss system

interfaces, processes, and difficulties encountered with employees at the other UC campus stores. This action plan will be completed by September 30, 2013.

**2. An interface between MBS and the campus financial systems would improve reporting of the store's financial results**

As noted in the prior observation, there is not an interface between MBS and the campus financial system. To account for the store's inventory, Accounting Services sets up the cost of the campus store's inventory in the financial system at year end with a journal entry and then backs out the entire cost in the new fiscal year. As these entries have a large impact on the store's annual financial results, throughout the fiscal year the information in the financial system does not give a true picture of the store's financial results. As a result, the campus store operations manager maintains a spreadsheet which shows the correct financial results throughout the year.

As the financial system does not correctly reflect the store's financial results, anyone looking at the store's information in the financial system without an understanding of the necessary accounting entries would incorrectly believe that the store has a large operating loss during the year. Also, maintaining the financial information in a spreadsheet is not an efficient use of employee time.

We recommend that the costs and benefits of setting up an interface between MBS and the campus financial system be reviewed.

***Management Action Plan:***

The campus store management will evaluate the costs and potential benefits of setting up interfaces between MBS and the campus financial system.

Campus store management will also discuss the year end accounting for inventory with Accounting Services to determine whether it would be possible to adjust the year end inventories to actual rather than setting up and backing out the entire cost of the inventory at year end. Adjusting the year to year inventories to actual rather than setting up and backing out the full inventory cost would improve the Campus Store's ability to utilize the financial results reported in the financial system throughout the year.

This action plan will be completed by September 30, 2013.

**3. Individual accountability for change funds could be improved.**

We noted that after a change fund has been set up in each of the point of service registers at the beginning of each work day, more than one shift of cashiers operate the registers throughout the day. There is no documented accountability for these funds by individual cashiers.

The risk related to the lack of individual accountability is that if there was a shortage, all cashiers who worked on the register during the day could be suspected of misappropriating cash. Per BUS 49, all transfers of cash must be documented to maintain accountability.

This issue was also noted on audit reports issued during 2008 and 2011. While procedures have been implemented to reduce the amounts which could be lost, there is still the risk that cashiers could be unjustly suspected of losses.

We recommend that individual accountability for cash be maintained by cashiers. While this may be difficult as there are many cashiers in the store, we recommend that procedures at other similar campus stores be reviewed to determine how they maintain individual accountability of funds by cashiers.

***Management Action Plan:***

Campus store management is aware of this weakness in the controls. To lower the risks of loss, the campus store has implemented mitigating controls. The point of services system notifies the store supervisor when cash in a register is over \$500 and the supervisor immediately counts and removes part of the cash to the safe. All cash shortages are reviewed by the Campus Store director and by the Associate Vice Chancellor of Student Affairs. Store management believes that the mitigating controls have lowered the risk related to this issue. Management accepts the risk related to this issue.

**4. Security measures required for transporting cash should be followed**

During the end of semester book buybacks, a large amount of cash (over \$50,000) is obtained by Campus Cashiering for the campus store. To maintain control of the cash, customized controls for the campus store have been required by the Campus Cash Coordinator. One procedure requires the campus store director to bring the buyback money to the main cashiering area on a daily basis, before additional cash is provided to the store.

UC Policy BUS 49 "Policy for Cash and Cash Equivalents Received" requires that employees of cash handling departments be escorted by a campus security or police officer when transporting deposits in excess of \$2,500 to the Main Cashiering Station.

The daily amount of cash which the Director brings to the Main Cashiering area sometimes exceeds this amount.

We recommend that security measures as outlined in BUS 49 be properly followed when cash is transported between the campus store and Main Cashiering Station.

***Management Action Plan:***

Campus store management will discuss the daily check in of cash with the Campus Cash Coordinator in Accounting Services and with Campus. The control will be reviewed to determine whether the daily review of cash can be completed at the campus store safe rather than at the Main Cashiering Station. When the amount of cash to be transported to the Main Cashiering Station exceeds \$2,500, store employees will contact Campus Police regarding the need for an escort.

The plan to request a police escort was completed before this report was issued. The plan to review the current controls with the Campus Cash Coordinator and Campus Cashier will be completed by May 31, 2013.

**5. Proper training should be provided to campus store employees**

During the review, we noted employees who perform purchasing for the campus store who have not attended formal purchasing training that covers UC policies, laws, and regulations related to purchasing.

The Purchasing department requires that department purchasers receive formal purchasing training before they are delegated limited purchasing authority. Only after the training has been successfully completed is access granted to the campus purchasing system, CatBuy. Campus store purchasers complete purchase orders in the MBS and the Apple online systems while another campus store employee enters the information into CatBuy. As the purchasers did not request access to the CatBuy system, they were not identified by Purchasing as needing to be trained.

We recommend that the Campus Store employees properly attend Purchasing training when it is identified that the employee will be involved with Purchasing for the store.

***Management Action Plan:***

The campus store management will work with the Purchasing Department to identify all campus store employees who will be involved with purchasing textbooks, merchandise, and computers for the store. All purchasing employees will attend purchasing training to receive the delegation to purchase from the Purchasing Department.

The action plan will be completed by July 31, 2013.

**6. Physical inventory counts should be completed by employees who have no inventory handling responsibilities**

We noted that the employees who maintain the general merchandise inventory at the Olive Avenue warehouse are also the employees who complete the periodic and year end physical counts of the inventory.

To improve segregation of duties over the inventory, employees who are not involved in managing the inventory should complete the physical counts. All resulting differences should be reviewed and approved by the Campus Store Director.

We recommend that store employees who do not manage the inventory at the offsite warehouse should complete the physical counts at that location. If all campus store employees are involved with managing the inventory, we recommend involving Accounting Services or Internal Audit with the year end physical inventory counts.

***Management Action Plan:***

The periodic and year end physical inventory counts will be organized in manner so that employees who do not handle or manage the inventory at the offsite warehouse are responsible for counting the inventory at that location. The campus store will work with Accounting Services and, if necessary, Internal Audit, to review the fiscal year end inventory counts. The action plan will be completed by June 30, 2013.

**7. Procedures for tracking commission checks should be implemented**

From discussion with campus store employees, we noted that commission checks received from some merchants periodically arrive at the store. As a receivable is not set up for these amounts and there is not currently a system of tracking these checks, there is a risk that these checks could disappear without other employees identifying that the commissions were not properly recorded. Also, if the merchant did not properly pay the commissions, it is uncertain whether a campus store employee would currently follow up for payment.

We recommend that a report of expected commission checks be established based upon the merchants with which the store conducts business. This report should periodically be reviewed with the received checks and unrecorded checks should be followed up on.

***Management Action Plan:***

Campus store management will put a procedure in place to review purchases with merchants and identify commission checks to be received. This procedure will include setting up a report or schedule of expected commission checks which will be periodically reconciled with the amounts recorded in the financial system to verify that the amounts

have been received and properly recorded. The Campus Store Director will periodically review and approve the report.

The action plan will be completed by August 31, 2013.

#### **8. Procedures for tracking promotional items should be implemented**

We noted that the campus store periodically receives promotional items from vendors. As these items are not inventory items to be sold to customers, the items are not tracked on an inventory listing.

During June 2012, we noted thirty-seven printers received as promotional items stored in the warehouse. During this review, we determined that there is not a process in place to review and keep track of these items. While the items are properly not included the store's inventory, these items should be tracked to verify that they are correctly provided to customers.

We recommend setting up a procedure to keep track of promotional items from the time the items are received until the time that they are given to customers.

#### ***Management Action Plan:***

Campus store management will establish a procedure to keep track of promotional items. Periodic monitoring of the promotional items will be completed to verify that the items can be properly accounted for.

The action plan will be completed by August 31, 2013.