

February 10, 2011

Nigella Hillgarth
Executive Director
Birch Aquarium at Scripps Institution of Oceanography
0207

**Subject: *Birch Aquarium at Scripps Business Operations
Audit & Management Advisory Services Project 2011-38***

Attached is the final audit report for the referenced review. We would like to thank members of the Birch Aquarium at Scripps for assistance provided through the review.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions at the appropriate time.

UC wide policy requires that all draft audit reports (copied on tan paper for ease of identification) be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them at this time.

Please call me if you have any questions or comments regarding this audit report.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: D. Bennett
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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

**Birch Aquarium at Scripps (BAS)
Business Operations Review
February 2011**

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Project Number: 2011-38

*Birch Aquarium at Scripps (BAS) Business Operations Review
Audit & Management Advisory Services Project 2011-38*

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Birch Aquarium at Scripps (BAS) business operations as requested by the management of the Scripps Institution of Oceanography (SIO). This report summarizes the results of our review.

BAS was created in September of 1992 with the mission of providing ocean science education, interpreting Scripps research, and promoting conservation. There are five BAS business operations supporting its mission: Admissions, Memberships, the Education Program, the Bookstore, and the Splash Café. BAS is open throughout the year, except on three holidays, and is operated by 53 employees and 24 student workers. The Education Program is closed on Sundays due to limited education class activities. All income from the units is deposited into BAS accounts in the campus Integrated Financial Information System (IFIS), with the exception of the Memberships Office where income is deposited directly to UCSD Foundation accounts.

Effective May 1, 2010, responsibility for operating the Splash Café was transferred from UCSD Dining Services to BAS. Effective July 1, 2010, responsibility for operating the Bookstore was transferred from the UCSD Bookstore to BAS. The SIO management request for an audit was largely due to the transition of responsibilities to BAS, with the objective of ensuring good internal controls and sound business practices for all business operations.

The BAS Business Office has implemented three financial information systems (Gateway, Counter Point, and Convergence) to support daily financial activity and facilitate management oversight. **Attachment A** provides a high-level overview of the BAS units, corresponding information systems in use, and revenue recording processes that ultimately result in revenue being recorded via journal voucher posting to IFIS. The BAS Business Office has also drafted a Cash Handling Policies and Procedures Manual (October 2010) detailing various cashiering office duties, including the daily recap reporting and deposit processes for the Bookstore, Café, and Admissions (ticket booth and visitor services).

At the time that we initiated our review in July of 2010, the BAS Business Office was in the process of evaluating its surveillance system to enhance visitor safety and security. The upgrade is projected to be completed in the spring of 2011.

During Fiscal Year 2009-10, over 400,000 persons visited the aquarium.

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The following table summarizes gross operating revenues by business operation for Fiscal Year 2009-10, and the corresponding budget for the current fiscal year.

Business Operation	FY 2009/10 Actual	FY2010/11 Budget
Admissions	\$2,447,000	\$2,290,000
Memberships	\$432,000	\$450,000
Education Program	\$582,000	\$630,000
Bookstore	\$168,000 ^(a)	\$1,147,000
Splash Café	\$30,000 ^(b)	\$288,000
Special Events	\$376,000	\$475,000
Other Revenue	\$116,000	\$50,000
Total Gross Revenue	\$4,151,000	\$5,330,000

(a) FY2009-10 Bookstore revenue represents the net operating revenue after deduction of all operating costs and fees, including the management fee paid to the UCSD Bookstore.

(b) FY2009-10 revenue represents two months gross revenue from the Splash Café operation.

II. Audit Objective, Scope, and Procedures

The objective of our review was to evaluate the adequacy of internal controls for business operations, including management oversight. The scope of our review included cashiering activities, video surveillance for cash handling, procurement activities, inventory management, timekeeping, effort reporting certification, and information systems usage including financial reporting.

In order to achieve our objectives we performed the following:

- Interviewed the BAS management and staff to gain an understanding of business processes and information systems;
- Reviewed the SIO annual reports (FY 2008-09 and 2009-10), current year BAS management financial reports, and IFIS operating ledgers;
- Observed cash handling and revenue recording processes for Admissions, the Education Program, the Bookstore, and the Splash Café to evaluate internal controls and separation of duties;
- Developed an overview of BAS units and corresponding information systems in use, and revenue recording processes (Attachment A);
- For a number of selected days, traced income from the Daily Recap Report to the system daily reports, cash register /credit card reports, supporting documentation, and IFIS journal entries to evaluate embedded internal controls for revenue processing and journal entry posting;
- Reconciled monthly information system financial reports to the IFIS financial accounts to access the utilization of the financial applications' features and functions;
- Reviewed Education Program Cash Handling Policy and Procedures, and Convergence Online Ticketing Procedures;

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- Flowcharted Education Program revenue and cash handling processes (Attachment B);
- Calculated the costs of goods sold ratios for the Bookstore and Splash Café and compared performance with prior years;
- Documented the BAS Bookstore fiscal responsibilities at two points in time:
 - prior to the transition of responsibilities (June 30, 2010 - Attachment C-1); and
 - after the transition and appointment of an Assistant Manager (November 30, 2010 - Attachment C-2);
- Evaluated fiscal responsibilities for adequate separation of duties and management oversight of fiscal activity (AMAS Recommendations – Attachment C-3);
- Observed and evaluated the locations of video surveillance system cameras and remote monitors;
- Tested a sample of Express Card transactions and evaluated Express Card usage;
- Reviewed payroll documentation for July and September 2010 to determine if timesheets were properly approved, DOPE reports were adequately reviewed, and leave was properly approved;
- Tested a random sample of travel expenses to evaluate compliance with policy; and
- Reviewed the status effort reporting completion for the period of January through June 2010.

III. Conclusion

The BAS Business Office implemented a variety of internal control procedures to provide effective oversight for Bookstore and Splash Cafe operations which were transferred back to BAS in May and July of 2010. For example, the Business Office effectively implemented needed information systems, developed cash handling policies and procedures, and created a new BAS Bookstore Assistant Manager position.

However, we also noted that a number of additional improvements are required to provide reasonable assurance of adequate internal controls including management oversight for business activity. These improvements are detailed in the balance of this report, and a number of these improvements were initiated during the course of our review.

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IV. Observations and Management Corrective Actions

A. Revenue Reconciliations

BAS revenues recorded in the campus Integrated Financial Information System (IFIS) were not regularly reconciled to BAS system reports to validate the accuracy of revenue posting.

For each line of business operation, a daily Recap Report was prepared by the business unit (**Attachment A**). The BAS Business Office reviewed and uploaded the revenue amounts to IFIS via journal entry. To keep track of the daily reports, the same sequential document reference (Doc Ref) numbering schema was used in the daily Recap Report for all business operations, except the Education Program. However, the daily IFIS revenue postings were not regularly validated for accuracy or completeness.

During our detailed testing of revenue reporting on a sample basis, we noted that one day's journal entries for one business unit were posted 45 days after the actual date of sales. Regular monitoring of IFIS revenue postings based on the document reference number by Business Office personnel not involved with the deposits could have identified the missing journal entries posting much earlier.

We also noted that the monthly information systems financial reports were not generated and reconciled to the monthly IFIS financial accounts, or reviewed for revenue trends or anomalies. The BAS IFIS accounting structure is somewhat complex with a large number of revenue accounts. Consequently, a secondary review of journal entry postings would be helpful to ensure the accuracy and timeliness of the journal voucher process.

Management Corrective Actions:

1. Each business operation manager will review daily and monthly system financial reports for accuracy and reasonableness.
2. The Education Program will use the same document reference number on its daily Recap Report in order to be consistent with other business operations.
3. BAS Business Office will regularly reconcile journal voucher postings to IFIS with BAS system reports to validate accuracy, and the Doc Ref number will be regularly monitored to ensure the completeness and timeliness of revenue postings for all business units.

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B. Supporting Documentation for Adjustments

Processes for documenting and reviewing daily cash adjustments were not performed in accordance with the recently developed BAS Cashing Handling Policies and Procedures.

As stated in the BAS Cash Handling Policies and Procedures, backup materials for daily recap include Agency Report, Shift Reports, Recap, Deposit, Credit Card Slips, and any void or refund slips. Our detailed testing indicated that most void and returns were not accompanied by the required Refund Slips. Daily adjustments were noted for refunds, credits, voids, transfers, or others without notes, or with very limited notes.

We also noted that some key input errors resulted in the cash over/short amount being overstated or understated versus the daily sales report. Sometimes, the Cash Over/Short amount on the hardcopy of daily sales report was crossed out by reviewer notes or initials. However, there were no indications of correcting adjusting data entries to the system. As a result, the accumulated data balances (i.e. cash over/short) in the system database were not consistent with the amounts summarized in the monthly (and annual) reports.

Sound business practices suggest that cash adjustments require supporting documentation, explanation, and secondary review. In this case, the absence of supporting documentation may be attributable in part to the lack of new system training.

Management Corrective Actions:

1. Each business operation manager will review daily sales reports thoroughly to ensure all adjustments are properly documented and data input to the system is concluded correctly in the sales reports.
2. Additional training will be provided to ensure understanding of the system and corresponding BAS policy requirements.
3. The BAS Business office will closely monitor cash over/short for each business operation to ensure cashing activities are effective.

C. Separation of Duties - BAS Bookstore

The BAS Bookstore Manager position had responsibilities for a number of fiscal activities resulting in an inadequate separation of duties.

Prior to the transition of oversight responsibilities from the UCSD Bookstore to BAS Bookstore management, there appeared to be an adequate separation of duties for fiscal activity (Attachment C-1). The on-site Bookstore Manager had

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primary responsibility for all cashiering activities, ordering merchandise, managing inventory, and monitoring surveillance. All supporting fiscal activities (e.g., cash deposit recounts, receiving, merchandise payments, inventory accounting, and financial monitoring) were performed by UCSD Bookstore personnel on the upper campus.

After the transition, the BAS Bookstore Manager had a number of responsibilities in either a primary or alternate role that indicated a concentration of too many roles in one position (Attachment C-2). For example, the Bookstore Manager could purchase inventory, receive inventory (as alternate), post the inventory receiving (as alternate), review vendor invoices, and approve invoices for payment via the Express Card. As a result, the holder of this position could control the entire purchase acquisition to pay cycle, and could potentially engage in fraudulent activity without detection. The BAS Bookstore very recently created an Assistant Manager position, which was filled effective November 12th. Consequently, some fiscal responsibilities had been transferred to this position accordingly.

Our review also disclosed that the BAS Business Office did not provide for any independent monitoring of BAS Bookstore fiscal activities analogous to the independent off-site monitoring previously performed by the UCSD Bookstore Business Office. In our opinion, BAS Business Office oversight for the Bookstore operations would provide additional assurance in the safeguarding of assets, the reliability of financial information, and compliance with University policies.

Management Corrective Action:

BAS Business Office management will ensure proper separation of duties by reassigning responsibilities as described on Attachment C-3.

D. Cost of Goods Sold and Business Operation Monitoring

Oversight for the Bookstore and Splash Café operations could be improved via regular monitoring the cost of goods sold ratio, and underlying financial data (e.g., purchases, inventory cost, inventory turnover, retail value).

The cost of the inventory is reported on the balance sheet as a current asset. When merchandise is sold, the cost of the items sold is reported on the income statement as the cost of goods sold. The formula for the cost of goods sold is the cost of its net purchases minus the increase in inventory, or its cost of net purchases plus the decrease in inventory. The costs of goods sold ratio should remain relatively constant over time, and significant changes could be indicators of problems. For example, inconsistent or unusual fluctuations in cost of goods sold could be indicative of improper business transactions, or incorrect inventory

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valuations. This could also lead to understated or overstated asset, revenues, costs and /or expenses.

During our review, we noted that the Bookstore manager was in the process of learning the inventory system reporting features and general purchasing functions. However, a monthly inventory report was not generated from the Counter Point system or reviewed by the management.

Management Corrective Action:

The BAS Business Office will increase supervision and monitoring for the Bookstore and Splash Café operations in purchasing, merchandise pricing practices, inventory, cost of goods sold, inventory turnover, retail value and cash exchanging fund.

E. Video Surveillance System

The video surveillance system did not provide adequate coverage for cashiering activities because some locations did not have a camera. In addition, the main remote monitor for supervisory observation of activities was located in a Maintenance Office that was not routinely occupied.

The BAS Bookstore surveillance system appeared to be well configured. There were four cameras covering the cash registers, the store, and the inventory room. The monitor was located in the Bookstore Manager's Office, and showed a live video feed from the four cameras simultaneously.

The balance of the surveillance system consisted of nine cameras for monitoring other BAS operations. Three cameras were focused on the cash handling areas – the admissions ticket booth, the Visitor Service front desk, and the cash vault office. The other six cameras were targeted on the gallery, the back yard, and other open areas. We noted that there were no cameras for the cash registers in the Education Program Office or the Splash Café. The surveillance server and monitor were located in the Maintenance Office which was generally unoccupied and, consequently, did not provide for an active effective monitoring system.

Currently, BAS is in the process of upgrading the surveillance system to enhance the security and safety features for the entire aquarium areas including the parking lots and most common areas. The new digital surveillance server will be located in the main BAS Business Office so that BAS management can monitor the views thru the server. The new surveillance system will incorporate the existing system check points in the second phase of system installation. To utilize the surveillance system effectively, all cash handling locations should be included in the surveillance system.

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Management Corrective Actions:

1. The surveillance system will include all cash handling locations including the Education Program Office and the Splash Cafe.
2. BAS will develop a surveillance review policy to ensure effectively monitoring effort for cash handling locations and general business operations.

F. Travel Expense Approvals

Some travel expense approvals that were not processed in strict accordance with University policy.

University policies for travel expenditures provide that expenses should not be approved by an employee that reports directly or indirectly to the traveler. Accordingly, SIO implemented a new institutional procedure, titled “Travel Expenditure Approval Process” that clearly defined that no one authorizes expenditures for someone to whom they report.

Our review noted that BAS Executive Director’s travel expenses were approved by personnel that reported to the Executive Director.

Management Corrective Action:

The BAS Executive Director’s travel expenses are forwarded to the SIO Assistant Director – Finance & Administration, for review and approval.

G. Express Card Transaction Management

Split purchases and disallowed conference fees payments were noted. Oversight for the Express Card transactions could be improved by supervisory review or spot-check of Express Card transactions to ensure the compliance with the Express Card policy.

Our review noted that BAS has 32 active Express Cards for 30 cardholders and one Express Card Administrator. All Express Card transaction receipts were forwarded to the Express Card Administrator for reconciling to the Express Card transaction notifications. During FY 2009-10, there were 1,342 BAS Express Card transactions totaling approximately \$262,000.

Our detailed transaction testing noted that some split purchases and restricted payments for conference registration fees which were not allowed by the Express Card policy. The conference registration fees were later reversed, and paid via another method. Our review also noted that there was not documentation to

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indicate that these Express Card purchases were reviewed or approved by the Express Cardholder supervisor. The Express Card administrator may request for procurement reasons for some large purchases.

In June 2010, an Express Card was issued to the Bookstore manager for routine bookstore purchases. The monthly credit card limited was \$40,000 and \$4,000 for single purchase limit. For the first four months, July thru October 2010, a total amount of \$108,493 was purchased through the Express Card (282 transactions to 127 vendors). Due to the increase in frequency of purchases with multiple vendors, the BAS Business Office is developing a review system to ensure the proper accounting recording and inventory management for the Bookstore operation.

Management Corrective Actions:

1. BAS Business Office will remind unit supervisors to review or spot-check Express Card transactions with supporting documentation in a timely manner.
2. BAS Business Office will incorporate a method to monitor Express Card purchases as part of inventory management for Bookstore operations.

H. Departmental Timekeeping

Oversight for timekeeper data entry could be improved by generating and reviewing post-data entry system-generated reports.

Timekeeper Data Entry

The concept of separation of duties provides that for all departmental payroll activity, at least two persons should be involved to assure that the timekeeping is accurate and reflects appropriate approved leave and overtime activities, and to minimize opportunities for leave and/or overtime abuse.

Based on our review, updates to the campus Payroll & Personnel System and timekeeping activities were performed by the same person. Our review of processes and timekeeping records indicated that leave was generally requested in advance, and approved by an employee's supervisor. Also, our review did not disclose any data in the payroll reports that was inconsistent with supporting input documents (such as approved leave slips and signed hardcopy Payroll time Records).

However, we noted that the Timekeeper did not regularly generate Timekeeper Audit Reports or Data Entry Verification Reports for a second person to review.

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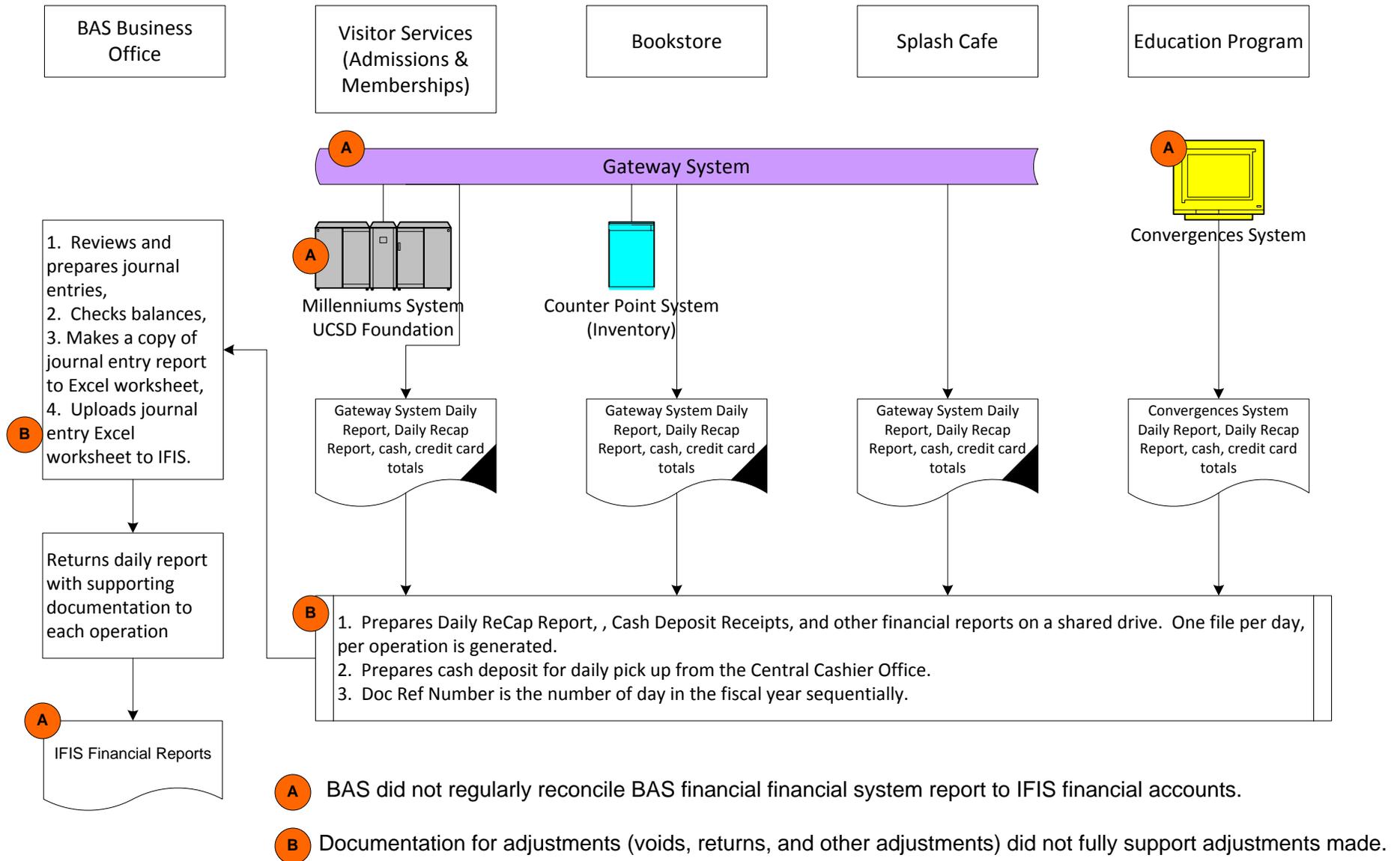
These system output reports represent a potential opportunity for reviewing, on a spot-check basis, the accuracy of timekeeper data entry based on approved input documents.

In our opinion, departmental oversight for timekeeping could be improved if a second person reviewed Timekeeper Audit Reports on a spot-check basis, and periodically reviewed timekeeping activity (i.e. leave usage) for the Timekeeper.

Management Corrective Actions:

1. The BAS timekeeper will generate the Timekeeper Audit Report after data entry has been completed for each payroll cycle.
2. The BAS Business Office will review the Timekeeper Audit Report for accuracy and completeness on a spot-check basis.

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 Overview of BAS Information Systems and Business Processes
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BAS Bookstore Fiscal Responsibilities
As of June 30, 2010

	Task	UCSD Bookstore		BAS		
		System	Business Office	Bookstore Manager (A)	Staff (A)	Business Office
1	Order merchandise -- Bar code is entered if available -- Set sales price and profit margin	RATEX	R	P		
2	Receiving merchandise -- Match with Packing Slip and Purchase List -- Complete Receiving Form, price tags, barcodes -- Count received items -- Post (input) receiving merchandise -- Ship to BAS Bookstore		P/R			
3	Review vendor Invoices -- Match vendor invoices with PO, Receiving Report		P/R			
4	Make purchase payments -- Match charges with vendor invoices		P/R			
5	Daily sales - cash register operation				P	
6	Prepare daily closing reports -- Prepare cash bags and forward to UCSD Bookstore			R	P	
				R	P	
7	Recount cash bags and make deposits -- Review Cash Over/Short balances		P/R			
			P/R			
8	Prepare Daily Recap Report & IFIS Posting	IFIS	P/R			
9	Perform Inventory management -- Set goals for sales, inventory turn-over ratio, and profit margin -- Review merchandise discount/Write-off -- Input Merchandise discount /write-off to the systems -- Review Bookstore Activity Based Management Reports -- Review monthly costs of goods sold -- Perform inventory count		R	P		
			R	P		
			P/R			
			P/R	R		
			P/R			
			P/R			
10	Conduct financial review -- Review Cash Over/Short balances -- Review monthly financial statements		P/R			
			P/R			
11	Physical security -- Camera surveillance -- Cash exchange fund -- Keys, alarms, codes		M	P		
			M	P		
			P/R	User		

P= Preparer R = Reviewer M = Monitoring P/R = Preparer & Reviewer

(A) - Personnel reported to UCSD Bookstore management but were located at BAS Bookstore.

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BAS Bookstore Fiscal Responsibilities
As of November 30, 2010

	Task	BAS					Business Office
		Bookstore System	Manager	Asst. Manager (floor)	Receiving Staff	Staff	
1	Order merchandise thru Express Card -- Bar code is entered if available -- Set sales price and profit margin	Counter Point	P				
2	Receiving merchandise -- Match with Packing List and purchasing list -- Count received items -- Complete Receiving Form -- Stamp "Received" on the purchase list	Counter Point	R (A)		P		
3	Post (input) receiving merchandise -- Stamp "Post" -- Print bar code, if needed	Counter Point	R (A)		P		
4	Print Receiving Report	Counter Point	R (A)		P		
5	Review vendor Invoices -- Match vendor invoices with PO, Receiving Report		P				
6	Prepare Express Card purchases documentation -- Match charges with vendor invoices		P				
7	Review Express Card purchases -- Purchase list, Invoices, Receiving Report, Packing List,						R R
8	Daily sales - cash register operation	Gateway	R	P		P	
9	Prepare daily closing reports		R	P		P	
10	Prepare Daily Recap Report & IFIS Posting	Gateway/ IFIS					P/R
11	Inventory management -- Set goals for sales, inventory turn-over ratio, and profit margin -- Develop inventory reports (by category, by sales, etc) -- Review merchandise discount/Write-off -- Input Merchandise discount /write-off to the systems -- Review Bookstore Activity Based Management Reports -- Review monthly costs of goods sold -- Perform inventory count	Counter Point					
12	Physical security -- Camera surveillance -- Cash exchange fund -- Alarms and system codes		P P P				M

P= Preparer R = Reviewer M = Monitoring P/R = Preparer & Reviewer R/A = Reviewer & Alternate

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BAS Bookstore Fiscal Responsibilities
AMAS Recommendations

	Task	BAS					Business Office
		Bookstore System	Manager	Asst. Manager (floor)	Receiving Staff	Staff	
1	Order merchandise thru Express Card -- Bar code is entered if available -- Set sales price and profit margin	Counter Point	P				
2	Receiving merchandise -- Match with Packing List and purchasing list -- Count received items -- Complete Receiving Form -- Stamp "Received" on the purchase list	Counter Point	R	A	P		
3	Post (input) receiving merchandise -- Stamp "Post" -- Print bar code, if needed	Counter Point	R	A	P		
4	Print Receiving Report	Counter Point	R	A	P		
5	Review vendor Invoices -- Match vendor invoices with PO, Receiving Report		P				
6	Prepare Express Card purchases documentation -- Match charges with vendor invoices		P				
7	Review Express Card purchases -- Purchase list, Invoices, Receiving Report, Packing List,						R R
8	Daily sales - cash register operation	Gateway	R	P		P	
9	Prepare daily closing reports		R	P		P	
10	Prepare Daily Recap Report & IFIS Posting	Gateway/ IFIS					P/R
11	Inventory management -- Set goals for sales, inventory turn-over ratio, and profit margin -- Develop inventory reports (by category, by sales, etc) -- Review merchandise discount/Write-off -- Input Merchandise discount /write-off to the systems -- Review Bookstore Activity Based Management Reports -- Review monthly costs of goods sold -- Perform inventory count	Counter Point					R R R R R R R
12	Conduct financial review -- Review Cash Over/Short balances -- Review monthly financial statements						M M M
13	Physical security -- Camera surveillance -- Cash exchange fund -- Alarms and system codes						M M M

P= Preparer R = Reviewer M = Monitoring P/R = Preparer & Reviewer A = Alternate
 AMAS recommendations for separation of duties in different roles.