

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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Memo

To: Thedford L. Shanklin CPA, Director

From: Mike House CPA, Supervisor

Date: October 17, 2002

Subject: FOLLOW-UP REVIEW OF THE AUDIT REPORT OF
MARSHALL UNIVERSITY BOOKSTORE FOR THE
PERIOD JULY 1, 1998 - JUNE 30, 2000

In accordance with your instructions we conducted a follow-up review to examine the implementation of recommendations contained in the audit of Marshall University Bookstore for the period July 1, 1998 - June 30, 2000. In conducting this follow-up, we met with the following Marshall University employees: Mr. Herb Karlett, Senior Vice President of Finance and Karen Kirtley, Manager/Student Center Operations. We also received information from Dr. Edward Grose Senior Vice President of Operations. In addition we reviewed new procedures implemented to comply with audit recommendations. Our review shows controls have been strengthened and recommendations have been followed in several instances. However, the University Bookstore continues to sell to the general public and even though the Chancellor and the Policy Commission have formed a "Fee Simplification Committee" for the purpose of simplifying the transfer requirements among state accounts there has been no action by that committee to date. The specific actions taken by Marshall University with respect to each finding in the report are set out as follows:

FINDING # 1 - UNAUTHORIZED TRANSFERS

Marshall had excess funds totaling \$1,716,238.44 that should have been transferred into a special efficiency surplus fund and expended through legislative appropriation or transferred into another account using the procedure outlined in Chapter 18B, Article 5,

Section 2a of the West Virginia Code. However, the University transferred \$1,009,345.05 to the Scholarship Fund without complying with those procedures and the remaining \$706,889.38 was accumulated in the Bookstore Fund.

We recommended:

Marshall University should comply with Chapter 18B, Article 5, Section 2a of the West Virginia Code by transferring funds as permitted in the Code and by using bookstore funds for expenses related to the bookstore.

University Action:

According to Mr. Karlett, the Chancellor and the Policy Commission formed a "Fee Simplification Committee" for the purpose of simplifying the transfer requirements among State accounts. However, Mr. Karlett stated that after an initial wait for some recommendation from that committee, he has resumed the practice of transferring the profits received from commissions in the Bookstore Fund directly to the State Scholarship Clearing Fund as reported in our audit.

Post Audit Division Comments:

Either the appointed committee needs to follow through with a recommendation that ensures compliance with the applicable code sections or some other action needs to be initiated immediately to ensure compliance.

FINDING # 2 - SALES TO THE GENERAL PUBLIC

The current operation of the bookstore does not meet the purpose for which the bookstore was originally created. The bookstore was to be a self-supporting operation which serves the campus community. It is specified no sales are to be made to the general public.

We Recommended:

Marshall University should comply with Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, until the law is changed to allow sales to the general public.

University Action:

No action has been taken. The Senior Vice President of Operations provided the following response: "As you are aware, Marshall University has contracted the Bookstore operations to Follett College Stores Corp, and as a result, it is no longer a self-operated bookstore. As a contractor, Follett has taken the position that under their contract, they are not limited to whom they can sell merchandise."

Post Audit Division Comments:

The University is still responsible for monitoring the contract and that should include requiring the contractor to operate within the limit of existing laws.

FINDING # 3 - CONTRACT MONITORING

Marshall is not monitoring bookstore sales or other financial records available to them to verify the bookstore's total gross sales in order to determine whether the University is receiving the appropriate commission amount.

We Recommended:

Marshall University needs to establish procedures to monitor the contract, West Virginia Board of Trustees Purchase Order 144917, by reviewing the financial documents and operation statements with Follett on a continuing basis.

University Action:

The University has implemented procedures to review the financial data available to them and the contractor has installed a new JDA point of sale system which has non-changeable grand totals which provides the University with the monthly departmental sales from each register. In addition, a University representative meets monthly with the contract vendor to review all operation statements and related records.

Post Audit Division Comments:

Action taken is in compliance with our recommendation.

FINDING # 4 - GROSS PROFIT MARGINS

The contractor's policy for buying back and reselling used textbooks does not comply with the gross profit margins set by Legislative Rule. Additionally, Marshall is not reviewing the gross profit margin applied to textbooks for compliance with the margins set by Legislative Rule.

We Recommended:

Marshall University needs to comply with Title 128, Series 7, Section 2 of the Legislative Rules that the gross profit margins comply with those set by Legislative Rule.

University Action:

No action necessary.

Post Audit Division Comments:

Marshall University provided information showing the gross margin to be in compliance with Legislative Rule.

FINDING # 5 - UNAUTHORIZED EXPENDITURES

Eight computers were purchased at a total cost of \$15,093.21 from the Bookstore Fund. However, the computers were for the use of various other departments and were placed in those departments when they were received. Also three of these computers were later sold by the University, and the net proceeds totaling \$119.40 were deposited in the Special Services Income Fund instead of the Bookstore Fund.

We Recommended:

Marshall University should comply with Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended; Title 128, Series 21, Section 14 of the procedural Rules; and Sections 10.1.4 and 10.5.1 of the State College and University Systems of West Virginia's Purchasing Manual by using bookstore funds for expenses directly related to the bookstore and by depositing proceeds of a public sale in the fund that original purchased the item.

University Action:

The university has ceased charging the Bookstore Fund fees to cover indirect costs since the operation was contracted to Follett. The noncompliance was a result of that practice and has thus been corrected.

Post Audit Division Comments:

The University appears to now be in compliance in this area.

FINDING # 6 - REIMBURSEMENTS DEPOSITED INTO INCORRECT FUND

Reimbursements in the amount of \$5,807.32 for expenses paid from the Bookstore Fund during fiscal years 1999 and 2000 were deposited into the Student Union Fund instead of the Bookstore Fund.

We Recommended:

Marshall University should comply with Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, by depositing the postal reimbursements in the Bookstore Fund. In addition, the Bookstore Fund should be reimbursed from the student Union Fund for the erroneous deposits.

University Action:

Transfers have been made to correct the deposit errors. In addition to the \$5,807.32 reported in our audit, an additional \$8,821.06 was transferred to correct additional errors made both before and after our audit period. Procedures were implemented to avoid this error in the future.

Post Audit Division Comments:

Action taken is in compliance with our recommendation.

FINDING # 7 - EQUIPMENT USAGE AND DISPOSAL

Two computers originally purchased with bookstore funds were sold by the University at a public sale by written bid. However, these computers had been previously stripped of their parts without proper approval and only the computer shells were sold.

We Recommended:

Marshall University should comply with the Marshall University Department of Purchasing and Materials Handbook by properly disposing of property only after obtaining the appropriate approval.

University Action:

A memorandum dated January 11, 2001 was prepared by the Marshall University Director of Purchasing, and forwarded to all departments emphasizing the importance of properly disposing of equipment. In addition, an updated handbook was sent to all departments on January 7, 2002.

Post Audit Division Comments:

Action taken is in compliance with our recommendation.