STATE OF WEST VIRGINIA

AUDIT REPORT

OF

MARSHALL UNIVERSITY BOOKSTORE

FOR THE PERIOD

JULY 1, 1998 - JUNE 30, 2000

OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

MARSHALL UNIVERSITY

BOOKSTORE

FOR THE PERIOD

JULY 1, 1998 - JUNE 30, 2000

WEST VIRGINIA LEGISLATURE

Joint Committee on Government and Finance

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CHARLESTON, WEST VIRGINIA 25305-0610

To the Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 18B, Article 10, Section 14, as amended, we have examined this account of Marshall University Bookstore.

Our examination covers the period July 1, 1998 through June 30, 2000. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

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MARSHALL UNIVERSITY

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EXIT CONFERENCE

We held an exit conference on June 6, 2001 with F. Layton Cottrill, Jr., Chief of Staff and General Counsel, Herbert J. Karlett, Senior Vice President of Finance Affairs and other representatives of Marshall University. All findings were reviewed and discussed. Marshall University's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

MARSHALL UNIVERSITY

BOOKSTORE

INTRODUCTION

The Marshall University Bookstore serves the campus community by providing books and supplies required for course work. The Bookstore also provides general books, supplies, college rings, University clothing and merchandise, and other items related to or needed by the University and it's students.

The Bookstore was operated by Marshall University until May 1995 when an agreement was formed between the West Virginia Board of Trustees, for and on behalf of Marshall University, and Follett College Stores. The agreement indicated that Follett would manage the Bookstore, and Marshall University would simply receive a sales commission.

At the agreement date, the Marshall University Bookstore had eleven employees. These employees were allowed to remain as Bookstore employees under the agreement; however, Follett is now responsible for reimbursing any personal services costs for these employees. In addition, any newly hired Bookstore employees are considered Follett employees and are not employees of the University.

In June of 1997, a change order was approved including the management of the Campus Bookstore at the Marshall University Graduate College. Therefore, the Graduate College Bookstore is also under the management of Follett while Marshall simply receives a commission.

The commissions received, expenses paid, and the reimbursement of these expenses for the Marshall University Bookstore and the Marshall University Graduate College Campus Bookstore are received and disbursed from the Bookstore Fund.

MARSHALL UNIVERSITY

ADMINISTRATIVE OFFICERS AND STAFF

AS OF JUNE 30, 2000

Dr. Dan Angel .... President
(January 2000 - Current)

Mike Perry .... Interim President
(August 1, 1999 - December 31, 1999)

Dr. J. Wade Gilley .... President
(August 1, 1991 - July 21, 1999)

F. Layton Cottrill, Jr. .... Chief of Staff and General Counsel

Herbert J. Karlet .... Senior Vice President of Finance Affairs

Ted W. Massey .... Associate Vice President of Finance

Larry E. Barnhill .... Director of Accounting

Barry Beckett .... Director Student Financial Systems/Bursar

Perry Chaffin .... Director of Audits

William J. Shondel .... Director of Purchasing and Material Management

Karen Kirtley .... Manager of Student Center

Mike Campbell .... Manager of Bookstore (Follett Employee)

MARSHALL UNIVERSITY

BOOKSTORE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our examination, it became apparent to us, based on the observed noncompliance with the West Virginia Code, Marshall University (Marshall) did not have an effective system of internal controls in place to ensure compliance with the applicable State laws, rules and regulations.

   Auditor's Recommendation

   We recommend Marshall comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish a system of internal controls.

   University's Response

   Marshall University did not respond to our recommendations. (See pages 9-11)

Authorization of Contract

2. Marshall entered into a contract with Follett College Stores (Follett) in July 1995, which allows Follett to manage and operate the University's bookstore. The Circuit Court of Kanawha County Ruled in 1991 it was allowable to contract with private corporations to operate and manage college bookstores.

Unauthorized Transfers

3. 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 procedures outlined in Chapter 18B, Article 5,

Section 2a of the West Virginia Code. However, the University transferred $1,009,349.05 to the Scholarship Fund without complying with those procedures and the remaining $706,889.38 was accumulated in the Bookstore Fund.

Auditor's Recommendation

We recommend Marshall University comply with Chapter 18B, Article 10, Section 14 and 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's Response

Marshall University did not respond to our recommendations. (See pages 13-16)

Sales to the General Public

4. 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.

Auditor's Recommendation

We recommend Marshall University 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's Response

Marshall University did not respond to our recommendations. (See pages 16 and 17)

Contract Monitoring

5. 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 appropriation commission amount.

Auditor's Recommendation

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

University's Response

Marshall University did not respond to our recommendations. (See pages 17-20)

Gross Profit Margins

6. 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 margins applied to textbooks for compliance with the margins set by Legislative Rule.

Auditor's Recommendation

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

University's Response

Marshall University did not respond to our recommendations. (See pages 20-22)

Unauthorized Expenditures

7. 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.

Auditor's Recommendation

We recommend Marshall University 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 the proceeds of a public sale in the fund that originally purchased the items.

University's Response

Marshall University did not respond to our recommendations. (See pages 22-25)

Reimbursements Deposited into the Incorrect Fund

8. 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.

Auditor's Recommendations

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

University's Response

Marshall University did not respond to our recommendations. (See pages 26 and 27)

Equipment Usage and Disposal

9. 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.

Auditor's Response

We recommend Marshall University comply with the Marshall University Department of Purchasing and Materials Management Handbook by properly disposing of property with the appropriate approval.

University's Response

Marshall University did not respond to our recommendations. (See pages 27 and 28)

MARSHALL UNIVERSITY BOOKSTORE

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the Marshall University Bookstore. The audit covered the period of July 1, 1998 through June 30, 2000.

SPECIAL REVENUE ACCOUNT

All expenditures required for the general operation of the Marshall University Bookstore are accounted for through the following special revenue account:

Account Number	Description
4232-640	Bookstore Fund

COMPLIANCE MATTERS

Chapter 18B, Article 10, Section 14 of the West Virginia Code generally governs the Marshall University Bookstore. We tested the above code section plus other applicable chapters, articles and sections of the West Virginia Code as they pertain to financial matters. Our findings are discussed below.

Lack of Effective System of Internal Controls

During the course of our examination, it became apparent to us, based on the observed noncompliance with the West Virginia Code, Marshall University (Marshall) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, states in part:

> "The head of each agency shall:
>
> . . .(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities. . . ."

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our audit of the Marshall University Bookstore, we found the following noncompliance with State laws or other rules and regulations: **(1)** Excess funds totaling $1,716,238.44 were not transferred into a special efficiency surplus fund and expended through Legislative appropriation or transferred into another account using the procedures required by the West Virginia Code. **(2)** The current operation of the bookstore does not meet the purpose for which the bookstore was originally created. The bookstore is open to the general public instead of being operated solely for the use of the campus community. **(3)** Marshall is not monitoring the financial records of the bookstore to ensure the University is receiving the correct amount in commissions. (4) The contractor's policy for buying back and reselling used textbooks does not comply with the gross profit margins set by Legislative Rule; and Marshall is not reviewing the gross profit margins associated with textbook sales for compliance with the Legislative Rule. **(5)** Eight computers with a total cost of $15,093.21 were purchased from the Bookstore Fund, but were ordered for use in other departments. Three of these computers were then sold, and the proceeds were not deposited into the

Bookstore Fund. (6) The contractor's reimbursements to Marshall for expenses paid from the Bookstore Fund in the amount of $5,807.32 were deposited into the Student Union Fund. (7) Two computers were stripped of their parts without proper approval before they were sold at a public sale.

We recommend Marshall University comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish a system of internal controls.

University's Response

A detailed review of the responses to each finding will demonstrate that Marshall University does have an effective system of internal control, a system that has assisted the University in accomplishing some very impressive goals. This review of the responses will also demonstrate that the university has complied with the West Virginia code.

Authorization of Contract

Marshall entered into a contract with Follett College Stores in July 1995, which allows Follett to manage and operate the University's bookstore. The contract calls for Follett to pay all operating expenses of the bookstore, with the exception of utilities, and for Marshall to receive a percentage of gross sales.

The West Virginia Code authorizes Marshall to operate and maintain a bookstore but does not specifically authorize contracting the operation of the bookstore.

Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, states in part:

> "The appropriate governing board of each state institution of higher education shall have the authority to establish and operate a bookstore at the institution. The bookstore shall be operated for the use of the institution itself, including each of its schools and departments, in

> making purchases of books, stationery and other school and office supplies generally carried in college stores, and for the benefit of students and faculty members in purchasing such products for their own use, but no sales shall be made to the general public. . . ."

When we asked the University for the authorization used in contracting the operation of their bookstore, we were provided with the State College and University Systems of West Virginia's Purchasing Manual referencing the University's purchasing authority and the general authorization to purchase or acquire services. The manual provided did not specifically address contracting the operation of the bookstore, nor did it reference any authority to deviate from the aforementioned code section. However, The Legislative Services Division provided us a copy of Civil Action No. 91-C882, WEST VIRGINIA UNIVERSITY ASSOCIATION OF CONCERNED EMPLOYEES, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO, an unincorporated association; ROSALIE BISER, for herself and others similarly situated; and DONALD FOY, for himself and others similarly situated. v. THE UNIVERSITY OF WEST VIRGINIA BOARD OF TRUSTEES. The Circuit Court of Kanawha County, West Virginia concluded in this matter, "the defendant, the University of West Virginia Board of Trustees, may, delegate to the West Virginia University authority to enter into contracts with private corporations or entities for the operation and management of the WVU bookstore."

In rendering its decision, the court relied on the Legislature's grant of broad authority to the governing boards in §18B-1-7 to have general determination, control, supervision and management over the financial, business, and educational policies and affairs of the state institutions of higher education, and, within limitations, to delegate power and control over financial, educational and administrative affairs to the institutions.

University's Response

It is the University's position that the institution is authorized to enter into such agreements pursuant to Chapter 18B Article 5, Section 3 of the West Virginia Code of 1931, as amended (see attachment). This provision clearly provides for the contracting for services from outside vendors. It should also be noted that our governing board and the West Virginia Attorney General's Office approved the contract. In West Virginia University Association of Concerned Employees et al vs. The University of West Virginia Board of Trustees (91-C-882 1991 attached), WVU entered into the same type of agreement only with a different vendor. The Circuit Court of Kanawha County relying on 18B-1-7 (attached) found that the Board of Trustees may delegate the authority to enter into contracts with private corporations for the operation and management of bookstores.

Based upon the foregoing, Marshall University would submit that it is authorized by state law and judicial opinion to contract with a private vendor for operation of a bookstore.

Unauthorized Transfers

At the beginning of our audit period July 1, 1998, the Bookstore Fund had a balance of $740,635.13. In addition, during our two year audit period, Marshall realized a profit of $975,603.31 from commissions on bookstore sales after having paid the portion of expenses required by the contract with Follett. Since none of the account balance or profit which together totaled $1,716,238.44 was needed for the operation of the bookstore, all of this amount should have been transferred into a special efficiency surplus fund and expended through appropriation by the Legislature or transferred into another account following the procedures required by Chapter 18B, Article 5, Section 2a of the West Virginia Code. However, we found no evidence to indicate the aforementioned procedures were followed when the University transferred $1,009,349.05 ($468,023.20 in fiscal year 1999 and $541,325.85 in fiscal year 2000) to the State Scholarship Clearing Fund to be used for Presidential and Competitive Scholarships, which are general scholarships offered by the University. The remaining excess revenues were accumulated in the Bookstore Fund, which had a balance of $706,889.39 as of June 30, 2000.

Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, states in part:

> "... **Moneys derived from the operation of the bookstore shall be used first to replenish the stock of goods and to pay the costs of operating and maintaining the store**. From any balance in the Marshall university bookstore fund not needed for operation and maintenance and replenishing the stock of goods, the governing board of that institution shall have authority to expend a sum not to exceed two hundred thousand dollars for the construction of quarters to house the bookstore in the university center at Marshall University. . . ." **Emphasis added**

Chapter 18B, Article 5, Section 2a of the West Virginia Code states in part:

> "(a)...the transfer of moneys in a special account established for a particular purpose into another account for expenditure for another purpose, are specifically authorized for a spending unit under the jurisdiction of the governing boards subject to the following conditions:
>
> (1) The president or other administrative head of a state institution of higher education submits a written request to the appropriate governing board...
>
> (3) Such a transfer does not:
>
> (A) **Expand a program,** establish a new program or provide capital for an expense that cannot be paid during the current fiscal year. . . If, due to **increased efficiency in operations,** a state institution of higher education **accumulates balances** in any of its accounts ...which are **in excess of the amounts needed to accomplish the**

> **purposes for which the accounts were established,** either general or special revenue, the institution may employ the transfer provisions established in... subsection (a) of this section to transfer such excess balances into a special efficiency surplus revolving fund which shall be created in the state treasury for the institution and which shall be carried forward into the subsequent fiscal years: Provided, That **expenditures from any special efficiency surplus fund shall only be made upon line item appropriation by the Legislature.** . . ." **Emphasis added**

The funds in excess of those needed to operate the bookstore were not transferred into a special efficiency surplus fund or transferred into another account using procedures outlined in Chapter 18B, Article 5, Section 2a of the Code, but were instead accumulated or used to fund scholarships. Marshall did not follow the the West Virginia Code and the Legislature did not get to exercise its authority to control the use of those funds.

We recommend Marshall University comply with Chapter 18B, Article 10, Section 14, as amended, and Chapter 18B, Article 5, Section 2a of the West Virginia Code by transferring funds only as permitted in the Code and by using bookstore funds for expenses related to the bookstore.

University's Response

It is the University's position that the requirement to transfer monies into a special efficiency fund only applies or is required where the institution operates its own bookstore pursuant to 18B-10-14 of the Code. Since the bookstore is now operated pursuant to a contract with a private vendor for the benefit of the State this provision would not apply. If it is determined that these commission funds should be deposited and/or transferred into another Marshall University Special Revenue unrestricted account, we would immediately comply with any such guidance. However should it be found that this section does apply, the institution maintains that

it is following the code provisions as to utilizing funds for replenishing, operating and maintaining a bookstore and would observe that the code is silent as to the expenditure of any excess.

Sales to the General Public

The current operation of the bookstore does not meet the purpose for which the bookstore was originally created. According to the West Virginia Code and Legislative rules concerning the bookstore, the purpose of the bookstore is to be a self supporting operation which serves the campus community and to provide materials required for course work or items related to the University. Additionally, it is specified that no sales are to be made to the general public.

Since the implementation of the contract in 1995, personnel operating the bookstore are not requiring identification from individuals who make purchases to insure that those individuals are either students or other members of the campus community. This practice, in effect allows the general public to make purchases from the campus bookstore. Using the bookstore as a revenue source, and selling to the general public is not in compliance with the stated purpose of solely serving the campus community, for which the bookstore was created.

Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, states in part:

> "The bookstore shall be operated for the use of the institution itself, including each of its schools and departments, in making purchases of books, stationery and other school and office supplies generally carried in college stores, and for the benefit of students and faculty members in purchasing such products for their own use, but no sales shall be made to the general public. . . ."

We recommend Marshall University 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's Response

It is the University's position that the bookstore is still operated for the intent and purpose as set forth in 18B-10-14, although in a more efficient and cost saving manner for the State. However, it should be noted that based upon our above discussion, it is the insitution's position that this section is not applicable. We also maintain that due to parking difficulties and lack of marketing effort, sales to the general public is immaterial.

Contract Monitoring

Since entering into the contract with Follett, Marshall receives a percentage of total sales from Follett as specified in the contract. According to the contract, Marshall receives 9.5% of gross revenue up to $3,000,000.00 and 10.5% of gross revenue over $3,000,000.00 for each year. However, Marshall is not monitoring bookstore sales or other financial records to verify the bookstore's total gross sales and to determine whether or not the University is receiving the appropriate commission amount.

The contract allows Marshall to review Follett's financial collection records and cash registers on demand and to discuss these records with Follett. However, Marshall has not requested nor reviewed any of these records from Follett.

Marshall does receive a monthly income statement from Follett. According to the Manager of the Student Center, the income statement's total sales amount is compared to the total sales amount indicated on the commission computation report, which is sent with each commission check, for verification. However, these monthly income statements contain obvious errors such as gross profit amounts that are higher than the actual sales amounts, which should not be possible; therefore, the statements should not be relied upon to verify total sales.

Since Marshall is not monitoring Follett's financial collection records and is simply using the monthly income statements to determine total sales, Follett's gross sales have not been verified by the University. Therefore, Marshall has no assurance that the University is receiving the actual commission amount as agreed to in the contract.

West Virginia Board of Trustees Purchase Order 144917, page 13 states in part:

> ". . .Vendor shall permit an authorized representative of the University to read the cash registers and meters upon demand. Copies of financial collection records will be provided to the University upon request. . . ."

West Virginia Board of Trustees Purchase Order 144917, page 19 states in part:

> ". . . Representatives of the vendor shall review all such operating statements and related records with University representatives if requested by the University.
>
> All cash registers or point of sale equipment utilized by the contractor shall have non-changeable grand totals. . . ."

Marshall is only using the reports sent with the commission check and the monthly income statement to verify Follett's total sales. The actual cash register grand totals and financial collection records should have been reviewed by the University to determine the validity of the income statement amounts thereby enabling Marshall to determine whether the correct sales commission amount was being received.

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

__University's Response__

Follett College Stores provides the University with a detailed operating statement for each monthly period and cumulative year-to-date information as required by the contract. Information provided includes total sales for each month. In addition comparative history of sales reports are provided and reviewed upon request in order to assess any increases or decreases in departmental sales and used as a comparison with the monthly income statement. The vendor and the University review financial reports.

As stated in the Follett contract, the University is guaranteed a __minimum__ of $3,575,000.00 over a ten-year period according to the following schedule.

Year 1	*$300,000.00*
Year 2 & 3	*$325,000.00*
Year 4 & 5	*$350,000.00*
Year 6, 7, & 8	*$375,000.00*
Year 9 & 10	*$400,000.00*

Each year, the minimum guarantee is paid in 12 equal payments. Payment includes a report on monthly and cumulative sales. Totals are compared with monthly statements. Internal spreadsheets are maintained on sales and commissions received. At the end of each fiscal year Follett provides a year-end payout commission of 10.5% for all gross revenue over $3,000,000.00. The internal spread sheet on total sales and commissions received are reviewed to ensure guaranteed commission is received and year-end payout commission is correct and in accordance with year-end sales.

A year-end report is also requested by the University and prepared by the Student Center Managers office reporting all commissions and reimbursements received by Follett. The University does a "Trend Analysis" to make certain annual sales are reasonable.

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. Legislative Rule indicates the gross profit margin on textbooks should not be in excess of 33 1/3%; however, Follett's policy as defined in Follett's proposal, which was accepted as part of the contract, indicates that textbooks will be bought back at 50% of the current retail price and then sold at prices not exceeding 75% of the current new textbook selling price, which results in a 50% gross profit margin.

Since Follett's policy allows a 50% profit margin and Legislative Rule indicates a 33 1/3% profit margin, the possible gross profit margin on used textbooks is at least 16.67% higher than the textbook margin defined in the Rules. In effect, this procedure may result in students paying a higher price for used textbooks than that permitted by the Legislative Rules.

Title 128, Series 7, Section 2 of the Legislative Rules states in part:

> "...In the interest of maintaining its self-supporting status, the bookstore must concern itself with gross profit margins. The following pricing policy will apply:
>
> (a) Textbooks: **Margin on textbooks should not be in excess of thirty-three and one-third percent (33 1/3%).**
>
> (b) Instructional materials: Margin on instructional materials should not be in excess of forty percent (40%). . . ." **Emphasis Added**

West Virginia Board of Trustees Purchase Order 144917, page 28 states in part:

> ". . .We will **buy back textbooks** that have been adopted for the upcoming term at **50% of the current retail price**. . . ." **Emphasis Added**

West Virginia Board of Trustees Purchase Order 144917, page 48 states in part:

> "All **used books** including cloth, paperback and others, will be **sold at prices not exceeding 75%** of the current new textbook selling prices." **Emphasis Added**

According to Follett's policy, if the current retail/selling price is $100.00, the buy back price is $50.00 (50%). The resell price will not exceed 75% of the current new textbook selling price, which results in a price not exceeding $75.00. If the book is bought back at $50.00 and then resold for $75.00, the sale results in a 50% markup. In effect, this policy allows a gross profit margin that is 16.67% higher than the 33 1/3% margin allowed by Legislative Rule. In addition, Marshall University is not reviewing the gross profit margins applied to textbooks for compliance with the margins set by Legislative Rule.

Follett submits monthly income statements to the University. Beginning October 1999, the income statements contain the gross profit margins for both new and used textbooks. The gross profit margin indicated on those reports for used textbooks in October 1999 is obviously in error since the amount of profit shown represents 207.84% of the gross sales amount. In March 2000, the amount of gross profit reported was 857.30% of gross sales for used textbooks and 237.24% of gross sales for the new textbooks. Obviously, gross profits on book sales can not exceed actual book sales; therefore, the gross profit percentage should not exceed 100 percent of sales. Although the remaining gross profit margins reported appear to be reasonable, gross profit margins are not being reviewed or questioned by Marshall personnel. According to the Manager of the Student Center, there is no review of the gross profit margins applied by Follett.

Therefore, there is no assurance that the prices charged for new and used textbooks are in compliance with the Legislative Rules. This may result in students paying excessive prices for textbooks.

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

University's Response

It is the University 's position that Title 128 Series 7 Section 2 only applies to situations where institutions operate their own bookstores and is clearly superseded by the provisions of 18B-5-3 and 18B-1-7.

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 immediately placed in those departments when they were received.

According to the Student Center Manager, the computers were not used in the bookstore. The computers were bought from the Bookstore fund, but the corresponding purchase orders indicated they were ordered for other departments. Two were ordered for the Bursar's Office, two for the Payroll Office, and one for the Associate Vice President of Finance. According to the Supervisor of Central Receiving, three of the computers were purchased for Accounts Payable; however, the University could not provide us with a purchase order for these computers.

The purchase of these computers was an unauthorized expenditure of monies from the Bookstore Fund. Bookstore funds are not to be used for purposes other than the operation of the bookstore.

Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, states in part:

"... **Moneys derived from the operation of the bookstore shall be used first to replenish the stock of goods and to pay the costs of operating and maintaining the store.** From any balance in the Marshall university bookstore fund not needed for operation and maintenance and replenishing the stock of goods, the governing board of that institution shall have authority to expend a sum not to exceed two hundred thousand dollars for the construction of quarters to house the bookstore in the university center at Marshall university...." **Emphasis added**

In addition, three of these computers originally purchased with bookstore funds were sold by the University at a public auction. The net proceeds from the sale of the computers totaling $119.40 were not deposited in the Bookstore Fund.

Forty percent of the sale proceeds were used to pay administrative costs (30% to Purchasing and 10% to Finance) while the remaining 60% should have been allocated to the fund originally purchasing the equipment items as shown below:

Item	Tag Number	Sale Price	Administrative Cost (40%)	Amount Allocated to the Department (60%)
Computer	142012	$80.00	$32.00	$ 48.00
Computer	142013	$80.00	$32.00	$ 48.00
Computer	142123	$39.00	$15.60	$ 23.40
Total				$119.40

The proceeds from the sale, minus administrative costs, should have been deposited into the Bookstore Fund, which originally purchased the computers, but were instead deposited into the Special Services Income Fund (4236). As a result, funds that should have been available for the operation of the bookstore were used for other purposes.

Title 128, Series 21, Section 14 of the Procedural Rules states in part:

> ". . .The funds an institution receives from the sale of surplus materials, supplies, and equipment shall be deposited in the institutional account originally used to purchase said materials, supplies, and equipment, if such account is readily ascertainable, minus any administrative costs associated with the disposal."

Section 10.1.4 of the State College and University Systems of West Virginia's Purchasing Manual states:

> "The funds an institution receives from the sale of obsolete, surplus and unusable materials, supplies and equipment shall be deposited in the institutional account originally used to purchase said materials, supplies and equipment if such account is readily ascertainable, minus any administrative costs associated with the disposal."

Section 10.5.1 of the State College and University Systems of West Virginia's Purchasing Manual states in part:

> "All monies derived from the sale of obsolete, surplus and unusable materials, supplies and equipment must be redeposited as follows, provided the account originally used for the purchase is readily ascertainable, minus any administrative costs associated with such sale:
>
> . . . Purchases made from special revenue funds must be redeposited into the same fund from which the expenditure originally occurred."

Total proceeds from public sales of equipment are deposited into WV FIMS Special Services Income Fund, and the allocation of sale proceeds to the proper department is only accounted for using internal fund numbers. Since the computers were not purchased for bookstore use, the problem was compounded when the net proceeds were allocated to the accounts of the departments that had used the computers instead of the Bookstore Fund.

We recommend Marshall University 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 the proceeds of a public sale in the fund that originally purchased the items.

University's Response

As part of the University's internal control procedures, the auxillary accounts are expected to cover both their direct and indirect cost. In other words, the Bookstore was assessed a fee to cover the indirect services provided by Accounting, Cash Receipts/Depositing, Purchasing, Payroll, etc.

In the years prior to the issuance of the Follett contract, the Bookstore was assessed a $22,000 annual fee to cover the estimated cost for services. These funds were segregated from the operating account within the Bookstore account and were used for the purchase of the eight computers.

The assessment of an indirect cost rate or overhead recovery is a common and good business practice. These "overhead" funds should be used to help pay for the cost of these support services. Indirect cost recovery enhances the institution's ability to fund educational activity. We believe any funds derived from the sale of these computers should go to the departments providing the services to the Bookstore. The original funds were from the indirect cost assessments made to the Bookstore; therefore, the Bookstore is not entitled to these funds.

Not to charge an indirect fee to the Bookstore, for the indirect services provided, would result in the institution subsidizing this activity. Subsidizing the Bookstore is not part of our mission.

Reimbursements Deposited into the Incorrect Fund

Follett's reimbursements to Marshall in the amount of $5,807.32 for expenses paid from the Bookstore Fund during fiscal years 1999 and 2000 ($2,973.76 in fiscal year 1999 and $2,833.56 in fiscal year 2000) were deposited into the Student Union Fund.

The University's Mail Service invoices the bookstore monthly for postal service used during the month, and this monthly amount is paid from the Bookstore Fund. According to the contract, Follett is responsible for the operating expenses; therefore, Follett subsequently reimburses these postal charges. However, the reimbursements were deposited into the Student Union Fund instead of the Bookstore Fund, from which the disbursements were originally made. As a result, Bookstore Funds were being used to supplement the Student Union Fund.

Chapter 18B, Article 10, Section 14 of the West Virginia Code, as amended, states in part:

> ". . .The prices to be charged the institution, the students and the faculty for such products... shall in all cases include in addition to the purchase price paid by the bookstore a sufficient handling charge to cover all expenses incurred for personal and other services, supplies and equipment, storage, and other operating expenses, to the end that the prices charged shall be commensurate with the total cost to the state of operating the bookstore.
>
> . . . Moneys derived from the operation of the bookstore shall be used first to replenish the stock of goods and to pay the costs of operating and maintaining the store. . . ."

West Virginia Board of Trustees Purchase Order 144917, page 14 states in part:

> ". . .Vendor is responsible for obtaining all required licenses, permits, etc., paying all required fees, taxes, and applicable charges. . . ."

According to the Manager of the Student Center, the postal reimbursements had been deposited into the Student Center Fund by error. It was incorrectly believed that the original postage payments were made from the Student Center's Fund. The error has been discovered; and the postal reimbursements have been deposited into the Bookstore Fund as of October 2000.

We recommend Marshall University comply with Chapter 18B, Article 10, Section 14 of the West Virginia Code by depositing the postal reimbursements in the Bookstore Fund. We also recommend the Bookstore Fund be reimbursed from the Student Union Fund for the erroneous deposits.

University's Response

Follett College Store processes mail through the University mail services. Postage is electronically transferred out of the Bookstore account and Follett is invoiced for the monthly charges. Due to a human error in account coding, postage reimbursement received from Follett was being deposited into the Student Union Fund. This error was discovered and corrected by the institution's staff when collecting and reviewing the reports for the auditors.

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 and only the computer shells were sold.

The computer shells were sold in a "lot" consisting of two items. "Item 1" contained approximately 250 equipment items, including the computer shells; and "Item 2" contained approximately 300 pieces of miscellaneous furniture. The lot including both items was sold for $222.00.

When equipment parts are cannibalized without proper approval, the University is unable to maintain accurate records indicating the location of equipment items and the use of these items. In effect, the University is unable to maintain an accurate equipment inventory, and the safeguarding of the University's equipment items is compromised.

Page 12 of the Marshall University Department of Purchasing and Materials Management Handbook states in part:

> ". . . University property may **not** be cannibalized, traded-in, thrown into the dumpster, or disposed of in any way without the approval of the appropriate Supervisor of Central Receiving . . ."

We were unable to determine why the computers had been stripped of their parts. However, according to the Supervisor of Central Receiving, departments have previously been informed that they are not to cannibalize computers for parts.

We recommend Marshall University comply with the Marshall University Department of Purchasing and Materials Management Handbook by properly disposing of property with the appropriate approval.

University's Response

Cannibalization of computers is when parts of an older computer are stripped and used in other computers. This is encouraged because it keeps valuable hardware from leaving the University. However, the appropriate department does not always complete the proper paperwork.

The University will continue to stress that all equipment is to be used effectively and efficiently, and that the proper paperwork should always be completed in accordance with University policy and submitted to the appropriate Supervisor of Central Receiving.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of cash receipts, disbursements and changes in cash balances of The Marshall University Bookstore Fund for the years ending June 30, 2000 and June 30, 1999. The financial statement is the responsibility of the management of Marshall University. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statement was prepared on the cash and modified cash basis of accounting, which are comprehensive bases of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid of the Marshall University Bookstore for the years ended June 30, 2000 and June 30, 1999, on the bases of accounting described in Note A.

Respectfully Submitted,

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

January 25, 2001

Auditors: Michael A. House, CPA, Supervisor
Stanley Lynch, CPA, Auditor-in-Charge
Melanie L. Nuckols, CPA
Peter J. Maruish, CPA

MARSHALL UNIVERSITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
SPECIAL REVENUE

	Year Ended June 30, 2000	1999
Bookstore - 4232-640		
Cash Receipts:		
Bookstore Sales	$810,158.51	$715,563.60
Interest on Investments	48,415.37	62,025.12
Transfer from Marshall University Graduate College Bookstore Fund (4129)	0.00	146,221.79
	858,573.88	923,810.51
Disbursements:		
Personal Services	235,969.38	258,900.46
Annual Increment	666.67	8,850.00
Employee Benefits	81,843.08	89,450.76
Current Expenses	2,939.95	3,160.78
Repairs and Alterations - Ground Improvements	125,000.00	0.00
Other Extraordinary Disbursements:		
Transfer to State Scholarship Clearing Fund (4242) for Presidential Scholarships	523,973.10	399,497.00
Transfer to State Scholarship Clearing Fund (4242) for Competitive Scholarships	17,352.75	68,526.20
	987,744.93	828,385.20
Cash Receipts (Under) Over Disbursements	(129,171.05)	95,425.31
Beginning Balance	836,060.44	740,635.13
Ending Balance	$706,889.39	$836,060.44

See Notes to Financial Statement

MARSHALL UNIVERSITY - BOOKSTORE

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policies

Accounting Method: The cash basis of accounting was followed. Therefore, certain revenues and the related assets are recognized when received rather than when earned; and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Note B - Pension Plan

All eligible employees are members of the State Teachers Retirement System or the Teachers Insurance Annuity Association College Retirement Equity Fund (TIAA). For the State Teachers Retirement System, employees' contributions are six percent of their monthly compensation, and employees have vested rights under certain circumstances. Beginning on July 1,1998, contributions provided by the employer were thirteen and one-half percent of the employees' compensation. The employer contributions increased to fifteen percent of the employee's compensation on July 1, 1999. However, the employer's contribution as well as all personal services expenditures have been reimbursed by Follett College Stores since the contracting of the bookstore.

The employees' contributions for TIAA are six percent of their monthly compensation, and the employer's contributions are also six percent. These contributions are also reimbursed by Follett.

The Marshall University Bookstore's pension expenditures were as follows:

	Year Ended June 30,	
	2000	1999
Special Revenue		
State Teachers Retirement System	$19,091.19	$20,451.37
TIAA	$ 6,561.88	$ 6,975.91

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended here to was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 10th day of June 2001.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to Marshall University; Governor; Attorney General; and, State Auditor.