

BookStore Purchases via Service Billing

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Submitted to:

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BookStore Purchases via Service Billing

Summary

Our audit of purchases from the University of Arizona Bookstores (“BookStore”) via service billing was included in the approved Fiscal Year (“FY”) 2015 Audit Plan. Management and oversight of financial practices support the “Synergy” pillar of the University’s Never Settle strategic plan through effective and efficient business practices. This is our first audit of the BookStore service billing transactions.

Background: Service billing is a procurement option used to purchase goods and services within the University. Service billing transactions require only the biller’s approval in the UAccess Financials system (“UAF”). Other payment methods such as internal billing (“IB”) require both biller and purchaser approval before funds are transferred. With service billing, the purchase is approved outside of the financial system and then entered into the system by the biller.

The UA Financial Services Office (“FSO”) is responsible for approving auxiliary units to be service billers. Service billers are granted privileged access to UAF and are permitted to upload transactions directly into the financial system. During the upload process, the accounts are immediately charged and funds are transferred. The service billing capability enables faster receipt of revenue for the service biller as approval by the purchasing unit is not required in UAF before funds are transferred.

The scope of this audit included FY14 service billing transactions processed at the University Bookstores and the procedures for completing the transactions. Note that other campus service billers such as Parking and Transportation Services and Student Union Catering have different processes for initiating and completing service billing transactions. Some service billers have automated systems in place to accept payment.

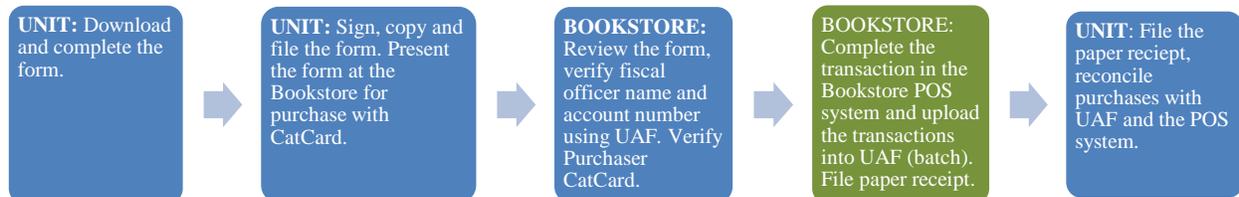
The BookStore is unique from the other campus service billers. Most other service billers offer one service such as catering, room rental, parking permits, or facility work. The BookStore offers a wide variety of items such as balloons, gift cards, shoes, clothing, cosmetics, candy, UA logo items, computers, designer computer accessories, general computer accessories, greeting cards, and gift wrap. There is no restriction on the items that can be purchased with service billing. Some University account types have restrictions regarding the types of items that can be purchased. The purchaser is responsible for being aware of University policy and any restrictions regarding the accounts used for purchases.

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A service billing purchase is initiated by the purchaser by downloading the *UA BookStores Service Billing Form* from the University's website. Any UA employee can complete a *UA BookStores Service Billing Form*. However, the fiscal officer or delegate for the account to be charged must sign the form. The intent of the process is for the purchaser to complete the form indicating the items to be purchased before going to the BookStore. Any employee with a valid CatCard can make the purchase at the BookStore; the fiscal officer\delegate does not have to be present.

The BookStore has documented procedures in place for processing service billing transactions. Most transactions are completed by an employee who has been trained on the service billing transaction procedures. However in some cases, purchases may be completed by different cashiers who may not be aware of the process. The BookStore procedures include verifying the fiscal officer\delegate name in UAF (requires access to UAF) and ensuring the following form fields have been completed: signature of fiscal officer\delegate, a valid account number, and at least one object code. Fields such as "allowed maximum limit" are not required to be completed. In practice, the Bookstore does not prohibit the purchase of items not listed on the approved form.

The graphic below depicts the process for completing a service billing purchase at the BookStore. Two electronic systems are used to complete the process: UAF and the BookStore's Point of Sale ("POS") system. The two systems are not integrated. The blue boxes denote manual processes, and the green box denotes a semi-automated process.



As the graphic depicts, most steps in the BookStore service billing process are manual. Multiple steps are required using two disparate systems. The graphic on the next page depicts the multiple locations where service billing data is located:

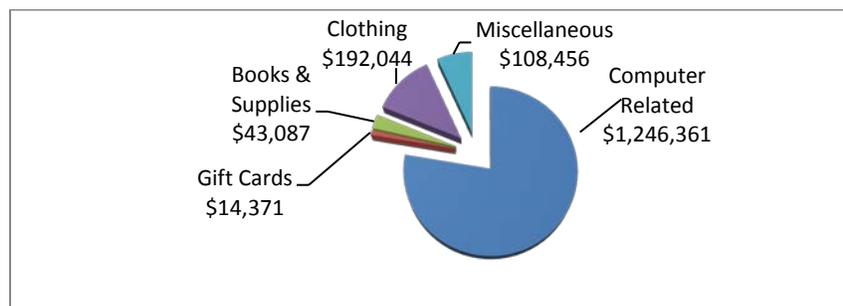
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After the sale is completed using the POS system, the transactions are uploaded directly to UAF using an automated batch process. The batch process requires privileged permissions in UAF. Once the transactions are processed, the accounts are charged immediately without notification to the purchaser. The purchaser is responsible for maintaining copies of the paper form and receipt as record of the purchase. The originals are stored in paper format at the BookStore. The only electronic record of the items purchased is in the POS system which is stored off-site with the POS vendor. The summary level data is contained in UAF. Often, the purchasers do not maintain copies of the form and receipt and therefore, they must call the BookStore to verify the charges.

The BookStore processed approximately \$1.6 million dollars in service billing transactions in FY14. Figure 1 indicates the dollar amount spent per merchandise category:

Figure 1



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Audit Objective: Our audit objectives were to determine how decentralized units use service billing to purchase items from the BookStore, including the types of items purchased and whether the purchases were in compliance with University policies and procedures.

Scope: The scope of the audit includes the service billing transactions processed by all University BookStore locations for FY14.

Methodology: The audit objectives were accomplished by performing a review of general controls in place for financial and operational compliance. This was done by completing the following activities:

- Interviews were held with University staff to determine the systems and processes in place to complete the service billing transactions. Those interviewed included:
 - Financial Services Office
 - Former AVP\Comptroller
 - Former Assistant Comptroller
 - Assistant Comptroller (now Comptroller)
 - Senior Fund Accountant for BookStore Accounts
 - Interim Assistant Comptroller
 - Senior Accountant
 - University BookStore
 - Executive Director, University of Arizona BookStore
 - Former Assistant Director, Finance
 - Accountant
 - Program Coordinator
 - Senior Accounting Assistant
 - Accountant
 - Assistant Director, Technology Services
 - University Information Technology Services
 - Senior Information Security Analyst, Enterprise Applications Security Team
- Review of University policies and procedures including the Financial Services Manual.
- Discussions with Sponsored Projects Services (“SPS”) regarding the grant account numbers used for service billing transactions at the BookStore.
- Discussions with SPS regarding allowable purchases for selected contracts.

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- Data Extraction and Analysis
Data was needed from two disparate systems to complete the audit. The UAccess Financial System provides summary data for service billing transactions. The MBS Textbook Exchange, Inc. (“MBS”) Point of Sale System provides detail data for the items purchased such as purchaser, account number, description, price, and quantity.

Since the POS system is not owned and operated by the BookStore, we needed to request the data from MBS. The BookStore’s contract with MBS required the University to pay for the data. The initial file received was found to be erroneous as there were duplicate records. The errors occurred when the BookStore merged the three files provided by MBS. After finding the errors, we requested that MBS provide the data in one file. We merged the UAF Excel file and the MBS Excel file using Microsoft Access and then categorized each item. We uploaded the file into our data analysis tool, ACL Analytics, and performed the data analysis.

As a result of the data analysis, we interviewed units based on selected criteria (highest dollar volume, most items purchased, and purchases that did not support the mission). The units interviewed included:

- English Department
 - Senior Business Manager
- Center for English as a Second Language (“CESL”)
 - Assistant Director
- Alumni Office
 - Deputy Director
 - Senior Business Manager
- College of Pharmacy
 - Department Administrator-Pharmacology & Toxicology
 - Business Manager-Pharmacology & Toxicology
 - Coordinator-Pharmacy Practice & Science
 - Senior Business Manager-Pharmacy Practice & Science
 - Director of International Programs-Pharmacy Practice & Science
 - Senior Program Coordinator, International Programs, Pharmacy Practice & Science
- Molecular and Cellular Biology
 - Manager Business and Finance
 - Senior Accountant
- Office of Scholarships and Financial Aid
 - Associate Director Business & Finance

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Conclusion: In general, we found that college\department\unit controls were adequate to ensure BookStore purchases via service billing were reasonable given the mission of the unit. Service billing is beneficial for units that do not have procurement cards, those that provide information technology (“IT”) support, and units that purchase large amounts of logo merchandise for student activities such as orientation. Others use service billing, but make only a few purchases per year; most of these purchases are computer related items. We found that some units prefer to use service billing as less administrative work is required compared to that of procurement cards, and others use service billing for immediate receipt of merchandise (i.e., computers).

We identified one unit within the College of Pharmacy (“COP”) with poor controls over BookStore purchases via service billing. The majority of the purchases were charged to two non-federal grant accounts. Analysis of the purchases charged to these accounts indicated a large number of “Miscellaneous” purchases (e.g., UA Logo decorative items, children's clothing, books, cosmetics, designer bags, designer computer cases, and designer headphones). COP stated that the majority of the purchases were completed by a former fiscal officer who is no longer a University employee. Documentation in support of these purchases was not retained within the unit as required. We reviewed the *UA BookStores Service Billing Forms* on file at the BookStore and found that generally the purchased “Miscellaneous” items were not listed on the approved form. Written recommendations to improve controls over the approval and management of BookStore service billing purchases were provided to COP. Management advised that the recommended control improvements were implemented. (Note: Questionable purchases totaling \$4,523 were identified during audit fieldwork and forwarded to the University of Arizona Police Department for evaluation as to whether further investigation was warranted.)

Data analysis of all FY14 service billing transactions revealed BookStore gift card purchases approximating \$14K. Discussions with FSO indicated that a cash advance should be used to purchase gift cards. The University’s Financial Services Manual, Policy #9.15: Operational Advances provides guidance regarding gift cards. Interviews with the fiscal officers who approved the purchases of the gift cards indicated that they were not aware of the restriction. FSO acknowledged that current policy regarding gift cards requires clarification; they are actively working to clarify University policy. Additionally, FSO advised the BookStore to prohibit the sale of gift cards when service billing is the method of payment.

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As a result of our audit work, the BookStore implemented new procedures during the audit to strengthen controls for service billing transactions. The adjustments included scanning the *UA BookStores Service Billing Forms* and receipts into UAF and emailing the scanned documents to the fiscal officer. This will assist those responsible for account reconciliation as a record of the items purchased will be stored in UAF.

According to the Institute of Internal Auditors (“IIA”) International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- The organization’s strategic objectives are achieved;
- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve established objectives;
- Assets are safeguarded; and
- Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Our assessment of these control objectives as they relate to BookStore purchases via service billing is presented on the following page.

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General Control Objectives	Control Environment	Audit Result	
		No.	Page
Achievement of the Organization's Strategic Objectives			
<ul style="list-style-type: none"> The use of service billing to procure goods from the BookStore is an efficient business practice for the campus community. 	Reasonable to Strong Controls in Place		
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> Purchases are accurately recorded in the POS system and UAF. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Detailed purchase information is available in UAF. 	Opportunity for Improvement	1, 2	10, 12
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> Controls for processing service billing procedures are effective. 	Opportunity for Improvement	2	12
<ul style="list-style-type: none"> Control requirements/guidelines exist for units granted service biller capability. 	Opportunity for Improvement	1	10
Safeguarding of Assets			
<ul style="list-style-type: none"> BookStore procedures ensure <i>UA BookStores Service Billing Form</i> is approved by an authorized fiscal officer. 	Reasonable to Strong Controls in Place		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> BookStore procedures ensure noncapitalized inventorable equipment is identified and recorded in compliance with University policies. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Purchases made by University colleges/departments/units adhere to University policies. 	Reasonable to Strong Controls in Place		

We appreciate the assistance of UA Staff during the audit.

/s/

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Audit Results, Recommendations and Responses

1. The University has not documented the control requirements for the service biller capability.

Condition: FSO has not defined control requirements and guidelines for the units granted the service biller capability. Since service billing enables the unit to upload transactions directly into the financial system and charge accounts, effective controls and oversight for service billers such as the BookStore are important.

Criteria:

Good business practice suggests:

- Defined process including expectations, controls, and responsibilities.
- Segregation of duties controls to ensure one employee cannot complete and approve a *UA BookStores Service Billing Form*.
- Detailed purchase information is available in the University's financial system.
- Procedures exist to monitor for unallowable or restricted items including gift cards.

Causes:

- Documented policy and guidelines, such as those for the Service Centers, do not exist for service billing.
- Requirements and controls for the non-UAF portion of the transaction (approvals, forms, online methods, notification of purchase) are not defined.
- Periodic monitoring of service biller processes is not performed to validate that controls are sufficient.

Effect:

- The solutions developed by the service billers may not be adequate; as a result there is risk of fraudulent purchases or unallowable items charged to restricted accounts.

Recommendation:

FSO should document the control requirements and responsibilities for service billers and implement processes to periodically review the controls.

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Management Response: Target Implementation Date: April 2016.

In response to the internal audit finding, FSO will be drafting a Memorandum of Understanding between FSO and the service billers along with Best Practices and helpful hints for campus. FSO is targeting the third quarter of FY 2016 for completion of working drafts, and posting necessary documentation to the FSO website. Following implementation, FSO will implement a biennial review process to review and update these documents. In order to provide clarity to campus, the FSO website will be updated by December 2015 with a chart that outlines the different document types in UAF. The chart will include descriptions and guidance on who can use each document and when each should be used.

To address this specific issue, FSO is in the process of working with the BookStore to improve their Service Billing form and processes. Improvements are being made to the form to clarify which fields are required to be completed by the requestor and cashiers are being trained to review forms for completeness. Additionally, the BookStore is investigating the possibility of adding controls to the electronic form, such as preventing printing when mandatory fields are not completed. Diligence by the fiscal officers approving the Service Billing forms and post-purchase review of amounts charged to them will help mitigate and identify any fraudulent or unauthorized purchases.

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2. The BookStore's controls for service billing transactions are not sufficient.

Condition: The BookStore's internal controls for processing service billing transactions are not adequate to ensure that the transactions are in compliance with University policy, regulatory/legal requirements, and internal BookStore procedures. Audit fieldwork indicated the following:

- Purchases are not limited to the items listed and pre-approved on the *UA BookStores Service Billing Form*.
- Notice of the purchase is not sent to the fiscal officer.
- The detail of the items purchased is stored in a third party POS system which is located off-site with the POS vendor.
- Information regarding the items purchased is not stored in UAF unless one item costs more than \$1,000.
- Segregation of duties is not required if the purchaser is the fiscal officer. The same employee can complete the form, sign the form and go to the BookStore to purchase items.
- A business justification is not required on the form.
- The *UA BookStores Service Billing Form* fields such as an object code for each item purchased and the allowed maximum limit are not required for purchase.

Criteria:

Good business practice suggests:

- Segregation of duties controls to ensure one employee cannot complete and approve a transaction.
- Required information is provided at the time of purchase.
- Processes to ensure that unapproved items are not purchased.
- Information regarding the items purchased is stored electronically in the organization's financial system of record.

Causes:

- Requirements for controls related to service billing are not documented.
- Procedures to complete the purchase portion of the transaction are manual.
- Required fields are not indicated on the *UA BookStores Service Billing Form*.
- The purchase portion of the transaction is processed outside of UAF, which permits the controls enforced by UAF to be bypassed.
- The purchaser does not consistently file the *UA BookStores Service Billing Form* and the POS receipt.

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Effect:

Since controls such as fiscal officer approval of the charge and review of the receipt are not required or possible in UAF, there is risk that transactions are not reviewed or corrected if needed. Unallowable items can be charged to accounts, fraud can occur, or purchases can be incorrectly processed resulting in non-compliance with University policy and regulatory/legal requirements.

Recommendations:

BookStore management should discuss service billing with FSO to determine if it remains a viable payment method given the additional controls required. If service billing is to remain a viable payment method, the following items are recommended to strengthen controls:

- Determine if all of the information requested on the *UA BookStores Service Billing Form* is needed; revise the form as necessary.
- Ensure that only the items listed on the *UA BookStores Service Billing Form* are purchased.
- Train the cashiers to ensure that required information is provided before the purchase is completed.
- Ensure segregation of duties controls for completing\signing the *UA BookStore Service Billing Form* and making the purchase.
- Validate that the controls in place for service billing are similar to those required for other payment methods such as procurement cards.
- Scan the *UA BookStores Service Billing Form* and the receipt into UAF so that a record of the items purchased is stored in a University system of record or determine if there is an automated option for uploading the data into UAF.

Management Response: Implemented as of November 30, 2015.

The University of Arizona BookStores has undertaken significant and effective efforts in order to take the opportunity to increase the controls related to the service billing process. These efforts include, but are not limited to the following:

- Careful analysis of the viability and necessity of the service billing process; which, after internal analysis, and discussion with FSO, has been determined to remain viable and necessary.
- Analysis and overhaul of the entire service billing process at the BookStores
- Revision and overhaul of the service billing form.
- Training staff on the requisite changes that have been made to the service billing process and form.
- Self-auditing a sample of service billing forms and receipts in order to provide assurance that the requisite changes in the process have been implemented.
- Discussion with our Fund Accountants regarding the service billing form and process.

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- Discussion with the Assistant Comptroller regarding the service billing form and process.

The detailed actions supporting our efforts to strengthen service billing controls are listed below:

- After careful discussion with parties at FSO (including our Fund Accountant and the Assistant Comptroller) as well as the relevant parties at the BookStores, we deemed the “Unit of Measure” column and the “Additional Comments” section to be unnecessary. As such, we removed these two areas from the service billing form completely. Fields deemed necessary for all service billing transactions have been shaded in gray and are required to be completed in order for the Form to be accepted by the BookStores. All other fields were deemed to be relevant for some customers, and, therefore, have been retained on the service billing form without the shading that indicates that it is a required field.
- A statement that “Any changes after the fiscal officer/delegate approval will void this form” was added to a “Terms and Agreements” section of the Service Billing Form. In addition, the “Total Maximum Amount” field was moved down to the field to be completed by the fiscal officer adjacent to the field for the fiscal officer signature. This “Total Maximum Amount” field is also now a required field and absence of this amount or a purchase total that exceeds this amount will void the form and the form will not be accepted.
- On the new service billing form, all required fields are shaded in gray and there is a bolded statement at the top of the form which states that “All Shaded Areas Must Be Completed by the Department.” This new format helped facilitate training for the cashiers who are now able to easily determine whether information in shaded fields is missing. The cashiers have been trained on this issue and incomplete forms are not accepted.
- The new service billing form includes sections to be completed by both the individual presenting the form and the fiscal officer. In the rare event that the fiscal officer is the same individual presenting the service billing form to the BookStores, the form is routed to the Executive Director or delegate of the Department in order to ensure segregation of duties.
- The fiscal officer for the BookStores, met with representatives from FSO, including the Fund Accountants as well as the Assistant Comptroller in order to ensure that the controls in place are as strong as possible. We have also added a section to the new Service Billing Form, which requires the fiscal officer of the Department to assert that the Department is submitting the form in compliance with the policy outlined in the UA Financial Services Manual.
- The UA BookStores Accountant consistently and efficiently scans both the Service Billing Form and the receipt for the transaction into UAccess and routes them to the fiscal officer of the Department making the purchase.