UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONTRACT ADMINISTRATION
BOOKSTORE SERVICES

REPORT NO. AR2018-26

UNIVERSITY OF HOUSTON SYSTEM
Internal Auditing Department
Houston, Texas 77204-0930
(713)743-8000
Fax: (713)743-8015

MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: August 8, 2018

SUBJ: Internal Audit Report – UHS Contract Administration – Bookstore Services

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

The Internal Auditing Department conducted a system-wide review of the bookstore services contract. The objective of our review was to determine whether management had adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions. In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract monitoring and commission settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

This audit report is scheduled to be included in the agenda materials for the August 23, 2018, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM
CONTRACT ADMINISTRATION – BOOKSTORE SERVICES

BACKGROUND:

We performed a review of the bookstore services contract for the University of Houston System universities. This review was scheduled in the annual audit plan for FY 2018.

The University of Houston (UH), University of Houston-Clear Lake (UHCL), University of Houston-Downtown (UHD), and the multi-use facility at University of Houston System-Sugar Land (UHS-SL) is under a contract with Barnes and Noble College Booksellers, Inc. (Barnes & Noble) for bookstore services. The University of Houston-Victoria (UHV) is currently under a contract with Victoria College (VC) for bookstore services until December 31, 2018. In April 2017, the Barnes & Noble contract was amended to include UHV, as UHV is in the process of constructing a new student center building (location of the new bookstore) that is scheduled to open by Spring 2019.

The table below details sales revenue from the bookstore services contract during FY 2017:

University	Sales FY 2017
UH	$1,850,646
UHD	$502,662
UHCL	$360,584
UHS-SL	$268,695
UHV	$22,084

OBJECTIVE:

The objective of our review was to determine whether management has adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions.

SCOPE OF WORK:

We interviewed personnel responsible for managing the bookstore services contract, analyzed and reviewed the bookstore services contract, commission settlement documents, quality assessments, statutes, policies and procedures for contracts, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, the University of Houston System universities have adequate performance monitoring procedures in place to help ensure compliance with contract terms and conditions. Although we noted no matters that we considered to be significant risk exposures and control issues, we noted opportunities for improvement in the following areas: contract monitoring and commission settlement/reconciliation. Management is in the process of addressing these opportunities for improvement.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

Don F. Guyton
Chief Audit Executive
June 26, 2018

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Contract Monitoring

System Administrative Memorandum (SAM) 03.A.05, Contract Administration, requires that System universities develop and maintain a contract management system to help ensure that the terms and conditions of each contract are performed in an appropriate manner. However, the SAM 03.A.05 does not provide guidance on how to monitor contracts. The State of Texas Procurement and Contract Management Guide provides guidance on monitoring methods, such as desk reviews (progress reports, status reports, activity reports, financial reports, and vendor performance reports) and site visits (monitoring checklists and reports).

The bookstore services contract for UH, UHCL, UHS-SL, and UHD contains several terms related to the following categories: book orders and deadlines, operations of the bookstores, used book purchase and resale, sales markup basis, commissions, payment terms, and textbook scholarships. UH, UHS-SL, UHCL, and UHD are required to comply with these contract terms. However, we determined that several contract terms were not being monitored for compliance by these universities.

UH, UHS-SL (monitored by UH), UHCL, and UHD have implemented informal procedures to help ensure quality of services and compliance with the terms and conditions of the contract. These procedures are not standardized among these System universities. The procedures include periodic meetings with the Bookstore Advisory Committee and/or bookstore managers, periodic review of vendor locations, and/or comparison of commissions received to information contained in the vendor's operating statements. In addition, there were no documentation standards and, as a result, there was limited documentation retained supporting compliance with the terms of the contract.

The contract between UHV and Victoria College contained terms related to commissions for book and logoed merchandise sales. UHV has procedures in place to help ensure the commissions were received timely and in compliance with the terms of the contract.

Recommendation (UHS): Management should develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of contracts.

Management's Response (UHS): We will develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for the System universities to implement to help ensure quality of services and compliance with the terms and conditions of contracts by December 31, 2018.

Commission Settlement/Reconciliation

The bookstore services contract requires Barnes & Noble to make commission payments four times a year to UH, UHCL, and UHD based on a tiered commission rate (from 12% to 14%) of gross sales. Upon receipt of the commission payment, the UH Business Services Office calculates the commission amount, based on monthly gross sales reports provided by the vendor, and compares it to the commission payment from the vendor for accuracy and then allocates the commission revenue, as appropriate. However, we determined the individuals responsible for monitoring contract compliance at UH, UHCL, and UHD were not ensuring that the financial terms of the contract were met. UH, UHCL, and UHD also did not have written procedures regarding commission settlements and did not receive supporting documentation and a detailed quarterly statement of revenue and expenses with each payment per the contract. In addition, there were no procedures to help ensure the validity of the sales information reported by the vendor to supporting documentation, such as point of sale records.

Recommendation (UHS): Management should work with the System universities to implement procedures to help ensure the accuracy of commission payments. In addition, procedures should include verifying the validity of the sales amounts by reviewing supporting detailed sales documentation, such as point of sale records.

Management's Response (UHS): We will work with the System universities to implement procedures to help ensure the accuracy of commission payments, including verifying the validity of sales amounts by reviewing supporting detailed sales documentation by December 31, 2018.

University of Houston System
Internal Auditing Department

UHS Contract Administration - Bookstore Services - AR2018-26
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
December 31, 2018	Emily Messa Associate VC/VP Administration	Develop written standardized policies and procedures, including a contract monitoring checklist and documentation standards, for System universities to help ensure quality of services and compliance with terms and conditions of contracts.
December 31, 2018	Emily Messa Associate VC/VP Administration	Work with System universities to implement procedures to help ensure the accuracy of commission payments, including verifying the validity of sales amounts.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.