

Internal Audit Report

Miami-Dade County Public Schools Office of Management and Compliance Audits



AUDIT OF INVENTORIES AS OF JUNE 30, 2010



Inventory observations and physical counts were satisfactory at the various departments and units, except for Transportation, which continues to experience unexplained variances.

December 2010

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

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Dr. Lawrence S. Feldman, Vice Chair
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Mr. Alberto M. Carvalho
Superintendent of Schools

Mr. Jose F. Montes de Oca, CPA
Chief Auditor
Office of Management and Compliance Audits

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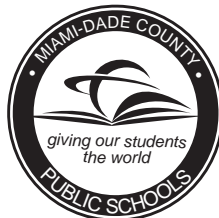
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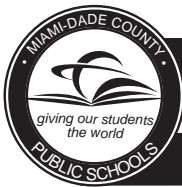
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Mr. Trevor L. Williams, CPA





Miami-Dade County Public Schools

giving our students the world

Superintendent of Schools

Alberto M. Carvalho

Miami-Dade County School Board

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December 1, 2010

Members of The School Board of Miami-Dade County, Florida

Members of the School Board Audit Committee

Alberto M. Carvalho, Superintendent of Schools

Ladies and Gentlemen:

In accordance with the FY 2009-10 Audit Plan, we have audited the inventory balances as reported in the Annual Financial Report for the fiscal year ended June 30, 2010 for the following departments/units:

- Textbook Support Services
- Department of Food and Nutrition
- Stores and Mail Distribution
- Maintenance Materials Management
- Department of Transportation

The inventory information appearing in the Annual Financial Report is the responsibility of management. Our responsibility is to express an opinion based on our audit.

Our audit consisted of observing the physical inventory counts, testing the counts, and verifying the prices at which the inventories were valued. In addition, we compared the physical inventory results to the perpetual inventory records, to the general ledger and to the amounts reported in the Annual Financial Report. In our opinion, the inventories were fairly stated, in all material respects, in the Annual Financial Report.

Year-end inventories increased 15% from \$14.7 million at June 30, 2009 to \$16.8 million at June 30, 2010. Moreover, while controls were good for the other four inventories; some of the processes involved in the inventory reconciliations of the Department of Transportation still require improvement for the fifth consecutive year. We have again discussed and reported to management the condition and recommendation for improvement in our detailed finding. We have also included the response from management addressing our findings and recommendations.

We would like to thank management for the cooperation and courtesies extended to our staff during the conduct of this audit.

Sincerely,

Jose F. Montes de Oca, CPA
Chief Auditor

Office of Management and Compliance Audits

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EXECUTIVE SUMMARY

Based on our audit, we concluded that year-end inventories of \$16.8 million at June 30, 2010 were fairly stated, in all material respects, in the Annual Financial Report.

The following summarizes our findings:

- Audit test counts at Textbook Support Services, the Department of Food and Nutrition, Stores and Mail Distribution, and Maintenance Materials Management verified the amounts reported in the district's records and reported in the district's Annual Financial Report.
- During the year, the Department of Transportation performed monthly reconciliations between the inventory in the Transman system and the inventory reported in the general ledger. However, unexplained differences remain on these reconciliations, which resulted in accounting adjustments of approximately \$34,000 for parts, \$16,000 for tires, and \$58,000 for fuel to the general ledger as of June 30, 2010. However, in our opinion, these amounts do not reflect the true variances in the account balances, due to the timing and method of accounting for inventories purchased using Procurement cards (P-cards). When properly accounting for unrecorded unpaid P-card purchases as of June 30, 2010, the total unexplained variance is approximately \$196,000.

INTERNAL CONTROLS

Our overall evaluation of internal controls over the District's inventories management practices is summarized in the table below. The following index is provided to assist with the analysis of the table.

B = Textbook Services

F = Food and Nutrition

S = Stores and Mail Distribution

M = Maintenance Materials Management

T = Transportation

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	B, F, S, M	T	
Policy & Procedures Compliance	B, F, S, M, T		
Effect	B, F, S, M	T	
Information Risk	B, F, S, M	T	
External Risk	B, F, S, M, T		

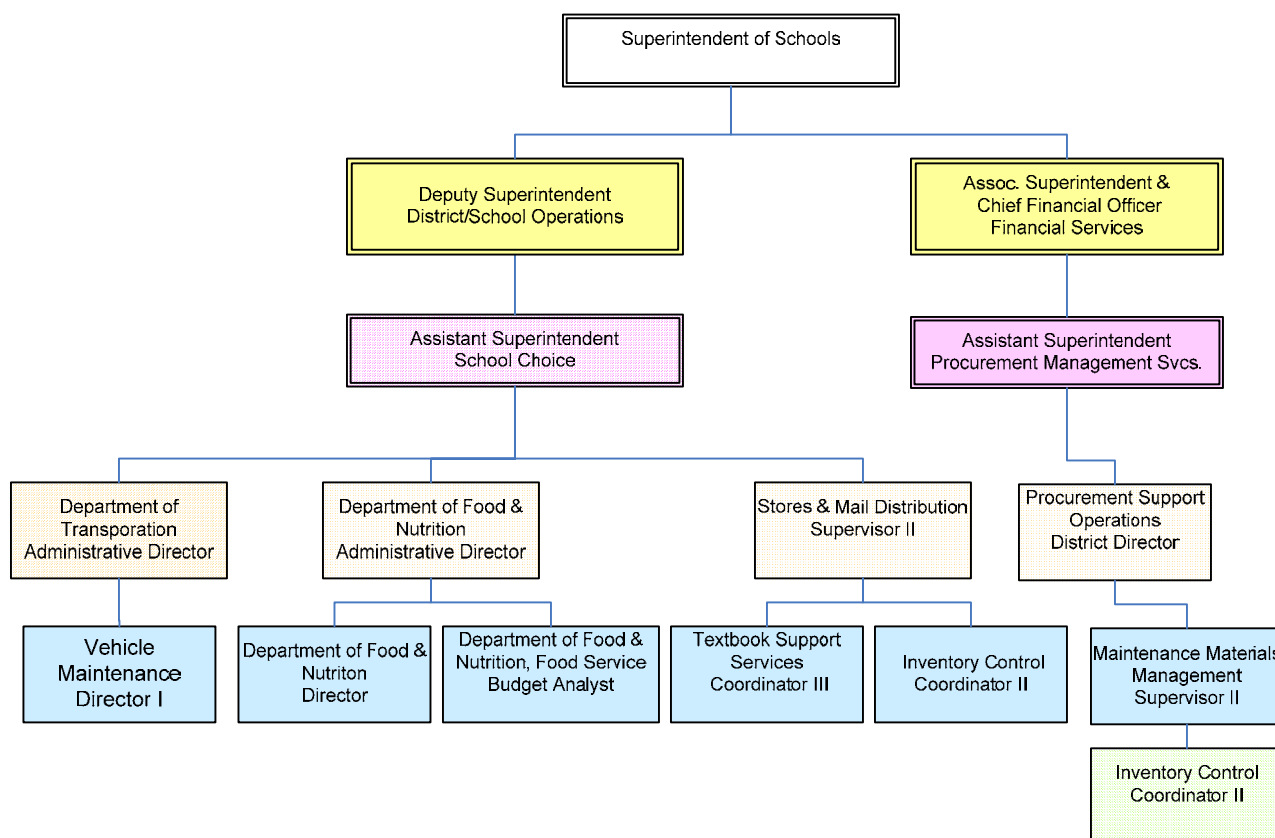
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness.	Do not exist or are not reliable.
Policy & Procedures Compliance	In compliance	Non-Compliance Issues exist.	Non-compliance issues are pervasive, significant, or have severe consequences.
Effect	Not likely to impact operations or program outcomes.	Impact on outcomes contained.	Negative impact on outcomes.
Information Risk	Information systems are reliable.	Data systems are mostly accurate but can be improved.	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions.
External Risk	None or low.	Potential for damage.	Severe risk of damage.

BACKGROUND

Miami-Dade County Public Schools maintains inventories of food, textbooks, parts, equipment, curriculum materials, and supplies in order to facilitate the operation of the schools and other system-wide needs. The food inventory is accounted for in the Food Service Fund, a Special Revenue Fund. Parts of the textbook inventory are accounted for in the Targeted Assistance Program Fund - American Recovery and Reinvestment Act (ARRA) and in Other Federal Funds. Most of the textbooks inventory is accounted for in the General Fund with the other inventories.

The overall responsibility for the inventories has been assigned to School Operations and Financial Services as depicted in the partial organization chart below:

PARTIAL ORGANIZATIONAL CHART



Textbook Support Services

Textbook Support Services, as part of Stores and Mail Distribution (S&MD), coordinates with the schools the purchasing of the State of Florida's adopted textbooks and other instructional materials from the Florida School Book Depository (FSBD). They monitor the textbook account activity generated by school requisitions and instructional material purchases made from FSBD. It is the principal source from which schools requisition State-adopted and other instructional materials, and where requisitions are initially reviewed for accuracy and funds availability. Each school or location creates shopping carts from the SAP online catalogs. The newly implemented SAP system compiles the district-wide textbook orders, as was done by the Textbook Ordering System in previous years, and the textbook orders are electronically transmitted to the FSBD. Stores and Mail Distribution is responsible for receiving, storing and delivering the instructional materials to the schools. Textbook Support Services operates in work areas allocated within the S&MD warehouse, located at 7001 S.W. 4th Street, Miami, Florida.

A perpetual inventory is not maintained for textbooks, since they are ordered in advance during the months of April through June out of the subsequent year's budget, as allowed by Florida Statutes. This is also done to satisfy the administration's intent of ordering the books sufficiently in advance, so that students will have their textbooks on-hand by school opening in August. The textbooks are distributed to the schools, but remain unused until the following fiscal year. They are carried as inventory, at cost, at the end of the fiscal year for financial statement reporting purposes, in compliance with generally accepted accounting principles. A Supervisor II was in charge of the inventory count process.

Department of Food and Nutrition

The Department of Food and Nutrition (F&N) has the responsibility of providing food services for all district schools, with the exception of those food service programs operating at the adult/vocational education centers. These services include, but are not limited to maintaining various inventories of federally donated and District-purchased foods and supplies, and preparing a district-wide food service program budget.

Bulk, frozen, and dry commodity, canned goods, and refrigerated foods are stored at US Foodservice, while supplies are stored at the Stores and Mail Distribution (S&MD) warehouse. Processed and purchased foods are also stored at the schools and are maintained through an automated perpetual inventory

system. The Department also maintains manual inventory records for both purchased foods and commodities, overall. Commodities stored in bulk are recorded through an automated perpetual inventory system maintained by US Foodservice, the vendor providing contracted delivery and storage facilities. Both the Department's records and US Foodservice records are reconciled monthly. Eighty-five (85%) percent of the inventory is commodity foods donated by the federal government, while the remaining 15% is food and supplies purchased by the District.

Donated commodities are recorded in inventory at their fair market value at the time of donation from the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The inventory is valued using the weighted average method.

A Department of Food and Nutrition, Director of Food and Menu Management was in charge of the inventory count and ordering process, and a Food Service Budget Analyst was in charge of the reconciliation process.

Stores and Mail Distribution

Stores and Mail Distribution (S&MD) is responsible for maintaining and supplying office and teaching supplies, equipment, and printed forms used by the school system. The main warehouse is located at 7001 S.W. 4th Street, Miami, Florida. A smaller satellite warehouse, located at 50 N.W. 14th Street, Miami, Florida is also used to temporarily store large purchases of new equipment and supplies, and used surplus equipment pending public auction. These equipment and supplies are not included as part of the inventory. Many of these items are to be used to furnish newly constructed and renovated schools. The inventory is valued using the weighted average method.

S&MD also operates the mail service for the school system, and stores and distributes textbooks. S&MD maintains a fleet of 39 trucks and vans that are used to deliver supplies to various school sites and district locations. An Inventory Control Coordinator II was in charge of the inventory count process.

Maintenance Materials Management

Maintenance Materials Management (MMM) is responsible for supplying Maintenance and Operations (Maintenance) with materials, parts and equipment for routine maintenance and improvements to the school system's facilities. At June 30, 2010, there were two locations for storing inventory. Most of the inventory is stored at the Central Warehouse located at 12525 N.W. 28th Avenue, Miami, Florida. Small inventories of selected items are also stored at the Coral Reef Maintenance complex located at 15301 SW 117 Avenue, Miami, Florida. The inventory is valued using the weighted average method.

MMM maintains a fleet of 19 vehicles that are used to deliver supplies, parts and equipment to Maintenance satellite locations and schools to support Zone Mechanics. An MMM Supervisor II was in charge of the inventory count process.

Department of Transportation

The M-DCPS Department of Transportation (DOT) operates a fleet of approximately 1,400 school buses from nine terminals to transport the students of the school system. In addition, approximately 1,700 vehicles from DOT, S&MD, Food and Nutrition, Maintenance, MMM, Information Technology Services (ITS), School Police, and various other District offices are serviced at these terminals. Monthly safety inspections are performed on an additional 413 private school buses contracted by the District, for student routing and/or activity trips.

To service the buses, trucks and other vehicles, inventories of fuel are maintained at all nine terminals and one Maintenance location. While Maintenance is responsible for the custody of the fuel and dispensing equipment stored at the latter location, as well as environmental issues, DOT oversees the ordering and dispensing of diesel and unleaded fuels at this Maintenance location. Maintenance provides DOT with the daily, weekly, and monthly readings for that site. However, issues that may arise with equipment or the fuel management system are addressed by DOT.

Additionally, inventories of oil, replacement parts, and tires are maintained at eight of the nine terminals. The majority of replacement parts, including tires, are located in the Central Warehouse at 11601 S.W. 160th Street, Miami. The inventories of oil, replacement parts, and tires are valued using the weighted average method, while the fuel inventories are valued at the last invoiced price. See Finding 2 on page 12 for a discussion on differences between the perpetual inventory records and general ledger account balances. A Vehicle Maintenance Director I was in charge of the inventory count process.

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the FY 2009-10 Audit Plan for the Office of Management and Compliance Audits, we have audited the inventory balances as reported in the Annual Financial Report issued by the Office of the Controller for the fiscal year ended June 30, 2010 and the related accounting records, for the purpose of determining the inventory values of the following departments/units:

- Textbook Support Services
- Department of Food and Nutrition
- Stores and Mail Distribution
- Maintenance Materials Management
- Department of Transportation

The audit included observing the inventory-taking process by the administration at year-end and comparing the results with the amounts reported in the Annual Financial Report. The inventories and related records are the responsibility of the administration. Our responsibility is to express an opinion on the physical inventory results at year-end.

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence supporting the amounts reported as inventory for the stated departments/units in the Annual Financial Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall inventory presentation. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit included an assessment of applicable internal controls.

EXHIBIT A

**STATEMENTS OF INVENTORIES PER ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

		<u>June 30, 2010</u>	<u>June 30, 2009</u>
Textbook Support Services¹		<u>\$8,550,963</u>	<u>\$5,910,311</u>
Food and Nutrition¹			
Commodities	Processing Plant	1,315,162	1,688,692
	Public Warehouse	110,602	238,145
	Schools	99,475	117,749
Purchased Food	Schools	326,873	343,739
Processed Food	Schools	27,460	60,697
Non-Food Supplies	Schools	<u>203,114</u>	<u>158,253</u>
Total Food and Nutrition		<u>2,082,686</u>	<u>2,607,275</u>
Stores and Mail Distribution²		<u>2,814,287</u>	<u>2,918,455</u>
Maintenance Materials Management			
Materials, Parts and Supplies		2,240,593	2,294,115
Manufactured Stock		<u>93</u>	<u>97</u>
Total Maintenance Materials Management		<u>2,240,686</u>	<u>2,294,212</u>
Transportation			
Parts		660,107	525,078
Fuel		381,882	384,949
Tires and Tubes		<u>92,059</u>	<u>31,398</u>
Total Transportation		<u>1,134,048</u>	<u>941,425</u>
Total Inventory		<u>\$16,822,670</u>	<u>\$14,671,678</u>

¹ The inventory for the Department of Food & Nutrition was reported as part of the Special Revenue Fund and parts of the Textbook inventory were reported in the Targeted Assistance Program Funds and in Other Federal Funds. The other inventories were reported in the General Fund.

² Included in inventory at the S&MD warehouse are other non-food supply items such as trays, forks, napkins, and cleaning supplies.

ANALYSIS OF INVENTORY RESULTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

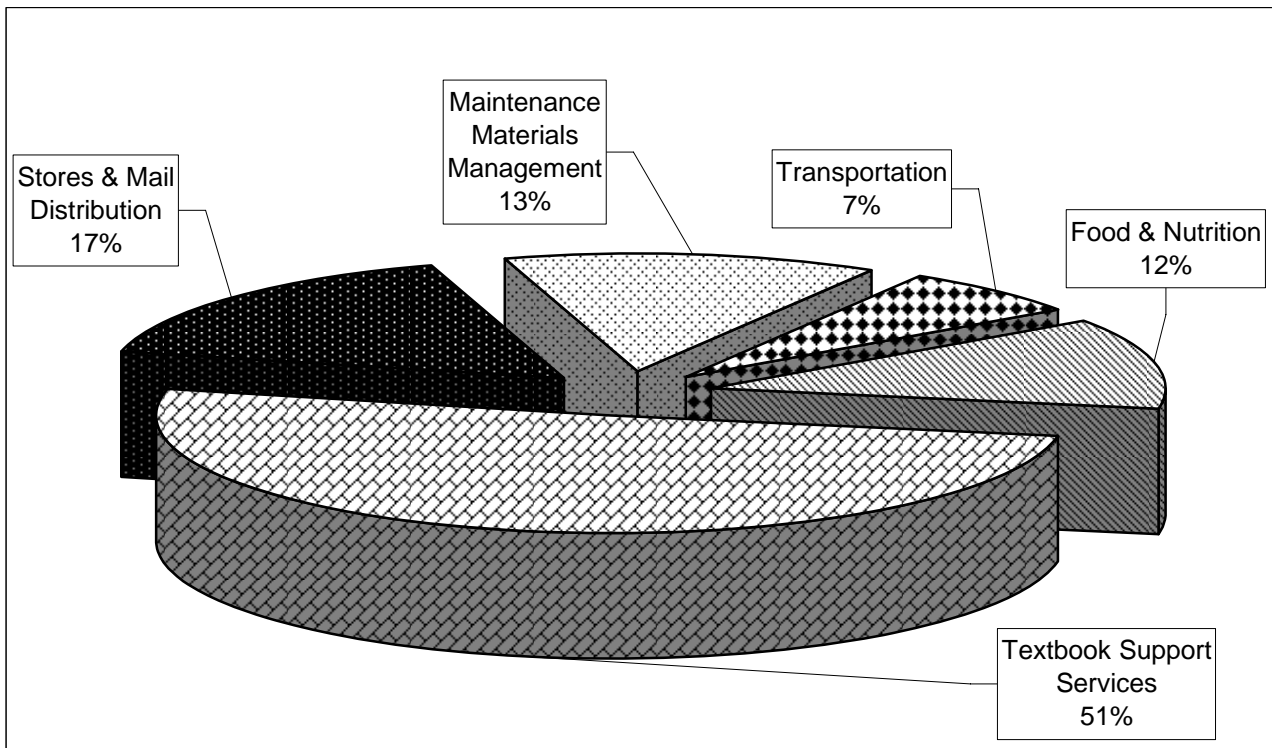
Department/Unit	Perpetual Inventory	Adjustment to Perpetual	General Ledger 6/30/2010
Textbook Support Services ¹	\$ - .	\$8,550,963	\$ 8,550,963
Food and Nutrition	2,082,686	- .	2,082,686
Stores and Mail Distribution ²	2,640,467	173,820	2,814,287
Maintenance Materials Management ³	2,217,321	23,365	2,240,686
Transportation ⁴	<u>1,133,935</u>	<u>113</u>	<u>1,134,048</u>
Total Inventory	<u>\$8,074,409</u>	<u>\$8,748,261</u>	<u>\$16,822,670</u>

¹No perpetual inventory system is maintained for textbooks.

²Adjustments consisted of a net of \$44,050 from activity after the cut-off date and a net of \$129,770 in department count adjustments, including a data entry error of \$133,125 and (\$3,355) in inventory quantity differences.

³Adjustments consisted of \$23,174 in inventory received after the cut-off date and \$191 in department count adjustments.

⁴Adjustment to perpetual was immaterial; however, general ledger balances included adjustments totaling \$108,000 that were needed to agree to the perpetual inventory records. See Finding 2 for discussion on adjustments to general ledger.



RESULTS OF THE AUDIT

1. INVENTORY OBSERVATIONS AND PHYSICAL COUNTS WERE SATISFACTORY AT MOST DEPARTMENTS AND UNITS

Textbook Support Services

The results of our test counts and physical inventory counts were in agreement with the year-end textbook inventory reported as part of general fund inventory balance and the Targeted Assistance Program Funds – American Recovery and Reinvestment Act in the District's Annual Financial Report. The value of the textbooks on-hand at the S&MD warehouse at June 30, 2010 was \$8,550,963, of which we test-counted \$7,900,726 or approximately 92%. Our tests showed that the inventory was accurately reported in the District's Annual Financial Report.

Department of Food and Nutrition

The annual physical inventory count of the public warehouse inventory was conducted by F&N staff. No significant adjustments were required. We test-counted the physical inventory amounting to \$7,755 at selected schools and found a net variances of (\$502). We obtained positive confirmations for 100% of the \$1,315,162 located at the food processing plants. Our audit concluded that the \$2,082,686 in inventory was accurately reported in the District's Annual Financial Report.

Stores and Mail Distribution

The annual physical inventory count was conducted on June 30, 2010. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%, we test-counted \$1,803,313 or 69% of the total inventory value. Our counts resulted in an adjustment of \$129,482 to the perpetual inventory records, which included \$133,125 resulting from a data entry error and another adjustment of \$44,050 for goods received after the inventory count cutoff date. We concluded that the \$2,814,287 in inventory was accurately reported in the District's Annual Financial Report.

Maintenance Materials Management

The annual physical inventory count was conducted on June 30, 2010. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%,

we test-counted \$829,644 or 37% of the total inventory value. Our counts resulted in an inconsequential adjustment of \$191 to the perpetual inventory records. In addition, there was an adjustment of \$23,174 for goods received after the inventory count cutoff date. We concluded that the \$2,240,686 in inventory was accurately reported in the District's Annual Financial Report.

RECOMMENDATION

1.1 None

2. UNEXPLAINED INVENTORY VARIANCES PERSIST IN TRANSPORTATION

There were immaterial adjustments to the inventory values recorded in the Transman perpetual inventory system, resulting from our test counts. As such, there was general agreement between Transportation's inventory records and the inventory on hand as of June 30, 2010. Notwithstanding the general agreement between the physical inventory and the perpetual inventory records, for the fifth consecutive year, Transportation's perpetual inventory records and the unadjusted general ledger balances were not in agreement as of June 30, 2010.

The department continues to progress in its efforts to eliminate such unexplained differences through its ongoing reconciliation process. Over the years, Transportation's management has taken steps to reduce the year-end accounting adjustments whereby trending shows that the value of those adjustments have gradually decreased each year. Notwithstanding, at the end of the June 30, 2010 fiscal year, the parts and tires inventories general ledger balances were adjusted by the Controller's Office by approximately \$34,000 (5% of the unadjusted inventory balance) and \$16,000 (15% of the unadjusted inventory balance), respectively, to agree with the perpetual inventory. However, these amounts do not reflect the true variances in the account balances, due to the timing and method of accounting for inventories purchased using Procurement cards (P-cards).

Through its year-end inventory reconciliation, Transportation's staff identified unpaid P-card purchases approximating \$64,000 and \$23,000 that were included in its parts and tires perpetual inventories, respectively; but were not recorded in the general ledger. After accounting for these known reconciling items and other minor miscellaneous items, the unexplained differences between the perpetual inventories and the general ledger were in actuality approximately \$92,000 (12% of the adjusted inventory balance) and \$46,000 (33% of the adjusted inventory balance) for the parts and tires inventories, respectively, as of June 30, 2010.

According to Transportation, they purchase the vast majority of their inventory stockroom parts and tires on bids using their P-card. Their P-card billing cycle usually ends at or near the 10th of the month. The inventory items purchased between the 11th and the end of the month are posted in Transman during the same month. However, these inventory items are not recorded as manual journal voucher entries in the general ledger until the P-card statement is processed and paid during a subsequent month.

Discussions with the General Accounting Department (Accounting) revealed that no accrual was made by Accounting for the unpaid P-card purchases for inventory as of June 30, 2010. Accounting also stated that these purchases are reflected as part of their year-end inventory adjustment. Proper accounting dictates that an accruing entry for the unpaid P-card purchases be recorded at year-end and be reversed at the beginning of the subsequent year.

Our analysis of the reconciliations of unleaded and diesel fuel inventories revealed that unexplained variances also exist between the perpetual inventory and the general ledger as of June 30, 2010. These unexplained variances were approximately \$20,000 (12% of the adjusted inventory balance) and \$38,000 (17% of the adjusted inventory balance) for diesel and unleaded fuel inventories, respectively.

Transportation's management stated that the cut-over to SAP has caused some difficulty in reconciling its perpetual inventory to the general ledger because some inventory transactions occurring in the perpetual inventory system are not being correctly interfaced with the general ledger in SAP. Transportation's management indicated that for some time, they were not aware of, or granted access to certain SAP transaction exception reports containing such rejected transactions that did not interface to SAP. They believe that this condition along with other inventory pricing variations contribute to the unexplained differences.

RECOMMENDATIONS

2.1 Transportation should continue the endeavor of identifying all reconciling items between the general ledger and the perpetual system. For a sample month, staff should ensure that all Transman entries are posted in the general ledger either in the current or subsequent month. Conversely, staff should ensure all inventory transactions posted to the general ledger have a corresponding transaction in the Transman system.

Responsible Department: Department of Transportation

Management's Response: Throughout the years, DOT staff has made changes to their processes and implemented numerous steps in an attempt to eliminate or minimize the different variables affecting the inventory value between Transman and the general ledger. Among these changes were the way warranty claims were being processed and the processing for payments of all inventory items that were received in the inventory, regardless of the payment method. Additionally, DOT staff ensured that any open repair orders that had inventory items charged to them would be closed by June 30th. This effort was to

ensure these transactions would be posted in the general ledger at the end of the fiscal year. The fiscal year end adjustments totaled to less than 1% of the total value of inventory purchased throughout the year, which exceeded 12.5 million dollars.

In addition to these measures, in order to minimize the effect of Transman's average costing process, a request was submitted to the provider for a programming modification in the way its system calculated the average cost. The updated version was implemented after extensive testing on October 30th, 2009. DOT staff expected that this latest change would significantly reduce or eliminate the variances at year end.

It is important to emphasize that DOT staff continues to believe that the establishment of the average cost as the accounting method in Transman, is at the core of these variances. As long as the cost of inventoried items is being recorded in the general ledger at the actual cost and the value of these items is being expensed through Transman at average cost value, differences between both systems will continue to exist.

Another issue that affected the end of year reconciliation between the general ledger and the perpetual system was the changeover to SAP. As with the implementation of any new program, it took DOT staff some time to learn its way around the system.

Access has been limited to only certain facets of the system which has made it extremely difficult for DOT staff to identify any variances between the two systems.

For this reason, staff has requested the assistance of Mr. Terrance Ferguson, District Director Financial Reporting, to provide additional training in SAP to the DOT staff. The expectation is that staff will have a better understanding of the capabilities of SAP in order to recognize disparities between the two systems and take corrective action before the fiscal year end. Additionally, DOT staff has been in contact with Mr. Jose Martinez, District Director of Procurement Support Operation. Mr. Martinez has been working with ITS personnel in the development of an SAP process to be used for the purchase of all MMM stock items. The process will work by having an on-line catalog with pre-populated data from which orders can be placed. Concurrently, all procurement payments and financial records will be controlled and maintained by the SAP System. Mr. Martinez believes this initiative would in fact serve as a solution to the problem we are currently experiencing. However, it is important to note that this process may take as long as 6 months to develop and the cost of such development has to be factored into this initiative.

DOT staff concurs with the audit recommendations and wants to assure the Audit Committee that DOT staff is committed to continue to work towards the elimination of these variances.

2.2 At fiscal year-end, we recommend the General Accounting Department make an adjusting entry to record unpaid procurement card inventory purchases as of June 30th. This entry should be reversed in the following month when unpaid amount is paid to the vendor.

Responsible Department: General Accounting Department

Management's Response: Management concurs with the recommendation. As a result of the SAP implementation, the accrual process is based upon the receipt of goods. However, in the case of transportation, receipts are recorded in the Transman "TMT" inventory system and does not interface with SAP, until a manual Journal Voucher is created. In the future, we will review any unpaid procurement card inventory purchases at year end and ensure that an accrual is recorded, if needed.


APPENDIX – Managements' Responses

MEMORANDUM

December 1, 2010
JK#10/11-15641
(305) 234-0849

TO: Mr. Jose Montes de Oca, Chief Auditor
Office of Management & Compliance Audits

VIA: Dr. Marcos M. Moran, Assistant Superintendent
District/School Operations

FROM:  Jerry Klein, Administrative Director
Department of Transportation

SUBJECT: RESPONSE TO INTERNAL AUDIT REPORT – AUDIT OF YEAR-END INVENTORIES –DEPARTMENT OF TRANSPORTATION

The Department of Transportation has reviewed the audit report and is providing a response to Audit Recommendations 2.1

RECOMMENDATION:

2.1 *Transportation should continue the endeavor of identifying all reconciling items between the general ledger and the perpetual system. For a sample month, staff should ensure that all Transman entries are posted in the general ledger either in the current month or subsequent month. Conversely, staff should ensure all inventory transactions posted on the general ledger have a corresponding transaction in the Transman system.*

Management Response:

Throughout the years, DOT staff has made changes to their processes and implemented numerous steps in an attempt to eliminate or minimize the different variables affecting the inventory value between Transman and the general ledger. Among these changes were the way warranty claims were being processed and the processing for payments of all inventory items that were received in the inventory, regardless of the payment method. Additionally, DOT staff ensured that any open repair orders that had inventory items charged to them would be closed by June 30th. This effort was to ensure these transactions would be posted in the general ledger at the end of the fiscal year. The fiscal yearend adjustments totaled to less than 1% of the total value of inventory purchased throughout the year, which exceeded 12.5 million dollars.

In addition to these measures, in order to minimize the effect of Transman's average costing process, a request was submitted to the provider for a programming modification in the way its system calculated the average cost. The updated version

was implemented after extensive testing on October 30th, 2009. DOT staff expected that this latest change would significantly reduce or eliminate the variances at year end.

It is important to emphasize that DOT staff continues to believe that the establishment of the average cost as the accounting method in Transman, is at the core of these variances. As long as the cost of inventoried items is being recorded in the general ledger at the actual cost and the value of these items is being expensed through Transman at average cost value, differences between both systems will continue to exist.

Another issue that affected the end of year reconciliation between the general ledger and the perpetual system was the changeover to SAP. As with the implementation of any new program, it took DOT staff some time to learn its way around the system. Access has been limited to only certain facets of the system which has made it extremely difficult for DOT staff to identify any variances between the two systems.

For this reason, staff has requested the assistance of Mr. Terrance Ferguson, District Director Financial Reporting, to provide additional training in SAP to the DOT staff. The expectation is that staff will have a better understanding of the capabilities of SAP in order to recognize disparities between the two systems and take corrective action before the fiscal year end. Additionally, DOT staff has been in contact with Mr. Jose Martinez, District Director of Procurement Support Operation. Mr. Martinez has been working with ITS personnel in the development of an SAP process to be used for the purchase of all MMM stock items. The process will work by having an on-line catalog with pre-populated data from which orders can be placed. Concurrently, all procurement payments and financial records will be controlled and maintained by the SAP System. Mr. Martinez believes this initiative would in fact serve as a solution to the problem we are currently experiencing. However, it is important to note that this process may take as long as 6 months to develop and the cost of such development has to be factored into this initiative.

DOT staff concurs with the audit recommendations and wants to assure the Audit Committee that DOT staff is committed to continue to work towards the elimination of these variances.

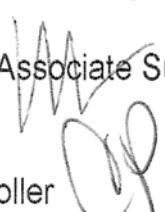
JK:slg


cc: Ms. Connie Pou
Mr. Trevor Williams
Mr. Michael Hernandez

M E M O R A N D U M

RHH:37
December 1, 2010
305-995-1225

TO: Mr. Jose F. Montes de Oca, Chief Auditor
Office of Management and Compliance Audits

FROM: Richard H. Hinds, Associate Superintendent and Chief Financial Officer
Financial Services 

BY: Connie Pou, Controller
Office of the Controller, General Accounting Department 

SUBJECT: RESPONSE TO THE INTERNAL AUDIT REPORT – AUDIT OF INVENTORIES AS OF JUNE 30, 2010

Attached is a response to the above mentioned audit report.

Should you have any questions or need clarifications, please do not hesitate to contact me at 305-995-1225, or Ms. Connie Pou, Controller, Office of the Controller, at 305-995-2001.

RHH:as

Attachment

cc: Ms. Connie Pou

Observation #2: UNEXPLAINED INVENTORY VARIANCES PERSIST IN TRANSPORTATION

- 2.2 *At fiscal year-end, we recommend the General Accounting Department make an adjusting entry to record unpaid procurement card inventory purchases as of June 30th. This entry should be reversed in the following month when unpaid amount is paid to the vendor.*

Management concurs with the recommendation. As a result of the SAP implementation, the accrual process is based upon the receipt of goods. However, in the case of transportation, receipts are recorded in the Transman "TMT" inventory system and does not interface with SAP, until a manual Journal Voucher is created. In the future, we will review any unpaid procurement card inventory purchases at year end and ensure that an accrual is recorded, if needed.

The School Board of Miami-Dade County, Florida, adheres to a policy of nondiscrimination in employment and educational programs/activities and programs/activities receiving Federal financial assistance from the Department of Education, and strives affirmatively to provide equal opportunity for all as required by:

Title VI of the Civil Rights Act of 1964 - prohibits discrimination on the basis of race, color, religion, or national origin.

Title VII of the Civil Rights Act of 1964, as amended - prohibits discrimination in employment on the basis of race, color, religion, gender, or national origin.

Title IX of the Education Amendments of 1972 - prohibits discrimination on the basis of gender.

Age Discrimination in Employment Act of 1967 (ADEA), as amended - prohibits discrimination on the basis of age with respect to individuals who are at least 40.

The Equal Pay Act of 1963, as amended - prohibits sex discrimination in payment of wages to women and men performing substantially equal work in the same establishment.

Section 504 of the Rehabilitation Act of 1973 - prohibits discrimination against the disabled.

Americans with Disabilities Act of 1990 (ADA) - prohibits discrimination against individuals with disabilities in employment, public service, public accommodations and telecommunications.

The Family and Medical Leave Act of 1993 (FMLA) - requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to "eligible" employees for certain family and medical reasons.

The Pregnancy Discrimination Act of 1978 - prohibits discrimination in employment on the basis of pregnancy, childbirth, or related medical conditions.

Florida Educational Equity Act (FEEA) - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

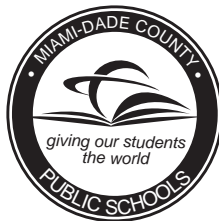
Florida Civil Rights Act of 1992 - secures for all individuals within the state freedom from discrimination because of race, color, religion, sex, national origin, age, handicap, or marital status.

School Board Rules 6Gx13- 4A-1.01, 6Gx13- 4A-1.32, and 6Gx13- 5D-1.10 - prohibit harassment and/or discrimination against a student or employee on the basis of gender, race, color, religion, ethnic or national origin, political beliefs, marital status, age, sexual orientation, social and family background, linguistic preference, pregnancy, or disability.

Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 295.07 (Florida Statutes), which stipulate categorical preferences for employment.

INTERNAL AUDIT REPORT

Audit of Inventories as of June 30, 2010



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