

Internal Audit Report

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



AUDIT OF INVENTORIES AS OF JUNE 30, 2012



Inventory observations and reconciliation of physical counts were satisfactory at the various departments and units. The inventories were fairly stated, in all material respects, in the unaudited Annual Financial Report.

December 2012

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

Ms. Perla Tabares Hantman, Chair
Dr. Lawrence S. Feldman, Vice Chair
Dr. Dorothy Bendross-Mindingall
Mr. Carlos L. Curbelo
Mr. Renier Diaz de la Portilla
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Ms. Raquel A. Regalado

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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Ms. Teresita M. Rodriguez, CPA
Mr. Trevor L. Williams, CPA





Miami-Dade County Public Schools

giving our students the world

Superintendent of Schools
Alberto M. Carvalho

Chief Auditor
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October 29, 2012

Members of The School Board of Miami-Dade County, Florida
Members of the School Board Audit and Budget Advisory Committee
Alberto M. Carvalho, Superintendent of Schools

Ladies and Gentlemen:

In accordance with the 2012-13 Fiscal Year Audit Plan, we have audited the inventory balances as reported in the unaudited Annual Financial Report for the fiscal year ended June 30, 2012, for the following departments/units of Miami-Dade County Public Schools (M-DCPS):

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

The inventory information appearing in the unaudited Annual Financial Report is the responsibility of management. Our responsibility is to express an opinion on the inventory balances 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 balances, and to the amounts reported in the unaudited Annual Financial Report. In our opinion, the inventories were fairly stated, in all material respects, in the unaudited Annual Financial Report.

Total year-end inventories decreased 28% from \$13 million at June 30, 2011, to \$9.4 million at June 30, 2012. We found the internal controls over the inventory counting and reconciling processes for the five inventories to be satisfactory.

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

Sincerely,

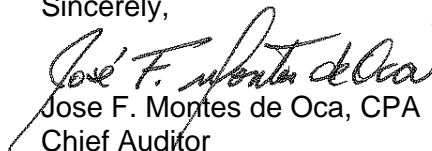

Jose F. Montes de Oca, CPA
Chief Auditor

TABLE OF CONTENTS

	Page Number
EXECUTIVE SUMMARY	1
INTERNAL CONTROLS	2
BACKGROUND AND PARTIAL ORGANIZATIONAL CHART.....	3
OBJECTIVES, SCOPE AND METHODOLOGY	7
EXHIBIT A – STATEMENTS OF INVENTORIES PER UNAUDITED ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011	8
EXHIBIT B – ANALYSIS OF YEAR-TO-YEAR CHANGES IN INVENTORY BALANCES FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011	9
EXHIBIT C – ANALYSIS OF INVENTORY RESULTS AND COMPOSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2012.....	10
RESULTS OF THE AUDIT	
1. Inventory Observations and Reconciliation of Physical Counts Were Satisfactory at Departments and Units.....	12

EXECUTIVE SUMMARY

Based on our audit, we have concluded that year-end inventories of \$9.4 million at June 30, 2012, were fairly stated, in all material respects, in the unaudited 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, Maintenance Materials Management and the Department of Transportation verified the amounts reported in the District's records and unaudited Annual Financial Report. Notwithstanding this general agreement, there were other matters that came to our attention, which were deemed non-reportable because they were immaterial and inconsequential. These matters, which include the adjustments to the Department of Transportation's year-end general ledger inventory balance, were discussed with management for their information and follow-up.

INTERNAL CONTROLS

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

B = Textbook Support Services
 F = Department of Food and Nutrition
 S = Stores and Mail Distribution
 M = Maintenance Materials Management
 T = Department of 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		

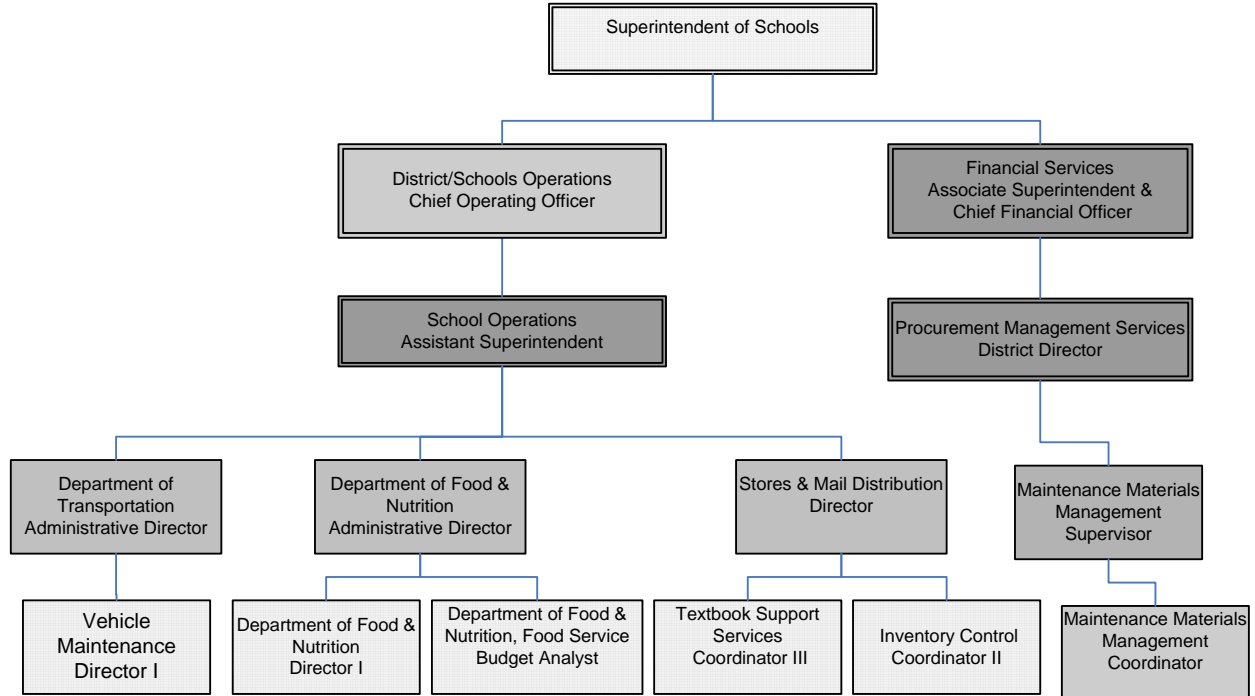
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness.	Do not exist or are not reliable.
Policy & Procedures Compliance	In compliance	Non-Compliance issues exist.	Non-compliance issues are pervasive, significant, 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 its ability to educate its students. The food inventory is accounted for in the Food Service Fund, a Special Revenue Fund; whereas all other inventories are accounted for in the General Fund.

The overall responsibility for the inventories has been assigned to District/Schools Operations and Financial Services, as depicted in the partial organizational chart below:

PARTIAL ORGANIZATIONAL CHART



Textbook Support Services

As part of Stores and Mail Distribution (S&MD), Textbook Support Services coordinates with district schools to purchase the State of Florida adopted textbooks and other instructional materials from the Florida School Book Depository (FSBD) and monitors the textbook account activity generated by requisitions from schools. The FSBD is the principal source from which schools requisition State-adopted textbooks and other instructional materials. At different times during the year, each school makes its individual orders from the SAP online catalogs. The textbook orders are then grouped together and a composite order is electronically transmitted to FSBD. This process is repeated as a sufficient number of orders from schools are received in SAP. Stores and Mail Distribution is responsible for receiving, storing and delivering the textbooks and instructional materials to the schools. Textbook Support Services operates in work areas within the S&MD warehouse, located at 7001 S.W. 4th Street, Miami, Florida.

A perpetual inventory is not maintained for textbooks. The vast majority of textbooks for any school year is ordered in advance during the last months of the preceding fiscal year and is paid with funds from the subsequent year's budget (forward funding), 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. Typically, the textbooks are received in S&MD during the months of June and July and are distributed to the schools, but remain unused until the school year begins in August. Textbooks received that are unused as of June 30th 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 Textbook Support Services Coordinator III was in charge of the inventory counting process.

Department of Food and Nutrition

The Department of Food and Nutrition (F&N) has the responsibility of providing food services for students at 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, the vendor providing contracted delivery and storage

facilities; while non-food supplies are stored at the S&MD warehouse. Processed and purchased foods are also stored at the schools. Inventory records are maintained through an automated perpetual inventory system. The Department also maintains manual inventory records for both purchased foods and commodities. Commodities stored in bulk are recorded through an automated perpetual inventory system maintained by US Foodservice. Both the Department's records and US Foodservice records are reconciled monthly. Seventy-seven percent (77%) of the inventory is commodity foods donated by the federal government, while the remaining 23% 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 pass-through agency for federally donated commodity foods. 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 counting and ordering process for food items, and a Food Service Budget Analyst was in charge of the reconciliation process for USDA Commodities received. The administrative offices of the Department of Food and Nutrition are located at 7042 West Flagler Street, Miami, Florida.

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. The inventory is valued using the weighted average method. A satellite warehouse, located at 12525 N.W. 28th Avenue, Miami, Florida, is also maintained to temporarily store large purchases of new equipment and supplies, which are used to furnish newly constructed and renovated schools; and used surplus equipment pending sale at a public auction. These equipment and supplies are not included as part of the inventory.

S&MD also operates the mail service for the school system, and stores and distributes textbooks. S&MD maintains a fleet of 34 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 counting process.

Maintenance Materials Management

Maintenance Materials Management (MMM) is responsible for supplying Facilities Operations – Maintenance (Maintenance) with materials, parts and equipment for routine maintenance and improvements to the school system's facilities. At June 30, 2012, there were two locations for storing inventory. Ninety-four percent (94%) 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 S.W. 117th 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. A MMM Coordinator was in charge of the inventory count process.

Department of Transportation

The M-DCPS Department of Transportation (DOT) operates a fleet of approximately 1,300 school buses from nine terminals to transport the students of M-DCPS. In addition, approximately 1,700 vehicles from DOT, S&MD, F&N, MMM, Maintenance, Information Technology Services (ITS), School Police, and various other district offices are serviced at these terminals. Monthly safety inspections are performed on 431 additional private school buses that are contracted by the District for student transportation to and from schools and/or activity trips.

To service the buses, trucks and other vehicles, inventories of fuel are maintained at all nine DOT terminals and one Maintenance location. While Maintenance is responsible for the custody of the fuel and dispensing equipment at the latter location, as well as for related 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 fuel 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. Fifty percent (50%) of replacement parts, including tires, are stored at the Central Warehouse located at 11601 S.W. 160th Street, Miami, Florida. The inventories are valued using the weighted average method. A Vehicle Maintenance Director I was in charge of the inventory counting process.

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the 2012-13 Fiscal Year Audit Plan for the Office of Management and Compliance Audits, we have audited the inventory balances as reported in the unaudited Annual Financial Report issued by the Office of Controller for the fiscal year ended June 30, 2012, 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 procedures included observing the inventory-taking process by the administration at year-end and comparing the results with the amounts reported in the unaudited 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 this performance 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 unaudited 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. In addition, this audit included an assessment of applicable internal controls.

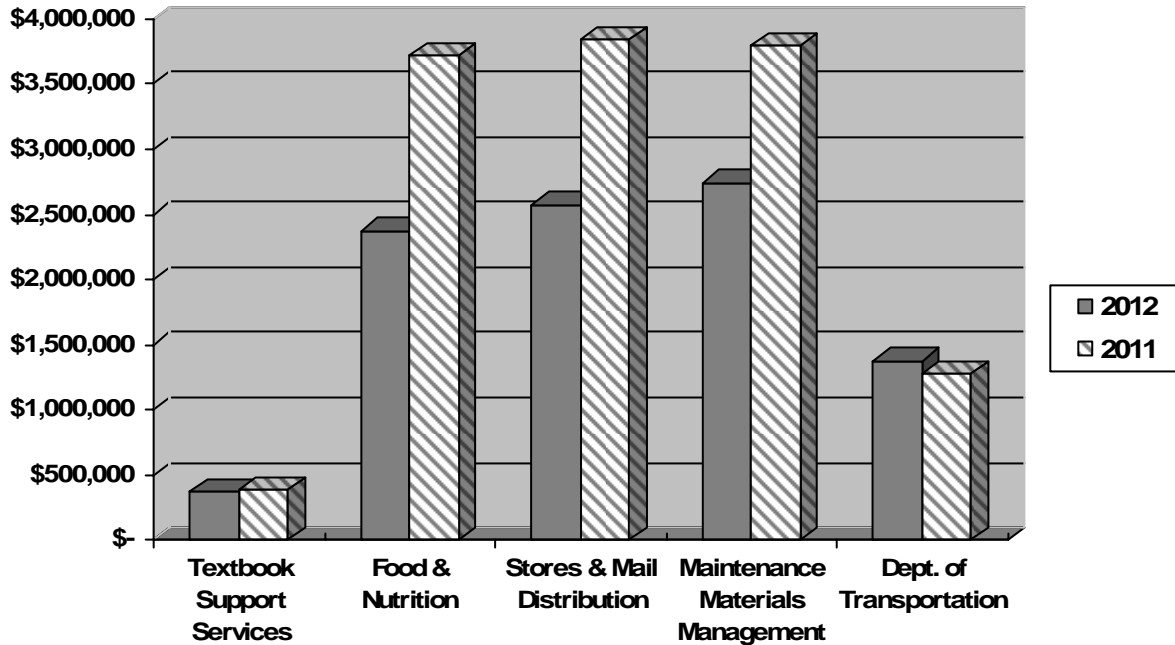
EXHIBIT A**STATEMENTS OF INVENTORIES PER UNAUDITED ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011¹**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Textbook Support Services	<u>\$ 370,164</u>	<u>\$ 394,044</u>
Food & Nutrition²		
Commodities – Processing Plant	1,334,975	3,151,421
Public Warehouse	450,651	42,112
Schools	54,007	55,332
Purchased Food Schools	286,600	291,934
Processed Food Schools	15,303	9,665
Non-Food Supplies Schools	<u>236,649</u>	<u>172,417</u>
Total Food and Nutrition	<u>2,378,185</u>	<u>3,722,881</u>
Stores and Mail Distribution	<u>2,574,781</u>	<u>3,837,087</u>
Maintenance Materials Management		
Materials, Parts and Supplies	<u>2,742,339</u>	<u>3,796,083</u>
Department of Transportation		
Parts	726,746	691,267
Fuel	578,862	508,036
Tires and Tubes	<u>73,689</u>	<u>80,554</u>
Total Department of Transportation	<u>1,379,297</u>	<u>1,279,857</u>
Total Inventory	<u>\$9,444,766</u>	<u>\$13,029,952</u>

¹ Please refer to EXHIBIT B – Analysis of Year-to-Year Changes in Inventory Balances for explanations on the changes in inventory balances.

² The inventory for the Department of Food & Nutrition was reported as part of the Special Revenue Fund. The other inventories were reported in the General Fund.

**ANALYSIS OF YEAR-TO-YEAR CHANGES IN INVENTORY BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**



Textbook Support Services – The \$23,880 or 6% decrease in textbook inventory as of June 30, 2012, is immaterial. We noted that major orders of textbooks occurred after the close of the 2011-12 Fiscal Year. Only one textbook order was placed prior to June 30, 2012. Textbooks ordered during July 2012, and up to mid-August 2012, totaled \$10.3 million.

Food and Nutrition – The \$1.3 million or 36% decrease in food inventory as of June 30, 2012, resulted from the U.S. Department of Agriculture shipping less quantities of donated commodities to the food processor.

Stores and Mail Distribution – The \$1.3 million or 33% decrease in supplies inventory as of June 30, 2012, resulted from S&MD efforts to reduce inventory by monitoring inventory levels and adjusting reorder points based on demand; while maintaining essential inventory levels.

Maintenance Materials Management – The \$1.05 million or 28% decrease in materials, parts and equipment inventory as of June 30, 2012, resulted from the ongoing depletion of the large quantity of non-recurring stock added to inventory in the prior year to facilitate ongoing capital repairs to existing school facilities by the Maintenance workforce.

Department of Transportation – The \$99,440 or 8% increase in inventory as of June 30, 2012, resulted mostly from a 30,000 gallon increase in fuel volume over the prior year.

EXHIBIT C

**ANALYSIS OF INVENTORY RESULTS AND COMPOSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Department/Unit	Perpetual Inventory Prior to Count	Adjustment to Perpetual	Adjusted Perpetual Inventory June 30, 2012	Unadjusted General Ledger	Adjustment to General Ledger	Adjusted General Ledger	Annual Financial Report June 30, 2012
Textbook Support Services ¹	\$ -	\$370,164	\$ 370,164	\$ 371,038	\$ (874)	\$ 370,164	\$ 370,164
Food and Nutrition Stores and Mail Distribution ²	2,378,185	-	2,378,185	2,352,269	25,916	2,378,185	2,378,185
Maintenance Materials Management ³	2,568,315	6,466	2,574,781	2,573,127	1,654	2,574,781	2,574,781
Transportation ⁴	2,725,824	16,515	2,742,339	2,769,597	(27,258)	2,742,339	2,742,339
	<u>1,379,290</u>	<u>7</u>	<u>1,379,297</u>	<u>1,272,511</u>	<u>106,786</u>	<u>1,379,297</u>	<u>1,379,297</u>
Total Inventory	<u>\$9,051,614</u>	<u>\$393,152</u>	<u>\$9,444,766</u>	<u>\$9,338,542</u>	<u>\$106,224</u>	<u>\$9,444,766</u>	<u>\$9,444,766</u>

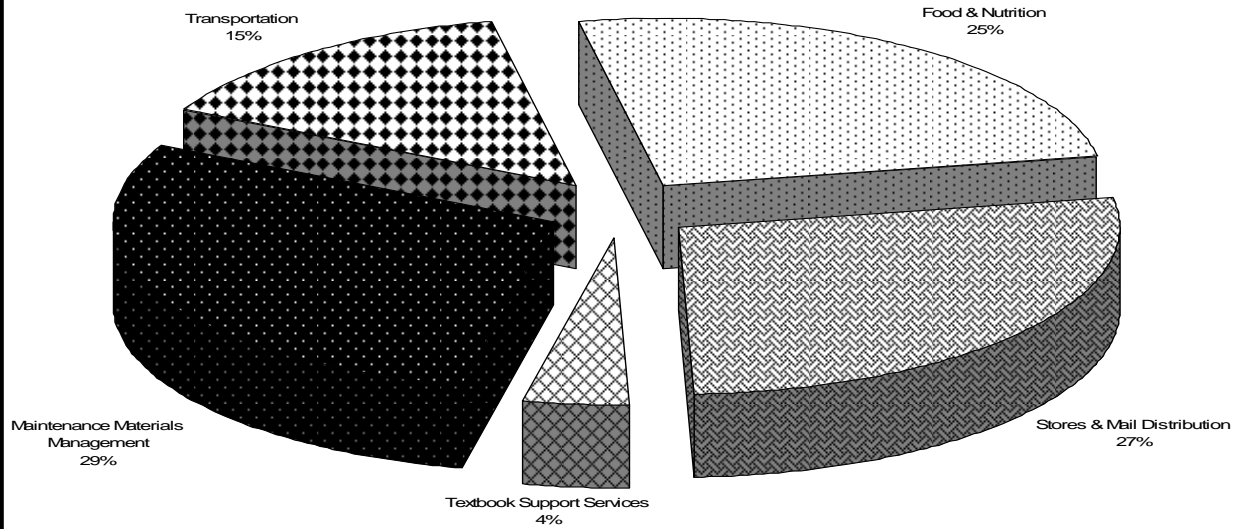
¹ No perpetual inventory system is maintained for textbooks.

² Adjustments consisted of \$6,323 from activity after the cut-off date and \$143 in department count adjustments.

³ Adjustments consisted of \$16,515 in inventory received after the cut-off date and included in our annual physical inventory count.

⁴ Adjustment to perpetual was immaterial. Adjustment to General Ledger consisted of \$(54,815) for Repair Parts, \$1,238 for Tires and Tubes, \$44,466 for Unleaded Fuel and \$115,897 for Diesel Fuel.

Composition of Inventory as of June 30, 2012



RESULTS OF THE AUDIT

1. INVENTORY OBSERVATIONS AND RECONCILIATION OF PHYSICAL COUNTS WERE STATISFACTORY AT DEPARTMENTS AND UNITS

Textbook Support Services

The results of our test counts and the unit's physical inventory counts were in agreement with the year-end textbook inventory reported as part of the General Fund inventory balance reported in the District's unaudited Annual Financial Report. The value of the textbooks on-hand at the S&MD warehouse at June 30, 2012, was \$370,164, of which, we test-counted 100%. Our tests showed that the inventory was accurately reported in the District's unaudited Annual Financial Report.

Department of Food and Nutrition

The annual physical inventory count of the public warehouse inventory was conducted by F&N staff. Based on records maintained of the physical count, no adjustments were required to the inventory records. We obtained positive confirmations for 100% of the \$1,334,975 located at the food processing plants. We concluded that the \$2,378,185 in inventory was accurately reported in the District's unaudited Annual Financial Report, in all material respects.

Stores and Mail Distribution

The annual physical inventory count was conducted on June 29, 2012. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%, we test-counted \$1,686,529 or 66% of the total inventory value. Our count resulted in no adjustments to the perpetual inventory records. However, the department made net adjustments of \$6,466 to the perpetual inventory for net activities occurring between the cut-off and year-end dates. The associated inventory items were subject to our counting procedures. We concluded that the \$2,574,781 in inventory was accurately reported in the District's unaudited Annual Financial Report, in all material respects.

Maintenance Materials Management

The annual physical inventory count was conducted on June 29, 2012. Using Cumulative Monetary Amount (CMA) sampling methodology with a confidence level of 95%, we test-counted \$1,236,813, as well as an additional \$91,068, randomly selected, for a total of \$1,327,881 or 48% of the total inventory on

hand. Our counts resulted in no adjustment to the perpetual inventory records. However, there was an adjustment of \$16,515 for goods received after the inventory count cut-off date that was subject to our counting procedures. In addition, net adjustments of \$(27,258) were required to adjust the general ledger balance (\$2,769,597) as of June 30, 2012, to the perpetual inventory records after our count. We concluded that the \$2,742,339 in inventory was accurately reported in the District's unaudited Annual Financial Report, in all material respects.

Department of Transportation

The annual physical inventory count was conducted on June 29, 2012. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%, we test-counted \$113,075, as well as an additional \$13,125, randomly selected items and \$578,862 of fuel inventory for a total of \$705,062 or 51% of the total inventory value. The process of reconciling the perpetual inventory to the general ledger resulted in net adjustments of \$106,786. We concluded that the \$1,379,297 in inventory was accurately reported in the District's unaudited Annual Financial Report, in all material respects.

RECOMMENDATION

1.1 NONE

MIAMI-DADE COUNTY PUBLIC SCHOOLS ANTI-DISCRIMINATION POLICY

Federal and State Laws

The School Board of Miami-Dade County, Florida adheres to a policy of nondiscrimination in employment and educational programs/activities 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 gender 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.

Title II of the Genetic Information Nondiscrimination Act of 2008 (GINA) - Prohibits discrimination against employees or applicants because of genetic information.

Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 205.07 (Florida Statutes), which stipulate categorical preferences for employment.

In Addition:

School Board Policies 1362, 3362, 4362, and 5517 - Prohibit harassment and/or discrimination against students, employees, or applicants on the basis of sex, race, color, ethnic or national origin, religion, marital status, disability, genetic information, age, political beliefs, sexual orientation, gender, gender identification, social and family background, linguistic preference, pregnancy, and any other legally prohibited basis. Retaliation for engaging in a protected activity is also prohibited.

Revised: (07-11)

INTERNAL AUDIT REPORT

Audit of Inventories as of June 30, 2012



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