



Internal Audit Report



Audit of Inventories
As of June 30, 2008



Inventory observations and physical counts were satisfactory at the various departments and units, but unexplained inventory variances continue to exist in Transportation.

December 2008

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

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EXECUTIVE SUMMARY

Based on our audit, we concluded that year-end inventories of \$19.6 million at June 30, 2008 were fairly stated in the Annual Financial Report.

The following summarizes our findings:

- Audit test counts at Textbook Inventory Services verified the amount reported in the district's records and reported in the district's Annual Financial Report.
- Audit test counts at the Department of Food and Nutrition verified the amount reported in the district's records and reported in the district's Annual Financial Report.
- Audit test counts at Stores and Mail Distribution verified the amount reported in the district's records and reported in the district's Annual Financial Report.
- Audit test counts at Maintenance Materials Management verified the amount 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 variances remain on these reconciliations, which resulted in a net accounting adjustment of approximately \$95,000 as of June 30, 2008. Our tests indicate that despite this adjustment, the inventory as stated in the district's Annual Financial Report is fairly stated in all material respects.

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		T	
External Risk	B, F, S, M, T		

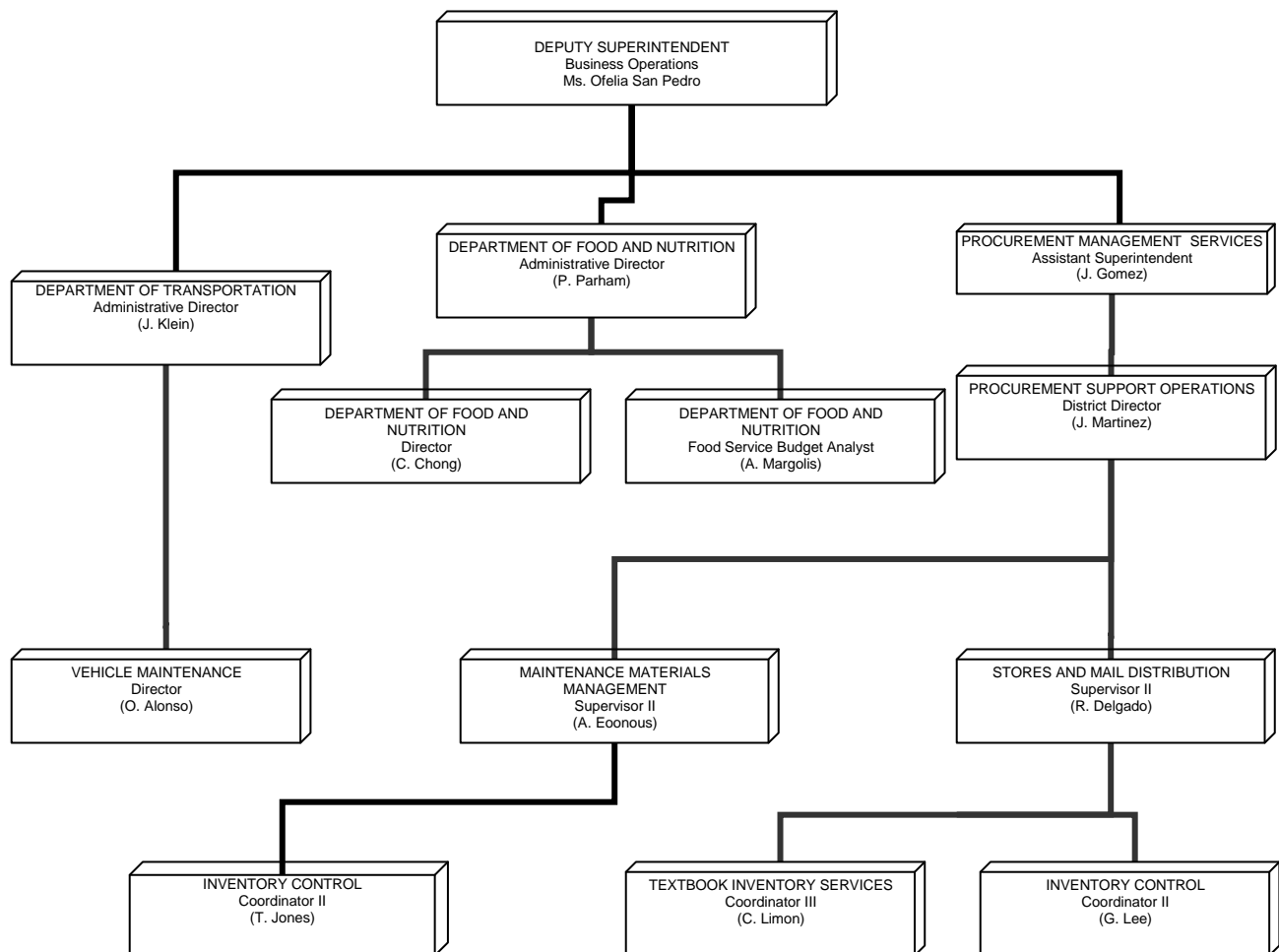
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness.	Do not exist or are not reliable.
Policy & Procedures Compliance	In compliance	Non-Compliance Issues exist.	Non-compliance issues are pervasive, significant, 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

The Miami-Dade County School Board maintains inventories of food, parts, equipment, textbooks, 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; while the other inventories are accounted for in the General Fund.

The overall responsibility for the inventories has been assigned to Business Operations as depicted in the partial organization chart below:

PARTIAL ORGANIZATIONAL CHART



Note: The partial organizational chart reflects the reporting structure as of June 30, 2008. Board Agenda Item A-3, approved by the board on November 18, 2008, reorganized the reporting structure. At the time of publishing this report, the Deputy Superintendent of Business Operations position was eliminated; and the Departments of Transportation and Food and Nutrition, and Stores and Mail Distribution report to the Deputy Superintendent of School Operations.

Textbook Inventory Services

Textbook Inventory 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 enters the requisitions into the on-line Textbook Ordering System, and the system compiles the district-wide textbook orders. The textbook orders are electronically transmitted to FSBD. Stores and Mail Distribution is responsible for receiving, storing and delivering the instructional materials to the schools. Textbook Inventory Services is located in the S&MD warehouse.

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 early August. The textbooks are distributed to the schools, but remain unused until the following fiscal year. They are carried as inventory at the end of the fiscal year for financial statement reporting purposes, in compliance with generally accepted accounting principles. A Textbook Inventory Services Coordinator III 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 food and supplies, and preparing a district-wide food service program budget.

The Department maintains manual inventory records for both purchased foods and donated commodities. Commodities stored in bulk are recorded through an automated perpetual inventory system maintained by The American Logistics Group (TALG), the vendor providing for contracted warehouse facilities.

In January 2007, the Department increased the amount of commodities directly delivered to various approved food processing companies, instead of storing

these at TALG. The schools order processed food products on-line from a vendor, School Food Service Systems (SFS), who then orders the products from the processors and delivers them to the schools.

Donated commodity inventories are recorded at their fair market value, provided by the Florida Department of Agriculture (FDA), at the time of donation. The Department of Food and Nutrition calculates the weighted average cost of the inventory for the perpetual inventory system. Food donated by the Federal Government represents 86% of the inventory, while the balance is food and supplies purchased by the district. Bulk, frozen, dry commodity, canned goods and refrigerated foods are stored at TALG, the contracted warehouse, while supplies are stored at the Stores and Mail Distribution (S&MD) warehouse. An F&N Food Service Director was in charge of the inventory count 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, located at 7001 S.W. 4th Street, Miami, and a smaller satellite warehouse, located at 50 N.W. 14th Street, Miami, are also used to temporarily store large purchases of equipment and supplies. 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. S&MD also operates the mail service for the school system, and stores and distributes textbooks. They maintain a fleet of 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, 2008, there were two locations available for storing inventory. Most of the inventory is located at the Central Warehouse at 12525 N.W. 28th Avenue, Miami. Small inventories of selected items are stored at the Coral Reef Maintenance complex. MMM maintains a fleet of trucks and vans that are used to deliver supplies, parts and equipment to Maintenance satellite locations. An MMM Supervisor II was in charge of the inventory count process.

Department of Transportation

The Department of Transportation (Transportation) operates a fleet of approximately 1,700 school buses from nine terminals to transport the students of the school system. In addition, approximately 1,800 vehicles from

Transportation, S&MD, Food and Nutrition, Maintenance, MMM, Information Technology Services (ITS), School Police, Driver's Education, administrative and various other District offices are serviced at these terminals. Monthly safety inspections are performed on an additional 347 private school buses contracted 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 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. A Vehicle Maintenance Director was in charge of the inventory count process.

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the FY 2008-09 Audit Plan for the Office of Management and Compliance Audits, we have examined the inventory balances as reported in the Annual Financial Report issued by the Office of the Controller for the fiscal year ended June 30, 2008 and the related accounting records, for the purpose of determining the inventory values of the following departments/units:

- Textbook Inventory 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. In addition, cycle counts were observed on a sample basis throughout the year in order to verify that the department is maintaining the accuracy of the perpetual inventory system. 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 audit in accordance with generally accepted government auditing standards. 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. 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

**STATEMENT OF INVENTORIES PER ANNUAL FINANCIAL REPORT
(COMPARED TO THE PRIOR FISCAL YEAR)**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<u>Textbook Inventory Services</u>	<u>\$ 10,189,453</u>	<u>\$ 11,019,171</u>
<u>Food and Nutrition¹</u>		
Commodities		
Public Warehouse	421,197	966,655
Schools	191,099	205,436
Processing Plant	1,789,342	1,673,702
Purchased Food		
Public Warehouse	13,991	46,830
Schools	272,616	685,463
Non-Food Supplies		
Schools	<u>129,900</u>	<u>310,913</u>
Total	<u>2,818,145</u>	<u>3,888,999</u>
<u>Stores and Mail Distribution²</u>	<u>3,273,566</u>	<u>3,472,951</u>
<u>Maintenance and Materials Management</u>		
Materials and Supplies	2,179,069	2,924,114
Manufactured Stock	<u>113</u>	<u>129</u>
Total	<u>2,179,182</u>	<u>2,924,243</u>
<u>Transportation</u>		
Parts	446,464	599,340
Fuel ³	652,561	377,964
Tires and Tubes	<u>27,208</u>	<u>68,280</u>
Total	<u>1,126,233</u>	<u>1,045,584</u>
Total Inventory	<u><u>\$ 19,586,579</u></u>	<u><u>\$ 22,350,948</u></u>

¹The inventory for the Department of Food and Nutrition was reported as part of the Special Revenue Fund, while the other inventories were reported in the General Fund.

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

³Included is \$41,759 in fuel located at the South Central Maintenance Facility at 2925 N.W. 41st St, Miami, FL. and managed by maintenance.

EXHIBIT B

**ANALYSIS OF INVENTORY RESULTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

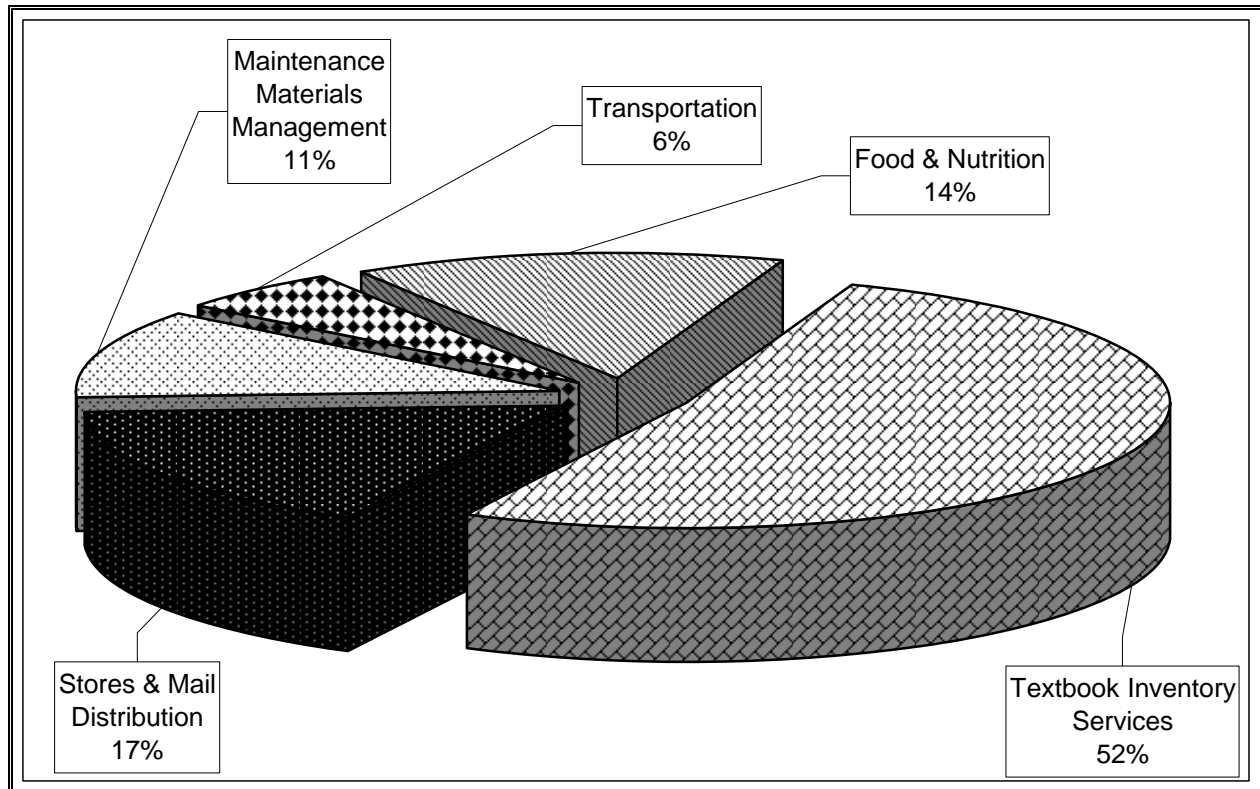
Department/Unit	Perpetual Inventory	Adjustments to Perpetual	General Ledger 6/30/08
Textbook Inventory Services ¹	\$ -	\$ 10,189,453	\$ 10,189,453
Food and Nutrition	2,818,145	-	2,818,145
Stores and Mail Distribution ²	3,089,728	183,838	3,273,566
Maintenance Materials Management ³	2,159,095	20,087	2,179,182
Transportation ⁴	1,125,687	546	1,126,233
Total Inventory	\$ 9,192,542	\$ 10,393,924	\$ 19,586,579

¹No perpetual inventory system is maintained for textbooks.

²Adjustments consisted of \$184,225 in inventory received after the cut-off date and (\$387) in audit count adjustments.

³Adjustments consisted of \$19,186 in inventory received after the cut-off date and \$901 in audit count adjustments.

⁴The general ledger balance includes an accounting adjustment of \$357,919 to agree the physical inventory balance to perpetual. Of this adjustment, \$126,334 for parts and (\$31,272) for tires was not specifically identified by DOT.



FINDINGS AND RECOMMENDATIONS

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

Textbook Inventory 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 in the district's Annual Financial Report. The value of the textbooks on-hand at the S&MD warehouse and at the schools at June 30, 2008 was \$8,075,209 of which we test-counted \$6,694,465 or approximately 83%. In addition, there were licenses for online books in the amount of \$2,114,244 for a total inventory of \$10,189,453. 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 was conducted on June 30, 2008. Using a judgmental sample, \$261,451 or 86% of the \$302,387 total inventory in the public warehouse was counted. No adjustments were required. Positive confirmations were obtained for 100% of the \$1,789,342 located at the food processing plants. We concluded that the \$2,818,145 in inventory was accurately reported in the district's Annual Financial Report.

Stores and Mail Distribution

Warehouse staff conducts physical cycle counts on a daily basis. The Office of Management and Compliance Audits made unannounced visits during the year to verify that the cycle counts were being performed and the perpetual inventory records were being adjusted as required.

The annual physical inventory count was conducted on June 30, 2008. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%, \$1,698,490 or 52% of the total inventory value was counted. Our counts resulted in no adjustments to the perpetual inventory records, however, there was an adjustment of (\$387) resulting from the department pre-counts and \$184,225 for goods received after the cutoff date. We concluded that the \$3,273,565 in inventory was accurately reported in the district's Annual Financial Report.

Maintenance Materials Management

Warehouse staff conducts physical cycle counts on a daily basis. The Office of Management and Compliance Audits made unannounced visits during the year to verify that the cycle counts were being performed and the perpetual inventory records were being adjusted as required.

The annual physical inventory count was conducted on June 30, 2008. Using Cumulative Monetary Amount (CMA) sampling with a confidence level of 95%, \$717,025 or 33% of the total inventory value was counted. The Department's counts after cut-off, but prior to the audit count, resulted for the need to adjust the perpetual inventory system by \$975. The audit counts resulted in a further adjustment of (\$74), resulting in a net adjustment of \$901. In addition, there was an adjustment of \$19,186 for goods received after the cutoff date. We concluded that the \$2,179,068 in inventory was accurately reported in the district's Annual Financial Report.

RECOMMENDATION

1.1 None

2. UNEXPLAINED INVENTORY VARIANCES CONTINUE TO EXIST IN TRANSPORTATION

Since last year's inventory audit, Transportation personnel made good progress in its attempts to reconcile its perpetual inventory to the general ledger balance. During the 2007-08 fiscal year, Transportation initiated monthly reconciliations for the first time since changing its inventory management system from COMPASS to Transman in January 2006.

Notwithstanding, Transportation continues to experience unexplained variances between the inventory recorded in the Transman system, the perpetual inventory system and the inventory recorded in the general ledger. As of June 30, 2008, the variances noted were approximately \$126,000 and (\$31,000) between perpetual and general ledger, for stockroom parts and tires inventories, respectively.

RECOMMENDATION

2.1 Transportation should test a sample of all inventory transactions to identify all reconciling transaction types. Once identified, Transportation should account for these types of transactions on its periodic reconciliations.

Responsible Department: Department of Transportation

Management Response: As agreed in last year response, Transportation has captured the differences between TRANSMAN and the general ledger as unpaid purchase orders or pending posting to the general ledger. These purchase orders eventually are posted in the general ledger and reconcile at fiscal year-end. However, the differences reported in this year's audit are as a consequence of several points that need to be considered.

- The Average Cost calculation within the TRANSMAN system. The average cost is recalculated every time a part is moved between warehouses. TRANSMAN considers each satellite warehouse individually when calculating average cost.
- Staff recently uncovered a flaw in the vendor's program within the current version of TRANSMAN that randomly changes the accounting rule thus debiting or crediting the wrong funding structures.

- Free parts returned under warranty are recorded into the inventory via an inventory adjustment. These inventory adjustments are brought in at the last recorded parts cost but are not recorded in the general ledger as a purchase.
- The shortage in the tire inventory account was of a particular concern. In August an investigation was initiated at one of the centers where the tire usage was significantly higher than any other comparable center. School Police and DOT staffs have been working closely to determine the reason for the tire shortage.

DOT staff continues to work toward reducing the inventory variances between TRANSMAN and the general ledger. Still, it is difficult to guarantee if these variances will ever be eliminated completely because these databases function under different logic.

APPENDIX – Management’s Response

October 16th, 2008
JK#08-15296
(305) 234-0849

MEMORANDUM

TO: Mr. Allen Vann, Chief Auditor
Office of Management and Compliance Audits
Senior Audit Coordinator

VIA: Ofelia San Pedro, Deputy Superintendent
Business Operations

FROM:  Jerry Klein, Administrative Director
Department of Transportation

SUBJECT: **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 test a sample of all inventory transactions to identify all reconciling transaction types. Once identified, Transportation should account for these types of transactions on its periodic reconciliations.*

Management Response:

As agreed in last year response, Transportation has captured the differences between TRANSMAN and the general ledger as unpaid purchase orders or pending posting to the general ledger. These purchase orders eventually are posted in the general ledger and reconcile at fiscal year-end. However, the differences reported in this year's audit are as a consequence of several points that need to be considered.

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DOT staff continues to work toward reducing the inventory variances between TRANSMAN and the general ledger. Still, it is difficult to guarantee if these variances will ever be eliminated completely because these databases function under different logic.

C.c. Mr. Alberto M. Carvalho
Mr. Trevor Williams
Mr. Orlando Alonso
Mr. Michael Hernandez
Mr. Lander Carn

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.

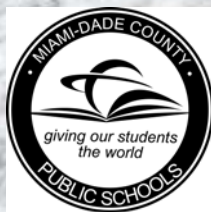
Florida Educational Equity Act (FEEA) - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

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



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