

# **INTERNAL AUDIT REPORT**

## **AUDIT OF INVENTORIES AS OF JUNE 30, 2004**

**TEXTBOOK INVENTORY SERVICES  
DEPARTMENT OF FOOD AND NUTRITION  
STORES AND MAIL DISTRIBUTION  
MAINTENANCE MATERIALS MANAGEMENT  
DEPARTMENT OF TRANSPORTATION**



**OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS**

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Chief Auditor  
Office of Management and Compliance Audits





# Miami-Dade County Public Schools

*giving our students the world*

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Rudolph F. Crew, Ed.D.

**Chief Auditor**  
Allen M. Vann, CPA

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November 17, 2004

Members of The School Board of Miami-Dade County, Florida  
Members of the School Board Audit Committee  
Dr. Rudolph F. Crew, Superintendent of Schools

Ladies and Gentlemen:

The Office of Management and Compliance Audits has audited the inventories as of June 30, 2004 of the following departments/units:

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

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 and to the amounts shown on the financial statements. In our opinion, the inventories were fairly stated in the Annual Financial Report.

We found that the control environment in the individual departments was good and there were no material exceptions noted during our audit.

Year-end inventories increased from \$20.9 million at June 30, 2003, to \$27.1 million at June 30, 2004. Most of the increase was attributed to \$4.8 million more in textbooks that were ordered, received, and distributed to schools prior to the fiscal year-end. Another \$1 million increase was attributed to Food and Nutrition stock held at various locations.

We commend the departments of Textbook Inventory Services, Food and Nutrition, Stores and Mail Distribution, Maintenance Materials Management and Transportation for properly conducting the physical inventories at year-end.

Sincerely,

Allen M. Vann, CPA  
Chief Auditor  
Office of Management and Compliance Audits

AMV:cpi

cc: Ms. Ofelia San Pedro, Deputy Superintendent

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## 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 locations in the system. 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, Finance and Construction, and to Financial Affairs, as shown below:



## **OBJECTIVES, SCOPE, AND METHODOLOGY**

In accordance with the 2004-05 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, 2004, 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 throughout the year in the departments/units where cycle counts were conducted, testing, on a sample basis, the counts and prices used to value the inventories, and comparing the results to 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 auditing standards in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our opinions and conclusions regarding the functions under audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures herein. An audit also includes assessing the accounting principles used and significant estimates made by the administration, if any. We believe that our audit provides a reasonable basis for our opinion.

**ANALYSIS OF INVENTORIES PER ANNUAL FINANCIAL REPORT FOR  
THE FISCAL YEAR ENDED JUNE 30, 2004  
(COMPARED TO THE PRIOR FISCAL YEAR)**

		<u>Financial Statement Balance at</u>	
		<u>June 30, 2004</u>	<u>June 30, 2003</u>
<u>Textbook Inventory Services</u> (Note 1)		<u>\$ 17,405,010</u>	<u>\$ 12,634,588</u>
<u>Food and Nutrition</u> (Note 2 & 3)			
Commodities	Public Warehouse	2,562,821	2,403,336
	Schools	186,366	195,469
	Processing Plant	458,922	120,511
Purchased Food	Public Warehouse	444,273	107,043
	Schools	542,579	360,446
Non-Food Supplies	Schools	<u>302,470</u>	<u>222,932</u>
Total		<u>4,497,431</u>	<u>3,409,737</u>
<u>Stores and Mail Distribution</u> (Notes 4)		<u>2,866,714</u>	<u>2,518,541</u>
<u>Maintenance Materials Management</u>			
Materials and Supplies		1,720,998	1,700,805
Manufactured Stock		<u>3,219</u>	<u>7,058</u>
Total		<u>1,724,217</u>	<u>1,707,863</u>
<u>Transportation</u>			
Parts		459,319	465,845
Fuel		143,026	132,581
Tires and Tubes		<u>48,826</u>	<u>44,037</u>
Total		<u>651,171</u>	<u>642,463</u>
<b>TOTAL INVENTORY</b>		<u><b>\$27,144,543</b></u>	<u><b>\$20,913,192</b></u>

Note 1: The increase in textbook inventory is attributed to more textbooks ordered, received, and distributed to schools prior to the fiscal year end.

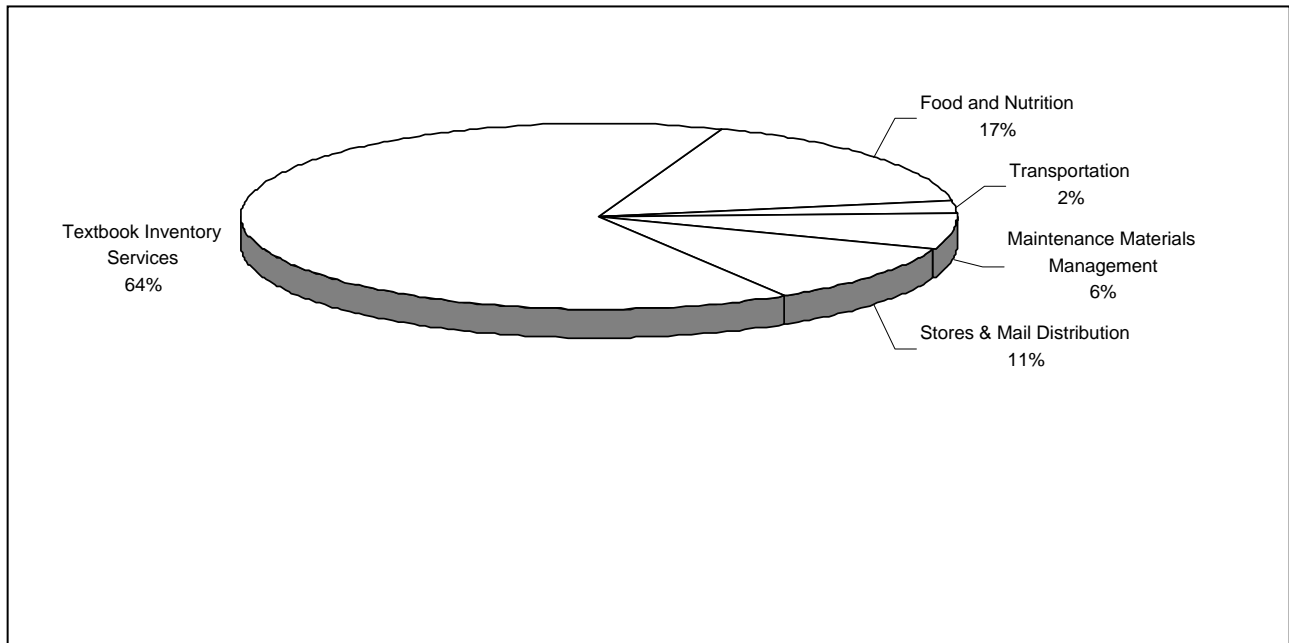
Note 2: Food and Nutrition inventory increase was attributed to stock held at various locations.

Note 3: The 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.

Note 4: Included in inventory at the S&MD warehouse are other non-food supply items such as trays, forks, napkins and cleaning supplies.

**ANALYSIS OF AUDIT RESULTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Department/Unit</u>	<u>Perpetual Inventory</u>	<u>Adjustment to Perpetual</u>	<u>General Ledger 6/30/04</u>	<u>Turn- over Ratio</u>	<u>Prior Year Turn- over Ratio</u>
Textbook Inventory Services	\$17,405,010	-	\$17,405,010	n/a	n/a
Food and Nutrition	4,481,711	\$ 15,720	4,497,431	2.31	2.26
Stores & Mail Distribution	2,772,626	94,088	2,866,714	5.11	4.98
Maintenance Materials Management	1,711,346	12,871	1,724,217	3.39	3.2
Transportation	<u>651,171</u>	<u>-</u>	<u>651,171</u>	4.69	4.61
<b>Total Inventory</b>	<u>\$27,021,864</u>	<u>\$ 122,679</u>	<u>\$27,144,543</u>		





## **TEXTBOOK INVENTORY SERVICES**

Textbook Inventory Services, as part of 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 focal point where schools submit the requisitions for 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. S&MD 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 February 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 late August. The textbooks are distributed to the schools, but remain unused until the following fiscal year, and are carried as inventory at the end of the fiscal year for financial statement reporting purposes, in compliance with generally accepted accounting principles.

### Physical Inventory Results

The results of our test counts and physical inventory observations were in agreement with the year-end textbook inventory reported in the Annual Financial Report. The value of the textbooks on-hand at the S&MD warehouse and at the schools at June 30, 2004 was \$17,405,010 of which we test counted \$11,386,630 or approximately 65%. Our tests showed that the inventory count was accurate in that there was less than a 0.03% error rate in the net value of the items test counted, which was considered immaterial.

## **DEPARTMENT OF FOOD AND NUTRITION**

The Department of Food and Nutrition has the responsibility of providing the total food services for the entire school district with the exception of those food service programs operating at the technical education centers. These services include, but are not limited to; maintaining various inventories of federally donated and purchased food and supplies, and preparing a district-wide food service program budget.

The Department of Food and Nutrition maintains manual inventory records for both purchased foods and commodities. Commodities stored in bulk are recorded through an automated perpetual inventory system maintained by the vendor providing for contracted warehouse facilities. Both the Department's records and contracted vendor's records are reconciled monthly. Donated commodity inventories 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. As recommended in prior audits, an automated school-based perpetual inventory system and a commodity inventory system are under development. However, as of the date of this report, the automation of the two inventory systems has not been implemented.

Seventy-one percent of the inventory is commodity foods donated by the Federal Government, while the balance is food and supplies purchased by the District. Bulk frozen, dry commodity, canned goods and refrigerated foods are stored in a public warehouse, while supplies are stored at the Stores and Mail Distribution (S&MD) warehouse. Based on preplanned menus and orders from the schools, the Department authorizes inventory and other food distributions to the schools by one of several methods: (1) supplies are sent to the schools by S&MD; (2) frozen, canned and refrigerated foods are delivered from the public warehouse to the schools by a contracted delivery service firm; (3) other purchased food items on bid are ordered and delivered through a jobber directly to the schools; and (4) perishables are ordered as needed directly from vendors. Small quantities of all the various food types are kept at the schools for immediate use. In addition, the Department operates 30 small trucks, which are mainly used for transporting goods and food to school sites.

### Physical Inventory Results

Food and Nutrition staff and The American Logistic Group (TALG) (public warehouse) personnel conducted a physical inventory of commodity foods on June 29, 2004. We performed test counts of the inventory of commodity foods maintained at the public warehouse on June 30, 2004. School cafeteria personnel inventoried the stock kept at the schools after the end of the school year on June 11, 2004. We performed test counts of those inventories as well. We observed the inventory counts and tested the results at the warehouses and schools. We counted approximately 31% of the total inventory. Our tests showed that there was less than a .09% net dollar value error rate in the inventory test counted at the public warehouse, which we considered immaterial. There was a .08% net dollar value error rate in the test counts at the schools, which we also considered immaterial. Therefore, the total inventory at year-end was considered to be properly stated.

## **STORES AND MAIL DISTRIBUTION**

Stores and Mail Distribution (S&MD) is responsible for maintaining and supplying the office and teaching supplies, equipment, and printed forms for the school system. The main warehouse, located at 7001 S.W. 4<sup>th</sup> Street, Miami, and a smaller satellite warehouse, located at 50 N.W. 14<sup>th</sup> Street, Miami are also used to store large purchases of equipment and supplies, which are not included as part of the inventory. Many of these items are to be used to furnish newly constructed and renovated schools and are temporarily stored in the warehouses until construction is completed. S&MD also operates the mail service for the school system, and stores and distributes textbooks. An Inventory Control Coordinator II, was in charge of the inventory-taking process.

## Physical Inventory Results

The Stores and Mail Distribution Inventory System is an on-line system developed by Information Technology Services that has been operating since January 1995. The system uses the weighted average inventory valuation method. Physical inventories through the use of cycle counts were conducted by the administration throughout the year. The annual physical inventory was conducted on June 30, 2004, when approximately 83% or \$2,852,120 of high-dollar value items was counted out of a total available and committed inventory of \$3,441,769. We observed the year-end count of high-dollar value items and tested the results.

Our tests showed that the inventory count was accurate in that there was less than a 0.06% error rate in the net value of the items test counted, which we consider immaterial. The value of the inventory was decreased by \$1,057 as a result of the physical counts. The inventory in the Annual Financial Report (AFR) was reported at \$2,866,714 after adjustments. The adjustment to the perpetual inventory of \$94,088 represents the physical count differences, and the value of stock both received and issued during the inventory cut-off period June, 2004 fiscal year end. Additionally, Management and Compliance Audits conducted a count of the non-inventoried supplies and equipment at year-end. We found no differences with the records maintained for these items in storage at both warehouses.

## **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, 2004, there were four locations available for storing inventory. Most of the inventory is located at the Central Warehouse, at 12525 N.W. 28<sup>th</sup> Avenue, Miami. Small inventories of selected items are stored at the South Central, North Central, and Coral Reef Maintenance complexes. MMM maintains a fleet of 30 trucks and vans that are used to deliver supplies, parts, and equipment to various Maintenance satellite locations.

## Physical Inventory Results

District staff conducts physical inventories throughout the year using inventory cycle counts. The Office of Management and Compliance Audits performed unannounced inventory test counts, verified the results of these cycle counts, on a test basis, throughout the year, as well as observed the cycle counts. The audit differences noted during this process were not material and the perpetual records were adjusted, accordingly.

The annual physical inventory was conducted on June 29 and June 30, 2004. Approximately 56% of high-dollar unit value stock items was counted. We observed the year-end count of high-dollar value items and tested the results at all locations. Our tests of the inventory counts disclosed that there were no material errors in the test counts. The inventory was reported in the Annual Financial Report at \$1,724,217.

## DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Transportation) operates a fleet of approximately 1,600 school buses from nine terminals to transport the students of the school system. In addition, approximately 1,700 vehicles from Transportation, S&MD, Food and Nutrition, Mail Service, Maintenance and Operations, MMM, 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 264 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 eight terminals and inventories of oil, replacement parts, and tires are maintained at all nine terminals. The majority of replacement parts, including tires, are located in the Central Warehouse at 11601 S.W. 160<sup>th</sup> Street, Miami.

### Physical Inventory Results

District staff conducted physical inventories throughout the year using inventory cycle counts. We verified the results of these cycle counts on a test basis, throughout the year. The audit differences noted during this process were not material and the perpetual records were adjusted, accordingly.

The annual physical inventory was conducted on June 29 and June 30, 2004. Transportation personnel counted approximately 42% of the total stock inventory. We observed the year-end counts and tested approximately 13% of the total stock inventory at year-end at the warehouse and transportation terminals.

Our test showed that the inventory was accurate in that there were no material errors noted. Readings were also taken of the fuel inventories valued at \$143,026 at year-end, which, when compared to the general ledger resulted in an increase of \$5,849 to the balance of the latter. The total inventory after the counts and fuel readings was reported at \$651,171 in the Annual Financial Report.

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