



# Internal Audit Report



## Audit of Inventories as of June 30, 2007



Year-end inventory balances were accurately reported in the General Ledger; however, reconciliations and cycle counts need to improve.

**December 2007**

# THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

Mr. Agustin J. Barrera, Chair  
Ms. Perla Tabares Hantman, Vice Chair  
Mr. Renier Diaz de la Portilla  
Ms. Evelyn Langlieb Greer  
Dr. Wilbert "Tee" Holloway  
Dr. Martin Karp  
Ms. Ana Rivas Logan  
Dr. Marta Pérez  
Dr. Solomon C. Stinson

Dr. Rudolph F. Crew  
Superintendent of Schools

Ms. Carolyn Spaht  
Chief of Staff

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

## **Contributors to this Report:**

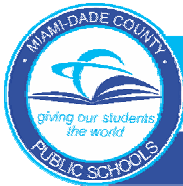
Audit Performed by:  
Mr. Lander Carn, CPA  
Mr. Norberto Ferradaz, CPA  
Mr. Michael Hernandez, CPA  
Mr. Julio C. Miranda, CPA, CFE

Audit Reviewed by:  
Mr. Lander Carn, CPA  
Ms. Maria T. Gonzalez, CPA  
Mr. Dario Rosendo, Jr., CPA

Audit Supervised by:  
Ms. Maria T. Gonzalez, CPA  
Mr. Dario Rosendo, Jr., CPA

Audit Report Prepared by:  
Ms. Maria T. Gonzalez, CPA





# Miami-Dade County Public Schools

*giving our students the world*

**Superintendent of Schools**  
**Rudolph F. Crew, Ed.D.**

**Miami-Dade County School Board**

**Agustin J. Barrera, Chair**  
**Perla Tabares Hantman, Vice Chair**  
**Renier Diaz de la Portilla**  
**Evelyn Langlieb Greer**  
**Dr. Wilbert "Tee" Holloway**  
**Dr. Martin Karp**  
**Ana Rivas Logan**  
**Dr. Marta Pérez**  
**Dr. Solomon C. Stinson**

November 30, 2007

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:

In accordance with the 2007 Audit Plan for the Office of Management and Compliance Audits, we have examined the inventory balances as reported in the Annual Financial Report for the fiscal year ended June 30, 2007 for the following departments/units:

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

Year-end inventories increased from \$21.9 million at June 30, 2006 to \$22.4 million at June 30, 2007.

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 reflected on the financial statements. In our opinion, except for a minimal adjustment to the inventories of processed food commodities, the inventories were fairly stated in the Annual Financial Report.

While controls were mostly good, some of the processes involved in the inventory reconciliations of the Departments of Food and Nutrition and Transportation could be improved. At Stores and Mail Distribution, the inventory was accurately reported, but the cycle count process could be improved.

Our findings and recommendations were discussed with management. We have included the responses from management addressing our findings and recommendations. As always, we would like to recognize the cooperation and courtesies extended to our staff during the conduct of this audit.

Sincerely,

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

AMV:em

## TABLE OF CONTENTS

	Page Number
EXECUTIVE SUMMARY .....	1
INTERNAL CONTROLS .....	2
BACKGROUND .....	3
ORGANIZATIONAL CHART.....	3
OBJECTIVES, SCOPE, AND METHODOLOGY .....	6
EXHIBIT A – STATEMENT OF INVENTORIES PER ANNUAL FINANCIAL REPORT .....	7
EXHIBIT B – ANALYSIS OF INVENTORY RESULTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007 .....	8
FINDINGS AND RECOMMENDATIONS	
1. Inventory Observations and Physical Counts Were Satisfactory at Textbook Inventory Services and Maintenance Materials Management .....	9
2. Perform Periodic Reconciliations And Maintain Pertinent Inventory Records At Food and Nutrition (F & N).....	10
3. Inefficient Cycle Count Coverage at Stores and Mail Distribution (S&MD).....	12
4. Perform Periodic Reconciliations And Maintain Pertinent Inventory Records At Transportation .....	14
APPENDIX .....	16

## EXECUTIVE SUMMARY

Based on our audit, we concluded that year-end inventories at June 30, 2007 amounted to \$22.4 million and were fairly stated in the Annual Financial Report. However, a minor downward adjustment of approximately 1% of the total value of the inventory relating to processed food commodities was required. The following summarizes our findings:

- Inventory observations and physical counts at Textbook Inventory Services agreed with district records.
- At the Department of Food and Nutrition, the delivery method for processed commodities changed in January of 2007. Since that time, there has not been an accurate reconciliation between the physical inventory of processed commodities and the general ledger. Consequently, our audit resulted in an adjustment based on our confirmations of year-end commodities balances at the processors. Going forward, the Department has agreed to reconcile processed commodities with the processors to the general ledger on a monthly basis; and maintain subsidiary ledgers for each of the USDA approved manufacturers/processors.
- At Stores and Mail Distribution, although our year-end physical counts were in agreement with the counts previously conducted by S&MD staff, 493 or 60% of the total number of items in stock required adjustments to their perpetual inventory records prior to the closing of the year. Even though the net effect of the adjustments was minimal in terms of dollar value, the high volume of adjustments is indicative of a system that heavily relies on manual and labor intensive processes. The planned implementation of the SAP Enterprise Resource Planning inventory management system will replace the current cumbersome system.
- Inventory observations and physical counts at Maintenance Materials Management agreed with the perpetual inventory records.
- As of June 30, 2007, the Department of Transportation has not performed monthly reconciliations between the inventory in the Transman system and the inventory reported in the general ledger. As mentioned in the previous audit, monthly reconciliations have not been performed since Transportation changed software systems from COMPASS to Transman in January 2006. The Department has been working with the Office of Information Technology (IT) and the Office of the Controller to reconcile the systems on a monthly basis. Notwithstanding the lack of monthly reconciliations, our tests concluded that the reported year-end inventory balance is accurate. According to management, as part of the implementation of the SAP Enterprise Resource System, Transman will be fully integrated, thus facilitating the reconciliation process.

## INTERNAL CONTROLS

Our overall evaluation of internal controls for the District's inventories is summarized in the table below.

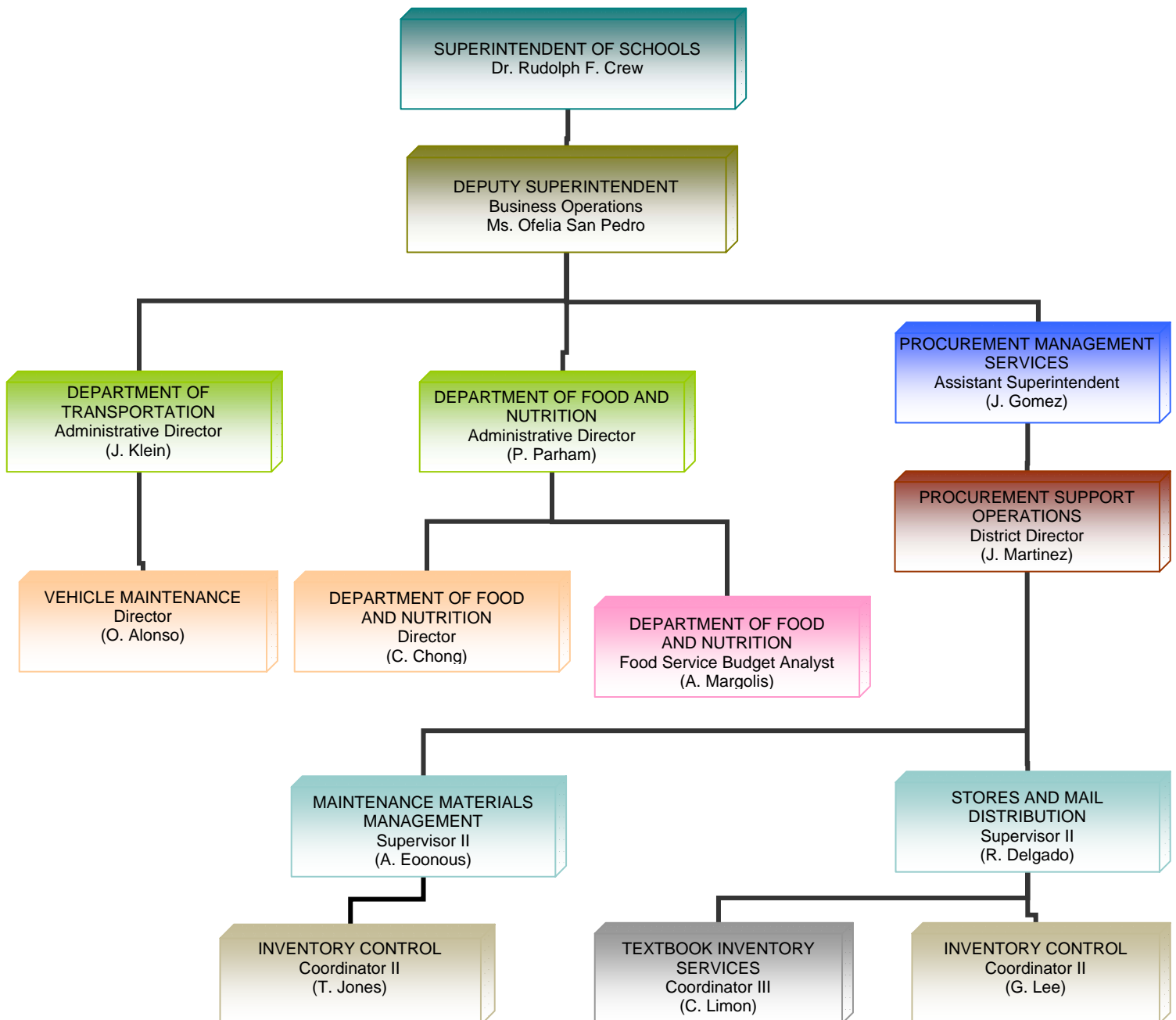
INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls		X	
Policy & Procedures Compliance	X		
Effect		X	
Information Risk		X	
External Risk	X		

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 below:



## **Textbook Inventory Services**

Textbook Inventory Services, as part of Stores & 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 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 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, and 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 the total food services for the entire school district with the exception of those food service programs operating at the adult/vocational education centers, and Hospitality Services located at the District offices in the SBAB and Annex Buildings. 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 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 American Logistics Group (TALG), the vendor providing for contracted warehouse facilities.

In January 2007, the Department increased the submission of commodities to be processed to various approved food processing companies, for direct delivery, instead of storage at TALG. Orders for finished goods were sent to School Food Service (SFS) and subsequently to schools, when ordered by the Department.

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.



Food donated by the Federal Government represents 70% 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. A Department of Food and Nutrition Food Service Director 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**

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. 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, 2007, there were three 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 and Coral Reef Maintenance complexes. MMM maintains a fleet of trucks and vans that are used to deliver supplies, parts, and equipment to Maintenance satellite locations. A Maintenance Materials Management Supervisor II was in charge of the inventory count process.

### **Department of Transportation**

The Department of Transportation (Transportation) operates a fleet of approximately 1,650 school buses from eight 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.

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 service centers. The majority of replacement parts, including tires, are located in the Central Warehouse at 11601 S.W. 160<sup>th</sup> Street, Miami. A Vehicle Maintenance Director was in charge of the inventory count process.

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

In accordance with the 2007 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, 2007 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.

Our audit was conducted in accordance with generally accepted governmental auditing standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America.

We planned and performed the audit to obtain reasonable assurance 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.

## EXHIBIT A

### STATEMENT OF INVENTORIES PER ANNUAL FINANCIAL REPORT

		<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Textbook Inventory Services</u>		<u>\$ 11,019,171</u>	<u>\$ 11,196,264</u>
<u>Food and Nutrition<sup>1</sup></u>			
Commodities	Public Warehouse	966,655	1,106,133
	Schools	205,436	307,367
	Processing Plant <sup>2</sup>	1,673,702	226,824
Purchased Food	Public Warehouse	46,830	309,610
	Schools	685,463	635,658
Non-Food Supplies	Schools	<u>310,913</u>	<u>280,230</u>
Total		<u>3,888,999</u>	<u>2,865,822</u>
<u>Stores and Mail Distribution<sup>3</sup></u>		<u>3,472,951</u>	<u>4,111,790</u>
<u>Maintenance and Materials Management</u>			
Materials and Supplies		2,924,114	2,673,720
Manufactured Stock		<u>129</u>	<u>1,278</u>
Total		<u>2,924,243</u>	<u>2,674,998</u>
<u>Transportation</u>			
Parts		599,340	574,442
Fuel		377,964	415,303
Tires and Tubes		<u>68,280</u>	<u>74,034</u>
Total		<u>1,045,584</u>	<u>1,063,779</u>
<b>Total Inventory</b>		<u><u>\$ 22,350,948</u></u>	<u><u>\$ 21,912,653</u></u>

<sup>1</sup>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.

<sup>2</sup>This inventory was adjusted to \$1,440,726, but the \$232,976 adjustment was immaterial and was not adjusted in the financial statements. Refer to finding number 1 on page 11.

<sup>3</sup>Included in inventory at the S&MD warehouse are other non-food supply items such as trays, forks, napkins, and cleaning supplies.

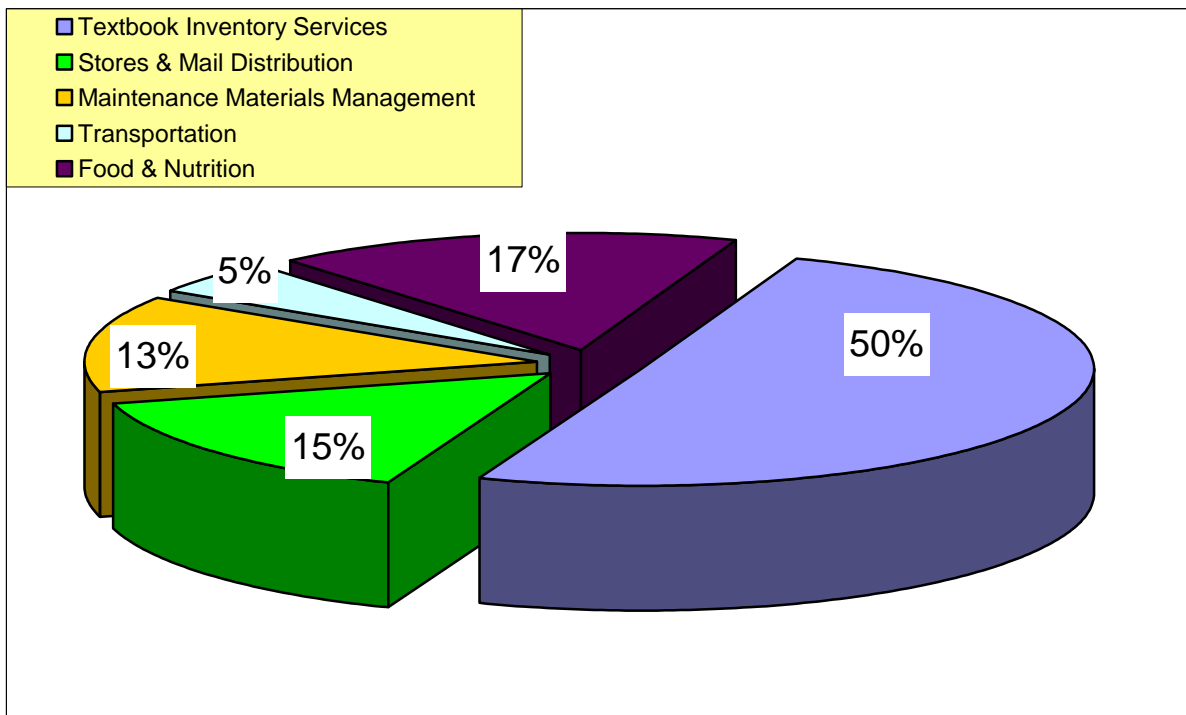
**EXHIBIT B**

**ANALYSIS OF INVENTORY RESULTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Department/Unit</u>	<u>Perpetual Inventory</u>	<u>Adjustment to Perpetual</u>	<u>General Ledger 6/30/07</u>	<u>Turn-over Ratio</u>	<u>Prior Year Turn-over Ratio</u>
Textbook Inventory Services	\$11,019,171	-	\$11,019,171	n/a	n/a
Food and Nutrition	3,656,023	232,976 <sup>1</sup>	3,888,999	2.25	2.90
Stores & Mail Distribution	3,322,439	150,512	3,472,951	4.50	4.51
Maintenance Materials Management	2,914,207	10,036	2,924,243	2.92	3.18
Transportation	1,045,290	294	1,045,584	3.50	*
<b>Total Inventory</b>	<b>\$21,957,130</b>	<b>\$ 393,818</b>	<b>\$22,350,948</b>		

1. An adjustment will be made to the general ledger in the current year. See finding number 1 on page 11

\* Accounting data required for the calculation of the turn-over ratio was not made available – refer to prior year finding



## **FINDINGS AND RECOMMENDATIONS**

### **1. INVENTORY OBSERVATIONS AND PHYSICAL COUNTS WERE SATISFACTORY AT TEXTBOOK INVENTORY SERVICES AND MAINTENANCE MATERIALS MANAGEMENT**

#### **Textbook Inventory Services**

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, 2007 was \$11,019,171 of which we test counted \$5,427,391 or approximately 49%. Our tests showed that the inventory count was accurate.

#### **Maintenance Materials Management**

District staff conducted 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 27, 28, and 29, 2007. Approximately 50% of high-dollar value items were 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. An adjustment in the amount of \$10,036 was made to the perpetual inventory to account for stock received after the cut-off date but before the fiscal year-end. The inventory was reported in the Annual Financial Report at \$2,924,243.

## **2. PERFORM PERIODIC RECONCILIATIONS AND MAINTAIN PERTINENT INVENTORY RECORDS AT FOOD AND NUTRITION (F&N)**

Staff from the Department of Food and Nutrition and TALG (public warehouse) personnel conducted a physical inventory of commodity foods on June 28, 2007. We performed test counts of the inventory of commodity foods maintained at the public warehouse on June 29, 2007. We counted approximately 65% of the inventory at TALG. Our test showed a 0% net dollar value error rate in the inventory test counted at the public warehouse. The inventory at TALG was lower than the previous year because processed commodities were handled by School Food Service (SFS). They are able to convert the raw commodities into USDA approved manufacturers/processors and order products "just-in-time" in the amounts needed for the menu, which has increased cost effectiveness.

The Department of Food and Nutrition's management is responsible for presenting accurate and reliable inventory information in the District's financial statements. Underlying the financial statements are management's assertions on the existence, completeness, valuation, ownership and presentation of inventories. The administrative and clerical staffs responsibilities include maintaining accurate inventory records as well as confirming inventory quantities in the accounting records.

Our observations of the inventory records and year-end balances corresponding to F&N resulted in the following findings and recommendations:

- 2.1. While reconciling the total year end inventory balance at the processors, we encountered a difference between the balance reported by Food and Nutrition and the amount reported in the general ledger. Specifically, Department staff provided information from the processors verifying year-end balances totaling \$1,440,726, while the general ledger stated a balance of \$1,673,702. This resulted in a difference of \$232,976.
- 2.2. Since the method for processed commodities changed in January 2007, the Department has not accurately reconciled the physical inventory of processed commodities to the general ledger.

### **RECOMMENDATIONS**

- 2.1. **Adjust the general ledger to reflect the actual quantities on hand at the processors as of June 30, 2007.**

**Responsible Department:** *Department of Food and Nutrition*

**Management Response:** *The general ledger currently reflects the actual balance of commodities at the processors based on an adjustment to the inventory. The*

*adjustment was made to the current year's balance since the accounting records for fiscal year 2006-2007 are closed. This adjustment is immaterial and would not have a significant effect on the financial statements.*

*Commodity cheese processed into pizza items served on school lunch menus was not identified as a commodity being returned from the processors, and as of June 30, 2007 had not been deducted from the commodity inventory. A review of the categorization of the items in the food ordering system has been completed to ensure all items are correctly identified as commodities.*

**2.2. Improve the reconciliation of processed commodities to the general ledger and consider maintaining subsidiary ledgers for each of the USDA approved manufacturers/processors.**

**Responsible Department:** Department of Food and Nutrition

**Management Response:** *Improvements have been made to the monthly reconciliation of the processed commodities. Subsidiary ledgers are being maintained for each of the USDA approved manufacturers/processors utilizing the USDA's Electronic Commodity Ordering System (ECOS), the manufacturers'/ processors' reports and our contracted distributor's reports to ensure accurate reconciliation.*

### **3. INEFFICIENT CYCLE COUNT COVERAGE AT STORES AND MAIL DISTRIBUTION (S&MD)**

S&MD uses the weighted average method of valuing inventory. On a sample basis throughout the year, audit staff observed cycle counts performed by S&MD staff. The annual physical inventory was conducted from June 25 through 29, 2007, when all the stock items were counted. We observed the year-end count and tested the results. The audit differences noted during this process were immaterial (0.02% of total inventory value) and the perpetual records were adjusted, accordingly.

The inventory reported in the Annual Financial Report was \$3,472,951 after adjustments. The adjustment to the perpetual inventory of \$150,512 represents the value of stock, received and issued, after the inventory cut-off date but before the fiscal year-end (refer to Exhibit B on page 8).

Our observations of the S&MD inventory records and year-end balances resulted in the following comment:

- 3.1 Our year-end counts were in agreement with the perpetual inventory records; however, during our analysis of the cycle count adjustments for the year, we observed that 493 out of a total of 810 stock items had been adjusted at year-end. Our review of transactions processed to adjust the perpetual balances indicated that the net effect of those adjustments decreased the perpetual inventory by \$2,661 (0.08% of total inventory value).

When a large number of adjustments to the perpetual inventory are made at year-end, rather than on a regular basis using cycle counts, the value of the perpetual inventory system as a management tool is lessened. Although the errors corrected had an immaterial effect, adjusted quantities for this many stock items give cause to questioning the reliability of the perpetual records.

Our analysis of cycle counts revealed that the plan called for counting each stock item once during the year. Accordingly, each item would only be counted and adjusted once during the year as the result of the cycle counts, and a second time as a result of the year-end physical inventory.

During the 2006-07 fiscal year S&MD management identified that the cycle plan used was not satisfactory. A new plan was designed, developed and implemented doubling the number of stock items counted per cycle count per day. That plan is currently in use.



## RECOMMENDATIONS

### 3.1 Identify and resolve the cause of the errors that are resulting in the adjustments to the perpetual inventory system.

**Responsible Department:** Stores and Mail Distribution

**Management Response:** *The high level of stock item adjustments resulting from inventory cycle counts is directly related to the systematic restraints generated from an antiquated inventory management system which is incapable of identifying and reconciling records differences on a real time basis. The reconciliation process is very difficult, due to the variables involved in the process. During a cycle count process, the perpetual inventory record is reduced by the S&MD Inventory Management System at the time the Delivery Ticket for a stock item is printed by Information Technology Services (ITS), and before the ticket is delivered to S&MD for processing. The perpetual quantity on record must then be reconciled against stock on the shelves and tickets pending delivery, which is inefficient and very labor intensive. However, even with a high number of cycle count adjustments, the accuracy of the year-end inventory value recorded during the last four fiscal years has been maintained above 99%.*

*The department has implemented a significant increase per year in the number of items counted and frequency of cycle counts. During the month of December 2007, a physical count of 25% of all stock items representing the high value and volume items will be performed. However, given the current manual and labor intensive process adjustments will continue until a real time inventory management system replaces the current system.*

*The corrective action to the daily cycle count process inefficiencies is the planned implementation of the SAP Enterprise Resource Planning inventory management system at S&MD by July 2009.*

#### **4. PERFORM PERIODIC RECONCILIATIONS AND MAINTAIN PERTINENT INVENTORY RECORDS AT TRANSPORTATION**

Transportation 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. Differences observed during this process were immaterial and the perpetual records were adjusted, accordingly.

The annual physical inventory was conducted on June 29, 2007. Transportation personnel counted approximately 46% 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. Readings were also taken of the fuel inventories valued at \$377,964 at year-end.

Although improvements have been made since last year's audit and some of the conditions then reported have been corrected, our tests and observations of the inventory records and year-end balances this year disclosed the following:

As of June 30, 2007, there had been no monthly reconciliations between the inventory as recorded in the Transman system and the inventory as recorded in the general ledger. As mentioned in the previous audit, Transportation has not performed monthly reconciliations since it changed its software system from COMPASS (inventory control software) to Transman (fleet management software) in January 2006.

- 4.1. Transportation administration states the reason for not being able to perform such reconciliation is due to timing differences between the posting of the work order in Transman versus the posting of the corresponding transaction in the general ledger. Since the prior audit, Transportation has been working with the Office of the Controller and the Office of Information Technology to reconcile the systems. According to management, they are able to capture the reconciling transactions; however they have not succeeded in performing such reconciliations. Notwithstanding, the lack of monthly reconciliations, based on our tests, the year-end balance is accurate.

#### **RECOMMENDATION**

- 4.1. **Continue working with the Controller's Office to create a process to reconcile the Transman system to the general ledger.**

**Responsible Department:** Department of Transportation

**Management Response:** *Transportation staff has been working diligently with the Controller's office to establish a process by which to reconcile the timing differences between the TRANSMAN software and the general ledger. Per the Controller's office recommendation, DOT staff has requested a monthly transaction*

*register from the Office of Information Technology to address the timing differences between MSAF and the TRANSMAN system.*


*Approximately 99% of all transactions in the fleet management software (TRANSMAN) are conducted using procurement card payment method. These transactions occur real-time in TRANSMAN, but are not posted to the general ledger until the purchase order is paid via MSAF.*

*It is anticipated that once the Enterprise Resource Planning System (ERP) is implemented, TRANSMAN will be integrated on a real-time basis, thus facilitating the reconciliation process.*

**DEPARTMENT OF FOOD AND NUTRITION**  
**MEMORANDUM**

November 26, 2007  
PP/2007-08/#1634  
786-275-0420

TO: Mr. Allen M. Vann, Chief Auditor  
Office of Management and Compliance Audits

FROM: Penny Parham, Administrative Director  
Department of Food and Nutrition 

SUBJECT: **RESPONSE TO AUDIT OF YEAR-END INVENTORIES, DEPARTMENT OF FOOD AND NUTRITION**

In response to the Audit of Year-End Inventories conducted by the Office of Management and Compliance Audits, the Department of Food and Nutrition has summarized its responses to the findings outlined in this report. The findings have been addressed and corrective actions have been established.

**Recommendations:**

- 1.1 Adjust the general ledger to reflect the actual quantities on hand at the processors as of June 30, 2007.

Responsible Department: Department of Food and Nutrition

**Management Response:**

The general ledger currently reflects the actual balance of commodities at the processors based on an adjustment to the inventory. The adjustment was made to the current year's balance since the accounting records for fiscal year 2006-2007 are closed. This adjustment is immaterial and would not have a significant effect on the financial statements.

Commodity cheese processed into pizza items served on school lunch menus was not identified as a commodity being returned from the processors, and as of June 30, 2007 had not been deducted from the commodity inventory. A review of the categorization of the items in the food ordering system has been completed to ensure all items are correctly identified as commodities.

- 1.2 Improve the monthly reconciliation of processed commodities and maintain subsidiary ledgers for each of the USDA approved manufacturers/processors.

Management Response:

Improvements have been made to the monthly reconciliation of the processed commodities. Subsidiary ledgers are being maintained for each of the USDA approved manufacturers/processors utilizing the USDA's Electronic Commodity Ordering System (ECOS), the manufacturers'/processors' reports and our contracted distributor's reports to ensure accurate reconciliation.

If additional information is required, please feel free to contact me.

PP:gw

cc: Ms. Ofelia San Pedro  
Dr. Grace L. Ali  
Ms. Connie Pou  
Ms. Carol Chong  
Ms. Alice Margolis

## MEMORANDUM

November 13, 2007

JAG/M0045

JAG/995-2414

TO: Mr. Allen M. Vann, Chief Auditor  
Office of Management and Compliance Audits

VIA: Ofelia San Pedro, Deputy Superintendent  
Business Operations

FROM: Joseph A. Gomez, Assistant Superintendent  
Procurement Management Services

SUBJECT: **INTERNAL AUDIT REPORT – AUDIT OF YEAR-END INVENTORIES  
STORES AND MAIL DISTRIBUTION**

DEPUTY SUPERINTENDENT  
BUSINESS OPERATIONS,  
FINANCE AND CONSTRUCTION  
2007 NOV 14 PM 1:58

Procurement Management Services has reviewed the above-referenced audit report and is providing a response to Audit Report Recommendation 2.1.

#### **RECOMMENDATION 2.1: ADJUSTMENTS TO PERPETUAL INVENTORY**

**Identify and resolve the cause of the errors that are resulting in the adjustments to the perpetual inventory system**

**Responsible Department: Stores and Mail Distribution**

#### **Management Response:**

The high level of stock item adjustments resulting from inventory cycle counts is directly related to the systematic restraints generated from an antiquated inventory management system which is incapable of identifying and reconciling records differences on a real time basis. The reconciliation process is very difficult, due to the variables involved in the process. During a cycle count process, the perpetual inventory record is reduced by the S&MD Inventory Management System at the time the Delivery Ticket for a stock item is printed by Information Technology Services (ITS), and before the ticket is delivered to S&MD for processing. The perpetual quantity on record must then be reconciled against stock on the shelves and tickets pending delivery, which is inefficient and very labor intensive. However, even with a high number of cycle count adjustments, the accuracy of the year-end inventory value recorded during the last four fiscal years has been maintained above 99%.

The department has implemented a significant increase per year in the number of items counted and frequency of cycle counts. During the month of December 2007, a physical count of 25% of all stock items representing the high value and volume items will be performed. However, given the current manual and labor intensive process adjustments will continue until a real time inventory management system replaces the current system.

The corrective action to the daily cycle count process inefficiencies is the planned implementation of the SAP Enterprise Resource Planning inventory management system at S&MD by July 2009.

cc: Ms. Carolyn M. Spaht  
Ms. Maria T. Gonzalez  
Mr. José M. Martinez  
Mr. Raimundo Delgado

November 26, 2007  
JK#07-15053  
(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 *OSP*  
Business Operations

**FROM:** *JK* Jerry Klein, Administrative Director  
Department of Transportation

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

The Transportation Department has reviewed the above-mentioned audit report and is providing a response to Audit Report Recommendations 3.1

**RECOMMENDATION:**

***3.1 Continue working with the Controller's Office to create a process to reconcile the TRANSMAN system to the General Ledger***

**Management Response:**

Transportation staff has been working diligently with the Controller's office to establish a process by which to reconcile the timing differences between the TRANSMAN software and the General Ledger. Per the Controller's office recommendation, DOT staff has requested a monthly transaction register from the Office of Information Technology to address the timing differences between MSAF and the TRANSMAN system.

Approximately 99% of all transactions in the fleet management software (TRANSMAN) are conducted using procurement card payment method. These transactions occur real-time in TRANSMAN, but are not posted to the general ledger until the purchase order is paid via MSAF.

It is anticipated that once the Enterprise Resource Planning System (ERP) is implemented, TRANSMAN will be integrated on a real-time basis, thus facilitating the reconciliation process.

JK:OA:slg

cc: Mr. Orlando Alonso



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, 2007***



***MIAMI-DADE COUNTY PUBLIC SCHOOLS  
Office of Management and Compliance Audits  
1450 N. E. 2<sup>nd</sup> Avenue, Room 415  
Miami, Florida 33132  
Tel: (305) 995-1318 ♦ Fax: (305) 995-1331  
<http://mca.dadeschools.net>***