Lynchburg City Schools

Review of Text Book Inventory and Distribution

March 18, 2005

Prepared by the Department of Internal Audit
City of Lynchburg

Introduction

The Virginia Department of Education, Office of Instruction, adopts textbooks and instructional materials to be used throughout the State based on the Standards of Learning (SOL) which describe the commonwealth's expectations for student learning and achievement. There have been new adoptions for the last three years - history and social science for the 2002-2003 school year, reading and science for 2003 -2004 and English & literature, mathematics and foreign languages for 2004 - 2005. The Textbook Coordinator for the Lynchburg School system sends letters to publishers requesting samples of textbooks and materials that support the Virginia standards. These samples which include student and teacher books, teaching aids and learning tools for students are reviewed by textbook adoption committees established by the School system's instructional supervisors.

Once the textbooks have been selected, the Textbook Coordinator issues purchase orders to the publishing companies. The textbooks are sent on a consignment basis and are stored at the school system's warehouse until it is time to distribute them to the schools. Payments are made quarterly for those books removed from the consignment inventory. Surplus books are kept on hand to accommodate needs over the period in which the same books are in use. An adoption issue may be used for as many as seven (7) years. Once the books are no longer in use, the Coordinator boxes the remaining un-issued books and returns them to the appropriate publisher.

When the books and other materials are distributed to the schools, the Textbook Coordinator stamps the books with sequential numbers, boxes them and labels each box with the school name and the number of books in each box. The Coordinator then notifies school personnel by email that a shipment has been sent. When the boxes are received by the schools, the deliverer obtains a signed receipt for them.

Books and other materials continue to be received throughout a school year. Consumable books, such as work books, as well as additional or replacement textbooks are received, sorted, boxed and delivered to the schools.

Textbooks remain in the schools during the summer months with the exception of those books which will be replaced by a new adoption. The books which will not be used in the classrooms are accumulated for disposal. All textbooks remaining in the schools are inventoried by school personnel and recorded on inventory forms distributed by the textbook coordinator. The Textbook Coordinator uses the forms to determine the book needs for the following year.

This audit was performed at the request of the School's Audit Committee.

Review Objectives

The purpose of this review was to determine whether:

- Controls are adequate over the receipt of textbooks;
- Controls are adequate over safekeeping of consignment inventory;

- Controls are in place over distribution, maintenance, issuance and collection of textbooks in the schools;
- Payments for textbooks are accurate and accurately recorded on the financial records;
- Disposal procedures for used textbooks are appropriate; and
- The textbook program is managed in the most effective, efficient manner.

Scope of Work

We interviewed school administrative personnel involved with purchasing, receiving and storing textbooks, performed a warehouse walk-through and an internal control review. We also interviewed school personnel responsible for textbooks to determine the procedures in place for receipt and storage of the books, student assignment, maintenance and collection of textbooks and procedures for disposal of unused books. We compared end-of-year school book inventories to the re-counts performed during the summer and compared book needs reported by schools to the actual distributions for 2004. We reviewed quarterly consignment inventory reports for accuracy and traced quarterly payments to the financial records.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

Opinion On Internal Controls

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded.

It is our opinion that controls need to be strengthened over textbook inventory by segregating the custodial and record-keeping functions, maintaining perpetual inventories of consignment and issued textbooks, conducting physical inventories for comparison to book values and improving the oversight process for vendor payments.

Audit Conclusions

Our audit did not disclose major financial discrepancies or any intentional misuse or misappropriation of assets; however, there were no records in place that could help us determine the accuracy of the textbook inventory. Since perpetual inventories are not maintained in the warehouse or in the schools, we were unable to determine whether all textbooks were accurately accounted for at year end.

It is our conclusion that inconsistencies and lack of records throughout the process are the result of a lack of written procedures and administrative oversight. The manual process does not assure that the Textbook Coordinator receives all the information needed to manage the inventories, both in the warehouse and the schools, and there is no central data repository or control to ensure that distributions and transfers are adequately handled.

Based on our review, we further conclude that …..

- The method used to account for consignment inventory does not include controls of duty segregation, record keeping or oversight reviews to ensure the adequacy of receipt or safekeeping of the inventory;
- Controls are in place over distribution, maintenance, issuance and collection of textbooks in the schools except as noted in the *Observations and Suggestions* section of this report;
- Not all of the payments for textbooks are accurate and accurately recorded on the financial records;
- Disposal procedures for used textbooks are tedious and time-consuming; and
- The textbook program could be handled more efficiently and effectively if automated.

Observations and Suggestions

Observation: Written Procedures

There are no written procedures in place to promote consistency in the handling of textbooks. There are differences among the schools in regard to receiving and storing textbooks, issuing the books to students and collecting them at year-end. We visited five elementary schools, one middle school and two high schools and noted the following inconsistencies:

- Three (3) of the eight (8) schools included in our review do not maintain central book inventory records supporting the titles and number of books received and distributed to teachers.

  Without central records of the books received from the warehouse and transferred between schools, there is no perpetual, up-to-date record of the books that should be accounted for. Additionally, if records are not maintained of the books distributed to teachers, there is no way to determine that all books are returned at year-end.

- There is no required procedure in place for assignment of textbooks to students. In 4 of the elementary schools that we visited, teachers devise their own methods for book assignments.

  Consistency in book assignments helps assure that all books are accounted for. The "Class Textbook Loan Sheet" that is used in some of the schools shows book assignments by student and the condition of the

books when assigned. This not only creates an inventory listing, but allows schools to determine book damages caused while in possession of the student.

- Three (3) of the eight (8) schools allow teachers to keep resource materials during the summer months, while the remaining schools collect and store the materials.

  Although some teachers want to take advantage of time off during the summer months to prepare study plans, there is a chance that they may not return to the Lynchburg School system for the following year. Teacher resource materials are usually furnished by publishers when a certain number of student books are ordered; however, replacement materials are not provided free of charge.

<u>Observation: Inventory Differences</u>

At the end of each school year, text books are collected within the schools and an inventory count is made. The counts are documented on inventory forms that list the books by title. Once the counts are recorded by the appropriate book titles, the school personnel estimate the number of the same books needed for the following year and subtract the difference to show the number of additional books needed, or the excess books on hand that are not needed. These forms are used by the Textbook Coordinator to determine textbook needs for the next year. *As noted in the previous observation, there is no comparison made of the books counted at year-end to a central inventory listing of books which should be on hand.*

During the summer, a team of individuals travels to each school to rebind and repair books in preparation for the following school year. This group recounts the textbooks collected in the schools and notes their count on the inventory form.

During our review of these inventory forms we noted the following discrepancies:

- In 2003, differences between the count and recount of reading books at one school for six different grade levels differed by more than 100 textbooks for each title.

  According to the Textbook Coordinator, the reading books are issued in sets. When counted, each set should be handled as one book. This discrepancy could be due to the school personnel counting each book separately.

- Also in 2003, kindergarten through grade 2 math books were not counted or recounted for 5 elementary schools; however, the books were included in the count but not the recount for 3 other schools and were included by both counts for the remaining 3 schools.

  These books are consumable items and are not normally counted in the ending inventories. The Textbook Coordinator noted that the consumables

could have been newly adopted, or the books needed for the following year could have been put in the wrong column.

There were no indications on the inventory forms that these discrepancies were resolved. Without a procedure to resolve differences, there is no way to determine the accurate count. Additionally, there should be some document in place to indicate what books and materials are to be included in the inventory counts. According to the coordinator, the textbook inventory numbers are often incorrect. This leads to the schools' requests for materials that are not needed and often to unnecessary issuing of items from the warehouse.

Observation: Warehouse Storage and Operations

1) Conflict of Duties:

Controls are inadequate to reasonably ensure the safekeeping of the textbook inventory. The textbook coordinator position is responsible for placing orders for textbooks, receiving and storing textbooks, distributing them to the schools and processing requests for payments to the publishing companies.

Custodial and record-keeping functions should be segregated to ensure adequate physical security over goods received. Additionally, checks and balances should be in place to ensure the accuracy of inventory counts, textbook distributions and payment requests. Without segregation of these duties, and no oversight of the function, there is greater opportunity for fraudulent activities resulting in false inventory records and financial misstatements or misappropriations.

2) Storage Area:

Textbooks and other resource materials are centrally stored in the school warehouse until they are distributed to the schools. There is a locked caged area specifically designated for storage of these items; however, due to an increase in volume, it has become necessary to store some of the textbooks and other resources outside of the locked area. The overcrowding is due in part to the new textbook adoptions, but we noted that items other than the consignment items are stored in the secure area. The textbook coordinator does not have ample space to perform the necessary duties in the confined area and therefore must leave boxed items outside of the cage, out of her control.

Additionally, since the items are scattered and sometimes moved to facilitate other warehouse operations, the coordinator's job becomes more difficult to streamline.

3) Resources:

During the months of June through December, the work load increases due to the receipt and distribution of books and other resource materials. The Textbook Coordinator position is a part time position that also performs other duties for school administration. The position does not have ample resources to perform the work necessary to sort, stamp, box and distribute the resources to the schools, respond to additional school needs, work with publishers regarding shipments, review invoices and process payments.

In addition to the overload of work, there is no other person involved in the process that has been trained to perform the duties should the current coordinator not be available.

Observation: Financial Records

1) Payment Processing & Approval

Payments to publishing companies are made based on the differences in the ending consignment inventory reported on the last quarterly report and the current consignment inventory counted by the Textbook Coordinator. The previous quarter's ending inventory balance is adjusted by invoices and credits for the current period and the ending inventory on hand is subtracted from the adjusted balance. The difference represents the inventory issued to the schools which is now payable.

We tested nineteen quarterly reports and payments for four primary publishers and found the following errors, some of which created overpayments for fiscal year 2004 of $10,960.51and underpayments of $58,847.70 for the current fiscal year through September 2004:

- Six of the nineteen reports had mistakes that resulted in an incorrect amount paid to the vendor. The mistakes included incorrect beginning inventory balances, incorrect ending inventory balances and incorrect invoice/credit amounts.

- One of the reports generated a purchase order with two line items that were added incorrectly resulting in an overstatement of the amount encumbered.

- Two of the reports had no supporting documentation for invoices/credits recorded in the reports.

The purchase orders are calculated and entered to the financial system by the Textbook Coordinator and the amounts are automatically encumbered. The purchase orders are approved by the Assistant Superintendent for Curriculum and Instruction (C&I) by comparing the coordinator's information (sent by email) with the financial system data. His approval has been based on the agreement of the two, thinking that the system calculated the purchase order amounts. Copies of the supporting documents used to calculate the purchase orders are not forwarded to facilitate the approval process.

2) Textbook Distribution Documentation

As noted above, payments to publishers are made for the value of the inventory taken from consignment and issued to the schools. This is determined solely on the difference of the beginning inventory, adjusted by invoices and credits, and the ending inventory balance. Actual distribution documents are not reconciled to the computed payment for issued textbooks.

Without reconciliation of the actual documents showing issuance to the schools, there is no assurance that the payment amount is correct. Inaccurate inventory counts may result in inaccurate payments and misstatements on the financial records.

Observation: Disposal Process

The process for disposal of used textbooks, library books and instructional materials that are no longer used by the school system is tedious and time consuming. It also creates over crowding in the warehouse when the books are sent from the schools and greatly increases the work load for the Textbook Coordinator.

School Board Policies and Regulations require a seven-step procedure before the books are declared as scrap and discarded. These steps include 1) notifying central office to determine if there are needs within the system, 2) offering textbooks to publishing companies, 3) offering remaining textbooks to the public library, 4) stamping remaining books as "discard" and offering them to students and/or parent-teacher organizations, 5) offering to organizations that serve the public interest, 6) offering for public sale, 7) declaring as scrap any remaining materials and offering to the public free of charge, and finally 8) disposing of remaining items.

If the disposal is due to an adoption of a new series of textbooks, there will be a large number of boxes stored in the warehouse that cannot be scrapped until the remaining disposal steps are taken. Space in the warehouse is limited, and the boxes spill over to an area that is not designated for books.

When the books are made available for sale to the public and when they are later offered free of charge, current procedures require that the coordinator make both offers public through advertisement. The entire process may take months and income is minimal as most of the textbooks are eventually discarded. For fiscal year 2004, income from the sale of textbooks was $3,449.25.

Observation: Lost/Damaged Textbooks

There is no procedure in place to maintain records of lost or damaged textbooks by student from kindergarten through high school. Of the five elementary schools visited during our review, none of them were monitoring or tracking lost or damaged textbooks by student past the year of occurrence. The middle and high schools maintain lists of students who owe money for lost or damaged textbooks, but the lists do not follow the students as they advance from middle school to high school. All of the schools' personnel with whom we visited said that they do not have many lost or damaged textbooks for which they do not recover the cost.

Without procedures in place, $9,517.00 was collected for FY 2004; however, there is no way to determine how much remains uncollected. The effort to collect monies due to the school system diminishes as the student advances.

Suggestions

Based on the above observations, we recommend that the School Board consider implementation of an automated textbook inventory system such as Gateway's Warehouse/Textbook Integration Software. This software can address most of the reported control issues and streamline the process for greater efficiency by providing

tracking and accountability for textbooks from receipt in the warehouse through issuance to students. This integrated system will ensure consistency of procedures in all of the schools and provide:

- A link to student enrollment to establish textbook needs;
- Ability for schools to requisition textbooks directly;
- Automatic assignment of textbooks to students and a link of each assignment to a teacher;
- Tracking of lost or damaged textbook records from school to school;
- Letters to parents regarding lost or damaged textbooks;
- Tracking of teacher resource materials;
- Perpetual inventories of textbooks held on consignment and in the schools;
- Textbook Coordinator access to review each school's inventory to prevent issuing new textbooks when unnecessary;
- Ability to inventory all textbooks in a school or a textbook in all schools;
- Ability for each school to access its inventory to facilitate year-end reconciliations; and
- Preparation of the quarterly reports for processing payments to the publishers.

In addition, we recommend that the following actions be taken:

- Develop written policies and procedures to address textbook accountability;
- Review the current policy for disposing of used textbooks and other materials and determine if the process can be streamlined to improve the efficiency of operations;
- Establish controls to segregate (or oversee) the record-keeping and custodial duties currently performed by the Coordinator;
- Provide assistance to the Coordinator for distribution of newly adopted textbooks;
- Address the problem of over crowding in the warehouse; and
- Develop a back-up plan for addressing textbook needs should the coordinator position be unavailable.

Other Comments

We appreciate the cooperation of the Textbook Coordinator who graciously spent time assisting us with this review. We are also grateful to the school principals or their designees who took the time to talk with us about the processes within their schools. We are available to discuss this report should there be questions or concerns.

Carol J. Bibb, Director of Internal Audit

Management's Response

March 18, 2005

Ms. Carol Bibb, Director,
City of Lynchburg Internal Audit Office
Lynchburg, Virginia

Dear Ms. Bibb:

This letter serves as the Lynchburg City Schools' official response to the audit of our textbook inventory and distribution procedures that you recently conducted. Your final report indicated that our response should address the following:

- Whether management concurs with the findings.
  - Response: Management does agree with the findings of the report.

- Whether corrective action is planned or has been taken.
  - Response: I have met with my staff on several occasions both individually and as a committee to discuss the report and possible responses to the report. We are presently developing strategies to address the findings and feel confident that the proposed strategies will improve our practices and procedures.

- Anticipated steps in the plan of action, if any,
  - Response: We believe that the strategies that we will implement will address the concerns noted in the report. Specifically, we have discussed implementing an automated textbook management system; reviewing and, if needed, amending policies and regulations relative to textbook inventories and distribution; and reviewing and, if necessary, amending our procedures for discarding textbooks. We will also consider the recommendation of cross-training relative to the duties of the textbook coordinator.

- The anticipated timing of the plan.
  - Response: With approval from the school board, we will implement these steps immediately.

Thank you again for your diligent work on the audit and the audit's report. I look forward to working further with you and with the audit committee. Should you have

questions or need additional clarification, please contact me at 434-522-3700, extension 101 or via email at mckenp@admin.lynchburg.org.

Sincerely,

Paul McKendrick, Ed. D.
Superintendent

cc: Stephen C. Smith, Assistant Superintendent, Curriculum and Instruction
Cynthia F. Page, Chief Financial Officer