



## **Year-End Physical Inventory Testing Internal Audit Project #09-10-001**



**Prepared by  
Internal Audit Department**

**September 2009**

**Year-End Physical Inventory Testing**  
**DRAFT FOR DISCUSSION PURPOSES ONLY**  
**September 2009**

**Board of Trustees**  
**McAllen Independent School District**

The Internal Audit Department (Internal Audit) has performed test procedures, as specified below, on the McAllen Independent School District's (District) year-ending physical inventory counts/totals.

It is the responsibility of Administration to establish and/or adhere to adequate systems of internal control.<sup>1</sup> Our steps may or may not detect and/or reveal material/reportable conditions.<sup>2</sup>

Our objective was to provide the Board of Trustees an independent assessment regarding the validity, completeness, accuracy, existence, and reliability of the District's year-ending inventories and to forward our data to the District-approved External Audit Firm in support of their annual fieldwork. We offer no commentary on the quality of the District's inventory functions, systems, operating processes and/or procedures, as those operations are not the purpose of this discussion.

Inventory testing was selected as a result of the Texas Education Agency required yearly financial audit of the District, **CFC (LEGAL) Accounting Audits**. This review was limited to Departments whose inventory is considered an asset of the District, i.e., on the balance sheet, to include the Transportation Department (Transportation), the Central Warehouse, and the Maintenance Department (Maintenance). We tested final inventories dated September 8, 2009.<sup>3</sup> We also tested the Food Service Departments' inventories, but did so on September 1, 2009.

During Fiscal 2008 – 2009, the Coordinator for Warehouse and Utilities Management was responsible for the effective and efficient oversight of both the Maintenance/Transportation inventories and reported directly to the Director of Purchasing. The Food Service Director was responsible for the effective and efficient oversight of all Food Service inventories and reported to the Assistant Superintendent of Business and General Operations. The Coordinator of Warehouse/Fixed Assets was responsible for the effective and efficient oversight of Central Warehouse inventories

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<sup>1</sup>The term "internal control" refers to Administration's systems of safeguards with respect to the District's stores of inventories. Internal controls are intended to protect financial assets and add integrity to the stores of inventories; often referred to as **checks and balances**

<sup>2</sup>The term "Material Condition" refers to a weakness in the internal control structure that does not reduce the level of risk to an acceptable level. The term "Reportable Condition" refers to weakness in the internal control structure that may affect District's ability to adequately manage inventories

<sup>3</sup>Our preference/protocol is to test physical inventories on the first day of the Fiscal Year; we were unable to do so this year



and reported to the Assistant Superintendent for Business and General Operations.

The primary source documentation for this Internal Audit Project were the various Stock Status Reports dated September 8, 2009 along with Food Service Physical Inventory Counts dated September 1, 2009.

Warehouse operations we tested serve the District in several areas, i.e., climate control, janitorial, vehicle maintenance, the Child Nutrition Program, office supplies, etc. Our goal was to test inventory distribution dollars to the 90<sup>th</sup> percentile; however, because of timing issues, we did not meet that standard.

This reporting indicates certain warehouse anomalies/inaccuracies that will require correction. These matters may be attributable to the following conditions:

1. Physical counts/testing occurred during the physical moving of inventories
2. System irregularities associated with a newer inventory processing software
3. Et al.

Internal Audit believes Administration should consider these facts when formulating plans that address the inventory variances expressed in this reporting. We make this recommendation based on previous results of both routine cycle count testing and end-of-year testing. Prior testing yielded more positive results.

Our procedures are summarized as follows:

- Obtained and reviewed various warehouse stock reporting
- Performed test counts of inventory items selected, September 2009
- Communicated results of our counts on September 1, and 8, 2009
- Et al.

This Internal Audit Project was performed based on guidance contained in the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Since the above procedures represent limited testwork and did not constitute a complete audit made in accordance with generally accepted auditing standards, we express no opinion on the District's overall inventory operation and/or reporting. 39 inventory items were tested; our purpose was not to project our findings onto the District's global inventory nor to offer any level of assurance with respect to the quality of District warehousing operations. Procedures performed on the date of this report have not been updated or changed. Observations are summarized in Exhibit I. This report relates only to the accounts and/or items specified above and does not extend to any financial statements or operating results of the McAllen Independent School District taken as a whole.

We wish to express our appreciation for the cooperation and assistance provided by the Transportation, Central Warehouse, Maintenance, and Food Service Departments.

**Observation #1 Physical Inventory Stock Status Reporting**

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General:

For purposes of this reporting, all departments consuming physical inventories utilize the recently installed software inventory module for material processing with the exception of Food Service; that Department employs a stand-alone software asset.

Observation:

We obtained and reviewed inventory-reporting documentation for each of the following departments:

Department	Total Inventory
Maintenance Warehouse	232,315
Central Warehouse	201,893
Transportation Department	77,264
Food Service Department	451,158
<b>Totals....</b>	<b>\$962,630</b>

**Observation #2 Maintenance Warehouse – September 8, 2009**

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General:

Maintenance inventory is divided by class. Individual classes correspond to material trades.

Observation:

On September 8, 2009 Internal Audit tested a random sample of Maintenance inventory as follows:

Stock #	Description	On Hand	Physical Count	Variance
11143	Floor Vinyl Tile 12 x 1	207	207	0
11232	Sandpaper 9 x 11" 220A	14	14	0
11751	Wood Trim Solid Ash	136	127	9*
11825	Exit Devise Von Dupr	2	2	0
15011	Freon R22 30lb	45	41	4**

\*We physically counted 127 feet length; the Stock Status Report lists 136. However, these measurements are likely not exact

\*\*We physically counted 41; the Stock Status Report lists 45. However, per inquiry, two material releases of three canisters occurred recently. The system dates are not correct which most likely caused the items to be list as on-hand. Also, one can arrived damaged

On September 8, 2008 Internal Audit communicated this result to the District's External Auditing Firm.



**Observation #3      Transportation Warehouse – September 8, 2009**

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General:

Transportation's inventory is divided by various. Individual classes correspond to areas related to vehicle maintenance, et al.

Observation:

On September 8, 2009 Internal Audit tested a sample of Transportation's inventory as follows:

Stock #	Description	On-Hand	Physical Count	Variance
112072	Calipers 4422070M	1	1	0
11693	Tubeless Tire 16.9-30	2	2	0
12357	Savero LT235/75R15 D8	17	17	0
140603	Convex Stick-on Mirror	2	2	0
19225	Tires 9r22.5 F12	9	9	0

On September 8, 2009 Internal Audit communicated this result to the District's External Auditing Firm.

**Observation #4      Central Warehouse – September 8, 2009**

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General:

Central Warehouse's inventory is divided by various. The individual classes correspond to such areas as supplies, furniture, et al.

Observation:

On September 8, 2009 Internal Audit tested a sample of Central Warehouse's inventory as follows:

Stock #	Description	On-Hand	Physical Count	Variance
5826	Table-rectangular	15	19	4***
3930	Binder Notebook 1	497	497	0
9063	Bags-Vacuum	28	28	0
9084	Spray Bottle 24 oz	415	415	0
1002	Paper-Butcher Blue	42	6	(36)****
1100	Film-laminating	153	153	0

\*\*\*The foldable tables were understated on the Stock Status Report

\*\*\*\*Per inquiry, the Butcher Paper was received which brought the on-hand warehouse quantity to 42 rolls; however, 36 rolls of blue arrived in green. They are currently in warehouse staging waiting to be exchanged from green to blue. Once exchanged, the warehouse quantity will reflect the Stock Status Report