



Dallas Independent School District

Internal Audit Report

2013 Physical Inventory Observation Audit Service Center Warehouse One

August 27, 2013

We found no internal control weakness related to the physical inventory count performed at Warehouse One. The inventory account 1311 adjustments were applied resulting in a final GL balance of \$1,706,546.96 for Service Center Warehouse One.

June 30, 2013

Internal Audit Services

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Introduction

Internal Audit Services observed the physical year-end inventory counts for the Fiscal Year Ended June 30, 2013. The Dallas ISD's Service Center Warehouse One was one of the three warehouses at which we performed physical inventory count observations. Warehouse One uses the Average Costing Method in valuing inventory, which consists of building materials and HVAC parts on Floors 1, 6, and 7. The inventory cut-off date for shipping and receiving was June 7, 2013; receiving activities resumed on June 17, 2013. The physical warehouse inventory count and observation were conducted on June 10, 2013.

Scope and Objectives

The scope of this project was to observe the annual physical inventory count at Service Center Warehouse One. Our objectives were to determine whether:

- Proper planning, preparation, and processes were used in the inventory count;
- Inventory counts were accurate;
- Proper cut-off for receiving and shipping was accomplished;
- Inventory adjustments were applied appropriately;
- The general ledger properly reflected the results of the physical inventory count.

Methodology

We selected a random sample of 30 stock numbers from the 1,715 stock numbers (valued at \$1,725,645.41) listed on the report "W01 2013 Post-Cutoff On Hand 06-07-13" provided by the Warehouse Coordinator. We also selected a judgmental sample of 30 items from the three floors on which inventory was located. We conducted counts of both samples, each of which was compared to the counts recorded by the warehouse staff. In the event of discrepancies, audit and warehouse staff jointly conducted an additional count to determine accuracy. If the error occurred in the count by warehouse staff, we considered and documented the error as an audit exception.

We also included the following procedures:

- Interviewed the Warehouse Supervisor;
- Observed the inventory count process;
- Verified appropriate removal of items from inventory;
- Observed delivery of items after the cut-off and verified vendor and number of items on invoice and Inventory Receiving Register;
- Reviewed final inventory report, dated June 30, 2013, to verify correction of audit exceptions by appropriate entries to Warehouse One's inventory system;
- Reviewed the inventory adjustments report and verified that reported inventory adjustments were posted to accounting journals in DISD's Oracle System.

Results

Physical Count

We found three exceptions, which we consider immaterial, related to the physical inventory count performed at Service Center Warehouse One. The error was a nominal five percent (5%) of the total sample of 60 inventory items. Corrections were applied to the “Transaction Balance Historical Summary” report.

Internal Control

We found no internal control weakness relating to the physical inventory count performed at Warehouse One.

Adjustments to the Inventory General Ledger (GL) Account

We found no exceptions in the reconciliation process by General Accounting. General Ledger (GL) Account 1311 properly reflected the inventory value at June 30, 2013.

Transaction Balance Historical Summary Value on 30-JUN-2013	<u>\$1,706,546.96</u>
Unadjusted GL Account 1311	\$1,678,974.00
Net Adjustment	\$27,572.96
Adjusted GL Account 1311	<u>\$1,706,546.96</u>

Conclusion

We found no internal control weaknesses related to the physical inventory count performed at Warehouse One. The inventory account 1311 adjustments were applied resulting in a final GL balance of \$1,706,546.96 for Service Center Warehouse One.

REPORT DISTRIBUTION

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