

PERFORMANCE AUDIT

**THE DEPARTMENT OF PUBLIC INSTRUCTION
TEXTBOOK SERVICES SECTION
(TEXTBOOK WAREHOUSE)**

MAY 1997

AUDITOR'S TRANSMITTAL

May 28, 1997

The Honorable James B. Hunt, Jr., Governor
Dr. Jay Robinson, Chairman
Members of the State Board of Education
The Honorable Michael E. Ward, State Superintendent
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of *the Department of Public Instruction, Textbook Services Section (Textbook Warehouse)*. The objectives of the audit were to identify areas where the effectiveness and efficiency of program operations could be improved in the areas of operating policies, practices, control activities and current organizational structure and staffing.

This report consists of an executive summary, program overview, and operational findings and recommendations. The Superintendent has reviewed a draft copy of this report and his written comments are included.

We wish to express our appreciation to the Superintendent and staff for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

original report signed by Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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EXECUTIVE SUMMARY

We have conducted a performance audit of the Textbook Warehouse administered by the Department of Public Instruction. This audit was requested by the North Carolina State Board of Education. The scope of the audit encompassed all aspects of the Warehouse Operations. We examined operating policies, practices, control activities and current organizational staffing. The focus of the audit was to review the total expenditures associated with the operations, to identify areas where the effectiveness and efficiency of the textbook delivery process could be improved and to explore other textbook delivery options which could be utilized. This report is directed toward those areas where we feel improvements can be achieved and is not intended to imply that there are not many commendable aspects of the current operations of the Warehouse.

The draft report was reviewed by the Superintendent of the Department of Public Instruction. The Superintendent's response is included as Appendix B, page 33.

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EXECUTIVE SUMMARY

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AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

North Carolina General Statute 147-64 empowers the State Auditor with authority to conduct performance audits of any state agency or program. Performance audits are reviews of activities and operations to determine whether resources are being used economically, efficiently, and effectively.

This performance audit was conducted in response to a request made by the North Carolina State Board of Education to review total expenditures and the operational efficiency of the Textbook Warehouse (Warehouse) and also to explore other textbook delivery systems which could be utilized. The field work for this audit was conducted during the period November 22, 1996, through March 13, 1997. This report contains the findings and recommendations from the audit.

The objectives of this audit were:

- to review the current organization and identify the functions and responsibilities of the various areas of Warehouse operations;
- to determine and analyze the costs associated with the operations of the Warehouse;
- to evaluate the efficiency of current Warehouse operations; and
- to explore other options for textbook delivery.

The scope of the audit encompassed all aspects of the Warehouse operations. To accomplish the objectives we:

- examined applicable General Statutes and regulations;
- examined staffing levels and time records;
- evaluated internal policies and procedures;
- examined internal control data and reports;
- conducted interviews with the staff of the Department of Public Instruction, the Warehouse, and the Textbook Commission;
- conducted interviews with publishers' representatives;
- conducted interviews with Local Education Agencies' textbook coordinators;
- conducted an inventory of textbooks located in the Warehouse;
- surveyed all local education agencies in North Carolina;
- conducted interviews with textbook services personnel in other states; and
- conducted on-site observations of daily operations of office and Warehouse staff.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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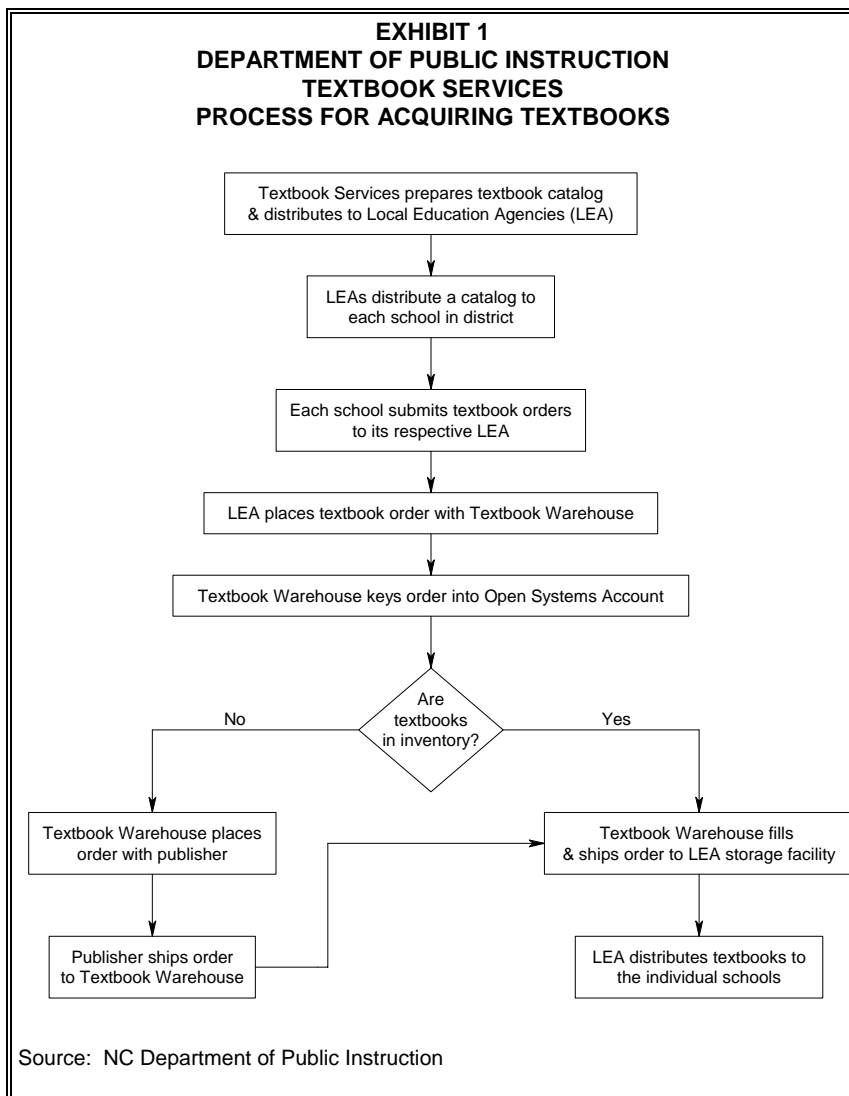
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GS §115C-96, states in part “. . . *The State Board of Education shall administer a fund and establish rules and regulations necessary to: . . . (2) provide a system of distribution of these textbooks and distribute the books that are provided without using any depository or warehouse facilities other than those operated by the State Board of Education.*” The Textbook Warehouse (Warehouse) was created to purchase, receive, store, and distribute textbooks to North Carolina’s local educational agencies (LEAs) in the most efficient and economical manner possible. GS §115C-85 further states “. . . *‘textbook’ means systematically organized material comprehensive enough to cover the primary objectives outlined in the standard course of study for a grade or course. Formats for textbooks may be print or non print, including hardbound and softbound books, activity-oriented programs, classroom kits, and technology-based programs that require the use of electronic equipment in order to be used in the learning process.*” The usage of the word textbook in this report reflects this definition.

Organizationally, the Textbook Warehouse is a part of the Textbook Services Section of the Department of Public Instruction (DPI). The Textbook Services Section is responsible for the delivery of service at each phase of the textbook delivery process, with the exception of the actual delivery of the textbooks to the individual schools. That is the responsibility of each LEA. Exhibit 1 depicts the process for ordering textbooks through the Textbook Services Section of DPI.

Many aspects of the operations of the Warehouse are determined by the volume of textbooks purchased by the LEAs. The number of textbooks ordered and shipped to the LEAs annually is related to the textbook curriculum adopted in that year (see Table 1, page 7). The level of Warehouse activity

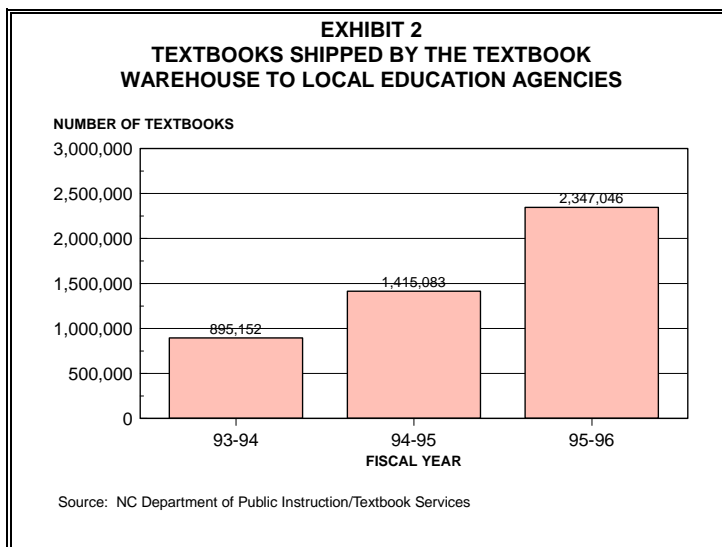
corresponds directly with the subject areas adopted in any one year. For example, fiscal year 1995-96 was a year in which the subject area of science began its adoption period.



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Science is a subject area that is required for the majority of students in the State's public school system. Therefore, the level of Warehouse activity for the fiscal year 1995-96 was increased due to large orders of science textbooks and instructional materials throughout the State. Exhibit 2 shows the number of textbooks shipped in fiscal years 1994, 1995, and 1996.

As stated previously, the number and type of textbooks adopted annually determines a large percentage of the activity at the Warehouse. This adoption process is the responsibility of the North Carolina Textbook Commission (Commission). This Commission has been given the authority by the



North Carolina State Board of Education to review, evaluate, select, and recommend for adoption the textbooks used in the public school system of the State.

The Commission consists of fourteen members, appointed by the Governor for a term of four years, primarily from the education community. The following is a description of the composition of the Commission:

- 6 members: teachers or principals in the elementary grades
- 5 members: teachers or principals in the high school grades
- 1 member: parent of an elementary student, grades K-6
- 1 member: parent of a high school student, grades 7-12
- 1 member : superintendent of a local school administrative unit

The textbook adoption process begins with the State Board of Education sending an "Invitation to Submit Textbooks for Evaluation and Adoption in North Carolina", otherwise known as a "call." The interested publishers then file "Letters of Intent" with the Textbook Commission to submit textbooks and price bids for consideration in that year's "call." The publishers also provide the Commission with multiple copies of textbooks to be considered for the State Textbook Adoption List. Annually, the Commission solicits teachers in various subject areas from across the State to serve as "evaluators" for texts under consideration for adoption that year. These textbooks are reviewed by the Commissioners and evaluators between June 15 and August 1 of each year. After the Commissioners and the teachers have completed their evaluations of the submitted textbooks, the Commission meets to formalize its recommendations and presents them to the State Board. The textbooks approved by the State Board are placed on the

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state adoption list to be used by the LEAs in their assessment of textbooks to order through the Textbook Warehouse.

TABLE 1 NORTH CAROLINA TEXTBOOK ADOPTION SUBJECT AREAS		
BEGINNING YEAR OF CONTRACT		
FY 1994-95	FY 1995-96	FY 1996-97
<p>1. Health</p> <ol style="list-style-type: none"> 1. Activity-Oriented, 1-9 2. Textbook Series, 4-9 	<p>1. Second Languages</p> <ol style="list-style-type: none"> 1. French, Grades 7-8 2. Spanish, Grades 7-8 	<p>1. Communication Skills</p> <ol style="list-style-type: none"> 1. Language Arts, 3-8 2. Reading, 1-8 3. Conventions Reference Handbook, Gr. 9-12 4. Literature, 9-12
<p>2. Vocational Education Middle Grades 7-8</p> <ol style="list-style-type: none"> 1. Business and Marketing 2. Technology Systems 3. Biotechnology 4. Life Skills 5. Career Decisions, 6-8 	<p>2. Agriculture Education</p> <ol style="list-style-type: none"> 1. Introduction to Agriscience 2. Agricultural Production and Management 3. Agricultural Engineering Technology 4. Horticulture 5. Natural Resources Management 6. Agricultural Cooperative Training 	
<p>3. Trade and Industrial Education</p> <ol style="list-style-type: none"> 1. Auto Body Repair 2. Automotive Technology 3. Furniture/Cabinet Making 4. Carpentry 5. Cosmetology 6. Electrical Trades 7. Electronics 8. Graphics Communications 9. Industrial Coop. Training 10. Air Conditioning and Refrigeration 11. Industrial Maintenance 12. Masonry 13. Metals Manufacturing 14. Technical Drafting 15. Textiles 16. Welding 	<p>3. Science (Integrated and/or Activity Based Programs/Texts)</p> <ol style="list-style-type: none"> 1. Biology 2. Advanced Biology 3. Chemistry 4. Advanced Chemistry 5. Physical Science 6. Physics 7. Anatomy and Physiology 8. Earth Science 9. Environmental Science 10. Marine Science 11. Oceanography 12. Applied Science 	
<p>4. Technology Education</p> <ol style="list-style-type: none"> 1. Fundamentals of Technology 2. Communication Systems 3. Structural Systems 4. Manufacturing Systems 5. Transportation Systems 6. Advanced Communications Systems 7. Advanced Structural Systems 8. Advanced Manufacturing Systems 9. Advanced Transportation Systems 	<p>4. Science</p> <ol style="list-style-type: none"> 1. Activity-Oriented Programs/Series, 1- 5 2. Integrated Activity-Oriented Programs/Series, 6-8 	
<p>5. Health Occupations</p> <ol style="list-style-type: none"> 1. Biomedical Technology 2. Health Team Relations 3. Allied Health Sciences 1 4. Allied Health Sciences 2 5. Medical Sciences 1 6. Medical Sciences 2 	<p>5. Second Languages</p> <ol style="list-style-type: none"> 1. French, Levels 1,2,3,4 2. Spanish, Levels 1,2,3,4 3. German, Levels 1,2,3,4 	
<p>6. Health Education -Grade 9</p>		
<p>7. Workplace Readiness</p>		

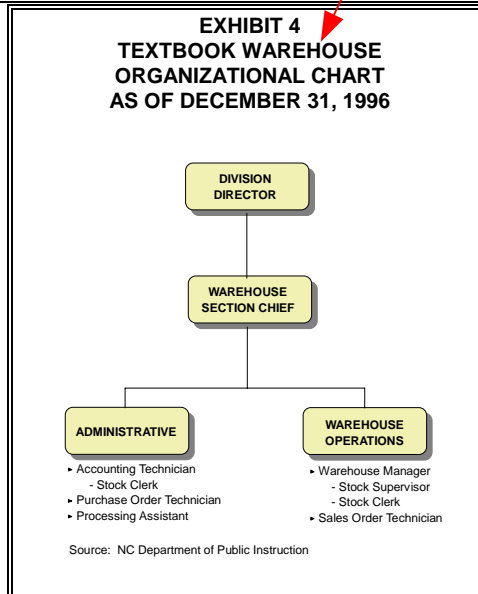
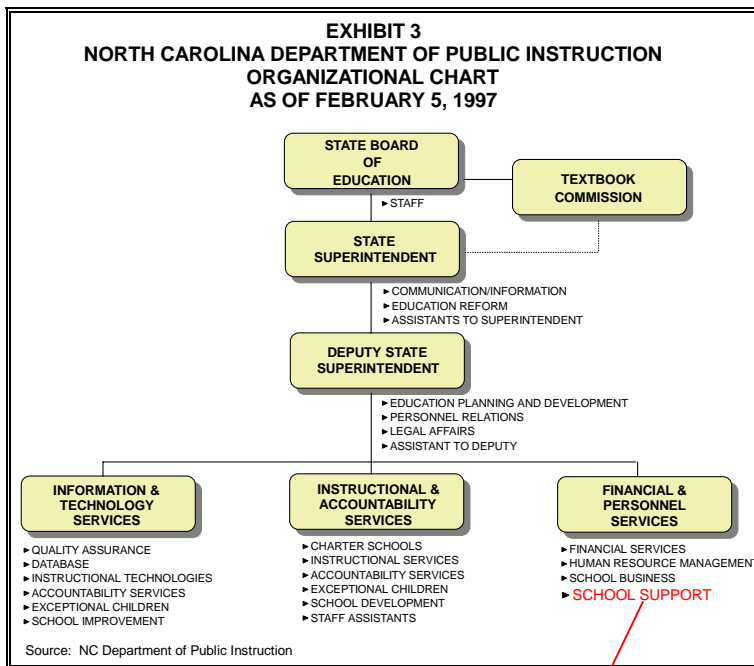
Source: NC Department of Public Instruction

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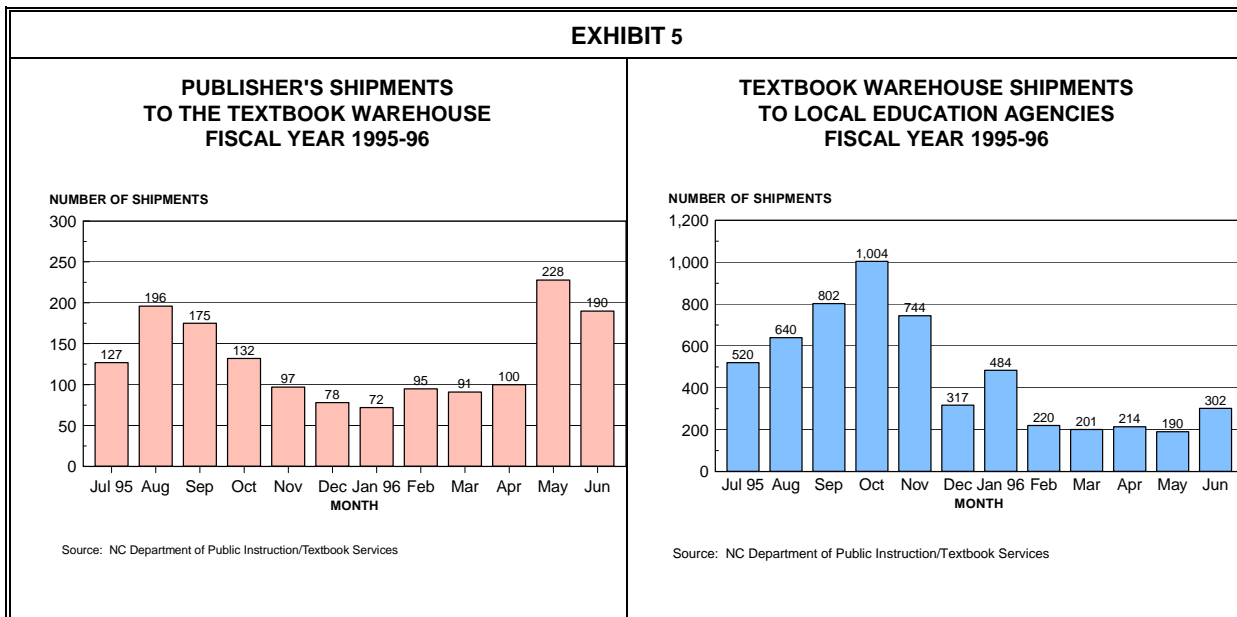
CURRENT ORGANIZATIONAL STRUCTURE

The Warehouse is organizationally located within the Department of Public Instruction under the Division of School Support as shown in Exhibit 3. Exhibit 4 depicts the organizational structure of the Warehouse in place as of December 1996. An examination of the budget shows 9 full-time positions, with salaries budgeted at \$218,005. The office staff, which is responsible for the daily administrative and financial operations. The remaining 4 positions are responsible for Warehouse operations consisting of the storage, shipping, and receiving of textbooks. Six of the nine staff, as of December 31, 1996, have been in their current positions less than two years. Our research showed that the primary reason for this was the reorganization and downsizing of DPI staff during that time period.

Since workload levels are dependent on orders from LEAs, the Warehouse experiences fluctuations in staffing needs. The high workload period, March through October, requires the employment of 12 to 15 temporary employees. This peak period is the result of an increase in the number of textbooks received and distributed to the LEAs for the school year that begins in August. Exhibit 5, page 9, shows the incoming and outgoing shipments for fiscal year 1995-96. These graphs provide an indication of the workload fluctuations associated with the shipping and receiving functions of Warehouse operations.



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FINANCIAL

The fact that North Carolina operates a centralized warehouse function for the delivery and distribution of textbooks has a significant impact on the cost of textbooks to the State. North Carolina receives an 8% discount on the publishers' price of each textbook because textbooks are shipped to one location in the State and are distributed to the LEAs by the Warehouse.

In order to provide revenue to operate the Warehouse and the Textbook Commission, DPI "charges" the LEAs 2% of the discounted textbook price. Therefore, the price paid by the LEAs for each textbook ordered through the Department of Public Instruction's Textbook Services Section reflects a net discount of 6%. Funds which are not used for operating expenses remain in the Warehouse's fund balance and are available in subsequent years for the operations of the Warehouse and the Commission.

A small percentage of revenue for the Warehouse is a result of textbook sales to the general public. These sales have a 27% mark-up on the publisher's price. The funds generated by this mark-up are used to provide revenue to operate the Warehouse and to increase the Warehouse's textbook inventory in order to service the LEAs more efficiently. Total revenue generated in fiscal year 1995-96 from these sales amounted to \$15,336.

For fiscal year 1995-96, expenditures for the Warehouse were \$387,448 and for the Commission were \$221,806. The expenditures for the Warehouse do not include the costs to transport the textbooks from the Warehouse to a central location at each of the LEAs. Freight cost is supported by a special allocation from the General Assembly. The allotted amount for fiscal year 1995-96 was \$111,000. Actual shipping costs totaled \$149,014. The difference was paid from the Warehouse's fund balance. Table 2 summarizes the

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revenues and expenditures for the Textbook Services Section for fiscal years 1993-94 through 1995-96.

TABLE 2 TEXTBOOK SERVICES SECTION SUMMARY OF TEXTBOOK COSTS AND REVENUES AND EXPENSES for Fiscal Years 1993-94 through 1995-96			
	1993-94	1994-95	1995-96
Textbook Costs:			
Original Publishers' Price	\$ 22,166,445	\$ 33,737,000	\$ 53,304,167
Less: 8% Discount	1,641,959	2,499,037	3,948,457
Cost to the State	\$ 20,524,486	\$ 31,237,963	\$ 49,355,710
Plus:			
2% Mark-up Charges to LEAs	\$ 410,490	\$ 624,760	\$ 987,115
Cost to the LEAs	\$ 20,934,976	\$ 31,862,723	\$ 50,342,825
Public (Walk-ins):			
Cost to State	\$ 11,033	\$ 9,036	\$ 12,075
27% Mark-up	2,979	2,440	3,261
Cost to Public	\$ 14,012	\$ 11,476	\$ 15,336
Total Costs for Textbooks	\$ 20,948,988	\$ 31,874,199	\$ 50,358,161
Warehouse Revenues/ Expenses:			
Revenues:			
2% Mark-up	\$ 410,490	\$ 624,760	\$ 987,115
27% Mark-up	2,979	2,440	3,261
Appropriation for Freight	111,000	111,000	111,000
Total Revenues	\$ 524,469	\$ 738,200	\$ 1,101,376
Plus: Beginning Fund Balance	845,106	776,267	884,261
Total Available	\$ 1,369,575	\$ 1,514,467	\$ 1,985,637
Expenditures:			
Warehouse Operating Costs	\$ 388,628	\$ 341,578	\$ 387,448
Freight Costs	95,044	90,900	149,013
Textbook Commission Costs	109,636	197,728	221,805
Total Expenditures	\$ 593,308	\$ 630,206	\$ 758,266
Ending Fund Balance	\$ 776,267	\$ 884,261	\$ 1,227,371
Source: NC Department of Public Instruction			

FINDINGS AND RECOMMENDATIONS

The timely delivery of textbooks to the LEAs before the school year begins has been an ongoing concern of school administrators and government officials. We confirmed that the concern is valid through a review of shipment discrepancies filed by the LEAs and information received from our survey of LEA personnel (See Appendix A, page 27). Several factors contribute to delayed deliveries:

- Submission of textbook orders after the due dates by LEA textbook coordinators;
- Late shipments from the publishers (after the 45 day contracted period);
- Incorrect or incomplete shipments to the LEAs from the Textbook Warehouse; and
- Textbook delivery time between the LEAs and the schools of up to two weeks after receipt from the Warehouse.

We discuss below factors which we believe directly affect the timely delivery of textbooks to the LEAs and make recommendations which we feel will enhance the efficiency of the Warehouse operations. To assist the reader in understanding the process, we have grouped our findings into three broad categories: The Ordering Process; Warehouse Procedures; and Warehouse Administrative Operations. Textbook Delivery Options are presented in the final section of the report.

Auditor's Note: The Textbook Services Section of the Department of Public Instruction is synonymous with the Textbook Warehouse (Warehouse). Unless otherwise stated, all findings and recommendations are relative to the Warehouse.

THE ORDERING PROCESS

LOCAL EDUCATION AGENCIES ARE NOT SUBMITTING ORDERS TO THE WAREHOUSE BY THE REQUIRED DATES.

The Textbook Services Section requires Local Education Agencies (LEAs) to order textbooks needed for the subsequent school year by certain dates. The due date for orders of **newly-adopted** textbooks is March 1 of each year. The due date for orders of **replacement** textbooks is May 1. As part

TABLE 3 TEXTBOOK ORDERS SUBMITTED BY LEAs FEBRUARY 14, 1996 THROUGH JULY 31, 1996					
Order Type	Number of Orders	Number Received By Due Date	Percent Received By Due Date	Number Received After Due Date	Percent Received Late
Newly-Adopted	604	119	19.7%	485	80.3%
Replacement	632	242	38.3%	390	61.7%
Both	82	0	0.0%	82	100.0%
TOTALS	1,318	361		957	
AVERAGES			27.4%		72.6%
Source: NC Department of Public Instruction					

of the audit, we performed an analysis of textbook orders submitted by LEAs. We determined that LEAs placed 1,318 textbook orders from February 14, 1996, through July 31,

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1996. However, only 361 of the 1,318 orders (27.4%) were submitted by the established due date (See Table 3).

We then judgementally selected for detailed review 100 of the orders. We were only able to review the details of ninety-eight orders--one order was canceled by the LEA and documentation on another order could not be located by Warehouse management. Twenty-seven of these ninety-eight orders were submitted by the required due date and twenty-five were shipped prior to the start of the school year. However, only 54.9% (39 of 71) of the orders received after the due date were completely shipped to the LEAs prior to the start of the school year.

Thirty percent (30%) of LEA personnel responding to our survey reported placing newly-adopted textbook orders by March 1 as compared to the 19.7% documented in Table 3. Survey results showed that 47% of the LEAs reported ordering replacement textbooks by May 1 as compared to the 38.3% documented in Table 3. (See Appendix A, page 27 for survey results). Based on the information reported by the LEAs and our analysis of a sample of orders, a major factor in the timely receipt of textbooks is whether the Warehouse receives orders at the required times.

RECOMMENDATION

The Textbook Services Section should enhance its efforts to communicate to the LEAs the importance of submitting textbook orders to the Warehouse by the due dates. More training sessions for LEA textbook coordinators, as well as written, oral, and electronic communication should be used. These efforts would increase the probability of having textbooks delivered to LEAs prior to the start of the school year and improve the satisfaction of the LEAs with the services received from the Warehouse.

THE STATE BOARD OF EDUCATION HAS NOT ENFORCED THE NONPERFORMANCE CLAUSE IN THE STANDARD TEXTBOOK CONTRACT.

The standard textbook contract between publishers and the State Board of Education (Board) requires textbooks to be delivered to the Warehouse within forty-five days after receipt of the order by the publisher. The contract also states that the publisher is subject to a \$100 per day fine for each day's delay after forty-five days. The contract authorizes the State Superintendent to waive this fine and grant written approval for extensions if there are valid reasons for the delay. On June 5, 1996, DPI's Associate Superintendent issued a memorandum to publishers emphasizing the importance of the timely delivery of textbooks. In the memorandum, publishers were advised that unless there were "extenuating circumstances," DPI would impose the \$100 per day fine for deliveries past the forty-five day delivery period. However, fines have not been imposed.

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From March 26, 1996, through August 23, 1996, the Warehouse placed three hundred forty-three (343) orders for regular textbooks with various publishers. We judgementally selected for review a sample of one hundred of these orders. We noted twenty-one of the orders (21%) were not delivered within 45 days. On the average, it took 65.82 days (ranging from 46 to 145 days beyond the required 45 days) to complete delivery. Warehouse management reported that the publishers did not provide reasonable explanations for the late deliveries. We found no documentation that the State Superintendent had given written approval granting extensions, nor did the Board assess a fee for any of these delays. Using the \$100 per day fee, the assessment for this sample would have amounted to \$79,100. If we assume that 21% of all 343 orders placed during this period were also late, the projected assessment could have amounted to \$271,313.

RECOMMENDATION

The State Board of Education should take steps to ensure that all parties to the standard textbook contract comply with the conditions of the contract. To ensure compliance, the Board should develop detailed, written procedures that outline the steps to be taken in the event that a publisher is late in delivering textbooks. "Extenuating circumstances" which could result in a waiver should be clearly defined. The procedures should be communicated to all staff and implemented immediately.

CONTRACTS BETWEEN THE WAREHOUSE AND PUBLISHERS ARE NOT EXECUTED FOR MODIFIED TEXTBOOKS.

All purchases of modified textbooks (Braille, large print) are done on a "special order basis" based on verbal quotes from the publishers. Cost and time of production initially quoted usually differ from the final cost and production time. Turn-around time is usually 6 to 8 weeks. We learned that the Warehouse does not have written procedures that outline the process of ordering modified textbooks. Management reports that the same individual has handled this function for years. Therefore, management felt that written procedures were unnecessary.

Warehouse management has indicated that there are disadvantages of having contracts for modified textbooks. These include time delays for the contract approval process and the vendor's uncertainty of the labor costs necessary to complete these specialized textbooks. However, the purpose of a contract is to bind the parties to the terms that are negotiated and to ensure that each party performs to the standard agreed upon. In our opinion, without a contract, publishers could take advantage of more profitable jobs at the expense and delay of North Carolina's modified textbook orders. In addition, the publisher may be able to inflate the final cost of production beyond that which would be considered reasonable and equitable.

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RECOMMENDATION

The North Carolina State Board of Education (Board) should immediately begin requiring contracts for modified textbook purchases. Consideration should be given to the use of the State's "Small Purchases" method.¹ This method allows the executive officer of each agency to set forth, in writing, purchasing procedures for making small purchases. Once developed, a copy should be forwarded to Purchase and Contract for its records. Warehouse management should establish written procedures that describe the ordering process for modified textbooks. The procedures should be communicated to the Warehouse staff. The Board should require the establishment of procedures that would expedite the process while documenting the terms agreed to by all parties involved.

WAREHOUSE PROCEDURES

WAREHOUSE DESIGN HAMPERS EFFICIENT AND ECONOMICAL OPERATIONS.

The State Textbook Warehouse, built in 1973, is a two-story building located on Blue Ridge Road in Raleigh. There is approximately 95,360 square feet of storage area in the building. Most of the upper level and all of the lower level is occupied by the Textbook Warehouse. The remaining portion of the upper level is used by other divisions of the Department of Public Instruction, the Department of Revenue, and the Department of Correction.

The design of the Warehouse does not lend itself to modern warehousing techniques. The Warehouse does not have rack shelving for pallets and, therefore, some pallets are stacked. Motorized forklifts cannot be fully utilized throughout the Warehouse due to the limited space between the pallets. The spacing of the support columns will not allow double aisle pallet storage while using forklifts. Storage of textbooks on pallets at the back of the Warehouse provides little space for maneuverability of personnel between the rows. The result is inefficient operations, poor use of space, and safety concerns for Warehouse staff.

RECOMMENDATION

Management should vigorously pursue the implementation of rack shelving. The use of rack shelving for pallets could increase storage capacity of the Warehouse by 50% - 100% by allowing the use of the vertical space between the floor and the ceiling. Textbook Services should request professional guidance and assistance from the State

¹ *State of North Carolina Agency Purchasing Manual, Section V-3*

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Property and Construction Office to achieve a more efficient design and utilization of its warehouse space. Consideration should be given to factors such as operation efficiency, utilization of forklifts, maintenance of textbooks, the need to store increasing amounts of textbooks annually, and safety precautions while operating forklifts in the area.

Auditor's Note: Textbook Services is in the process of obtaining estimates for rack shelving. Preliminary estimates indicate the Warehouse could obtain the necessary shelving for approximately \$30,000.

WAREHOUSE INVENTORY RECORDS ARE NOT ACCURATE.

The Warehouse staff conducted a complete physical inventory count of textbooks the last week of October 1996. All differences noted were not thoroughly investigated due to materiality levels and time constraints on the staff. However, manual adjustments were made to the perpetual inventory balances by the staff after the count was completed.

As part of the audit, we conducted a physical inventory count of both the regular and modified textbook titles² on hand at January 6, 1997. Differences were noted between

TABLE 4 RESULTS OF PHYSICAL INVENTORY COUNT OF TEXTBOOKS ON HAND AT JANUARY 6, 1997						
TEXT- BOOK TYPE	TOTAL TITLES	SAMPLE SIZE	PER- CENT OF TOTAL	NUMBER OF DIS- CREPANCIES	PERCENT DIS- CREPANCIES	RANGE OF DIS- CREPANCIES
Regular	3292	300	9.1%	37	12.3%	1 to 188
Modified	2676	50	1.9%	37	74.0%	1 to 39
Source: NC Textbook Warehouse Records						

our physical count and the perpetual inventory system printout dated December 31, 1996. (See Table 4) Based on the results of the test work performed, the perpetual inventory balances do not appear to be accurate. Internal operating procedures in place did not ensure the perpetual inventory system displayed the correct inventory balances.

RECOMMENDATION

Warehouse management should conduct another physical inventory count to correct the discrepancies identified and provide detailed explanations of how the discrepancies occurred. An additional inventory count will provide assurances that the unaudited inventory is fairly stated. Reasonable materiality levels for discrepancies should be established and documented. Adjustments should be made to the perpetual inventory records to reflect the actual count of books on hand once the inventory is complete. Documentation should also be maintained to support the manual adjustments to the perpetual inventory balances. Clear internal operating procedures should be established and communicated to the staff. This would ensure that

² Textbook titles are used to define a group of textbooks under a specific publisher's title.

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periodic inventory counts are properly completed and that all receiving and shipping activities are properly conducted and recorded. These changes would allow the Warehouse to maintain accurate inventory balances throughout the year.

SHIPPING AND RECEIVING PROCEDURES ARE NOT CLEARLY COMMUNICATED TO STAFF OR LEAs.

Current Warehouse policy does not provide for a formal training program for shipping and receiving employees, nor do procedures address specific methods for counting cartons during the shipping and receiving process. We noted several invoices for shipments from publishers that were signed by Warehouse personnel, indicating a complete shipment. However, Warehouse management later had to request the publisher reship some orders due to discrepancies in the number of items received.

Once orders are received, the Warehouse staff attempts to complete orders as expeditiously as possible. At times, the Warehouse staff will send a partial order to an LEA. However, there are no specific procedures in place to communicate to the LEAs that a shipment represents an *intentional* partial shipment. Although a document indicating the description and quantity does accompany each shipment, it does not include special notes that would communicate specific details about the shipment. The lack of communication allows for a potential material overstatement of the number of discrepancies that occur during the year and increases the dissatisfaction felt by the LEAs. Our concern for better communication of procedures is further supported by a review of discrepancies reported by the LEAs (see page 17). Many involved short shipments of complete cartons versus individual books.

RECOMMENDATION

Management should develop and implement an internal orientation program, especially for temporary Warehouse employees. Regularly scheduled meetings between management and staff should be held to inform the staff of its service delivery performance and solicit means for improvement. Management should also revise its procedures to include a standard means of communicating partial shipments to LEAs. Situations that constitute a discrepancy should be clearly defined. This information should be promptly communicated to the LEA textbook coordinators.

FINDINGS AND RECOMMENDATIONS

THE WAREHOUSE DOES NOT HAVE AN ESTABLISHED SYSTEM TO TRACK DISCREPANCIES IN SHIPMENTS.

We reviewed shipment discrepancy reports filed by the LEAs with the Warehouse. We learned that the discrepancies generally were the result of short shipments, shipments of the incorrect title, damaged shipments, or lost shipments. An analysis of discrepancies showed that the percentage of discrepancies to total shipments, as well as the actual number of discrepancies, were increasing from fiscal year 1994 to fiscal year 1996. (See Table 5) Further, based on our analysis, it appears there is a relationship between the use of temporary employees during the “peak season” and the number of reported shipment discrepancies.

TABLE 5 STATISTICAL INFORMATION ON DISCREPANCIES FILED BY LEAS			
	FY 96	FY 95	FY 94
Total Discrepancies Submitted by LEAs	367	112	30
Total Shipments to LEAs	5638	3667	4119
% of Shipments with Discrepancies	6.51	3.05	.73
Source: NC Department of Public Instruction			

We learned that there is no system in place to track the types of discrepancies that regularly occur, the number of discrepancies, nor the potential causes of such discrepancies. (We even noted instances where discrepancies occurred on shipments made to correct a previous discrepancy.) In addition, there are no written policies and procedures in place to document the steps to track discrepancies through the resolution process. Instead, management makes the assumption that if it is not contacted further by the LEA, then the discrepancy has been resolved. The absence of policies and procedures surrounding the resolution of shipment discrepancies, and the absence of a means of measuring the extent to which discrepancies are occurring, hinders management from pro-actively working to eliminate such discrepancies.

RECOMMENDATION

Management should revise its procedures to determine the types of discrepancies that occur and establish procedures that will allow for detailed review of these discrepancies and periodic follow-up until the resolution process is complete. Finally, management should implement procedures to measure to what extent the different types of discrepancies are occurring and determine the most efficient and economical means of addressing this problem.

Auditor's Note: During the audit, management established a discrepancy log to begin tracking discrepancies.

FINDINGS AND RECOMMENDATIONS

WAREHOUSE ADMINISTRATIVE OPERATIONS

MARK-UP PERCENTAGE EXCEEDS THE AMOUNT REQUIRED TO OPERATE THE TEXTBOOK WAREHOUSE AND TEXTBOOK COMMISSION.

Prior to fiscal year 1989-90 the operating expenses of the Warehouse and the Textbook Commission (Commission) were covered by an appropriation from the General Assembly. Any excess funds reverted to the General Fund at the end of the fiscal year. According to DPI personnel, budget constraints prohibited the continued funding of Warehouse and Commission operations in this manner. In order to finance these activities, DPI made the decision to charge the LEAs a 2% fee on the purchase of textbooks through Textbook Services. The 2% fee was imposed on the LEAs beginning in fiscal year 1989-90, although no formal policy stating that 2% would be the percentage charged was ever established.

Our analysis shows that the income received as a result of the 2% mark-up has exceeded the expenses of the Warehouse and the Commission in each year since its inception, except fiscal year 1993-94. (See Table 6) Currently, Warehouse funds not used for annual operating expenses remain in a fund balance and are available in subsequent years for the operations of the Warehouse and the Commission.

Auditors' Note: Data contained in Tables 6, 7 and 8 do not reflect sales to the general public or freight appropriations.

TABLE 6 ANALYSIS OF TEXTBOOK SERVICES CARRYOVER FUNDS - MARK-UP AT 2%						
FISCAL YEAR	Total Purchases Through Textbook Warehouse (1)	Purchase Amount Prior to 2% Mark-up (2) Col. 1 / 1.02	2% Mark-up (3) Col. 1 - Col. 2	YTD Expenditures (Textbook Commission and Warehouse) (4)	Carryover (5) Col. 3 - Col. 4	Cumulative Carryover Balance (6) Balance + current years' carryover
1989-90	\$26,908,468	\$26,380,851	\$527,617	\$ *	\$527,617	\$ 527,617
1990-91	26,292,475	25,776,936	515,539	416,802	98,737	626,354
1991-92	30,590,594	29,990,778	599,816	487,674	112,142	738,496
1992-93	35,271,488	34,579,890	691,598	584,988	106,610	845,106
1993-94	20,948,988	20,538,224	410,764	498,264	(87,500)	757,606
1994-95	31,874,199	31,249,215	624,984	539,306	85,678	843,284
1995-96	50,358,161	49,370,746	987,415	609,253	378,162	1,221,446
*Textbook Services operations became receipt supported in 1990-91. Textbook sales prices were marked up in 1989-90 so receipts would be available as of 7-1-90 to support operations. This is the reason mark-up is shown in 1989-90 and YTD expenditures are not.						
Source: NC Department of Public Instruction Financial Services Section						

The fund balance on June 30, 1996, was \$1,221,446. That is, the 2% mark-up has generated funds in excess of the operational costs. While we agree that the Textbook Services Section should have some funds in reserve, we believe that the 2% mark-up is excessive and that the excess funds should be kept at the LEA level to supplement direct educational needs. Tables 7 and 8 show what the fund balance would have been at mark-ups of 1.75% and 1.5%, respectively. As can be seen, the 1.5% rate would have generated

FINDINGS AND RECOMMENDATIONS

sufficient funds for the operations of the Textbook Services Section and still allowed for a reasonable amount in reserve.

TABLE 7						
ANALYSIS OF TEXTBOOK SERVICES CARRYOVER FUNDS - MARK-UP AT 1.75%						
FISCAL YEAR	Total Purchases Through Textbook Warehouse (1)	Purchase Amount Prior to 1.75% Mark-up (2) Col. 1 / 1.0175	1.75% Mark-up (3) Col. 1 - Col. 2	YTD Expenditures (Textbook Commission and Warehouse) (4)	Carryover (5) Col. 3 - Col. 4	Cumulative Carryover Balance (6) Balance + current years' carryover
1989-90	\$26,908,468	\$26,445,668	\$462,800	\$ *	\$462,800	\$462,800
1990-91	26,292,475	25,840,270	452,205	416,802	35,403	498,203
1991-92	30,590,594	30,064,465	526,129	487,674	38,455	536,658
1992-93	35,271,488	34,664,853	606,635	584,988	21,647	558,305
1993-94	20,948,988	20,588,685	360,303	498,264	(137,961)	420,344
1994-95	31,874,199	31,325,994	548,205	539,306	(8,899)	411,445
1995-96	50,358,161	49,492,050	866,111	609,253	256,858	668,303
*Textbook Services operations became receipt supported in 1990-91. Textbook sales prices were marked up in 1989-90 so receipts would be available as of 7-1-90 to support operations. This is the reason mark-up is shown in 1989-90 and YTD expenditures are not.						
Source: NC Office of the State Auditor						

TABLE 8						
ANALYSIS OF TEXTBOOK SERVICES CARRYOVER FUNDS - MARK-UP AT 1.5%						
FISCAL YEAR	Total Purchases Through Textbook Warehouse (1)	Purchase Amount Prior to 1.5% Mark-up (2) Col. 1 / 1.015	1.5% Mark-up (3) Col. 1 - Col. 2	YTD Expenditures (Textbook Commission and Warehouse) (4)	Carryover (5) Col. 3 - Col. 4	Cumulative Carryover Balance (6) Balance + current years' carryover
1989-90	\$26,908,468	\$26,510,805	\$397,663	\$ *	\$397,663	\$397,663
1990-91	26,292,475	25,903,916	388,559	416,802	(28,243)	369,420
1991-92	30,590,594	30,138,516	452,078	487,674	(35,596)	333,824
1992-93	35,271,488	34,750,234	521,254	584,988	(63,734)	270,090
1993-94	20,948,988	20,639,397	309,591	498,264	(188,673)	81,417
1994-95	31,874,199	31,403,152	471,047	539,306	(68,259)	13,158
1995-96	50,358,161	49,613,952	744,209	609,253	134,956	148,114
*Textbook Services operations became receipt supported in 1990-91. Textbook sales prices were marked up in 1989-90 so receipts would be available as of 7-1-90 to support operations. This is the reason mark-up is shown in 1989-90 and YTD expenditures are not.						
Source: NC Office of the State Auditor						

RECOMMENDATION

The Department of Public Instruction should take steps to reduce the fund balance and allow the LEAs the use of excess funds not required for annual Warehouse/Commission operations. Reduction of the fund balance can be achieved through several methods. One method is the continuation of the 2% fee on textbooks purchased by the LEAs, with the difference between the amount collected and the actual expenses of the Warehouse and the Commission returned to the LEAs. Another

FINDINGS AND RECOMMENDATIONS

method would be to lower the amount of the mark-up to, for instance, 1.5%. This method would allow the LEAs to use the difference during the school year for which the funds were allocated rather than the following year. Regardless of the method chosen, a formal written policy should be established and communicated to the LEAs. If a different mark-up percentage is chosen, the textbook catalog should be revised and this revision should be communicated to the LEAs. The mark-up percentage should continue to be monitored relative to the expenditures incurred by the Warehouse and the Commission. DPI, with Board approval, should adjust the percentage as needed to maintain a reasonable fund reserve.

FREIGHT COSTS MAY BE INCORRECTLY DETERMINED.

Textbooks are shipped from the Warehouse to the Local Education Agencies (LEAs) by several methods: the NC State Courier Service, US Mail, and common carrier. Shipping charges through the Courier Service and the US Mail are calculated at a pre-determined rate depending on the location and the actual weight of the shipment. The Warehouse staff utilizes these services if the shipments are five boxes or less and under a specific weight limit. Warehouse staff prepare and weigh the boxes prior to shipping.

Shipments consisting of six or more boxes require the utilization of a common carrier. Common carrier shipping charges are also based on a pre-determined rate depending on the location and the weight of the shipment. Once shipments are assembled, the weight of the shipment is *estimated* by the Warehouse staff based on the average weight of forty pounds per box. Total shipment weight is calculated using the number of boxes multiplied by forty pounds per box. This information is provided to the shipping company which bills DPI for freight costs. The actual weight of the shipment is not verified. Weighing individual boxes for large shipments is not an efficient use of time or staff resources since the Warehouse does not have a scale capable of weighing more than six boxes at once. While we are unable to determine the monetary effect of this procedure, freight costs may be estimated incorrectly using these procedures.

RECOMMENDATION

Textbook Services should purchase a shipping scale for the Warehouse operations. This will provide the staff with a means to accurately calculate the actual weight of large shipments to LEAs and allow the actual freight costs associated with each shipment to be calculated.

Auditor's Note: Textbook Services is inquiring about shipping scales for Warehouse operations to address this issue. Price quotes received on the purchase of scales were \$6,350 for a scale placed on the forklift and \$3,500 for the floor model.

FINDINGS AND RECOMMENDATIONS

THE TEXTBOOK WAREHOUSE DOES NOT HAVE FORMAL CASH MANAGEMENT PROCEDURES IN PLACE.

There are no written policies and procedures that document the handling of cash collections at the Warehouse. Warehouse management collects cash and checks from the general public for the sale of textbooks. (The amount of collections for sales to the general public for fiscal year 1995-96 was \$15,336.) However, no cash receipts log is kept to document when and what collections are made, and no petty cash fund exists to make change and to prevent the potential commingling of state and personal funds.

Other areas of concern are:

- The desk drawer where collections are kept is also the primary desk drawer used by the receptionist for secretarial supplies.
- Checks from general public sales are not routinely deposited in compliance with the State's Daily Deposit Act.
- Checks received from the LEAs are not forwarded to DPI's Cash Management Division daily.

While we found no evidence that management was not properly accounting for cash collections, in our opinion, the lack of cash management procedures for cash collections allows for potential misappropriation of state funds.

RECOMMENDATION

Warehouse management should immediately implement formal cash management procedures. Specifically, management should:

- **Use a cash receipts log to record all cash collections made at the Warehouse;**
- **Establish a petty cash fund or restrict general public sales to checks and money orders;**
- **Use a lock-box that is only for general public sales collections and develop a system to control access to the lock-box;**
- **Deposit collections from general public sales in accordance with the State's Daily Deposit Act;**
- **Transfer daily to DPI's Cash Management Division funds received directly from LEAs ; and**
- **Continue communicating to the LEAs the need to mail payments for textbook purchases directly to DPI's Cash Management Division.**

FINDINGS AND RECOMMENDATIONS

THE LACK OF TECHNOLOGY IMPEDES EFFICIENT OPERATIONS.

During the audit, we noted that the Warehouse personnel are using an independent computer system for accounting and inventory that does not interface with the system used by the rest of DPI. Management has addressed the feasibility of merging the two systems; however, the system currently used by DPI is unable to handle the inventory maintained by the Warehouse. The same entries must be made by both Warehouse personnel and other DPI personnel to record purchase order numbers, amounts, payment dates, check amounts, numbers, and dates paid. Personnel must reconcile accounts between the two systems for freight, regular and modified textbooks, and damage fees. This is an inefficient use of resources since it requires unnecessary duplication of effort.

RECOMMENDATION

DPI's Information Systems management, along with the management of Textbook Services, should revisit DPI's Information Resource Management Plan. Equipment should be acquired that has the capability of serving the accounting and inventory needs for both the Warehouse and other DPI divisions. A timetable for implementation should be determined. This upgrade should be included in DPI's technology plan for submission to the North Carolina Information Resource Management Commission for approval.

TEXTBOOK DELIVERY OPTIONS

As part of the audit, we contacted twenty-one states and received information from nineteen about their textbook delivery methods. The results are summarized in Table 9. Points of particular interest are:

- ⇒ The local school districts in eleven states (57.9%) are responsible for contracting with publishers; selecting and ordering the textbooks; paying the publishers; and, arranging for the distribution of textbooks.
- ⇒ Two states (10.5%) contracted with the publishers and established an official State adoption contract list; allowed the local school districts to be responsible for ordering directly from the publishers; and, arranged for the distribution of textbooks.
- ⇒ Five states (26.3%) use the services of a private depository to order, receive, and distribute textbooks.

TABLE 9						
SUMMARY OF TEXTBOOK DELIVERY OPTIONS IN SELECTED STATES						
QUESTIONS						
	Number Of Students	Who Contracts With Publishers	Who Orders Textbooks From The Publisher	Who Pays Publishers	Who Distributes Textbooks To The Local Level	% Received By Private Depository For Services
Alabama*	735,912	State	LEAs	LEAs	LEAs	N/A
Georgia*	1,346,740	State	LEAs	LEAs	LEAs	N/A
Connecticut **	518,956	LEAs	LEAs	LEAs	LEAs	N/A
Delaware**	108,461	LEAs	LEAs	LEAs	LEAs	N/A
Maine**	213,569	LEAs	LEAs	LEAs	LEAs	N/A
Maryland **	818,583	LEAs	LEAs	LEAs	LEAs	N/A
Massachusetts**	916,927	LEAs	LEAs	LEAs	LEAs	N/A
New Hampshire**	191,004	LEAs	LEAs	LEAs	LEAs	N/A
New Jersey**	1,195,729	LEAs	LEAs	LEAs	LEAs	N/A
New York**	2,777,876	LEAs	LEAs	LEAs	LEAs	N/A
North Carolina*	1,199,962	State	State	State	State	N/A
Pennsylvania**	1,787,533	LEAs	LEAs	LEAs	LEAs	N/A
Rhode Island**	149,802	LEAs	LEAs	LEAs	LEAs	N/A
Virginia**	1,096,093	LEAs	LEAs	LEAs	LEAs	N/A
Florida*	2,241,166	State	Private Depository	Private Depository	Private Depository	8
Mississippi*	503,967	State	Private Depository	Private Depository	Private Depository	8
South Carolina*	600,000	State	Private Depository	Private Depository	Private Depository	11.5
Tennessee*	948,217	State	Private Depository	Private Depository	Private Depository	8
Texas*	3,748,169	State	State	State	State	Publishers located within State
West Virginia*	304,424	State	Private Depository	Private Depository	Private Depository	8
* 1996-97 School Year		** 1995-96 School Year		N/A Not Applicable		
Source: Department of Education in each state						

North Carolina has ordered, received, and distributed textbooks to its student population through the Textbook Warehouse since 1955. However, there are other textbook delivery options which remove the responsibility of ordering, receiving, and distributing textbooks from a state level agency. Two of the options used in other states are: (1) allowing LEAs to order directly from publishers, or (2) allowing a private depository to provide the

TEXTBOOK DELIVERY OPTIONS

services associated with ordering, receiving, and distributing textbooks. We have contrasted these two options with the current operation in North Carolina in Table 10.

In states using a private depository, the state continues both the negotiation process with publishers and the textbook adoption process. With any of the options, it is our opinion that the negotiation and adoption process should remain at the State level to provide equal access of textbook information to all education units. Further, **we have assumed that under the scenario of LEAs ordering directly from publishers that the 8% discounted price would continue.** We are unable to determine whether this would be a valid assumption at this point. Any of the three options presented would work for North Carolina. However, for the State to receive the most cost effective delivery of textbooks, it should continue to receive the 8% discount under any option. The ultimate goal of the textbook delivery system should be to assure that textbooks are in the hands of students on the first day of school. Personnel at each stage of the delivery process must accept this responsibility.

TABLE 10 OPTIONS FOR THE DELIVERY OF TEXTBOOKS TO SCHOOLS			
CATEGORY FOR COMPARISON	PRIVATE DEPOSITORY (ORDER, RECEIVE, DISTRIBUTE TEXTBOOKS TO LEA/SCHOOL)	NC TEXTBOOK WAREHOUSE (ORDER, RECEIVE, DISTRIBUTE TEXTBOOKS TO LEA)	LEAs (ORDER, RECEIVE, AND DISTRIBUTE TEXTBOOKS TO SCHOOLS)
DISCOUNT ON BOOKS TO THE STATE	None (unless negotiated)	<ul style="list-style-type: none"> 8% of the publisher's wholesale price FY 96: \$3,948,457 	<ul style="list-style-type: none"> Anticipate 8% of publisher's wholesale price, negotiated at state level
SOURCE OF REVENUE FOR TEXTBOOK COMMISSION OPERATIONS	<ul style="list-style-type: none"> Special appropriation from General Assembly Percentage of textbook purchases 	<ul style="list-style-type: none"> Taken from 2% revenue for Textbook Whse. FY 96: \$221,805 	<ul style="list-style-type: none"> Special appropriation from General Assembly Percentage of textbook purchases
SOURCE OF REVENUE FOR TEXTBOOK OPERATIONS	8% of cost of textbooks purchased	<ul style="list-style-type: none"> 2% of cost of textbooks; paid by LEAs 27% of cost of sales to public FY 96: \$990,376 	<ul style="list-style-type: none"> Funds could remain with LEAs No additional costs anticipated*
SOURCE OF FUNDS FOR FREIGHT COST	Depends on the contract negotiated	<ul style="list-style-type: none"> Special General Assembly appropriation of \$111,000 Additional funds as needed from 2% for Warehouse operations. 	<ul style="list-style-type: none"> Proportional distribution of the \$111,000 special General Assembly appropriation Use of LEA (state or local) funds if additional freight required
FREIGHT COST: <ul style="list-style-type: none"> PUBLISHER TO FIRST DELIVERY POINT CENTRAL POINT TO LEA/SCHOOL 	<ul style="list-style-type: none"> Depends on contract terms Depends on shipping method 	<ul style="list-style-type: none"> None FY 96: \$149,013 	<ul style="list-style-type: none"> Employee time and vehicle costs (already at LEAs)* Would depend on terms of state level contract, could increase due to multiple sites
NUMBER OF STATE EMPLOYEES AND FUNDS PROVIDED FOR THEIR SERVICES	None (unless negotiated)	<ul style="list-style-type: none"> 9 employees; \$218,005 in salaries Possible elimination 	<ul style="list-style-type: none"> Depends on size of LEA (2 - 9 employees already at LEAs)* No additional needs anticipated*
Legend:	Information in the matrix in clear boxes is based on current data. LEAs currently order a limited number of textbooks directly from publishers.		
	Information shown in shaded areas is based on allowing the LEAs to order and receive textbooks directly.		
Source: Compiled by Office of the State Auditor			

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B Department of Public Instruction's Response to Audit	33

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APPENDICES

APPENDIX A PAGE 1

DEPARTMENT OF PUBLIC INSTRUCTION TEXTBOOK SERVICES DIVISION TEXTBOOK WAREHOUSE SUMMARY OF RESPONSES

As part of the audit, we mailed opinion questionnaires to all North Carolina LEA Textbook Coordinators. The questionnaires were designed to increase our understanding of the process of ordering and receiving textbooks at the local level.

Responses were compiled, analyzed, and totaled and summary data is shown on the subsequent pages. During our analysis of the responses we noted the following:

- *Textbook Delivery*
 - 50% indicated the delivery time of textbooks from the LEA central office to schools was 1 week or longer
 - 52% indicated that if they ordered textbooks directly from publishers, 1 month would be the delivery time
 - 92% indicated that the delivery time of textbooks is 2 months or longer for the ***newly adopted*** textbooks ordered through the Warehouse
 - 66% indicated that the delivery time of textbooks is 2 months or longer for the ***replacement*** textbooks ordered through the Warehouse

<p><i>Auditor's Note: 90% + of all timely orders were delivered before the beginning date for school for the 1996-97 school year.</i></p>

- *Additional textbook orders were due to:*
 - 48%: underestimated enrollment
 - 32%: added classes during the summer
 - 13% : discrepancies in shipment from the Warehouse
- *Negative comments noted on the surveys concerned delays and discrepancies in shipments (27 of 109 responses or 25%)*

We wish to thank the LEA Superintendents and the Textbook Coordinators for their assistance during this phase of the audit.

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Overall Summary
121 Questionnaires Mailed
109 Total Responses
Response Rate = 90 %

OFFICE OF THE STATE AUDITOR TEXTBOOK WAREHOUSE--LEA Questionnaire

Purpose: The Office of the State Auditor has been requested by the State Board of Education to conduct a performance audit of the Textbook Warehouse operations. In order to more fully understand the process of ordering and receiving books, we are asking each LEA to respond to this questionnaire. **Individual responses will remain strictly confidential.** Only summary data will be included in the final report. Please complete and return in the enclosed envelope by **January 31, 1997.**

1. FY96-97 enrollment for this LEA is: **106 responses**

A. <input type="checkbox"/> 1,000 to 5,000	B. <input type="checkbox"/> 5,001 to 10,000	C. <input type="checkbox"/> 10,001 to 15,000	D. <input type="checkbox"/> greater than 15,000
48 45%	31 29%	8 8%	19 18%
2. The approximate distance of this LEA from the Textbook Warehouse located in Raleigh is: **107 responses**

A. <input type="checkbox"/> 0 to 100 miles	B. <input type="checkbox"/> 101 to 200 miles	C. <input type="checkbox"/> 201 to 300 miles	D. <input type="checkbox"/> greater than 300 miles
35 33%	48 45%	16 15%	8 7%
3. Who is responsible for placing orders for textbooks in your LEA? **115 responses**

A. <input type="checkbox"/> Textbook Coordinator	B. <input type="checkbox"/> Superintendent	C. <input type="checkbox"/> Asst. Superintendent	D. <input type="checkbox"/> Other _____
77 67%	0 0%	13 11%	25 22%
4. How long has this person been performing the ordering function? **108 responses**

A. <input type="checkbox"/> less than 1 year	B. <input type="checkbox"/> 1 to 5 years	C. <input type="checkbox"/> 6 to 10 years	D. <input type="checkbox"/> greater than 10 years
13 12%	48 45%	24 22%	23 21%
5. What percentage of time is required for textbook coordination by the person assigned this duty? **108 responses**

A. <input type="checkbox"/> less than 10%	B. <input type="checkbox"/> 10% to 25%	C. <input type="checkbox"/> 25% to 40%	D. <input type="checkbox"/> greater than 40%
32 30%	41 38%	23 21%	12 11%
6. What information do you use in the determination of the number of books to order? **122 responses**

A. <input type="checkbox"/> prior years average daily attendance	B. <input type="checkbox"/> population census	C. <input type="checkbox"/> Other _____
57 47%	14 11%	51 42%
7. Were you provided written procedures describing the textbook ordering process? **103 responses**

A. <input type="checkbox"/> yes	B. <input type="checkbox"/> no
95 92%	8 8%

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	8. When are the following required to be ordered?				9. When do you normally place your order?			
	A.	B.	C.	D.	A.	B.	C.	D.
a. textbooks on the new adoption list Responses: Q8, 106; Q9, 104	<input type="checkbox"/> Feb 21 20%	<input type="checkbox"/> Mar 82 77%	<input type="checkbox"/> Apr 1 1%	<input type="checkbox"/> Other 2 2%	<input type="checkbox"/> Feb 30 29%	<input type="checkbox"/> Mar 63 60%	<input type="checkbox"/> Apr 9 9%	<input type="checkbox"/> Other 2 2%
b. textbook replacement orders Responses: Q8, 106; Q9, 106	<input type="checkbox"/> Feb 0 0%	<input type="checkbox"/> Mar 11 10%	<input type="checkbox"/> Apr 32 30%	<input type="checkbox"/> Other 63 60%	<input type="checkbox"/> Feb 0 0%	<input type="checkbox"/> Mar 6 6%	<input type="checkbox"/> Apr 43 40%	<input type="checkbox"/> Other 57 54%
c. textbooks going off contract Responses: Q8, 98; Q9, 94	<input type="checkbox"/> Feb 15 16%	<input type="checkbox"/> Mar 11 11%	<input type="checkbox"/> Apr 12 12%	<input type="checkbox"/> Other 60 61%	<input type="checkbox"/> Feb 9 10%	<input type="checkbox"/> Mar 12 13%	<input type="checkbox"/> Apr 23 24%	<input type="checkbox"/> Other 50 53%
d. modified textbooks Responses: Q8, 101; Q9, 104	<input type="checkbox"/> Feb 13 13%	<input type="checkbox"/> Mar 65 64%	<input type="checkbox"/> Apr 8 8%	<input type="checkbox"/> Other 15 15%	<input type="checkbox"/> Feb 16 15%	<input type="checkbox"/> Mar 42 41%	<input type="checkbox"/> Apr 16 15%	<input type="checkbox"/> Other 30 29%

10. How do you place your orders for textbooks? **127 responses**

A. <input type="checkbox"/> Written order form	B. <input type="checkbox"/> Telephone	C. <input type="checkbox"/> Electronic order	D. <input type="checkbox"/> Other
82 65%	0 0%	27 21%	18 14%

11. With whom at DPI do you normally place your order? **105 responses**

A. <input type="checkbox"/> Textbook Services	B. <input type="checkbox"/> Other
105 100%	_____

	12. How long does it normally take to receive the following?			13. When do you normally need the following?			
	A.	B.	C.	A.	B.	C.	D.
a. textbooks on the new adoption list Responses: Q12, 104; Q13, 109	<input type="checkbox"/> 1 month 8 8%	<input type="checkbox"/> 2 months 41 39%	<input type="checkbox"/> Other 55 53%	<input type="checkbox"/> June 32 29%	<input type="checkbox"/> Aug 59 54%	<input type="checkbox"/> Sept 2 2%	<input type="checkbox"/> Other 16 15%
b. textbook replacement orders Responses: Q12, 104; Q13, 108	<input type="checkbox"/> 1 month 35 34%	<input type="checkbox"/> 2 months 50 48%	<input type="checkbox"/> Other 19 18%	<input type="checkbox"/> June 20 18%	<input type="checkbox"/> Aug 63 58%	<input type="checkbox"/> Sept 6 6%	<input type="checkbox"/> Other 19 18%
c. textbooks going off contract Responses: Q12, 87; Q13, 91	<input type="checkbox"/> 1 month 36 41%	<input type="checkbox"/> 2 months 38 44%	<input type="checkbox"/> Other 13 15%	<input type="checkbox"/> June 19 21%	<input type="checkbox"/> Aug 49 54%	<input type="checkbox"/> Sept 3 3%	<input type="checkbox"/> Other 20 22%
d. modified textbooks Responses: Q12, 93; Q13, 103	<input type="checkbox"/> 1 month 19 21%	<input type="checkbox"/> 2 months 28 30%	<input type="checkbox"/> Other 46 49%	<input type="checkbox"/> June 19 19%	<input type="checkbox"/> Aug 57 55%	<input type="checkbox"/> Sept 6 6%	<input type="checkbox"/> Other 21 20%

APPENDICES

APPENDIX A

PAGE 4

14. Which method is used to deliver textbooks to your LEA? 179 responses

A. State Courier 76 42% B. U.S. Mail 12 7% C. UPS, Federal Express 20 11% D. Other 71 40%

15. Where is the initial delivery point for textbooks in your LEA? 111 responses

A. Central Warehouse 89 80% B. Individual Schools 1 1% C. Other 21 19%

16. How many employees does your system use in the textbook distribution process? (Please fill in number) 131 responses

A. Full-time 63 48% B. Part-time 56 43% C. Students 12 9%

17. How long does it normally take to deliver the textbooks from the initial delivery point to the individual schools? 109 responses

A. less than 1 week 55 50% B. 1-2 weeks 40 37% C. greater than 2 weeks 14 13%

18. Does your system use books not on the official adoption list? 106 responses

A. Yes 85 80% B. No (skip to question 17) 21 20%

19. How long does it take to receive orders directly from publishers? 86 responses

A. 1 month 45 52% B. 2 months 22 26% C. 3 months 5 6% D. Other 14 16%

20. What is the average annual cost of freight on textbooks ordered directly from the publisher? 75 responses

A. less than \$100 32 43% B. \$100 to \$500 24 32% C. \$500 - \$1000 13 17% D. greater than \$1000 6 8%

21. Have you had to order additional books after the initial order was placed? 109 responses

A. Yes 102 94% B. No (skip to question 24) 7 6%

22. How long did it take to receive the additional order? 106 responses

A. 1 month 47 44% B. 2 months 27 25% C. Other 32 30%

23. Why did your system need to order additional books? 153 responses

A. under estimated enrollment 74 48% B. added classes during summer 49 32% C. discrepancies in shipment 19 13% D. Other 11 7%

24. Who do you contact to resolve complaints about textbook delivery? 107 responses

A. Textbook Services 104 97% B. DPI Asst. Superintendent 0 0% C. Other 3 3%

25. Do you complete any reports/evaluations on textbook delivery? 106 responses

A. Yes (if yes, please describe) 23 22% B. No (skip to question 23) 80 75% C. Other 3 3%

APPENDICES

APPENDIX A PAGE 5

26. To whom are the reports forwarded? 24 responses

A. Warehouse Director B. DPI Asst. Superintendent C. Other _____
19 79% 1 4% 4 17%

27. When was the last time you received correspondence from DPI Warehouse requesting information on problems with the textbook service. 36 responses

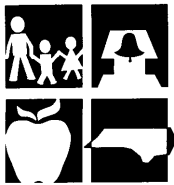
A. less than 1 year B. 1 to 2 years C. 2 to 3 years D. greater than 3 years
14 39% 9 25% 2 6% 11 30%

28. Do you have any suggestions on changing or improving the current textbook distribution system? (If yes, please explain. Attach extra sheets if you do not have enough space on this page.) 98 responses

A. Yes B. No
31 32% 67 68%

APPENDICES

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Public Schools of North Carolina

State Board of Education
Jay Robinson, Chairman
Department of Public Instruction
Michael E. Ward, State Superintendent

May 19, 1997

The Honorable Ralph Campbell Jr.
State Auditor
Legislative Office Building
Raleigh, NC 27603-5903

Dear Mr. Campbell:

Thank you for giving us additional time to complete our responses to the findings of the Textbook Warehouse audit. Enclosed is our final report.

We appreciate the effort your office provided with the audit. We will take recommendations from the audit and use them to enhance our Textbook operation. These recommendations will assist us in providing even better service to the Public Schools of North Carolina.

Sincerely,

Michael E. Ward
State Superintendent

MW:BM:mm

301 N. Wilmington Street - Raleigh, North Carolina 27601-2825

An Equal Opportunity/Affirmative Action Employer

The response from the Department of Public Instruction has been reformatted to conform with the style and format of the rest of the audit report. However, no data has been changed.

APPENDICES

APPENDIX B PAGE 2

Finding: Local Education Agencies are not submitting orders to the warehouse by the required dates.

Response: We agree with the finding that some textbook orders were submitted by LEA Textbook Coordinators after the required dates. Our efforts each year to prevent late submission of orders have included clear communication of time lines. However, since orders are still received subsequent to the required date, we agree that we should strengthen our efforts for communicating and training the LEAs in the importance of submitting textbook orders by the due dates. However, the submission of orders ultimately rests with the LEAs.

Finding: The State Board of Education has not enforced the nonperformance clause in the standard textbook contract.

Response: We concur with the finding and recommendation. We will develop procedures that outline the steps to be taken in the event that a publisher is late in delivering textbooks and define the "extenuating circumstances" which could result in a waiver for publishers.

Finding: Contracts between the warehouse and publishers are not executed for modified textbooks.

Response: We agree in principle to the finding - that we should have contracts for modified textbooks that bind the parties to the terms that are negotiated and to ensure that each party performs to the standard agreed upon. However, since modified textbook orders are usually small and based on unique, special requirements, we have been issuing purchase order contracts for their acquisitions. In the future, we will ensure that all purchase order contracts used to purchase modified textbooks contain the appropriate terms and conditions required to bind the parties.

Finding: Warehouse design hampers efficient and economical operations.

Response: This issue has been reviewed previously and rejected because of safety and operational problems. The main reasons for not implementing a rack shelving system were the inability to maneuver a forklift in the narrow aisles and concern about the dangers of rack shelving. However, we had begun reviewing this situation again prior to the audit due to the large title increases in some textbook adoptions. We will continue to pursue this review and provide the best combination of function and safety for the warehouse.

Finding: Warehouse inventory records are not accurate.

Response: We concur with the discrepancies found at the time of the audit. Due to time constraints during the October 1996 inventory, the warehouse staff were only asked to

APPENDICES

APPENDIX B PAGE 3

research those physical counts with deviations greater than ten (over/under) books from the perpetual count. We are currently conducting a complete inventory of all textbooks using the procedures recommended.

Finding: Shipping and receiving procedures are not clearly communicated to staff or LEAs.

Response: We agree that we should strengthen our communication of shipping and receiving procedures to the warehouse staff and LEAs. We will develop a stronger internal orientation program, especially for temporary warehouse employees, schedule regular meetings, and address specific methods for counting cartons during the shipping and receiving process in our procedures. In addition, we will implement a standard means of communicating partial shipments to LEAs.

Finding: The warehouse does not have an established system to track discrepancies in shipments.

Response: This finding has been corrected. A log was developed and has been in use since January, 1997. All discrepancies are logged daily into a computerized batch sheet generated by the Processing Assistant and forwarded to the Modified Coordinator for further processing. We will take the necessary measures to address future discrepancies.

Finding: Mark-up percentage exceeds the amount required to operate the textbook warehouse and textbook commission.

Response: The purpose of the two percent mark-up over the textbook cost is to cover all operational costs for supporting the Textbook Warehouse and the Textbook Commission. A significant component of operating the warehouse that has been supported by the mark-up is the need to fund a "minimum" inventory for emergency needs. Another significant need requiring funding is the modernization of the warehouse - some aspects of which have been addressed in these audit findings. The main reason the two percent mark-up currently generates more revenue than in past years is due to higher textbook sales. Although we would prefer not to be constantly changing the mark-up percentage, we will bring this issue to the State Board after the current buying cycle for "appropriate" adjustment to the mark-up rate to maintain a reasonable reserve.

Finding: Freight costs may be incorrectly determined.

Response: We concur that freight costs are being determined by a weighing method that may not be as accurate as would be possible with better scales. We have been looking into this issue and are in the process of obtaining appropriate scales for the operation.

APPENDICES

APPENDIX B PAGE 4

Finding: The Textbook Warehouse does not have formal cash management procedures in place.

Response: Although Textbook Services has been operating under the scope of the Department's cash management policies and procedures, we agree that there is a need to establish specific cash management operating procedures for the section. We are currently incorporating suggested procedures for the specific location at the Textbook Warehouse.

Finding: The lack of technology impedes efficient operations.

Response: We agree that there is some duplication of effort in using an independent computer system for the textbook operations. However, past reviews to integrate the two systems or eliminate the independent system by moving the textbook operations to the main system have not provided a satisfactory solution. The conclusion being that the amount of duplication of effort needed to operate the independent system was more than offset by the efficiencies of the inventory capabilities of that system. However, we agree that its time to revisit this issue to determine if current technology will allow better integration or if the main system can now provide the necessary inventory functions efficiently. The technology issue will be resolved through the strategic planning initiative currently underway in the department.

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May 28, 1997

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