

STATE OF NORTH CAROLINA

PERFORMANCE AUDIT

DEPARTMENT OF PUBLIC INSTRUCTION TEXTBOOK INVENTORY MANAGEMENT

JULY 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PERFORMANCE AUDIT

**DEPARTMENT OF PUBLIC INSTRUCTION
TEXTBOOK INVENTORY MANAGEMENT**

JULY 2010



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

July 16, 2010

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
The State Board of Education
The Honorable Dr. June St. Clair Atkinson, State Superintendent
Department of Public Instruction

Ladies and Gentlemen:

We are pleased to submit this performance audit titled *Department of Public Instruction Textbook Inventory Management*. The audit objectives were to determine (1) whether the Department of Public Instruction effectively and efficiently manages the State's textbook inventory and (2) whether cost-savings from a reduction in textbook replacement costs or unnecessary purchases are available. Dr. Atkinson reviewed a draft copy of this report. Her written comments are included in the appendix.

The Office of the State Auditor initiated this audit to improve state inventory management practices and identify cost-savings.

We wish to express our appreciation to the staff of the Department of Public Instruction for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

| | PAGE |
|---|------|
| SUMMARY | 1 |
| INTRODUCTION | |
| BACKGROUND | 3 |
| OBJECTIVES, SCOPE, AND METHODOLOGY | |
| FINDINGS AND RECOMMENDATIONS | 5 |
| APPENDIX | |
| DEPARTMENT OF PUBLIC INSTRUCTION RESPONSE | 9 |
| ORDERING INFORMATION | 11 |

SUMMARY

PURPOSE

This audit report evaluates Department of Public Instruction (Department) textbook inventory management practices and makes recommendations so Department management can take appropriate corrective action

RESULTS

The Department does not require or obtain information necessary to effectively and efficiently manage the State's textbook inventory. Consequently, we were unable to determine whether cost-savings from a reduction in textbook replacement costs or unnecessary purchases are available. Specifically, the Department:

- Does not receive annual textbook inventory reports from local education agencies;
- Does not receive lost /damaged textbook reports from local education agencies;
- Does not determine available statewide textbook inventory before developing the textbook budget; and
- Has not established textbook useful life expectations or performed an analysis of textbook useful life achieved by local education agencies.

As a result, state funds could be wasted on unnecessary textbook replacement costs because the Department does not have the information necessary to determine:

- If local education agencies are properly safeguarding and accounting for all textbooks;
- Which local education agencies have textbook surpluses or lack necessary textbooks;
- Which local education agencies have high textbook loss/damage rates;
- If the budgeting process accurately identifies textbook needs; and
- If the State is maximizing the useful life of its textbook inventory.

RECOMMENDATIONS

The Department should require local education agencies to submit annual textbook inventory and lost/damaged textbook reports or develop alternative procedures to ensure proper textbook care and accountability.

The Department should determine the amount of statewide textbook inventory available and incorporate the information into the textbook budget process.

The Department should establish textbook useful life expectations and perform analyses to determine if the State is maximizing the useful life of its textbook inventory.

AGENCY'S RESPONSE

The Agency's response is included in the appendix.

[This Page Left Blank Intentionally]

INTRODUCTION

BACKGROUND

North Carolina General Statute 115C-96 requires the State to provide students “the free use, with proper care and return, of elementary and secondary basic textbooks.” The law further states, “The title of said books shall be vested in the State.”

State law identifies the State Board of Education, Department of Public Instruction, and local education agencies as the parties responsible for textbook inventory management. The State Board of Education establishes rules and regulations necessary to acquire and distribute textbooks. The Department of Public Instruction purchases textbooks, maintains a central textbook inventory, and distributes textbooks to local education agencies through the State’s textbook warehouse operations. Local education agencies receive textbooks from the Department of Public Instruction, maintain a local textbook inventory, and distribute textbooks to schools and students.

The certified textbook budget is \$35.5 million for state fiscal year 2010, down from \$81.5 million for fiscal year 2009 because of the budget crisis.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine (1) whether the Department of Public Instruction effectively and efficiently manages the State’s textbook inventory and (2) whether cost-savings from a reduction in textbook replacement costs or unnecessary purchases are available.

The Office of the State Auditor initiated this audit to improve state inventory management practices and identify cost-savings.

The audit scope included a review of current Department of Public Instruction textbook inventory management practices. We conducted the fieldwork from November 2009 to February 2010.

To achieve our audit objectives, we interviewed Department personnel to gain an understanding of how the Department develops the initial textbook budget request, manages local education agency textbook purchases, and manages textbook inventory. We also researched inventory best practices.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit under the authority vested in the State Auditor of North Carolina by *North Carolina General Statute 147.64*.

[This Page Left Blank Intentionally]

FINDINGS AND RECOMMENDATIONS

THE DEPARTMENT LACKS INFORMATION NECESSARY TO MANAGE TEXTBOOK INVENTORY

The Department does not require or obtain information necessary to effectively and efficiently manage the State's textbook inventory. Consequently, we were unable to determine whether cost-savings from a reduction in textbook replacement costs or unnecessary purchases are available. Specifically, the Department (1) does not receive annual local education agency textbook reports, (2) does not determine statewide textbook inventory before developing the textbook budget, and (3) has not performed textbook useful life analyses or established useful life expectations.

No Local Education Agency Textbook Reports

The Department does not receive local education agency reports necessary to identify inadequate care and accountability of the State's textbook inventory. Specifically, the Department does not require local education agencies to prepare and submit annual textbook inventory and lost/damaged textbook reports.

North Carolina General Statute 115C identifies the parties responsible for textbook management and states:

- The State Board of Education shall administer a fund and establish rules and regulations necessary to provide for the free use, with proper care and return, of elementary and secondary basic textbooks.
- Local boards of education are the custodians of all textbooks purchased by the local boards with State funds. They shall provide adequate and safe storage facilities for the proper care of these textbooks and emphasize to all students the necessity for proper care of textbooks.
- The superintendent of each local school administrative unit shall have authority to require the cooperation of principals and teachers so that the children may receive the best possible service, and so that all the books and moneys may be accounted for properly.
- If any superintendent fails to comply with the provisions of this section, the State Superintendent, as secretary to the State Board of Education, shall notify the State Board of Education and the State Treasurer.

To identify local education agencies that fail to properly care and account for textbooks purchased with state funds, the Department must properly monitor local education agency inventory practices. Without inventory and lost/damaged textbook reports, however, the Department can not monitor local inventory practices and determine if local education agencies are properly safeguarding and accounting for all textbooks. Furthermore, the Department can not determine which local education agencies have textbook surpluses, which lack necessary textbooks, and which have high textbook lost/damaged rates.

FINDINGS AND RECOMMENDATIONS

Failure to ensure that local education agencies are properly safeguarding and accounting for textbooks could result in unnecessary textbook replacement costs. Similarly, failure to track the costs of lost or damaged books and identify sources of unused or extra textbooks through an annual inventory could result in additional costs to the State.

No Statewide Textbook Inventory for use in Budget Development

The Department does not determine the amount of textbook inventory available for student use before developing the textbook budget. The Department can identify textbooks purchased through the Department's textbook warehouse, but the Department does not have records of inventory maintained by local education agencies.

Instead, the Department prepares the initial request for textbook funds using a formula based on a projected average daily student membership multiplied by a historical textbook cost adjusted for inflation. The Department adopted the original cost basis in the 1980's and has not reevaluated the formula to determine if it is still a reasonable basis for the textbook budget.

Purchasing best practices require management to consider inventory quantities on-hand when determining purchasing needs and developing budget requests.

Failure to incorporate statewide textbook inventory information into the budget process could cause the State to over-allocate funds to the textbook budget. While local education agencies are allowed to transfer funds from the textbook allocation to "instructions supplies and materials" budget line, these transfers may indicate that funds have been over-allocated to textbooks. Local education agencies transferred about 18% of the textbook allocation to the "instructions supplies and materials" budget line item each year from state fiscal year 2007 through 2009.

Additionally, the Department may find it difficult to substantiate the need for textbook funding in the future without a needs analysis that includes statewide textbook inventory information. The Department's textbook funding was significantly reduced for the current budget year.¹ A needs assessment that incorporates textbook inventory information could provide the Department with information to support its textbook budget requests as the State continues through the current budget crisis.

No Textbook Useful Life Analysis or Expectations

The Department has not performed an analysis to determine if the State is maximizing the useful life of its textbook inventory. Furthermore, the Department has not established textbook "useful life" expectations or criteria.

Useful life is defined here as the period of time that the Department expects a local education agency to use an individual textbook before having to order a replacement textbook due to loss or damage. In this definition, a textbook's useful life depends on the effectiveness of the local

¹ The certified textbook budget is \$35.5 million for FY2010, down from \$81.5 million for FY2009.

FINDINGS AND RECOMMENDATIONS

education agency's textbook inventory and accountability practices. Useful life in this sense is not an issue of product quality and is not addressed by vendor guarantees.

The Department should set textbook useful life expectations and establish procedures to ensure efficient use of textbook resources. The Government Accountability Office states:

Management of the audited entity is responsible for using government resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established.

Before the Department can determine whether textbook resources are used efficiently, it must first set an expectation (performance measure) for textbook useful life and communicate the expectation to local education agencies. Then the Department can:

- Measure actual experience against expectations;
- Analyze variances between expectations and experience;
- Determine the causes of unacceptable variances;
- Take corrective action to ensure the efficient use of textbook resources.

The lack of textbook useful life analyses could prevent the Department from detecting unacceptably high textbook replacement rates that result from inadequate and wasteful textbook inventory management practices. As a result, the State could incur unnecessary costs to replace textbooks before realizing the full benefit of its textbook investment.

Recommendation: The Department should require local education agencies to submit annual textbook inventory and lost/damaged textbook reports or develop alternative procedures to ensure proper textbook care and accountability.

The Department should determine the amount of statewide textbook inventory available and incorporate the information into the textbook budget process.

The Department should establish textbook useful life expectations and perform analyses to determine if the State is maximizing the useful life of its textbook inventory.

[This Page Left Blank Intentionally]

APPENDIX



PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION William C. Harrison, Ed.D., *Chairman*

DEPARTMENT OF PUBLIC INSTRUCTION June St. Clair Atkinson, Ed.D., *State Superintendent*

WWW.NCPUBLICSCHOOLS.ORG

July 8, 2010

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

Recommendation

To ensure proper textbook care and accountability, the Department should require local education agencies to submit annual textbook inventory and lost/damaged textbook reports.

AGENCY'S RESPONSE

We agree with the part of the recommendation that an inventory should be obtained but we disagree that the submission should be on an annual basis. Rather than require an annual textbook inventory to be submitted, the Department will request submission of inventory data which will include lost/damaged data to assist in the preparation of a cost/benefit analysis related to utilizing inventory and lost/damaged textbook data to prepare appropriation estimates for Budget requests. The Department will use the inventory data and analyses to determine the appropriate inventory reporting cycle we could manage with available personnel and resources (annually or every 2 to 3 years). In addition, the Department will implement the following actions:

- Remind local boards of education that they are the legal custodians of all textbooks purchased by the local boards with State funds. It is the local districts responsibility to take inventory into consideration as they place orders for new or replacement textbooks. They shall provide adequate and safe storage facilities for the proper care of these textbooks and emphasize to all students the necessity for proper care of textbooks (115C-99). Also, the superintendent of each local school administrative unit, as an official agent of the SBE, shall administer the provisions of this Part (textbooks) and the rules and regulations of the Board insofar as they apply to his/her unit (115C-101)
- Request that the State Board of Education require local education agencies include, in their local board policies, procedures that outline how the local education agency documents actual textbook inventory in their ordering process. The State Board of Education will require that all local policies related to textbook management will be submitted to the Department of Public Instruction.

OFFICE OF THE STATE SUPERINTENDENT

June St. Clair Atkinson, Ed.D., *State Superintendent* | jatkinson@dpi.state.nc.us
6301 Mail Service Center, Raleigh, North Carolina 27699-6301 | (919) 807-3430 | Fax (919) 807-3445
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

The Honorable Beth A. Wood, State Auditor
July 8, 2010
Page 2

Recommendation

The Department should determine the amount of statewide textbook inventory available and incorporate the information into the textbook budget process.

AGENCY'S RESPONSE

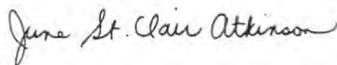
We agree with the recommendation; however, State funding processes are established by the General Assembly to standardize annual appropriations and allow unexpended funding to carryover to enable replacement and new adoptions to be purchased related to the adoption cycle. Notwithstanding the current elimination of textbook funding due to budget restrictions, the General Assembly's funding method is to appropriate a specific amount per average daily membership (ADM) where the amount has been increased based on annual inflation estimates. This amount is not sufficient to cover large adoptions and replacements; however, the district's ability to carry over unutilized funds does enable the district to save up funds to cover expensive adoptions. Based on the analysis outlined in the first response, it might be appropriate for the State Board to recommend an adjustment based on available textbook inventory and lost/damaged textbook reports. It is important to note that replacements (non-new adoption books) are approximately 8% of all textbook purchases per year.

Recommendation

The Department should establish textbook useful life expectations and perform analyses to determine if the State is maximizing the useful life of its textbook inventory.

AGENCY'S RESPONSE

We agree with the recommendation and the Department will determine the expected useful life of textbooks.



June St. Clair Atkinson, State Superintendent



Philip W. Price, Chief Financial Officer

JSA/PWP/tm

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the website at www.ncauditor.net. Also, parties may register on the website to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647