

# OVERVIEW

## ***Management Audit of the Department of Education's Storeroom***

Report No. 02-02, January 2002

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### **Summary**

To reduce costs for its 260 - plus public schools, the Department of Education created a central storeroom some 30 years ago to purchase educational, office, and custodial supplies in bulk. The storeroom then sells these supplies to public schools at cost plus an 8 percent markup for delivery charges.

The department's poor management of its storeroom has been a long recognized problem. In our 1996 *Financial Audit of the Public School System*, Report No. 96-8, we noted that the storeroom's practice of unwarranted, excessive ordering resulted in obsolete inventory costs. We found that the storeroom's inventory was sufficient for one to three years, and in a specific example, reported the purchase of 48,000 scissors without justification.

In our present audit, we found no appreciable improvement. Overall, we found that the storeroom increases the schools' workload, wastes taxpayers' money, and is no longer an efficient means to purchase and distribute school supplies. The lack of inventory management, an onerous procurement system, slow distribution of educational supplies, high operational costs, antiquated operations, and mismanagement have resulted in the squandering of state resources. These deficiencies underscore our belief that the central storeroom is a "dinosaur" that is no longer needed and should be eliminated.

More specifically, we found that inept inventory management has resulted in excessive inventory balances. We analyzed 35 supply items in the warehouse and found that based on their demand, the department was storing, on average, over two years' worth of supplies. In the case of three items, the storeroom had over five years' worth of inventory. Another supply item was last purchased in 1990 and the department has enough inventory to fill orders for 12 more years.

Internal controls over inventory are non-existent. The storeroom's inventory records are inaccurate. Our November 2001 test count of 18 items, about four months after the last physical inventory was conducted by storeroom staff, found that 212 water hoses and 19 cases of computer paper were unaccounted for. The storeroom simply displaces perpetual inventory records when physical inventory counts do not match.

Furthermore, the storeroom's practice of purchasing supplies in excessive quantities results in large amounts of inventory susceptible to damage, spoilage, theft, and obsolescence. We found about \$10,000 worth of obsolete student progress report cards being shredded to make packing materials. We also found that 166 U.S. flags purchased in 1993 were disposed of in 2001 because they were eaten by termites and deemed worthless.

Supplies of poor quality are sold to the public schools. Our review of the storeroom's files and interviews with public school officials disclosed numerous complaints about the storeroom's sale of defective and spoiled supplies.

In addition, the department has more warehouse space than necessary, currently paying \$250,000 a year for approximately 23,000 square feet. Besides storing excessive quantities of supplies and obsolete and damaged items, the department is storing its old files as well.

The delivery of educational supplies is inefficient and creates more work for the schools. The storeroom takes an average of four weeks to deliver supplies to schools on Oahu and six to eight weeks for neighbor island schools. Also, the storeroom requires schools to place a minimum order and to consolidate their orders by specific supply item. If the order does not meet the required minimum, there is an additional charge to the school. Supplies are unloaded within 25 feet of the truck's tailgate to avoid additional delivery charges. This means personnel at some schools must move as many as 12 pallets of supplies to the desired locations on the campus.

We also found that the appropriate skills, knowledge, and background of the key personnel responsible for managing the central storeroom are questionable. For example, the supervising storekeeper acknowledged (1) that the purchase of over 2,700 water hoses, of which 212 were missing, was a mistake and (2) that the storeroom would have difficulty in selling all the water hoses that were ordered. The storeroom personnel's limited experience and knowledge of proper storeroom functions may have contributed to poor storeroom operations and wasted taxpayers' money.

Finally, the department's storeroom revolving fund does not meet the intent and purpose of a revolving fund. Section 23-11, HRS, stipulates that a revolving fund must be self-sustaining. All costs, including personnel salaries and wages, employee fringe benefits, and lease payments, must be considered in determining the self-sustainability of a fund. For the storeroom revolving fund, if all costs are considered for the period July 1, 1997 to June 30, 2001, there was a net loss of approximately \$1.6 million.

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## Recommendations and Response

We recommended that the Legislature repeal Section 302A-1304, HRS, which required the department to establish the central storeroom and created the storeroom revolving fund. We also recommended that the board and the department eliminate the central storeroom.

The department agreed with our findings and recommendations. The department noted that it is in the process of implementing our recommendations.

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**Marion M. Higa**  
State Auditor  
State of Hawaii

Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813  
(808) 587-0800  
FAX (808) 587-0830