



County of Riverside
OFFICE OF THE AUDITOR-CONTROLLER
STANDARD PRACTICE MANUAL

SECTION: 8		SUBJECT: INVENTORY OF MATERIALS AND SUPPLIES
POLICY NUMBER: 801		CATEGORY: INVENTORY POLICIES
REVISED DATE: 04/01/19		APPROVED BY: <i>Paul Angelo</i>

PURPOSE: To establish standard guidelines for County departments, agencies, and special districts for the accounting and reporting of inventories of materials and supplies (inventories).

SCOPE: Applies to County departments, agencies, special districts and authorities that are governed by the Riverside County Board of Supervisors.

POLICY: Inventory of material and supplies must be performed at least yearly or more often depending on the resources of the department. Departments must ensure that internal controls are established for safeguarding inventories from theft or misuse.

PROCEDURES: This policy includes information on the criteria to determine the proper process and procedures to perform an inventory of material and supplies.

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DEFINITIONS

Inventories consist of materials and **supplies, including office supplies**, held by an organizational entity to fulfill its mission and purpose in the ordinary or mandated course of business. Examples include medical supplies, automotive parts, hoses, nozzles, safety gear, child care supplies, and forms unique to a department. Office supplies are defined as copier paper, paper pads, pens, pencils, copier toners and other supplies necessary for routine office operations.

Perpetual Inventory is an accounting method of **maintaining up-to-date inventory records** that accurately reflect the level of goods on hand. **All county departments must maintain perpetual inventory records.**

ACQUISITION

County departments must comply with the County’s purchasing policies and procedures in the acquisition of inventories. Management must establish separation of duties in ordering, authorizing, receiving, and recording of inventory transactions. Received items must be inspected, counted or weighed and appropriate receiving documents matched with requisitions and Purchase Orders, and must be recorded in a timely and accurate manner in the inventory records.

INTERNAL CONTROLS MAINTENANCE

Management must ensure that internal control over inventories includes the following:

- Stockrooms are enclosed and permit access to authorized persons only.
- Materials held in different locations are separately controlled, secured and verified at least annually by physical counts.
- High unit cost items and items easily converted to personal use are stored in higher security storage areas.
- Issuances or removal of stock are only made upon presentation of properly approved requests.
- Issues, transfers, and losses are reported and accounted for timely. Losses must be referred to management and investigated.
- Items returned to stock are re-entered on the perpetual inventory records.

Maintain Segregation of Duties

There are three primary areas where duties must be segregated: physical counting of assets, recording of transactions, and approval of transactions. Management must ensure that the normal job activities of the person performing the physical count do not include custodial activities such as receiving, shipping, and storing physical assets. Personnel recording transactions that affect the on-hand quantities should not be responsible for the physical custody of the inventory or approval of adjustments.

Establish Written Procedures

Management must establish written procedures to train and inform employees in regards to inventories, and to ensure consistent, accurate compliance and application needed to achieve high levels of integrity and accuracy in the physical count process of inventories.

Provide Adequate Supervision

Adequate supervision must be provided in order to increase accurate and consistent counts and reduce the overall risk of incorrect or unreliable counts. Supervision must include:

- ensuring that counters are available to count;
- selecting count team members;
- assigning count team responsibilities; and
- ensuring that the count is completed on time.

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PHYSICAL COUNTS

Management must consider the following key factors in order to achieve consistent and accurate counts of physical inventories.

Select an Approach

Management must ensure that annual physical counts as well as periodic cycle counts as necessary are performed to maintain the accuracy and integrity of inventory values.

Cycle counting is a method by which a portion of the inventory is counted either daily, weekly, or monthly until the entire inventory has been counted over a period of time. Cycle counting supports the reliability of the on-hand inventory quantities used in management decisions and financial reporting. It normally results in operational efficiency. Cycle counts are used as a control mechanism to reduce the risk that the inventory process and systems are functioning incorrectly.

In a *wall to wall* approach, the entire inventory is counted at a point in time, usually as of the end of an annual or interim period. This method is primarily used for financial reporting purposes in order to validate the amount of reported inventory.

A *blind count* refers to the performance of a physical inventory count without the knowledge of, or access to, the on-hand quantity balance in the inventory records. Blind counts offer the greatest degree of assurance of accurate and reliable counts. Management must use blind count where warehouse personnel have potentially conflicting custodial duties.

Determine Frequency of Counts

Faster moving or more expensive items must be counted more often than slower moving or less expensive items.

Ensure Completeness of Count

Management must ensure that the inventory being counted include all the items that should be present and not include items that are not part of the inventory. To ensure completeness of count, departments must adhere to cutoff procedures and pre-inventory count activities.

Cutoff is the process of controlling the movement of items between locations, such as in shipping, receiving, production, re-warehousing, coordinating the timing and verifying the movement of items with the related quantity changes in the inventory system. Movement of inventory both physically and in the system must be halted prior to the count.

Pre-inventory count activities must include:

- Organizing work areas and storage locations;
- Identifying and segregating items;
- Ensuring that all inventory items have labels or identification;
- Verifying that items are in the correct location; and
- Identifying excess/obsolete inventories.

After the warehouse has been prepared, all errors in the system cleared and movement of inventory halted, a beginning balance report must be run. When this step is complete, the physical inventory process can begin.

Execute Physical Count

All members of the count team must be knowledgeable with the inventory items, the inventory process, the units of measure, and how to record counts. As one employee does the count, another employee must be assigned to do the recording of the count on a count sheet.

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Evaluate Count Results

The evaluation includes measuring the results of the count, communicating the results. The supervisor/manager must randomly select items from the completed count sheets and verify. Significant differences between physical counts and perpetual inventory records must be investigated by supervisory personnel and reported to management.

Approval of Adjustments

Management must investigate and is responsible for all adjustments. Adjustment JEs must be approved by the department head and submitted to the Auditor-Controller’s Office for processing. Adjustments exceeding \$1,000 must be submitted to the County Board of Supervisors for approval.

YEAR-END REPORTING:

At year-end, each County department meeting the following threshold must conduct a wall-to-wall physical count, prepare and submit a Schedule E to the Auditor-Controller’s Office. The Schedule E must be signed by the department head or appropriate designee.

Threshold:

- 1. Inventory value of \$50,000 or greater at year-end

Or,

- 2. Consumed inventory of \$250,000 or greater during the fiscal year

For changes in inventory balances of \$5,000 or more, the inventory should be adjusted and posted to the financial system by journal entry in accordance with the County’s year-end policy. (Please see Year-End Training Manual on ACO’s website.) The required accounting transaction will be dependent on the account routinely used to record purchases of inventory.

DEPARTMENT ROLES:

- 1) Implement and enforce internal controls over inventory.
- 2) Complete schedule E if the threshold noted above is satisfied and submit to ACO with supporting documentation.

AUDITOR-CONTROLLER’S ROLES:

- 1) Review and verify the year-end schedule.
- 2) Process transactions in PeopleSoft Financial System.

RECORDS MANAGEMENT ROLES:

Auditor-Controller

The Auditor-Controller is the official Department of Record for Schedule E and its supporting documentation that are submitted to us. The documentation is filed in accordance with the County’s General Records Retention policy which states to keep the current year plus the 7 past years.

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SECURITY ROLES:

In order to perform the functions discussed above the following roles must be requested:

Department:

Inventory Processor – this role will allow you to:

- Add inventory information

Auditor-Controller:

Inventory Cost Accounting Processor – this role will allow you to:

- Adjust, process inventory information

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