

ADMINISTRATIVE PROCEDURES



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SUBJECT: **SUPPLIES INVENTORY ACCOUNTING**

DEPARTMENT RESPONSIBLE: **FINANCE AND RISK MANAGEMENT**

I. STATEMENT

The purpose of this procedure is to set forth the minimum guidelines to be followed by County departments in maintaining supplies inventories. The procedure is implemented to identify and establish internal controls over inventory and for compliance with the requirements of generally accepted accounting principles

The County's work management system, Synergen, is the required inventory system of use. Detailed procedures regarding Synergen inventory may be found on the Information Technology Intranet website.

II. DEFINITIONS

Supplies Inventories - quantities of articles and commodities, which are consumed or materially altered when used. The four general categories of supplies are office, operating, repair and maintenance, and small tools and minor equipment. Office supply inventories will not be maintained in Synergen.

Supply Types – The Inventory type in Synergen tracks the quantity, unit price, and value and is the only type that is to be used for supplies of any kind. This type is accounted for using the Consumption Method. A second inventory type, Phantom, may be used, but only as a placeholder within the Bill of Materials module. This type has no quantity, unit price, or value.

Significant Supplies Inventories - a stock of supplies that is materially significant. It is the practice of Pima County to make a determination of what constitutes a significant supplies inventory on a case-by-case basis inasmuch as such diverse factors as value of total fund assets, value of supplies inventory, rate of turnover of supplies inventory, type of supplies inventory, etc., are considered. A Department does NOT need to maintain a materially significant inventory to use the Synergen inventory modules.

Perpetual Supplies Inventory Accounting Systems - an inventory system in which records are maintained that provide information on the quantities of items in stock on any given date.

Periodic Supplies Inventory Accounting System - an inventory system in which information on the quantities of items in stock may be obtained only through an actual physical count.

Average Price Methodology for Determining Inventory Value - a methodology used for determining the value of inventory in a perpetual supplies inventory accounting system. This methodology involves a calculation of a new cost after each purchase. The total average cost for items remaining in the inventory, plus the cost of new items purchased, is divided by the total number of units on hand to determine the updated unit cost of items to be issued. Synergen uses this method.

Recording Expenditures by the Purchases Method - the methodology to be used by governmental funds for recording expenditures. This method requires recording the full amount of purchases as an expenditure when goods are purchased.

Recording Expenses by the Consumption Method - the methodology to be used by proprietary funds for recording expenses. This method requires recording amounts purchased as assets. Assets are reduced and expenditures are recorded as goods are used.

Recording Expenses in Synergen – Synergen uses both the Purchase Method and the Consumption Method for recording expenditures; the method being determined by the definition of the item in the individual Department's storeroom. In the preparation of year-end financial statements, the Department of Finance and Risk Management will make the required adjustments so that the statements for governmental and proprietary funds are in compliance with generally accepted accounting principles.

III. PROCEDURES

A. General

1. Supplies inventories must be adequately safeguarded against loss, theft, or misuse by being kept in locked enclosures, access to which is granted only to authorized personnel. Items should be stored in an orderly manner.
2. Receiving, issuing, accounting, and storing responsibilities should be properly segregated. It is the Department's responsibility to ensure that appropriate staffing is maintained to allow the inventory function to occur in a timely manner.

B. Significant Supplies Inventories

1. Detailed procedures for maintaining supplies inventories as posted on the Information Technology Intranet web site are to be used by all Departments that have implemented the Synergen inventory modules.
2. Departments with significant supplies inventories must operate perpetual supplies inventory accounting in Synergen. On June 30 of every year, all inventory-type supplies must be counted. Synergen must be adjusted to actual no later than July 14.

Quarterly inventory counts using the random sample option of the Physical Inventory module must be conducted to prove the accuracy of quantities recorded in Synergen.

The sample size required for quarterly inventory counts per storeroom is as follows:

<u>Total Inventory Stock Codes in a Storeroom</u>	<u>Sample Size</u>
0 to 250	50
251 to 750	110
751 to 1750	125
1751 to 2500	130
Greater than 2500	135

If more than 10% of the quarterly inventory counts do not agree with the Synergen quantities, an additional inventory count, using the same sample size and excluding the items previously counted, must be completed within one week of the original inventory count.

If more than 10% of the second inventory counts do not agree with the Synergen quantities, a complete physical inventory must be taken at the end of the month.

3. Proper cut-off of receipts, returns, stock checkouts, and stock transfers must be ensured for inventory counts.
4. Paperwork documenting the physical inventory counts, recounts, and adjustments must be maintained by the Department for three years.
5. Disposal of damaged or obsolete items and the appropriate entries into Synergen must occur no later than June 30 of any year. A listing of these types of supplies must be generated, signed by an Authorized Signer, and maintained by the Department. Adjustments to Synergen are to be made through the Stock Checkout module using the Department's Administration Account.
6. Supplies inventories are only to be released from storerooms by using the Stock Checkout or Stock Transfer modules.

IV. OFFICE OF PRIMARY RESPONSIBILITIES

The individual operating Department is responsible for the maintenance of inventory.

Any questions pertaining to inventory activities should be referred to the Department of Finance and Risk Management, Financial Control & Reporting Division.

V. REFERRAL PROCEDURES

For detailed instructions, please refer to the following procedures for the various Synergen inventory modules and activities. These procedures may be found on the County's Intranet web site, Information Technology, Synergen Procedures.

- Catalog Change Request
- Stock Checkouts and Returns
- Reorder Review
- Setting up a Stock Code in a Storeroom
- Ship To Code and Storeroom Codes
- Stock Transfers
- Synergen Physical Inventory