

Inventory Management

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Lead Role:	Chief Financial Officer	Replaces:	N/A
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Policy Statement

It is the policy of Beaver Municipal Solutions that various divisions throughout the organization maintain inventory for which related balances are recorded on the general ledger.

Guidelines

Purpose:

The purpose of this policy is to establish guidelines for the management of inventory as a key institutional resource. This policy lays the foundation for the management of physical inventory and organizational responsibilities for key processes, and for the improvement of internal controls over these resources. Additionally, this policy governs the maintenance of balances on the general ledger for inventory. The overall purpose of this policy is to ensure that consistent and comprehensive management processes are in place to maintain strict controls over inventory and related supplies.

Scope:

This policy addresses the process of managing physical inventories, including conducting physical counts of inventory and recording adjustments to the general ledger based on those counts, as well as any adjustment resulting from purchasing and sales activity or the write off of stale inventory items. This policy applies specifically to items that meet the Inventory Parts Criteria for operational and consumable inventories outlined in this policy. Compliance with this policy is the responsibility of all employees of Beaver Municipal Solutions.

Target Audience:

The target audience for this policy includes, but is not limited to, employees and other members of Beaver Municipal Solution's workforce involved with operational and consumable inventory.

1. Definitions:

Comprehensive Physical Count:

A count of all inventory recorded in the balance sheet with no regard given to the last cycle count or the dollar value of the items in inventory.

Cycle Counts:

Periodic physical inventory counts performed at a time other than year-end as a

verification of effectiveness of the controls in place and to insure the inventory quantities are reasonably close to those expected as a result of activity since the last Cycle Count. Cycle Counts are coordinated by the division in charge of the inventory. The counts are to be documented and support is to be maintained and stored by the department in charge of the inventory. Cycle Counts cannot replace the annual Comprehensive Physical Count without prior approval of both the General Manager and the Chief Financial Officer.

First-In, First-Out Inventory Method (FIFO):

The inventory valuation method that assumes that the first goods purchased are the first goods used or sold, regardless of actual physical flow. This method is thought to most closely parallel the physical flow of goods in most industries. Because the earliest goods purchased are the first ones removed from the inventory account, the remaining balance is composed of items priced at most recent cost.

Last-In, First-Out Inventory Method (LIFO):

The inventory valuation method that assumes that the last goods purchased are the first goods used or sold. This allows the matching of current costs with current revenue and provides the best measure of periodic income. However, unless costs remain relatively unchanged over time, the balance sheet under this method will usually misstate the ending inventory balance because it consists of costs from earlier periods.

Weighted Average Inventory Method: An inventory valuation method that divides the cost of goods available for sale (beginning inventory plus net purchases) by the quantity of units available for sale to obtain a weighted-average cost. Ending inventory and cost of goods sold are then priced at the resulting average cost.

Obsolete (or Stale) Inventory:

Obsolete, worn-out, or unusable items. It is organizational management responsibility to define procedures for handling obsolete items and for properly accounting for their disposal.

Supplies: Items that are being purchased and expensed in the same period, and therefore are not being treated as Inventory for purposes of this policy. Therefore they do not meet the capitalization criteria defined in the section below.

2. Roles & Responsibilities

The responsibility will pertain to any Manager or Supervisor with signing authority as per FIN-009 – Purchasing Policy.

3. Procedure:

1. Division Responsibilities: Inventory Procedures

Any division that holds inventory will be expected to comply with or directionally be moving toward the following:

- a. Each division holding Inventory is to provide comprehensive management and accounting for all Inventories in all locations.

- b. A Comprehensive Physical Count will be conducted annually on a date as close to the fiscal year-end as possible.
- c. As an approved perpetual system is being utilized, periodic Cycle Counts may be performed at the discretion of the division in charge of the Inventory to ensure accuracy of the perpetual system.
- d. All count sheets for physical inventories conducted as part of an external audit will be submitted to Finance for verification purposes after the physical count.
- e. Inventory statistics based on the results of the annual Comprehensive Physical Count will be turned in to Finance prior to the annual close of the general ledger at year-end. All count sheets and observation of the count is subject to Internal Audit review by Finance.
- f. Physical counts conducted as part of an external audit will be supervised by Finance as deemed necessary by Finance.
- g. Any discrepancies between the extended total value for physical Inventory verified by Finance and the balance on the general ledger for those goods will be adjusted on the general ledger to reflect the correct balance per the physical count sheets.
- h. Stale or obsolete Inventory items are to be identified by the divisions at least annually, and communicated to Finance on a timely basis. Finance will remove the corresponding inventory balance from the balance sheet, and will write off the amount to the appropriate departmental expense account.

2. Inventory Methods

- a. Valuation of Inventory is to be based on one of the following generally accepted accounting methods:
 - i. FIFO (First-In, First-Out).
 - ii. LIFO (Last-In, First-Out).
 - iii. Weighted Average.

Beaver Municipal Solutions has adopted the Weighted Average method.

- b. No changes to the selected inventory valuation method may be made without approval of Finance.

3. Perpetual Inventory Systems

Any division that holds Inventory should use an inventory control system to perpetually monitor purchases (receipts), disbursements (issues), adjustments, and movement of Inventory between multiple locations.

4. Inventory Statistics and Internal Controls

- a. It is expected that all divisions will reconcile the inventory balances, ensuring consistency between book value and on-hand counts, on a continual basis. Monthly reconciliations of beginning inventory, purchases, disbursements, transfers, adjustments, and ending inventory should be performed by all divisions. It is expected that organizational management holding Inventory will manage and monitor key inventory statistics (such as inventory turnover ratios, shrinkage or loss percentages, days of inventory on hand, costs of goods sold, and trends in average inventory) in order to ensure that purchases and balances are being controlled and are within normal tolerance levels. Performance benchmarks for these inventory statistics should be collected and organizational management should benchmark their performance against these figures to help establish targets and tighter controls.
- b. Additionally, it is expected that all divisions will maintain a set of internal procedures for safeguarding and managing Inventories unique to their division. These procedures should include:
 - i. Treating goods receipts, and returns inventory layout and bin management;
 - ii. Reporting discrepancies;
 - iii. Cycle counting;
 - iv. Managing consignment (or non-owned) assets;
 - v. Managing inventory team member responsibilities; and
 - vi. Handling obsolete items.

Related Policies & Forms

FIN-009 - Purchasing
FIN-018 – Financial Management
FIN-019 – Internal Controls