

**MANUAL OF PROCEDURES  
PSAB SUPPLEMENT 10  
WAREHOUSE/SUPPLY INVENTORY**

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**PURPOSE**

Each Local Education Agency (LEA) is charged with establishing, implementing and monitoring activities to ensure district assets are protected from waste, fraud and abuse.

**AUTHORITY**

***Section 6-5-2, NMSA 1978 Financial control division; central system of state accounts; accounting systems; processing documents; model accounting practices; internal accounting controls.***

*A. The division shall maintain a central system of state accounts and shall devise, formulate, approve, control and set standards for the accounting methods and procedures of all state agencies. The division shall prescribe procedures, policies and processing documents for use by state agencies in connection with fiscal matters and may require reports from state agencies as may be necessary to carry out its duties and functions. Procedures and policies issued by the division are exempt from the uniform standards of style and format promulgated by the state commission of public records.*

*B. The division shall issue a manual of model accounting practices containing the procedures and policies prescribed pursuant to Subsection A of this section and shall annually review and, if necessary, revise and reissue the manual. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed.*

*C. State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.*

The Financial Control Division (FCD) of the State of New Mexico has issued a Manual of Model Accounting Practices (MAP) to be used by agencies including school districts to set standards for accounting methods and procedures.

School districts use, store and must be accountable as required by law for a tremendous amount of supplies in several different categories as evidenced on the following page.

- Instructional supplies, including paper, pencils, chalk, paste, art supplies, and white board markers;
- Office supplies, including printer toner and cartridges, copier supplies, desk files, electronic file storage devices;
- Custodial supplies, including floor cleaners, wax, mops, mop buckets, vacuum cleaner supplies, restroom supplies, light bulbs and batteries;
- Maintenance supplies, including lumber, small tools, electrical supplies, paints, sandpaper, nuts and bolts;
- Food and related supplies including fresh and frozen items;
- Preprinted forms;
- Equipment (when it is known that computers, video cassette recorders, scrubbing machines, and other items of equipment will be needed in the near future, it is sometimes economical to purchase this equipment in quantity and set specifications for similar equipment so that repair and maintenance may be standardized).

## **POLICIES AND PROCEDURES**

Policies and procedures are necessary to ensure supplies are purchased economically, stored efficiently and safely, and rotated to be used within their economic life. Because each of these categories of materials is for vastly different purposes, the internal controls for each group are unique. (See *Sample Internal Control Procedures for Warehouse* in this supplement). Policies and procedures should include at a minimum:

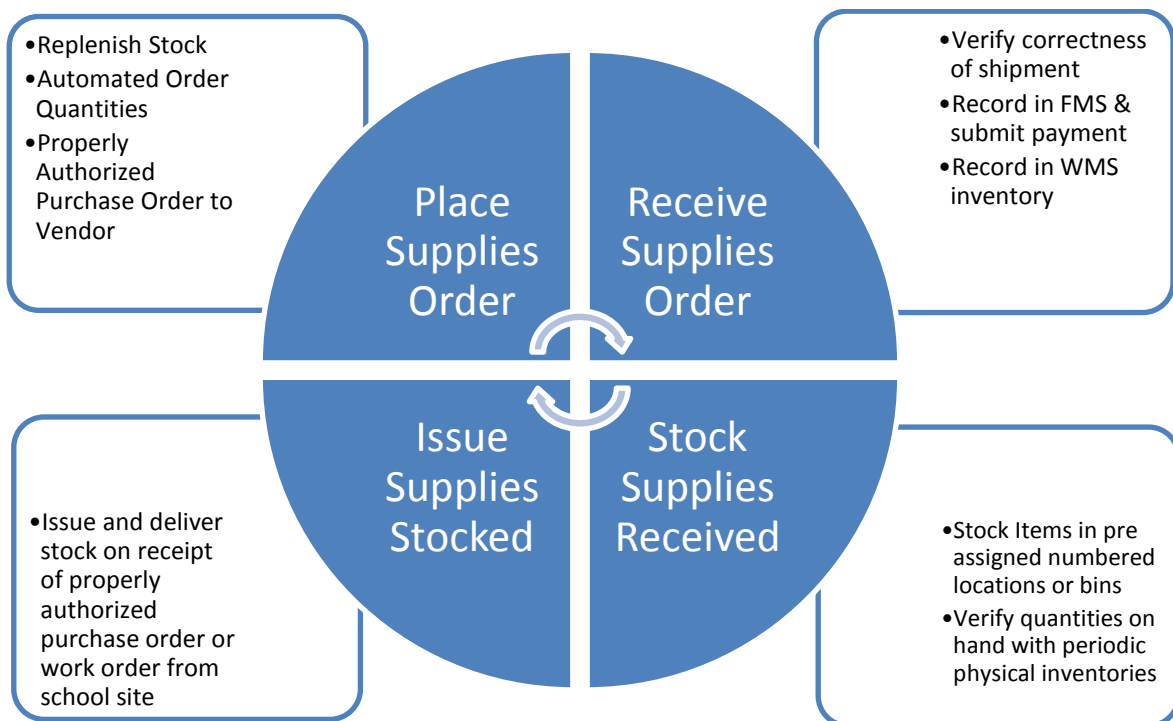
- Internal controls should be written to safeguard those assets.
- Inventory controls to provide safeguards against pilferage, fraud, fire, vandalism, theft and irregularities caused by employees or vendors should be in place.
- Physical facilities for the storage of inventories designated by the district should be secure and access should be limited to authorized personnel.
- The actual dollar amount and quantities that may be kept at a site should be limited in the district's control policies.
- Procedures and accounting processes should be established to document additions, issuances, returns and write-offs of inventory items.
- Districts should perform periodic reviews to verify the adequacy of written policies and procedures and to ensure compliance.

The “Purchase Basis of Accounting” is to be used for accounting for inventories of materials and supplies. The school district records expenditures at the time the goods and materials are received and accepted as delivered. (MAP, FIN-10, Inventory)

## OVERVIEW OF A CENTRAL WAREHOUSE SYSTEM

A central warehouse system enables a school district to take advantage of the economies of quantity buying and to fill requisitions for standard supplies promptly. However, no set rules can be established to determine when it would be in the best interest of a school district to adopt a warehouse system. Availability of material, storage facilities, means of delivering merchandise, and the size and number of buildings in a school district all must be taken into consideration in determining the warehouse system. Costs of receiving, storing, and delivering stock items, as well as costs of stock control, should be included in the total cost of a warehouse system (as compared to the cost of direct purchasing) in deciding on the desirability of a warehouse system.

Generally, charter schools and smaller school districts do not maintain a central warehouse system. However, many of the control procedures for receiving and storing supplies and equipment detailed in this supplement are applicable to the requirement for protecting the assets of the school and can be modified to meet the school’s objectives.



## CENTRALIZED RECEIVING MODEL

Some districts may maintain a centralized receiving operation which becomes the delivery staging point for all shipments of supplies and equipment to the district. Goods are received at a central secure point and delivered immediately to ordering sites. The need for warehouse storage and certain warehouse activities such as reorders and stock maintenance are eliminated. Each site is responsible for the storage and protection of these assets and employment of appropriate controls. This model works well with “just in time” deliveries. A centralized receiving model may also be maintained as part of a warehouse operation in order to maximize efficiencies, by warehousing only certain items and delivering others immediately to the ordering sites.

## **EDUCATIONAL AND OFFICE SUPPLY ITEMS**

Warehouse items should be purchased through the district's central purchasing department and follow purchasing procedures established in PSAB Supplement 13, Purchasing.

The following procedures are general and can be implemented easily:

1. Set up a warehouse and number each item category, keeping like items together.
2. Set up an automated inventory control program using either purchased or in house software to:
  - Manage inventory items by category types: mechanical, custodial, tools, technology, instructional and food services.
  - Track all inventory transactions, including issues, receipts, returns, adjustments, orders and transfers.
  - Allow inventory to be issued to a location, project, work order or employee.
  - Record receipt of inventory to pools, including item number, tax, supplier item ID, budget code, invoice and purchase order number as provided in the Warehouse Inventory System (WIS).
  - Include inventory catalog and other reports for convenient viewing, selecting and printing lists of inventory items by category.
  - Enable requesters to select items from inventory catalogs and submit inventory requests online.
3. Assign responsibility for maintaining and ordering stock items to one employee. Physical counts are to be supervised by the business office.

4. Report any unusual requests or suspicious orders for abnormal quantities noted or discovered during periodic reviews to the business office.
5. Quantity of items to be stocked is usually determined by the previous year's activities or transactions taking into account any changing conditions which would affect quantities needed (estimate).
6. Specifications should be determined by involving the users or the Selection Committee as designated in district procedures to review the information.
7. For an accurate account of warehouse stock, a perpetual inventory system is recommended.

The purchase and issue of stock must be entered in the warehouse inventory control system on a timely basis to ensure accurate record keeping and accounting practices. An upload from the district's financial management system is recommended to reduce errors. This record may contain at a minimum:

Aisle	Bin	Item Description	Mfg/Vendor Name	Mfg/Vendor Number	Item Number	Issue Unit	Order Unit	Qty on Hand	Unit Cost	Total Value	Reorder Point

### ILLUSTRATIVE JOURNAL ENTRIES

These warehouse system (WIS) entries to inventory are not recorded as "inventory" on the district's Financial Management System as New Mexico school districts are required to maintain their accounting records on a **cash basis** for reporting to the state. RJE 1 illustrated below is a **reclassifying** or **accrual** entry required to convert cash basis records to modified accrual basis to produce the district's audited financial statements and is generally made at fiscal year end outside of the district's FMS. (See PSAB Supplement 5, Financial Statements.) Alternative means of accounting for inventory are not discussed in this supplement.

The **purchase** is recorded in the district's Financial Management System upon payment of the vendor invoice with the final result being the journal entry below. It is assumed for purposes of this entry that only supplies for classroom purposes have been purchased; thus the function "1000" is used. (See PSAB Supplement 3, Uniform Chart of Accounts.)

**AJE 1 To Record Payment for Supplies Received in Warehouse**

		Debit	Credit
11000-1000-56118	Supplies/Warehouse	3,000	
11000-0000-11112	Cash		3,000
<b>Totals</b>		<b>3,000</b>	<b>3,000</b>

The **issuance** of supplies from the warehouse to a school site is recorded to reduce the Warehouse purchases expenditure and increase the school site purchases expenditure. It is assumed that the district maintains location codes for each site or department in order to track expenditures for pertinent locations. In this example, the location account code is not shown, so the description is used to indicate the transfer of inventory.

**AJE 2 To Record Issuance of Supplies to Elementary School**

			Debit		Credit
11000-1000-56118	Supplies/Elementary School		1,000		
11000-1000-56118	Supplies/Warehouse				1,000
<b>Totals</b>			<b>1,000</b>		<b>1,000</b>

At the end of the fiscal year a physical inventory is required. At that time a journal entry is recorded to adjust the inventory amount shown on the district's books from the previous year to the actual amounts of inventory on hand at the end of the current fiscal year and to account for all activity (receipts, issuances, and corrections) that has taken place in the year. The adjustment below reflects that the inventory on hand has increased by \$2,000 during the current year. Thus, the inventory account is increase by \$2,000 and the expenditure account is reduced by \$2,000. A similar entry would be required to reduce inventory. Supplies/Warehouse would be debited and Inventory would be credited, and increase to Expenditures and a decrease to Inventory.

**To Record Inventory Increase at Year End**

RJE 1			Debit		Credit
11000-0000-16011	Inventory		2,000		
11000-1000-56118	Supplies/Warehouse				2,000
<b>Totals</b>			<b>2,000</b>		<b>2,000</b>

While the sample entries have been illustrated, a more thorough presentation of journal entries as they relate to various funds and account groups is available in Chapters 60.01 through 68.17 of The Governmental GAAP Guide 1992, a comprehensive interpretation of all current promulgated governmental generally accepted accounting principles. Larry P. Bailey, PhD, CPA, author; published by HBJ Professional Publishing.

## YEAR END PROCEDURES

At the end of the fiscal year it becomes especially important to make sure that all supplies and equipment, and services that are received by the district be recorded in the year in which they were actually received and that receiving documents are properly coded and the receiving dates are readily discernible. While districts are on a **cash basis** for reporting to the state, financial statements must be on an **accrual basis** which requires properly accruing expenditures to the year in which the district actually had the goods in its possession. Thus, if a district receives a shipment and accepts it on June 30, then the expenditure related to the shipment must be included in that fiscal year accrual financial statements.



## PERPETUAL INVENTORY SYSTEM

A perpetual inventory system maintains a continuous record of the inflow and the outflow of supplies, resulting in a running count of the goods on hand. By maintaining records in this manner, warehouse staff can readily answer questions concerning the availability of a particular item. In addition, a perpetual system leads to improved inventory control. By knowing the number of units on hand, warehouse staff can reorder in sufficient time to avoid out of stock items. Also, the extent of any theft or errors can be determined by comparing the inventory records against a physical count. Although the warehouse stock control records show the number of items on hand, a physical inventory is still necessary to verify and adjust the books at the end of the accounting period.

### **Warehouse guide to ordering**

It is desirable for the warehouse system to be integrated with the district's Financial Management system so that transfers are issued to the ordering department by the warehouse department for the items delivered using a common Financial Management System.

However, most school district warehouse systems are stand alone systems for handling particular warehouse situations and are generally not integrated into the district's Financial Management System. If the warehouse system is an "on line" system, authorized district personnel at school sites and departments may go on line and enter their order directly into the warehouse system. The warehouse system then processes the order, stages the order for filling and delivery, and finally produces information for billing the departments. The inventory is automatically relieved (issued) of the items filled. The warehouse then must issue an invoice to the school site or department to record the transaction in the FMS. It is suggested that districts allocate warehouse resources using a separate account allocation code. See PSAB Supplement 3, Uniform Chart of Accounts.

District process may involve issuing a purchase order to start the process and a check to the warehouse for the items purchased and delivered. This check should be deposited to the expenditure code for the warehouse expenditure account code reserved for purchasing inventory. Alternatively, the warehouse could send proof of delivery documents to the business office to record a journal entry for the items delivered.

## CUSTODIAL SUPPLIES

These orders are handled in a similar manner to instructional and office supply orders. However, the pool containing these items should be restricted to custodial personnel. Orders for large quantities of items should be reviewed by a supervisor who is familiar with the needs of the school placing the order and of any special or seasonal work being done, and the approximate amount of supplies needed. Supplies stored at school sites should be minimal to ensure control over the supplies and to prevent overstocking at the sites because of limited or inappropriate storage areas.

## **MAINTENANCE SUPPLIES**

The maintenance supply pool consists of many common repair parts, but may have specialty parts needed for a specific project. All issues of maintenance supplies should be tied to a work order system that is built into the In Warehouse Inventory System and is accessible to authorized personnel. The work order system enables the maintenance department to track the costs of repairs and include any labor costs or parts needed in the total costs of a project. By issuing inventory items to a work order, the inventory is relieved and the cost is captured. Further recording in the FMS is dependent on the size and nature of the project. If the total cost of the project is \$5,000 or more, then costs should be added to the Capital Assets schedule. See PSAB Supplement 12, Capital Assets.

## **FOOD SERVICE AND COMMODITY ITEMS**

Food Service operations to school districts are specialized and generally require software designed to meet the needs of the district it serves. Food service warehouse operations may be separate from other district warehouse operations, with only larger districts with large cooler and freezer facilities having true warehousing operations. The procurement needs are highly specialized based on type of inventory needed. The stock issuances should mirror the recipe needs called for by district kitchens, so while inventory is purchased in bulk, it may be issued in smaller units. The warehouse inventory is decreased and charged to specific cooking sites and becomes an cost necessary for the sale of meals. While district FMS and regular Warehouse Inventory software may satisfy the needs of the Food Service operations, districts generally utilize software that manages procurement, inventory, warehouse, menus, meals, on line payments for meals, etc. Each one of these processes must be in accordance with applicable federal, statutory and regulatory requirements and eventually be recorded in the district's Financial Management System. (See PSAB Supplement 17, Student Nutrition).

## **SUPPLY INVENTORY**

The supplies that remain in a school site's inventory at the end of the fiscal year that have been transferred from the warehouse, in addition to other items which have been directly purchased from vendors, must be included in a physical supply inventory. (Section 6-2-5, NMSA, 1978)

- Prior to the end of each fiscal year, every school district shall take a physical inventory of remaining "supplies." Supplies include goods and materials of an expendable nature which are consumed in the normal course of operating the school district. School districts must establish adequate internal accounting control procedures over supplies inventories to ensure accurate financial reporting and to physically safeguard such inventories. (See PSAB Supplement 2, Internal Control Structure).
- All supply items shall be priced and extended under the First-in, First-out (FIFO) method, Last in, First Out (LIFO), or Average Cost Method. The average cost method

is preferred for valuation purposes because it is easier to track. The total cost of all inventory items must include ancillary costs such as freight and taxes. The school district must maintain adequate documentation to support valuation. The grand total of the inventory on hand should be placed on the school district's balance sheet as supplies inventory under the proper fund by making the necessary journal entries in the accounting records. Only one inventory valuation may be used within the same inventory pool.



# ABC SCHOOL DISTRICT

## SAMPLE INTERNAL CONTROL PROCEDURES FOR WAREHOUSE OPERATIONS

### STANDARD

To ensure that inventory is recognized and recorded, and an inventory accounting system is maintained.

### PURPOSE

This procedure establishes a requirement that the district account for inventories in accordance with Generally Accepted Accounting Principles (GAAP) and the budgetary (cash) basis of accounting.

### AUTHORITY

PSAB manual, Supplement 10, Warehouse/Inventory, Section 6-5-2, NMSA 1978, MAP 10, Inventory.

### RESPONSIBILITIES

**Purchasing** staff is responsible for ordering the goods and communicating with the vendor regarding discrepancies and damage. The purchasing department is responsible for approving purchase requisitions and providing copies to the department ordering the goods, to the accounting department and to the receiving department.

**Receiving and Inspecting/Warehouse** staff is responsible for receiving, inspecting, and counting the incoming goods within a secure location, and is responsible for communicating with the purchasing department regarding discrepancies and damage.

- The receiving area is a secure area properly equipped to receive and inspect material prior to warehousing.
- Carrier information is logged, quantities of packages noted, and bill of lading signed.
- Inspecting shall include a detailed physical review and count of the items received.
- A receiving log shall be used to track the receipt of all purchases.

- Receiving personnel shall inspect the goods, and compare the quantities received to the original purchase order and receiving/shipping documentation. Quantity and quality discrepancies are to be documented on the receiving copy of the PO. The shipping documents and packing slips shall be attached to the purchase order and forwarded to purchasing for approval.
- Goods damaged by the shipping process shall be handled according the written SHIPPING CLAIMS procedures.
- Goods damaged by contamination, decay or spoilage shall be quarantined and returned.
- Goods identified as having design or specification flaws shall be tagged as FLAWED and returned or rejected per written procedures.

**Information Systems Quality Control** - responsible for acceptance and approval of items meeting any of the following criteria in order to standardize equipment for more efficient maintenance:

- Receiving all computers including desktops and laptops, printers and monitors.
- Standardizing hardware and software specifications for the end user of the product and for approving the purchase order prior to submission to the vendor.
- Installing approved software prior to delivery to final unit and forwarding warranty and license information to accounting to include in capital asset record.

## **PRODUCT APPROVED FOR RECEIPT**

Once product is approved for receipt it may be

1. Delivered to ordering unit with copy of bill of lading from vendor.
2. Ordering unit submits delivery information to accounts payable for payment.

**OR**

1. Product receipt entered as received in financial software (FMS).
2. Product entered into inventory/warehouse software (WMS).
3. Product stored in inventory in pre set location for order by school units.

## **WAREHOUSING AND STORAGE**

- All paperwork shall be submitted and approved by purchasing prior to item storage in the warehouse.
- Items accepted for inventory shall be stored according the written INVENTORY CONTROL PROCEDURES.
- Items accepted for work in progress shall be stored in central inventory until requisitioned for by a Work Order tied to a specific project or maintenance requirement.
- Items stored on jobsites shall be secured, fenced and locked in place until installed.
- Office supplies and related items shall be delivered to the department ordering the supplies and obtain signed a signed delivery receipt.

## **ASSET PROTECTION AND DIVISION OF DUTIES**

- The district has written Inventory Management and Control Procedures.
- Receiving of materials and supplies is assigned to individuals.
- One person is not responsible for receiving, disbursement and preparation of transaction documentation.
- There are adequate controls to ensure that an individual cannot initiate a purchase and authorize payment without detection.
- A supervisor monitors the receiving and warehousing functions.
- The staff assigned to monitor the receiving and warehousing functions has the requisite knowledge to adequately monitor the functions.
- Receiving documentation is prepared for all deliveries.
- There are inventory records that accurately account for items received and disbursed.
- Deliveries of materials and supplies are accepted only at secure locations.
- There are separate areas for receiving, storing, staging, and shipping of inventories.
- Delivery areas do not create traffic or safety hazards.

- After hour access to storerooms is limited and subject to surveillance.
- The district does not receive personal materials for employees or disburse personal materials.

### **Damaged Goods**

- *Exterior:* Packages are visibly checked for damage.
- *Interior:* The warehouse personnel are responsible for the immediate inspection of the material.

A damage claims procedure exists to notify accounting, the vendor, shipping carrier and the insurance carrier if necessary.

### **Items Not Conforming To Specifications**

Material received is checked for quality and conformance with any specifications.

#### ***❖ Back orders and Partial Deliveries***

- There are follow-up procedures for back orders and partial shipments to assure receipt of proper quantities.
- Acceptance of items delivered is required by noting what and how many items were received on the copy of the receiving report. The receiving report copy is sent to Accounts Payable department either manually or via the Financial Management System.

#### ***❖ Returns***

- A procedure exists to notify accounting of returned items to ensure proper credit or prevent inaccurate payment.
- Previously transferred/shipped and unused materials and supplies are returned to the warehouse inventory.
- Items that are inactive for twelve months are considered for disposal depending on item and Board approval.

## **SYSTEMS AND PROCESSING**

- Inventory receipts are entered into a computerized system.
- There are automatic reorder points for stock replenishment.
- Inventory items are actually being ordered in the right quantities and at the right times/intervals to control the amount of inventory on hand without experiencing out of stock conditions.
- Inventory transfers are properly coded and recorded.
- Purchase orders and receiving documentation is verified for received material to ensure proper payment of invoices.
- Physical Inventories are taken periodically and at fiscal year end.
  - Inventory transactions are frozen at year end;
  - The inventory count is performed by teams of two people;
  - Variances are recounted;
  - Changes are entered into the Warehouse/Inventory System.
- Physical inventory adjustments are reviewed and approved by persons who do not maintain custody of inventories.

## **SECURITY CONTROL AND SYSTEM OF INTERNAL CHECKS**

The district makes provisions for adequate security of stock and a system of internal checks. Buildings used for warehouse storage are as fireproof as possible and have adequate locks. Surveillance equipment is installed as needed. Only specified personnel are allowed to issue stock. Preferably, the stock records are maintained in an office removed from the warehouse (stock records are commonly maintained in the accounting or purchasing offices). At inventory time or other periodic checkup time, any difference between the record and actual quantity counts are investigated and necessary adjustments are made.



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