

Office of the State Controller

Self-Assessment of Internal Controls

Inventory Cycle

Objectives and Risks

Agency _____

Year-End _____

<u>Objectives</u>		<u>Risks</u>
All transactions are approved by authorized individuals.		<ul style="list-style-type: none">• Purchase unauthorized materials acquired in excess of need, at appropriate prices, or at unfavorable terms.
All inventory items are subject to effective custodial accountability procedures and physical safeguards.		<ul style="list-style-type: none">• Theft by employees or outsiders; inadequate insurance coverage.
All receipts and withdrawals of inventory are properly recorded and the records reflect actual quantities on hand.		<ul style="list-style-type: none">• No basis for comparing actual usage with expected usage; inability to determine material reorder points.
All transactions are properly accumulated, classified and summarized in the accounts.		<ul style="list-style-type: none">• Misstated financial statements; concealment of shortages.

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Control Policies and Procedures

Agency _____

Year-End _____

Bolded questions identify critical controls. A critical control is a control that will prevent or detect an error in the event that all other controls fail.

A. Control Activities / Information and Communication:

Yes No N/A

- | | | | | |
|-----|-----|-----|-----|--|
| ___ | ___ | ___ | 1. | Is there a formal organizational chart defining the responsibilities of ordering, accepting, approving, processing and recording of the inventory? |
| ___ | ___ | ___ | 2. | Are policies established to ensure that inventories are not stockpiled or to prevent over-ordering? |
| ___ | ___ | ___ | 3. | Are policies established to ensure that obsolete and inactive items in inventory are sent to State Surplus Property? |
| ___ | ___ | ___ | 4. | Are steps documented to ensure that goods received are accurately counted? |
| ___ | ___ | ___ | 5. | Does the agency maintain perpetual inventory records and are all inventory items put on the perpetual inventory system? |
| ___ | ___ | ___ | 6. | When issuing inventory, is the proper fund, purpose, and object charged in the general ledger? |
| ___ | ___ | ___ | 7. | Does the person receiving the goods sign the requisition as evidence of receipt? |
| ___ | ___ | ___ | 8. | Are the approved and completed requisitions kept on file? |
| ___ | ___ | ___ | 9. | Upon receipt of goods, does the signed receiving report go to the accounting office? |
| ___ | ___ | ___ | 10. | Are entries to perpetual inventory records made timely upon the receipt of goods? |
| ___ | ___ | ___ | 11. | Are receiving reports used to record purchases to the perpetual inventory records? |

12. Are the following duties performed by different people:

- ___ ___ ___ **a. Receiving and issuing of inventory and the operational duties?**
- ___ ___ ___ **b. Receiving and issuing of inventory and taking the physical inventory?**
- ___ ___ ___ **c. Receiving and issuing of inventory and approving expenditures, recording transactions in the general ledger, and reconciliation of subsidiary records to control accounts?**

___ ___ ___ 13. Is a definite responsibility designated for each inventory type?

___ ___ ___ **14. Are work orders or requisitions required to be approved by appropriately designated officials as a basis of issuing inventories?**

___ ___ ___ **15. Is physical access to inventories restricted to authorized personnel?**

___ ___ ___ 16. Is there appropriate insurance coverage for significant inventories?

___ ___ ___ 17. Are all employees responsible for inventories adequately bonded?

___ ___ ___ 18. Are written instructions provided and explained to all personnel involved in the physical count of the inventory?

19. Are physical Inventories:

- ___ ___ ___ **a. supervised by someone independent of the custodial or record keeping functions?**
- ___ ___ ___ **b. made by or tested by employees independent of the department being inventoried?**
- ___ ___ ___ **c. recorded on permanent inventory count sheets?**
- ___ ___ ___ **d. re-recorded on count sheets signed and dated by the person supervising the count?**
- ___ ___ ___ **e. planned to provide provisions for cut-off of receipts and issues?**
- ___ ___ ___ **f. reflected in the perpetual records based on the actual inventory quantities?**

___ ___ ___ 20. Are prenumbered tags used during the physical inventories count?

___ ___ ___ 21. Is there a proper cut-off of receipts and issues from inventory at year end?

___ ___ ___ 22. Is access to the perpetual inventory records limited to authorized individuals?

___ ___ ___ **23. Are adjustments to inventory records approved by a properly designated official?**

B. Monitoring:

- 24. Is a physical inventory taken at least annually?
- 25. Are perpetual inventory balances reconciled against the general ledger control accounts at least annually?
- 26. Does management review the above reconciliations at year-end?
- 27. Does management assess inventory policies and procedures periodically?