



## Internal Control Over Inventories

It is essential that all inventories be adequately controlled to prevent misuse. It is the responsibility of each department or area supervisor to see that keys to the supply's storage facility are adequately controlled and that physical counts are conducted on a periodic basis. However, controls should be cost-effective. Some departments may have a very limited amount of inventory, while certain enterprise and service departments may have significant inventories on hand. Not all procedures may be applicable to insignificant inventories as they are not cost effective. The costs of inventory tracking should be weighed against the potential benefits.

Critical internal control procedures for inventory management include the following:

- a. A unit should inventory and control in its general ledger all major classes of materials and supplies, if material.
- b. Perpetual inventory systems should be maintained for all major classes of inventory.
- c. Custodial responsibilities should be clearly defined. For areas with significant inventories, this responsibility should be included in the appropriate job descriptions.
- d. Inventory should be controlled with physical barriers, such as locked cabinets or storehouses.
- e. Keys to inventory should be controlled in such a manner that does not inhibit day-to-day operations. For utility departments, the engineer must have a key to the inventory. Ideally, no one else should have a key, so the inventory stays under the strict control of one person. However, a back-up key should be maintained under dual control in case the engineer is unexpectedly absent. If his or her absence is foreseen, such as scheduled vacation time, the key should be turned over to the appropriate assistant. (The key should be returned to the engineer upon his or her return to work.) Written records should be maintained of these relinquishments and assumptions of control with each person initialing and indicating the date and time of exchange. Written records can provide important information regarding responsibility if a problem should occur. The same procedures should be followed if the back-up key is used. Those persons having control of the key should release it to the appropriate staff member, and each should give written evidence of the exchange.
- f. Physical inventory counts should be made once a year at a minimum. The count should be made by an independent staff member or members (one or more who have no control over the inventory, even in back-up situations). Counts should be conducted from "scratch" (i.e. not using the previous year's count sheets). All counts should be recorded in writing and should be signed or initialed by the person(s) performing the counts. Once the count is complete, it should be reconciled to the perpetual inventory records and the general ledger. This reconciliation should be evidenced in writing. **In small units**, inventory counts should be taken by a board member if there is only one accounting or finance staff member.



- g. Records should be maintained showing all additions, withdrawals and transfers of inventory. Persons receiving the inventory should initial the records. For transfers and withdrawals, the person releasing the inventory should initial as well.
- h. An adequate requisition system should be in place for all issuing stores. These requisitions should be approved by the department head or other designated person.
- i. Significant inventories should be insured against loss.
- j. Persons having control of inventory should not have access to the accounting records.
- k. Provisions should be made for obsolete or inactive inventory. Periodic reports should be made to the governing body concerning obsolete items.
- l. A workable system should be in place to maintain optimum quantities of inventory at all times.

### Internal Control Over Capital Assets

It is essential that all capital assets be adequately controlled to prevent misuse.

Critical internal control procedures for fixed asset management include the following:

- a. Adequate accounting records should be maintained that identify and classify all capital assets.
- b. Adequate guidelines should be established and followed to distinguish between expensed items and capital additions; items acquired with federal or state funds as well as other special revenue purchased items; and betterments or improvements to assets.
- c. Physical inventories of capital assets should be taken on an annual basis by independent parties. Inventory counts should be taken "from scratch" – not using the previous year's count lists. Count sheets should be initialed by the person(s) taking the inventory. The count should be reconciled to the accounting records, with written evidence of the reconciliation maintained. **In small units**, the inventory should be taken by a board member if there is only one accounting or finance staff member. If there are two accounting or finance staff members, the finance officer may take the inventory.
- d. All capital assets should be tagged or identified in the accounting records by a control number, as applicable. Tags should be prenumbered, with all numbers accounted for, and should identify the assets as belonging to the unit. Tags should be affixed in a permanent manner.



- e. All property, buildings, titled equipment and vehicles, and other items should be held in the name of the unit. All deeds on real property should be properly recorded and stored in a secure place.
- f. All capital assets purchased, transferred, sold, scrapped, or destroyed should be recorded as such in a timely manner in the accounting system. This facilitates proper valuing of assets and helps to prevent loss or misuse.
- g. All sales of surplus property should be conducted in accordance with G.S. Chapter 160A, Article 12 (municipalities) or G.S. 153A-176 (counties).
- h. Capital assets are often used to help determine adequate insurance coverage on all real and personal property. An independent review of insurance coverage should be conducted at least every three years.