

Office of the State Controller

Self-Assessment of Internal Controls

Inventory Cycle

Objectives and Risks

Agency _____

Year-End _____

Objectives

All transactions are approved by authorized individuals.

All inventory items are subject to effective custodial accountability procedures and physical safeguards.

All receipts and withdrawals of inventory are properly recorded and the records reflect actual quantities on hand.

All transactions are properly accumulated, classified and summarized in the accounts.

Risks

- Purchase unauthorized materials acquired in excess of need, at appropriate prices, or at unfavorable terms.
- Theft by employees or outsiders; inadequate insurance coverage.
- No basis for comparing actual usage with expected usage; inability to determine material reorder points.
- Misstated financial statements; concealment of shortages.

Office of the State Controller
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Inventory Cycle

Control Policies and Procedures

Agency _____

Year-End _____

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 and examined to see that they meet quality standards? |
| ___ | ___ | ___ | 5. Does the agency maintain perpetual inventory records and are all inventory items put on the perpetual inventory system? |
| ___ | ___ | ___ | 6. Are written instructions given and explained to all personnel involved in the physical count of the inventory? |
| ___ | ___ | ___ | 7. Is there a proper cut-off of receipts and issues from inventory at year end? |
| ___ | ___ | ___ | 8. Is the accounting department notified (by issuing a receiving report) immediately upon the receipt of goods? |
| ___ | ___ | ___ | 9. Are entries to perpetual inventory records made timely upon the receipt of goods? |
| ___ | ___ | ___ | 10. Are receiving reports or vendor invoices used to record purchases to the perpetual inventory records? |
| ___ | ___ | ___ | 11. When issuing inventory, is the proper fund, purpose, and object charged in the general ledger? |

- 12. Are the following duties generally performed by different people:
 - ___ ___ ___ a. Receiving and issuing inventory and the operational duties?
 - ___ ___ ___ b. Receiving and issuing of inventory and taking the physical inventory?
 - ___ ___ ___ c. Receiving and issuing of inventory and the approving of 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. Are adjustments to inventory records approved by a properly designated official?
- ___ ___ ___ 16. Is there adequate physical security surrounding inventories?
- ___ ___ ___ 17. Is access to inventory locations limited?
- ___ ___ ___ 18. Is there enough insurance for significant inventories?
- ___ ___ ___ 19. Are all employees responsible for inventories adequately bonded?
- ___ ___ ___ 20. Does the person receiving the goods sign the requisition as evidence of receipt?
- ___ ___ ___ 21. Are the approved and completed requisitions kept on file?
- 22. 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?
- ___ ___ ___ 23. Are prenumbered tags used during the physical inventories count?
- ___ ___ ___ 24. Is access to the perpetual inventory records limited to authorized individuals?

B. Monitoring:

- ___ ___ ___ 25. Is a physical inventory taken at least annually?
- ___ ___ ___ 26. Are perpetual inventory balances reconciled against the general ledger control accounts at least annually?
- ___ ___ ___ 27. Does management periodically check inventory reports / records?
- ___ ___ ___ 28. Are deviations of reports followed up by management in a timely manner?
- ___ ___ ___ 29. Does management assess inventory policies and procedures periodically?