



# Operating Procedure

<b>Effective Date</b> March 1, 2018	<b>Number</b> 230.2
<b>Amended</b>	<b>Operating Level</b> Department
<b>Supersedes</b> Operating Procedure 230.2 (3/1/15)	
<b>Authority</b> COV §2.2-803, §53.1-10, §53.1-25	
<b>Subject</b> <b>MATERIALS AND SUPPLIES INVENTORY</b>	
<b>ACA/PREA Standards</b> 4-4037; 4-ACRS-7D-25; 2-CO-1B-08; 1-CTA-1B-08	
<b>Incarcerated Offender Access</b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	<b>Public Access</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <b>Attachments</b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
<b>Office of Primary Responsibility</b> Chief Financial Officer	

## I. PURPOSE

This operating procedure provides the necessary controls for properly counting and valuing Department of Corrections Materials and Supplies Inventories in accordance with the Commonwealth Accounting Policies and Procedures Manual.

## II. COMPLIANCE

This operating procedure applies to all units operated by the Department of Corrections (DOC). Practices and procedures shall comply with applicable State and Federal laws and regulations, Board of Corrections policies and regulations, ACA standards, PREA standards, and DOC directives and operating procedures.

## III. DEFINITIONS

**Agency Fiscal Officer** - The Business Manager at major institutions (including assigned field units), Support Services Manager at regional offices (including field units not assigned to major institutions), Business Manager at Virginia Correctional Enterprises (VCE), Operations Manager at the Academy for Staff Development and the Chief Financial Officer for Central Office organizational units; the Director of Financial Services serves as the Community Corrections fiscal officer.

**Fixed Asset** - Real or personal property whose value and anticipated useful life meet the standards for recording its value in the Commonwealth's Fixed Asset Accounting and Control System (FAACS).

**Fixed Asset Accounting and Control System (FAACS)** - The system used by most state agencies in accounting for fixed assets.

**Materials and Supplies (M&S)** - Items which have been purchased for consumption and are being kept in a specific location awaiting distribution for use

**Material Value** - Those Materials and Supplies whose value make up a significant portion of the total inventory value, and therefore should be included in the annual inventory count.

**Organizational Unit** - A DOC unit, such as a correctional facility, regional office, probation and parole office, Virginia Correctional Enterprises (VCE), Academy for Staff Development, Corrections Construction Unit, Agribusiness Unit, and individual headquarters unit (i.e. Human Resources, Offender Management, Internal Audit)

**Organizational Unit Head** - The person occupying the highest position in a DOC organizational unit

**TMS (Total Maintenance System)** - A web-based software system that provides a computerized system for managing materials and supplies inventories and a maintenance management system to schedule, track, and report maintenance work performed on DOC owned facilities, equipment, and vehicles

## IV. PROCEDURE

A. Safeguarding of DOC assets requires periodic inventory of DOC property.

1. Each applicable DOC unit shall conduct annual inventories of Materials and Supplies (M&S). (4-4037; 4-ACRS-7D-25; 2-CO-1B-08; 1-CTA-1B-08) Generally, DOC locations that only perform office functions i.e., P&P Offices and Regional Offices are not required to conduct M&S Inventories as they

do not store items awaiting distribution.

2. Materials and Supplies shall not be purposely depleted to simplify physical inventory efforts. These inventory records could help in forming the basis for an insurance recovery, and therefore should be representative of normal inventory levels.
3. See Operating Procedure 230.1, *Accounting for Fixed Assets*, for fixed asset inventory requirements.

#### B. Assignment of Responsibility

1. Fiscal Officer - The Fiscal Officer shall be primarily responsible for the planning, coordination, counting, and valuation of the annual Materials and Supplies inventory.
2. Organizational Unit Head - The Organizational Unit Head shall ensure that all units comply and cooperate with the Fiscal Officer in the conducting of the annual Materials and Supplies inventory. Additionally, the Organizational Unit Head shall have responsibility for reviewing and approving the inventory before submission to the DOC Financial Systems and Reporting Section.
3. Chief Financial Officer - The Financial Systems and Reporting Section (FSRS) shall be responsible for providing guidance to DOC units in complying with state and departmental guidelines related to Materials and Supplies Inventories. Additionally, FSRS shall have responsibility for collecting, evaluating, and consolidating final inventory values before submission to the Department of Accounts.
4. Internal Audit Unit - The Internal Audit Unit shall be responsible for coordinating with the Auditor of Public Accounts as to which units' physical counts will be monitored by internal and/or APA auditors.

#### C. Accountable Materials and Supplies

1. An item shall be included for inventory under this operating procedure if it is purchased for consumption, and is being kept in a secure, centrally located area awaiting distribution. Inventorial Materials and Supplies may include, but are not limited to:
  - a. Food in storage, excluding break-out areas
  - b. Offender clothing, toiletries, and linens
  - c. Employee/officer clothing
  - d. Pharmaceutical/medical supplies
  - e. Institutional Warehouses (all M&S items)
  - f. Buildings & Grounds Warehouses, including trade shops, (all M&S items valued at \$5.00 or more per unit)
  - g. Vehicle and heating fuel
2. The following items shall NOT be included in Materials and Supplies Inventory:
  - a. Fixed assets (whether on FAACS or not)
  - b. Donated items
  - c. Mattresses
  - d. Items already in use
  - e. Office supplies (unless in Warehouse)
  - f. Commissary stock and offender welfare items
  - g. Agribusiness items and consigned inventory
  - h. USDA food items
  - i. Materials used in a manufacturing/construction process
  - j. Armory (weapons and ammunition)
  - k. Water treatment facilities

#### D. Annual Inventory

1. An accurate Materials and Supplies Inventory requires proper planning and monitoring through the following steps:
  - a. Each unit shall develop written directions specific to its operations to guide staff before, during, and after the inventory count. Pre-planning, including interim completion dates and assignment of duties, is essential to a successful inventory.
  - b. Participants involved in the inventory process shall be assigned duties and provided sufficient training to be familiar with procedures to be followed during and after inventory count. Documentation supporting adequate training shall be maintained. Untrained individuals will not be allowed to participate in the inventory process.
  - c. Each unit must ensure that documentation exists to support pricing on all material and supply inventory items. Purchase orders, invoices, prior year inventory sheets, or catalog pages can be scanned and attached to TMS inventory items. Purchase orders can be saved from eVA and copies attached to TMS inventory items.
  - d. Count Sheets to be used while performing a physical inventory shall be prepared in advance during the pre-listing process.
    - i. The TMS generated inventory pre-list report, *FIFO Material and Supply Inventory Count Sheet* should be used for all inventory items on the TMS system.
    - ii. For all other items, *Materials and Supplies Inventory Count Sheets* 230\_F1 or a reasonable facsimile generated from a non-TMS computer inventory system should be used.
    - iii. Perpetual inventory records may be used to determine items for pre-list sheets, but shall not be substituted for the actual physical count.
    - iv. The sheets shall be sequentially pre-numbered and a *Materials and Supplies Inventory Count Sheet Issue Log* 230\_F2 shall be maintained of their distribution.
    - v. All count sheets, used and unused, shall be accounted for when the inventory is completed.
  - e. Units shall determine in advance how the various items to be counted will be measured.
    - i. Items should be counted individually where feasible, while in other cases it may be necessary to "weigh count" or measure inventory (fuel, coal and the like), depending on the nature of the item.
    - ii. All items to be counted shall be stored neatly to facilitate the count and reduce the potential for miscounts.
  - f. By April 1st of each year, Fiscal Officers shall notify the Financial Systems and Reporting Section (FSRS) in writing of their unit's inventory schedule. Written notifications should include the unit name, location, and planned inventory dates. FSRS shall consolidate this information and provide copies to the Internal Audit Unit and the Auditor of Public Accounts by May 1st of each year.
  - g. The Internal Audit Unit shall meet, if necessary and requested, with the Auditor of Public Accounts to coordinate and determine which organizational units should be audited, and by whom.
2. The following shall be considered for conducting a controlled physical inventory:
  - a. For internal control compliance purposes, all counts shall be performed by a team of two individuals, one counter and one lister.
    - i. Of these two individuals, the lister should be the person most familiar with the M&S inventory items.
    - ii. The lister shall be responsible for observing the physical count for reasonableness, recording the count on the count sheet(s), and ensuring that material and supply items are inventoried.
    - iii. The counter shall be responsible for performing the physical counting of inventory items.
    - iv. Neither listers nor counters shall have access to other inventory records during the count.
    - v. Offenders shall not be allowed to be a counter or a lister during the inventory process.
  - b. Listers and counters shall be instructed to observe for unusable (obsolete, damaged, or broken) inventory items to be clearly noted on the count sheets for follow-up analysis by the Fiscal Officer or designee.

- c. Counters shall be supplied with inventory tags. Inventory areas that have been counted shall be marked with an inventory tag to avoid duplicate counting.
  - d. Certain individuals within each unit shall be appointed as "count checkers" to perform random test counts of items inventoried by the listers and counters.
    - i. The test counts shall be conducted on no less than 5% of the items inventoried. At least one item per count sheet shall be checked. This item shall be one of the higher quantity items in comparison to the other items on the count sheet.
    - ii. The decision to expand the sample test counts or redo the physical inventory counts rests with the Fiscal Officer or designee.
    - iii. Any recount request of an on-site auditor shall be given due consideration.
  - e. The annual physical inventory, from start to finish, shall be completed in no more than 10 working days. Actual counts shall be started and completed either between June 15th and June 30th or between July 1st and July 7th.
  - f. All issuing and receiving of inventory shall be restricted during the physical inventory count.
    - i. Pre-planning with both users and vendors will minimize inventory movement.
    - ii. Items received while the inventory is being counted shall be segregated.
    - iii. All counts, count sheets, and inventory check counts shall be completed before inventory movement is allowed.
  - g. Managers/supervisors of areas which house Materials and Supplies inventory shall maintain a [Materials and Supplies Inventory Receipts and Disbursements Log 230\\_F3](#) of all essential disbursements and receipts between the date of the actual inventory count and June 30 for purposes of making adjustments as described below.
  - h. Any count or pricing errors shall be lined out, initialed, and corrected IN RED. If the correction is not legible, the item should be re-listed on the next available line or a new page. If a new page is required, the entries shall be cross referenced and initialed.
3. Once the actual Materials and Supplies count has been completed, the Fiscal Officer shall account for all count sheets, determine the need for adjustments to the inventory, and coordinate the pricing of the inventory. Quantities on the TMS pre-list count sheets should be compared to quantities in the TMS Inventory System. Adjustments should be made to reconcile the physical count to the perpetual count and the TMS Inventory Valuation printed. Reconciled TMS Inventory Valuation reports eliminate the need for manual valuation extensions on the actual TMS pre-list count sheets; therefore, these columns have been removed from the TMS count sheets. Any receipts or disbursements processed during the inventory should be entered into TMS as adjustments in order to generate an accurate inventory valuation report. Adjustments should be dated June 30<sup>th</sup>.
- a. The Fiscal Officer shall ensure that all issued count sheets and adjustment logs are returned, whether or not used by the counters. The sheets shall be reviewed for completeness, including signatures of the listers, counters, and count checkers. One cover sheet per department or area may be utilized to collect all signatures for that area. It is not necessary for each individual sheet to be signed. All original documentation shall be kept in the Business Office, with a copy kept in the Warehouse.
  - b. Physical counts may require certain adjustments depending on the timing of the actual count. The Fiscal Officer shall consolidate any adjustments on one count sheet titled "Adjustments."
    - i. Counts performed between June 15th and up to June 30th shall be adjusted to the actual June 30th balance by adding all inventory receipts and subtracting all inventory disbursements that occurred between the date of the inventory and June 30. If the count is actually performed on June 30, few, if any, adjustments will be needed.
    - ii. Any counts performed between July 1st and July 7th shall be adjusted by subtracting all inventory receipts and adding inventory disbursements that have occurred after June 30.
  - c. Agencies shall document their pricing of Materials and Supplies. FIFO (First-in-first-out) is the most commonly used method since it allows for the use of the most current cost information which

generally is more obtainable. The pricing source document should be the most current pricing. TMS will assign pricing to inventory items based on FIFO. Most current pricing available will be used for non-TMS items.

- d. Assigned unit prices must be supported by one of the following sources, in order of priority:
  - i. Purchase Order
  - ii. Invoice
  - iii. Unit value from previous year's inventory list (This should be used only if the inventory item was not purchased in the current fiscal year.)
  - iv. Catalog price
- e. Any pricing errors shall be lined out, initialed, and corrected. If not legible the item should be re-listed on the next available line and cross-referenced.
- f. Obsolete, broken or damaged items shall be valued at their salvage value.
- g. The Fiscal Officer shall maintain two copies of the TMS Inventory Valuation:
  - i. A printed copy shall be kept on file
  - ii. An electronic copy shall be maintained on external media.
  - iii. Retain copies for 3 years or until audited; whichever is greater, and then destroy.
4. Upon the completion of all required steps, a copy of the [\*Materials and Supplies Inventory Schedule of Inventory on Hand\*](#) 230\_F4 shall be completed and submitted to the Financial Systems and Reporting Section by a due date which will be established annually.
5. In order to ensure internal control and oversight of the TMS System, the TMS Coordinator shall submit an updated SOC 2 Type II to the Financial Systems and Reporting Section by the same due date established for the annual [\*Materials and Supplies Inventory Schedule of Inventory on Hand\*](#) 230\_F4. The Financial Systems and Reporting Section will file the report and make it available upon request.

#### E. Documentation and Retention

1. All inventories and calculations described shall be fully documented in ink, explained if necessary and available for review by the Financial Systems and Reporting Section, Internal Audit Unit, and APA auditors as needed.
2. Inventory work papers and other supporting documents are governed by applicable records retention schedules. (Operating Procedure 025.3, *Public Records Retention and Disposition*)

#### V. REFERENCES

Annual State Comptroller's Directive on Financial Statement Preparation  
*Commonwealth Accounting Policies and Procedures Manual* Section 30315  
Operating Procedure 025.3, *Public Records Retention and Disposition*  
Operating Procedure 230.1, *Accounting for Fixed Assets*

#### VI. FORM CITATIONS

[\*Materials and Supplies Inventory Count Sheets\*](#) 230\_F1  
[\*Materials and Supplies Inventory Count Sheet Issue Log\*](#) 230\_F2  
[\*Materials and Supplies Inventory Receipts and Disbursements Log\*](#) 230\_F3  
[\*Materials and Supplies Inventory Schedule of Inventory on Hand\*](#) 230\_F4

VII. REVIEW DATE

The office of primary responsibility shall review this operating procedure annually and re-write it no later than three years after the effective date.

*Signature Copy on File*

*1/23/18*

N. H. Scott, Deputy Director for Administration

Date