

Section 6 - Consumable Inventory

I. General Information

A. Definition of Consumable Inventory

Items purchased by an agency for (a) reissue/reuse/resale which the agency controls as parts of its ongoing operations (e.g., controlled substances, ammunition, construction materials, bulk fuel, hardware items, maintenance parts, or non-perishable food items that have a long shelf life and are stocked by the agency); or (b) items purchased to be incorporated into or attached to an end item during production, including raw materials or processed materials (e.g., work-in-process, finished goods).

II. Management and Control of Consumable Inventory

A. Procedures For Receiving Consumable Inventory:

1. Receiving Consumable Inventory

a. From Vendors

- 1) Upon receipt of the consumable inventory, the person responsible for receiving should examine the shipping container for external damage. If the shipping container is damaged, refer to “Damaged Shipping Container/Damaged Consumable Inventory” in the “Handling Unusual Situations” section that follows.
- 2) Open the shipping container and inspect the consumable inventory received. If the consumable inventory is damaged, refer to the “Damaged Shipping Container/Damaged Consumable Inventory” in the “Handling Unusual Situations” section that follows.
- 3) Search for the packing slip. Compare the consumable inventory received to the items shipped as reported on the packing slip and note the items received. Sign and date the packing slip. If the vendor did not provide a packing slip, prepare a substitute receipt indicating the items received, and sign and date this document.
- 4) Keep the consumable inventory in a secure area, not in an open receiving dock area, to safeguard the consumable inventory until it can be delivered to the appropriate location.
- 5) Deliver the consumable inventory to its intended location or to the person who requested that the consumable inventory be ordered.
- 6) If acceptance testing is necessary, have the person putting the consumable inventory into operation sign the packing slip (or substitute receipt) if the consumable inventory is in acceptable condition for use. If the consumable inventory is unacceptable, refer to the “Handling Unusual Situations” section that follows.
- 7) Provide a copy of the packing slip (or substitute receipt) to the agency inventory coordinator/sub-coordinator as soon as new consumable inventory are inspected and found to be acceptable. This will ensure the timely recording of the consumable inventory in the consumable inventory recordkeeping system.
- 8) Submit the original packing slip (or substitute receipt) to the person responsible for making invoice payments.
- 9) Follow procedures for receiving consumable inventory items in SWIFT or other approved recordkeeping systems.

b. From Donors

- 1) Follow the gift and acceptance policy for the agency, and Statewide Financial and MAPS Policy - [MAPS Operating Policy and Procedure 0602-12](#), Gift Acceptance.
- 2) Follow procedures 1 through 8 in the section above.
- 3) Submit the original packing slip (or substitute receipt) to the person responsible for acknowledging acceptance of the donated consumable inventory.

c. Through an Intra-Agency Transfer – Refer to procedures on page 6-4 of this section.

d. Through an Inter-Agency Transfer – Refer to procedures on page 6-4 to 6-5 of this section.

2. Handling Unusual Situations

a. Damaged Shipping Container/Damaged Consumable Inventory

- 1) If there is evidence of external damage, an actual inspection of the consumable inventory should be made in the presence of the carrier.
- 2) If the actual inspection of the consumable inventory cannot be done, the driver should be required to note that the container was damaged on the agency copy of the packing slip (or substitute receipt), along with the current date and the driver's signature.
- 3) If, upon actual inspection, the consumable inventory is damaged, a claim for damage should be submitted to the carrier or the vendor as soon as possible.
- 4) Note on the packing slip (or substitute receipt) that the consumable inventory was damaged, and sign and date the packing slip. Send a copy of the original packing slip (or substitute receipt) to the person who requested consumable inventory or the agency buyer.
- 5) The person who requested the consumable inventory or the buyer should follow-up on the claim by working with the vendor until the claim is resolved.
- 6) Send the original packing slip (or substitute receipt) to the person who processes invoice payments so the person knows the vendor should not be paid.
- 7) A [vendor performance report](#) should be sent to MMD-Vendor Management as appropriate.

b. Partial Shipments

- 1) Follow the procedures for receiving consumable inventory in 1.a.1 through 1.a.9 above.
- 2) The person who requested that the consumable inventory be ordered should follow-up on partial shipments. Discrepancies between provisions of the purchase order and the consumable inventory received should be resolved by contacting the vendor as soon as possible.
- 3) Follow-up on unshipped consumable inventory ordered until they are received or the order needs to be canceled.
- 4) Cancel the remainder of order if the vendor cannot provide the ordered consumable inventory when needed.

c. Fiscal-Year-End Acquisitions

- 1) Be sure that the date the consumable inventory is received is clearly indicated on the packing slip (or substitute receipt).

- 2) When making the payment, the transaction must be reported in the fiscal year when the consumable inventory was received.
- 3) If the consumable inventory acquired on or before June 30 cannot be paid prior to the statewide accounting system's fiscal year end close, follow MMB's annual close instructions for coding the payment to the correct accounting period

d. Consumable Inventory Delivered to Wrong Address

- 1) Contact the carrier or postmaster to deliver the consumable inventory to the correct address or to return the consumable inventory to the sender.

e. Wrong Consumable Inventory Delivered

- 1) Notify the vendor immediately that wrong consumable inventory was delivered.
- 2) Make necessary arrangements with the vendor for the return of the wrong consumable inventory and delivery of the consumable inventory ordered. Authorization may be required to return the consumable inventory to the vendor.
- 3) Return the consumable inventory following the vendor's instructions.
- 4) Provide "return" documentation to the person making invoice payments so that individual does not pay the invoice.

f. Unacceptable Acceptance Testing

- 1) Notify the vendor immediately that the consumable inventory did not pass acceptance testing.
- 2) Make necessary arrangements with the vendor to resolve the problems or to return the unacceptable consumable inventory. Authorization may be required to return the consumable inventory to the vendor.
- 3) Return the consumable inventory following the vendor's instructions, if applicable.
- 4) Provide "return" documentation to the person making invoice payments so that individual does not pay the invoice.

3. Marking Consumable Inventory Upon Delivery

- a. Consumable Inventory items should not be tagged as "Property of the State of Minnesota" due to the nature of the item.

4. Consumable Inventory Recordkeeping System

- a. State agencies are responsible for maintaining a consumable inventory recordkeeping system. Records within this system may contain the following data elements:
 - 1) Description of the consumable inventory
 - 2) Acquisition date
 - 3) Quantity
 - 4) Acquisition cost
 - 5) Cost per unit
 - 6) Location (see following section)
 - 7) Purchase Order Number
 - 8) Date removed from inventory
 - 9) Inventory balance

5. Agency Location Information

- a. Agency location should be reported for each consumable inventory in the recordkeeping system.
- b. A location code schematic might be designed for any agency that occupies more than a few rooms. A floor plan of the agency is a useful tool in planning this design. This schematic can be as simple or elaborate as required by the agency. To be effective, a location code schematic should permit easy location of any consumable inventory.

6. Disposal of State Surplus Property

- a. When it has been determined that state property retaining utility or monetary value is surplus to one location or division within the agency, the inventory coordinator/sub-coordinator should try to find potential users at other locations or divisions within the agency. See Intra-Agency Transfer of Consumable Inventory below.
- b. If there are no potential users within the agency, the inventory coordinator/sub-coordinator should try to find potential users in other state agencies or contact Surplus Services. See Inter-Agency Transfer of Consumable Inventory on page 6-4 to 6-5.
- c. If the agency can no longer use the consumable inventory and no other potential users within the state have been identified, the inventory coordinator/sub-coordinator should complete a [*Property Disposition Request*](#) form and submit it to Department of Administration's Surplus Services Division.
- d. Surplus Services will assign a control number, sign the form, and return a copy to the agency. Surplus Services may either approve the agency's recommended disposition of the property or authorize an alternate method of disposal. Methods of disposal include transfer to another state agency, transfer or sale to another unit of government or eligible non-profit organization, sale by sealed bid, sale by auction, negotiated sale, or scrap.
- e. The inventory coordinator/sub-coordinator is responsible for ensuring that the consumable inventory disposition is reported in the consumable inventory recordkeeping system.
- f. MN.IT's Office of Enterprise Technology, Enterprise Security Information Sanitization and Destruction Standard - http://mn.gov/oet/images/SEC_S_Information_Sanitization_and_Destruction.pdf must be followed when items contain private or non-public.

7. Intra-Agency Transfer of Consumable Inventory

- a. A form should be made available to agency personnel to report the movement of consumable inventory within the agency to the inventory coordinator/sub-coordinator. A sample form is provided in Section 10 of this User's Guide. The agency must maintain this record.
- b. Location information in the consumable inventory recordkeeping system should be updated as the movement or transfer of consumable inventory is reported.
- c. It is not necessary to submit a [*Property Disposition Request*](#) form when transferring consumable inventory between locations or divisions of an agency.

8. Inter-Agency Transfer of Consumable Inventory (Movement of Consumable Inventory Between State Agencies)

- a. To transfer surplus consumable inventory to another state agency, prepare a [*Property Disposition Request*](#) form, and submit it to Surplus Services for review and approval. A copy of the form with an approval number and signature will be returned to the agency if the transfer is approved. If the

transfer is not approved, the form will be returned to the agency with instructions for disposal of the surplus property.

- b. The inventory coordinator/sub-coordinator is responsible for ensuring that the consumable inventory disposition is reported in the consumable inventory recordkeeping system.
- c. MN.IT's Office of Enterprise Technology, Enterprise Security Information Sanitization and Destruction Standard - http://mn.gov/oet/images/SEC_S_Information_Sanitization_and_Destruction.pdf must be followed when items contain private or non-public.

9. Utilization of Federally-Funded Consumable Inventory

- a. Additional requirements may be required for federally-funded consumable inventory items. State agencies must be in compliance with all state and federal requirements.
- b. Disposal of federally-owned consumable inventory or consumable inventory purchased with federal funds must follow any applicable federal procedures. If there are no defined federal procedures, the state procedures must be followed.

III. Physical Inventory of Consumable Inventory

A. Definition of a Physical Inventory

A "physical inventory" is physically counting consumable inventory. The State of Minnesota goes beyond this basic definition. In the State of Minnesota, physical inventory is the act of accounting for, and the accurate verification of, information on file for each piece of state-owned consumable inventory property. In this accounting and verification process, emphasis is placed on the following aspects pertaining to each item:

1. Physically locating the consumable inventory maintained on the consumable inventory recordkeeping system, for the specific agency or activity.
2. Verifying that the location information on file for the consumable inventory is accurate.
3. Verifying that consumable inventory in existence is reported in the consumable inventory recordkeeping system.
4. Verifying that the consumable inventory description is accurate.
5. Verifying that the consumable inventory is in good condition for use. If the consumable inventory is not in good condition, report this to the appropriate personnel for action.
6. If the consumable inventory is not being used, determine whether it is surplus to the agency's needs or obsolete and dispose of appropriately.

B. Physical Inventory Mandated Annually For Consumable Inventory

A complete physical inventory (e.g., a wall-to-wall inventory count) for consumable inventories must be conducted, at a minimum, annually.

C. Other Conditions that may require a Physical Inventory

If one of the following conditions occurs, a physical inventory should be completed.

1. Failure of a consumable inventory audit conducted within the agency or by an outside agency. If an audit is performed by the agency or an outside agency, and a minimum inventory accuracy level of 95 percent is not achieved.

2. If an annual physical inventory was conducted and a specific area's accuracy level was below 95 percent, a physical inventory of that area should occur every six months until the acceptable 95 percent accuracy level is achieved.
3. A physical inventory should be taken whenever the person acting as inventory coordinator/sub-coordinator is changed. The new individual in that position should conduct a physical inventory to verify the accuracy of the inventory information provided by the departing inventory coordinator/sub-coordinator. The new inventory coordinator/sub-coordinator can correct discrepancies immediately and start from a base that is accurate.

D. Planning And Scheduling the Physical Inventory

1. Plan how the physical inventory will be performed. The inventory can be performed by building, areas within the building, and activities within an agency.
2. Decide who will perform the physical inventory. The physical inventory should be performed by properly trained teams made up of agency personnel. To ensure an adequate separation of duties for internal control purposes, it is essential that the persons taking the physical inventory counts are not the same individuals responsible for reporting activity (e.g., acquisitions and dispositions) in the consumable inventory recordkeeping system, unless others are involved.
3. Determine when the physical inventory should be conducted. Consideration should be given to whether personnel will be on site to open locked desks and cabinets.
4. Prepare a realistic schedule for the physical inventory, including a start date, date the initial search is expected to be completed, start date of the verification process, completion date of the verification process, and physical inventory completion date.
5. Prepare a memo explaining the physical inventory process and soliciting cooperation. Send this memo to all impacted agency personnel.
6. Obtain all supplies necessary for the physical inventory and begin the process. Necessary supplies include paper, pens, a current agency location scheme, and a current master listing of consumable inventory by location.

E. Conducting And Reconciling the Physical Inventory

1. Conduct the inventory in two ways. Count (1) record to consumable inventory item and (2) consumable inventory item to record.
2. When conducting a complete physical inventory, it is most effective to enter an area with a blank form (or agency designed report form) and write down the information for each consumable inventory item. This procedure, as opposed to entering the area with a list of consumable inventory items to be located, will help ensure that all consumable inventory in the area is accounted for. The information recorded should include, but is not limited to, description, location, quantity, and condition.
3. Next, the information collected is compared to the consumable inventory master listing. When an agency has multiple locations, it is preferable to sort this list in location order.
4. When discrepancies are found, they should be resolved immediately. It will be necessary to return to the location and conduct a complete search for the missing consumable inventory items. It may be necessary to interview employees in the area to determine the disposition of missing consumable inventory. The original purchase orders for the missing consumable inventory may provide helpful information to pursue in order to locate the consumable inventory. If the consumable inventory cannot be found, see Section IV, Stolen, Lost, Damaged, or Recovered Consumable Inventory.
5. All discrepancies must be corrected in the consumable inventory recordkeeping system.

6. If during the complete physical inventory, you see that the consumable inventory is not being used, bring this to the attention of the inventory coordinator/sub-coordinator, who will determine whether the consumable inventory is surplus to the agency's needs or obsolete and dispose of appropriately.
7. If the consumable inventory is not in good condition, report this to the appropriate personnel for action.
8. An alternative to the complete physical inventory is to conduct cycle counts of the consumable inventory. For example, to conduct a complete physical inventory in one year, the agency can be divided into 12 roughly equal areas. A complete physical inventory can be conducted and reconciled in a different area each month. After 12 months, the entire agency will have been inventoried. If the agency experiences many movements of consumable inventory, this method may require time-consuming reconciliations each month.

F. Consumable Inventory Spot Checks

1. Spot checks are an effective tool for maintaining inventory accuracy. If a specific area of the agency has consistently demonstrated a high level of inventory accuracy, one spot check between physical inventories will help keep the accuracy level high. If an area of the agency had a poor inventory accuracy level resulting from a physical inventory, spot checks should be conducted frequently in the interim until a complete physical inventory of the area has established a satisfactory accuracy level. Large agencies may wish to check a specific number of buildings or floors each month. Smaller agencies may decide to spot check the entire agency at one time. The areas checked should be scheduled randomly.
2. When selecting consumable inventory to be sampled for specific locations within the agency, the following sample size chart may be utilized.

SPOT CHECK CHART

<u>Inventory Items in the Area</u>	<u>Minimum Sample Size</u>
1-20	All
21-50	10
51-100	15
101-200	20
201-500	25
501 or more	50

3. When spot checking the entire agency, the following sample size chart may be utilized:

CONSUMABLE INVENTORY SPOT CHECK SAMPLE SIZE

<u>Number of Inventory Items</u>	<u>Minimum Sample Size</u>
1-79	15
80-200	20
201-300	25
301-400	30
401-600	35
601-800	40
801-1000	45
1001-2000	50
2001-4000	75
4001 or more	100

4. To determine which consumable inventory items will be in the sample for the spot check, divide the total number of consumable inventory items by the sample size. For example, 800 total consumable inventory items divided by sample size of 40 equals 20, every twentieth consumable inventory item

will be selected. To choose where to start selecting consumable inventory items for the spot check from the consumable inventory recordkeeping system, randomly select one consumable inventory item out of the first 20 listed in the system. This is the first consumable inventory item for the spot check. The remaining consumable inventory items for the spot checks are every 20th consumable inventory item thereafter. An alternative to this approach is to select the consumable inventory items for the spot check using a random number table or use the internet to generate a random number sequence (e.g., <http://www.random.org>).

5. Preparations for a spot check should be similar to the planning and scheduling for the complete physical inventory.
6. The spot check procedure should be similar to conducting and reconciling the physical inventory.
7. If a consumable inventory item cannot be located in a reasonable length of time, it is considered “not found” for reporting purposes.
8. After the spot check procedure has been completed, a report should be prepared giving the accuracy level and discrepancies discovered in the area. Discrepancies include consumable inventory items that were “not found”, incorrect locations, and inconsistent quantities. An accuracy level of 95 percent and above is considered acceptable. Areas that fall below 95 percent accuracy should have a complete physical inventory scheduled.
9. All discrepancies must be corrected immediately on the consumable inventory recordkeeping system. Refer to the Stolen, Lost, Damaged, or Recovered Consumable Inventory section below for procedures to follow when consumable inventory items are “not found”.

IV. Stolen, Lost, Damaged or Recovered Consumable Inventory

- A. A [*Stolen, Lost, Damaged or Recovered Property Report*](#) should be completed if the agency determines that the value of the items is sufficient to report. [Minnesota Statute 609.456](#), subd. 2 requires reporting in writing thefts, embezzlement, or unlawful use of property to the Legislative Auditor.

Refer to procedures on page 5-9 of section 5.

V. Misuse of Consumable Inventory

1. Any employee misuse of consumable inventory may be subject to disciplinary action, up to and including termination.
2. Examples of misuse of a consumable inventory include, but are not limited to, the following actions:
 - a. Theft,
 - b. Damage with willful intent,
 - c. Destruction with willful intent. Use of the consumable inventory for personal gain,
 - d. Permitting other individuals to use the consumable inventory for non-state purposes,
 - e. Non-return of consumable inventory when requested,
 - f. Permitting an outside consultant to use consumable inventory without a contract term allowing them to sue consumable inventory, or
 - g. Inappropriate use.
3. When misuse of consumable inventory is suspected, it should be reported immediately to the agency inventory coordinator/sub-coordinator, the Human Resources Division Director, and the appropriate manager/supervisor.