**Montana State University**

**Inventory Policy**

1. **INTRODUCTION**

**It is necessary for several departments to conduct a yearly periodic inventory for financial statement reporting purposes. In order to provide consistency from year to year in recording, valuation, and reporting of inventories, this guideline has been developed for use as a reference. Adherence to these values, and reported.**

1. **PLANNING**

**Ideally, the inventory should be conducted as close to June 30th fiscal year end as possible. Regardless of when it is conducted, schedule a sufficient amount of time to properly conduct the inventory. Keep in mind that a sufficient number of qualified people must also be available during that time to conduct the inventory. An inventory contact person or inventory supervisor who will be ultimately responsible for planning, coordinating, conducting, and reporting the inventory should be appointed. All inventory items on hand should be properly located prior to the actual beginning of the inventory count.**

**If possible, the area where the inventory is to be conducted should be closed during the actual inventory. This will necessitate prior notification to persons who may use products being inventoried. At least two weeks of such notice in the Staff Bulletin is desirable. Once the inventory dates have been decided upon, two-person inventory counting teams should be established. If extra help will be needed for the inventory, the necessary Personnel and Payroll forms should be processed. Persons who participate in the inventory count should not also have continuing regular responsibility for that inventory.**

**At least 30 days prior to the actual inventory, the inventory supervisor should notify Property Management an Internal Audit, in writing, of the locations and times of the planned inventory. The inventory supervisor should also prepare the inventory count sheets to be used, if necessary, categorize the inventory by physical location or by major classification, and schedule the two-person inventory teams to those categories.**

1. **BASIC PROCEDURES**

**If the area is closed during the inventory, signs to that effect should be clearly posted. Sales or receipts of new goods should not occur during the inventory. If possible, inventory should not be moved during the process, so as to prevent counting the inventory twice or excluding it from the count.**

**Inventory teams should proceed methodically according to plan, with one person calling out the item and quantity from the shelf, and other person recording the information on the count sheet. The items should be marked as they are counted to ensure that all items are included without duplication. Colored dots or colored tags are commonly used. Both are inexpensive and easily removed later.**

**Opened containers are not generally included as inventory. For example, a box of paper contains paper reams which should be included, but open reams should not be included. The inventory supervisor should clearly document the criteria used to determine what is and is not included. Items which are not included should be clearly marked so anyone checking the inventory count would know what was included and what was not.**

**After the inventory count is completed, the inventory supervisor should inspect the facility to ensure all items are marked as included or excluded. Persons who did not participate in the counting should then be instructed to cost each item at lower of cost or market value. The entire inventory listing can then be extended to lower of cost or market to arrive at the total inventory valuation as of the inventory date. The extended totals should be double-taped if done manually.**

**The inventory recorded should then be compared with the perpetual inventory records if they are kept, and any material adjustments should be recorded for the inventory supervisor’s approval. The perpetual records should be adjusted to reflect the periodic records exactly, as of the inventory date.**

1. **THE INVENTORY REPORT**

**The final inventory report should be prepared by the inventory supervisor and should reflect the inventory as of June 30th. Therefore, the final report will take into account adjustments for:**

1. **Additions to the inventory (at cost) for goods received since the inventory was conducted, but prior to June 30th, and**
2. **Deletions from the inventory (at cost) for sales and use of goods since the inventory was conducted, but prior to June 30th.**

**The final report should reflect the general types or categories of goods inventoried, the costs of each category, the method used to value the inventory if not the lower of cost or the market value, and the total inventory value. The final inventory report should be prepared by the inventory supervisor and approved by the department head. Copies should be sent to the Property Management Office in room 104, Montana Hall. The inventory count sheets should be retained by the department for three fiscal years then may be destroyed.**

1. **LIVESTOCK**

**Livestock inventories should be handled in the same way as other periodic inventories, as outlined above, with only a few exceptions. Livestock should be inventoried when gathered in a central location rather than attempting to obtain an accurate count while they are on the range, since it is not feasible to mark an animal once it is counted.**

**Each year in May, the MSU Property Management Officer will solicit the fair market value of various classes of livestock from the Cooperative Extension Service’s Animal Specialist. A listing of the various classes of livestock, along with the fair market value for each class will then be sent by the Property Management Officer to all units which have livestock. The units will be asked in a cover letter to advise Internal Audit and Property Management of when the will actually be conducting the annual livestock inventory. The inventory report when completed should be signed by the department head or Station superintendent and returned to Property Management. It should reflect the inventory as of June 30th. All inventory totals will be reported to the Financial Service Office by the Property Management Officer.**

1. **CONCLUSION**

**Since auditing procedures and bonding requirements for certain operations require that inventories be observed and sampled for accuracy by internal and/or external auditors, it is most important that the above procedures be followed each year in preparing for and conducting the annual inventory. Auditors most likely be present at each inventory at one time or another, and a well prepared inventory plan, followed by the letter, will save you time and effort, as the inventory will be conducted only once yearly at your convenience.**

**If you have any questions about preparing your yearly inventory plan or about conducting or reporting your inventory, please feel free to contact the MSU Property Management Office at 994-5504 or the Internal Audit Office at 994-7035.**