



Policy Number:	5130
Policy Title:	Inventory Management Policy

1.0 Purpose

- 1.1 To provide the Fair Oaks Water District (FOWD) with the general guidance for managing and safeguarding inventory items, resulting in accurate financial reporting and adequate supply to efficiently operate the water system.

2.0 Scope

- 2.1 Inventory items are parts purchased and stored at the District for the installation and maintenance of District infrastructure as described in the District Standard Specifications Manual and shown in the District Standard Drawings. Inventory items are listed in attachment “A”. The inventory list will be updated as necessary, as approved by the Operations Manager.
- 2.2 Inventory items are purchased and stored as non-depreciable items until installed.
- 2.3 Inventory items (listed on attachment “A”) may be charged directly to projects when purchased for:
 - 2.3.1 Projects that are construction in progress.
 - 2.3.2 Meters. Meters will be managed through the billing system. The value will be added to the inventory valuation report at year-end.
 - 2.3.3 AMRs and registers. The value will be added to the inventory valuation report at year-end.
- 2.4 Certain consumable parts and materials are not considered inventory and will be charged directly to the projects, based primarily on initial cost and cost-efficiency of accounting for these items. (Example – low-cost plastic fittings).

3.0 Inventory Valuation

- 3.1 The District will use first-in, first-out (FIFO) method for valuation of inventory in accordance with Generally Accepted Accounting Principles (GAAP).
- 3.2 The valuation of inventories is at acquisition cost.

4.0 Inventory Management

- 4.1 Reconciliation

- 4.1.1 The District will use an accounting system (general ledger (GL) and inventory subsidiary ledger) to manage inventory items.
- 4.1.2 Physical Inventory
 - 4.1.2.1 The physical inventory count will be reconciled with the inventory subsidiary ledger.
 - 4.1.2.1.1 The District requires the physical count of all inventory items once a year.
 - 4.1.2.1.2 The District requires the physical count (spot check) of 20 random items at month-end.
 - 4.1.2.1.2.1 A variance of physical count (spot check) of 15% (i.e. 3 items of 20 items) or more will require that a total physical count of inventory take place.
- 4.1.3 System Inventory
 - 4.1.3.1 The accounting system general ledger and inventory subsidiary ledger will be formally reconciled monthly.
 - 4.1.3.2 The reconciliation process will be completed within five (5) business days after month-end.
 - 4.1.3.3 Month-end is the last day of the calendar month.

5.0 Responsible Persons

- 5.1 The District Operations Manager will be responsible for implementing and maintaining this policy.

6.0 Control

- 6.1 Responsible persons will be in charge for maintaining inventory levels.
 - 6.1.1 The minimum level of inventory for items used on a routine basis will not be less than two (2) months of the projected workload.
 - 6.1.2 The maximum level of inventory for items used on a routine basis will not be more than six (6) months of projected workload.
- 6.2 Responsible persons will be in charge of securing inventory items.
- 6.3 Responsible persons will be in charge of ensuring inventory items are available in emergency situations.

7.0 Reporting

7.1 An inventory reconciliation report with signatures from the Operations Manager and Finance Manager will be provided to the District General Manager (GM) within five (5) business days of month end.

7.1.1 The written report will include relevant month ending balances from the general ledger and the inventory subsidiary ledger.

7.1.2 The report will include any adjustments/journal entries made to reconcile the inventory subsidiary ledger/general ledger with the physical count with written explanation and request for approval.

7.1.2.1 Adjustments/journal entries will be made by the Finance Manager.

7.2 The GM will be responsible for reviewing and approving the inventory reconciliation report.

7.2.1 In the event where the inventory report does not reconcile.

7.2.1.1 Responsible persons will provide a report to the GM weekly until GL and inventory is reconcile; or

7.2.1.2 GM will sign-off inventory report showing variance.

7.2.1.2.1 Report will include written explanation of possible reason for the variance.

7.2.1.2.2 Upon request from GM, responsible parties will provide a written explanation of process used to find a variance.

7.2.1.2.3 Report will include any journal entries made to the GL to offset the variance.

7.2.2 GM will provide signature upon approval.

7.2.3 Finance Manager will file the report.