

Applies to: Units that carry inventory and individuals who manage and work with inventory

Responsible Office

Office of Business and Finance

POLICY

Issued: 01/07/2021

Units that carry **inventory** must maintain related balances on a balance sheet in the general ledger. This policy lays the foundation for the management of physical inventory, owning unit responsibilities, and maintenance of inventory balances on the general ledger. **Supplies** as defined below are not subject to this policy.

Purpose of the Policy

To establish requirements for the management of inventory as a key institutional resource and to provide consistent and comprehensive management processes to maintain strict controls over inventory.

Definitions

Term	Definition
Average cost	Perpetual average costing value of goods at each inventory site, which is updated when inventory balances are updated in the system; invoice price variance is recognized; and manual cost updates are performed. The value includes allocated freight, tax, and other charges for the on-hand value of purchased items.
Comprehensive physical count	Annual physical inventory count recorded in the unit balance sheet.
Consigned inventory	Supply chain management strategy in which inventory items are obtained from a supplier for resale to internal and/or external customers. The supplier is not paid by the unit until the items are consumed or sold. Consignment inventory is governed by an agreement between the unit and the supplier.
Cycle count	Periodic physical inventory count performed at a time other than fiscal year-end as a verification of the effectiveness of the controls in place, and to verify that the inventory quantities are reasonably close to those expected as a result of activity since the last cycle count.
Exception	Any violation of or noncompliance with a university policy issued by the Office of Business and Finance (Business and Finance).
Health System	University Hospital, East Hospital, Brain and Spine Hospital, Richard M. Ross Heart Hospital, Harding Hospital, Dodd Rehabilitation Hospital, Ambulatory Clinics and Services, and Arthur G. James Cancer Hospital and Richard J. Solove Research Institute and Outreach Sites.
Inventory	Items that meet the criteria identified in Procedure I-Inventory Capitalization Criteria, requiring them to be recorded as inventory on the balance sheet.
Obsolete inventory	Outdated, worn-out, or unusable items.
Senior fiscal officer	Individual who is responsible and accountable for all fiscal operations of a unit.
Supplies	Items used for internal consumption which are expensed upon receipt with no inventory balances recorded on the balance sheet.
Unit	College or administrative unit.
Waiver	Permission granted to a unit to operate differently than specified or required by a university policy issued by Business and Finance.

PROCEDURE

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I. Inventory Capitalization Criteria

- A. Items are considered inventory and must be recorded on the balance sheet if they are:



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1. Part of ongoing business operations (i.e., not strictly temporary in nature);
 2. Consumable items or materials that are held for sale or used in the process of preparing another item or service for sale; and
 3. Owned by Ohio State (i.e., not **consigned inventory**, supplier managed, or under lease).
- B. All items that meet this test must be physically counted, valued, and recorded in the general ledger on the balance sheet.

II. Unit Inventory Responsibilities

A. Any unit that holds inventory must:

1. Maintain inventory balances on a balance sheet in the general ledger.
 2. Provide comprehensive management and accounting for all inventories in all locations.
 3. Conduct either an annual **comprehensive physical count** on a date as close to the fiscal year-end as possible or perform and document periodic **cycle counts** based on an ABC classification if a perpetual system/local application is being used. The perpetual system/local application must be approved through the policy **waiver** process. See Procedure VI below.
 - a. ABC classification:
 - i. A items, which are a percentage of highest dollar or usage items, are counted every 30 days;
 - ii. B items, which are the next percentage of items of highest dollar or usage, are counted every 60 days;
 - iii. C items, which are all remaining items, are counted every 90 days.
 4. Adjust any discrepancies between the total value for physical inventory and the balance sheet on the general ledger to reflect the correct balance per the physical count sheets. Such adjustments may only be made after the count has been completed and verified by the unit fiscal office.
 5. Provide physical counts and reconciliation results upon completion to the **senior fiscal officer** (all areas except the **Health System**) or to Health System Financial Services (Health System).
 6. Address **obsolete inventory**.
 - a. Unit management must define procedures for handling obsolete items and for properly accounting for their disposal.
 - b. Units must identify obsolete inventory items at least annually and communicate the information to the senior fiscal officer or Health System Financial Services as appropriate.
 - c. The unit fiscal office must reduce the balance of the obsolete inventory on the balance sheet and write off the amount to the appropriate unit expense account.
- B. The Office of Business and Finance will monitor and work with units with inventory valuations and variances.

III. Inventory Methods

- A. Valuation of inventory will be at the **average cost** or other valuation method as determined by the Office of Business and Finance or Health System Financial Services.
- B. No changes to the inventory valuation method may be made without prior approval by the Office of Business and Finance or Health System Financial Services.

IV. Inventory Systems

- A. Inventory is maintained in Workday.
- B. All areas except the Health System – Any unit that holds inventory must perpetually monitor purchases (receipts), disbursements (issues), adjustments, and movement of inventory between multiple locations (stock transfer).
- C. Health System – Medical and pharmaceutical inventories are maintained by Health System Financial Services using a periodic inventory system that must be reconciled on an annual basis. Storeroom inventories are maintained by Health System Financial Services using a perpetual inventory system that must be reconciled on a monthly basis.



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V. Inventory Statistics and Internal Controls

- A. Units holding perpetual inventories must conduct monthly reconciliations of beginning balances, purchases, disbursements, transfers, adjustments, and ending balances to ensure consistency between the value in the balance sheet on the general ledger and on-hand counts.
- B. Unit management holding inventory must manage and monitor key inventory statistics (e.g., costs of goods sold, days of inventory on-hand, gain or loss percentages, trends in average inventory, turnover ratios) to verify that purchases and balances are controlled and are within normal tolerance levels as defined by the unit.
 1. Units must collect appropriate performance benchmarks for these inventory statistics.
 2. Unit management must benchmark their performance against these performance benchmarks to help establish targets and tighter controls.
- C. Units must document internal procedures for safeguarding and managing inventories. These procedures must include:
 1. Handling obsolete items;
 2. Maintaining counting schedules;
 3. Managing consignment or supplier managed items;
 4. Managing goods, receipts, and returns;
 5. Managing inventory layout and bin structure;
 6. Managing inventory team member responsibilities; and
 7. Reporting discrepancies.

VI. Waivers to this policy must be approved in advance and documented by the Office of Business and Finance, using the [Business and Finance University Policy Waiver Request](#).

VII. Policy Violations

- A. All policy violations must be tracked as an **exception** in accordance with the [Fiscal Stewardship policy](#).
- B. The university may require successful completion of training.
- C. The university may enforce corrective action, up to and including termination, in accordance with applicable policies or rules.
- D. The university may seek restitution, as appropriate.
- E. Criminal charges may be filed, as appropriate.

Responsibilities

Position or Office	Responsibilities
Health System Financial Services	<ol style="list-style-type: none"> 1. Determine the inventory valuation method if other than average cost. 2. Approve changes to the inventory valuation method. 3. Maintain medical and pharmaceutical inventory using a periodic inventory system reconciled annually. 4. Maintain storeroom inventory using a perpetual inventory system reconciled monthly.
Office of Business and Finance	<ol style="list-style-type: none"> 1. Monitor and work with units with inventory valuations and variances. 2. Determine the inventory valuation method if other than average cost. 3. Approve changes to the inventory valuation method.
Unit	<ol style="list-style-type: none"> 1. Maintain inventory balance on a balance sheet in the general ledger. 2. Provide comprehensive management and accounting for all inventories in all locations. 3. Conduct an annual comprehensive physical count or periodic cycle counts as noted in Procedure II.A.3. 4. Adjust discrepancies between the total value for physical inventory and the balance sheet on the general ledger as appropriate after the count has been verified by the unit fiscal office. 5. Provide physical counts and reconciliation results upon completion to the senior fiscal officer or Health System Financial Services as noted in Procedure II.A.5. 6. Identify obsolete inventory items at least annually and communicate to the senior fiscal officer or Health System Financial Services as appropriate. 7. Conduct monthly reconciliations of beginning balances, purchases, disbursements, transfers, adjustments, and ending balances for perpetual inventories. 8. Collect appropriate performance benchmarks for inventory statistics. 9. Document internal procedures for safeguarding and managing inventories as noted in Procedure V.C.



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Unit fiscal office	<ol style="list-style-type: none">1. Verify the annual comprehensive physical count or periodic cycle counts.2. Reduce the balance of obsolete inventory on the balance sheet and write off the amount to the appropriate unit expense account as appropriate.
Unit management	<ol style="list-style-type: none">1. Define procedures for handling obsolete items and for properly accounting for their disposal.2. Manage and monitor key inventory statistics to verify that purchases and balances are controlled and are within normal tolerance levels as defined by the unit.3. Benchmark performance against performance benchmarks identified by the unit to help establish targets and tighter controls.
Units not a part of the Health System	Perpetually monitor purchases (receipts), disbursements (issues), adjustments, and movement of inventory between multiple locations (stock transfer).

Resources

University Policies, policies.osu.edu

Fiscal Stewardship, go.osu.edu/fiscal-stewardship-policy

Forms and Other Resources

Business and Finance Policies and Forms Website, busfin.osu.edu/policies-forms

Business and Finance University Policy Waiver Request,

docusign.net/Member/PowerFormSigning.aspx?PowerFormId=fd68959a-4afb-48bb-a0ae-67521b9ad821&env=na1&acct=387d1013-fb1c-4705-9bd9-7cf575f484ce&v=2

Financial Code of Ethics, busfin.osu.edu/sites/default/files/financial-code-of-ethics.pdf

Contacts

Subject	Office	Telephone	E-mail/URL
Policy questions	Office of the University Controller, Office of Business and Finance	614-292-6220	busfin.osu.edu/controller

History

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