

# UC Davis Policy and Procedure Manual

## Chapter 350, Supplies and Equipment Section 60, Management of Supply Inventories

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Responsible Department: Materiel Management

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### I. Purpose

This section outlines policy and procedures regarding maintenance and control of University supply inventories. Additional policy and procedure regarding supply inventories at UCDMC are described in [UCDHS Policies & Procedures Manual Section 2278](#).

### II. Definitions

- A. Supply inventory--any substantial stock of consumable supplies held for reissue within the University for use in programs of teaching, research, or public service. Supply inventories include not only the Central and UCDMC Storehouses but also departmental stores operations and the stockrooms of production and service facilities (e.g., Repro Graphics, Facilities, Fleet Services, and departmental shops and production laboratories). The following are excluded from this definition:
  - 1. Typical office supply cabinets, which do not customarily contain substantial stocks of supply items.
  - 2. Stocks held primarily for sale to private individuals rather than for issue to University units (e.g., by bookstores, gift shops, and pharmacies). However, these inventories are subject to financial and accounting controls as stipulated in [Accounting Manual Chapter I-581, Section 330-11](#), and if applicable, [Section 290-70](#).
- B. Major supply inventory--a supply inventory with a combined inventory value of new and unissued materials exceeding \$50,000 held at one or more on-campus locations or at one off-campus location.
- C. Stock adjustment--a change in physical inventory or in inventory records made for reasons other than routine stock acquisitions or issues (e.g., write-offs of obsolete, damaged, stolen, or otherwise lost items; correction of errors made in recording stock acquisitions or issues).

### III. Policy

#### A. Responsibilities

The responsibilities of coordinating major supply inventories and approving their operating policies and procedures lie with the campus Director of Materiel Management. Direct operational responsibility for such inventories, however, rests with the appropriate department chairperson or unit head, except in cases where other specific assignments are made.

#### B. Management objectives

The objectives in managing supply inventories are prompt service, economy to the user, and effective utilization of the University's resources. Careful management should ensure materiel

control and assurance of quality through adherence to specifications. Standardization is encouraged on those items fulfilling a required function at the lowest cost by continuing analysis of requisitioner needs.

C. Issuance of supplies

1. Departments are encouraged to utilize to the fullest extent practical those University supply inventories as opposed to external, non-university sources that provide the goods and services they are requisitioning.
2. Materials carried in University supply inventories are for University use only. Under no circumstances may materials obtained under the University's Federal excise tax exemption be issued to non-University users or to University employees for personal use.
3. Supplies acquired with Federal contract or grant funds may not be sold, given to, or used for activities other than the projects or programs supported with such funds.
4. Prices of materials from each University supply inventory are to be established on an equitable basis and are to be uniform to all users of that inventory. Prices may be established to reflect quantities ordered or the value of services furnished. A lower variable or adjusted markup may be applied to achieve competitive pricing or to reflect operating economies; however, excessive requisitioner purchases are not to be encouraged.

**IV. Procedures**

A. Management and control of stock

1. Managers of supply inventories shall:
  - a. Add items to stock only when usage is repetitive and/or inclusion in stock provides a net cost advantage to the University that offsets handling expense, or when users' requirements cannot be met by direct shipments from suppliers.
  - b. Review stock selection regularly (at least annually) in relation to usage patterns and promptly liquidate inactive or obsolete items.
  - c. Obtain commitments from departments that control the use of particular items to pay the cost of liquidation in the event such items become obsolete or their use is discontinued. (Refer to Section 350-16 regarding requests to stock new items.)
  - d. Keep appropriate records to facilitate effective administrative control (e.g., to permit determination of quantities and values of stocks on hand, analysis of usage patterns for specific items, and identification of costs and revenues directly attributable to maintenance and operation of the supply inventory). Care must be used, however, to assure that the expense of record maintenance is kept at the minimum commensurate with the value of significance of the materials involved.
  - e. Verify inventories by physical count at least annually, preferably on a cyclical basis, and keep records of discrepancies discovered during this process. In particular, stock adjustments to correct such discrepancies must be adequately documented. Stock adjustments exceeding \$250 per transaction for major supply inventories

must have the signed approval of the department head or his/her designated representative (who may not be anyone administratively responsible for the inventory). Unit managers must support adjustment requests exceeding \$250 with written explanations.

- f. Provide proper security for inventory records as well as for stocks of goods.
  - g. Inspect incoming shipments for quantity, condition, and conformity with specifications and terms of purchase before they are added to inventories.
  - h. Record receipt of goods promptly and document under-, over-, or damaged shipments. (See Sections 350-35 and 350-40.)
  - i. Credit requisitioners for the return of excess materials, provided such items are in suitable condition for reissue, did not create an overstock condition, and were purchased within the fiscal year. (With the approval of the appropriate vice chancellor acting on the advice of the campus Professional Staff Rate & Service Activities Advisory Group [Rate Group], equitable restocking charges may be imposed for returned items.)
2. Requisitioning departments shall review orders for unusual quantities, accuracy, and proper signature authorizations by establishing adequate controls to ensure existence of a complete audit trail. This may include reviewing, approving, and retaining internal requisition worksheets, then comparing those worksheets to the receipt, packing list, and/or billing statement provided by the service activity. (Also see [Section 330-11](#).)
  3. Accounting & Financial Services shall conduct periodic audits to verify physical counts, prices, extensions, and totals. Results will be reported to the campus Associate Vice Chancellor--Finance and the Director of Materiel Management.
- B. Establishing major supply inventories
1. When a supply inventory reaches the value defining a major supply inventory (II.B, above), its manager must notify the campus Director of Materiel Management, who will decide, in consultation with those concerned, whether to designate the inventory as a major supply inventory immediately or to review its status again 3 months later. If the inventory value is in excess of \$50,000 after a second review, designation as a major supply inventory is automatic.
  2. The manager of a newly designated major supply inventory must:
    - a. Evaluate previous operating methods and develop written procedures for future operations, to be approved by the Director of Materiel Management.
    - b. Establish the inventory as a service activity if a markup is to be charged. (See [Section 340-25](#).)
    - c. Analyze stocks on hand and determine, in consultation with the Director of Materiel Management, whether to retain or liquidate specific items.
      - 1) Items active during the 6 months prior to the inventory's designation as a major supply inventory will be retained.

- 2) Items inactive during the same period will be reviewed and, on approval of the department head, will be retained or liquidated.
  - 3) Inactive, obsolete, or excess stocks will be liquidated (see [Section 350-80](#)) and the proceeds returned to the unit that previously funded the operation.
3. When a major supply inventory is established as a service activity, all items issued must be charged to requisitioners, even if previously paid for by the unit responsible for management of the inventory, in order to provide funds for stock replenishment. Stock will then be replaced as necessary with funds accumulated from issues, and stock replenishment will no longer be funded from the budget of the department responsible for the operation. When major supply inventories exist primarily to serve the needs of the managing unit and are incorporated into its budgetary structure, only issues to units and programs (including extramurally funded projects) having separate accounts will be charged.
  4. Departments maintaining major supply inventories for resale or for recharge must maintain perpetual inventory records (a continuous record of supplies added to and issued from the inventory, and an up-to-date balance of the inventory on hand). The physical inventory counts (see IV.A.1.e, above) are to be compared with the perpetual inventory record counts. (See also [Section 330-11](#).)

C. Discontinuing a supply inventory

When the value of a supply inventory or the total value of supply inventories within a department falls and remains below \$50,000 for an entire fiscal year, the campus may initiate action to discontinue the supply inventory's status.

**V. References and Related Policies**

- A. [Accounting Manual Chapter I-581](#), Inventories, 8/1/73.
- B. [Business & Finance Bulletin BUS-54](#), Operating Guidelines for University Supply Inventories, 7/1/87.
- C. UCD Policy & Procedure Manual:
  1. [Section 290-70](#), Controlled Substances.
  2. [Section 330-11](#), Departmental Financial Administrative Controls and Separation of Duties.
  3. [Section 340-25](#), Recharge Activities.
  4. [Section 350-16](#), The Storehouses.
  5. [Section 350-35](#), Receipt and Delivery of Goods.
  6. [Section 350-40](#), Inspection of Shipments and Damage Claims.
  7. [Section 350-80](#), Disposition of Excess and Surplus Property.