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Inventory System Checklist

Systems Reviewed Under the Federal Financial Management Improvement Act of 1996

PREFACE

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The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain management systems that substantially comply with federal financial management systems requirements. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and in Office of Management and Budget (OMB) guidance (Circular A-127 and September 9, 1997 implementation guidance).

To assist in reviews of financial management systems under the requirements of FFMIA, we are issuing three checklists concurrently as practice aids. Two of the checklists reflect the system requirements defined by JFMIP, while the third checklist is based on the JFMIP framework document. The third checklist describes a single, integrated financial management system and, as set forth in the JFMIP framework document, is primarily a reference source rather than a standard-setting document.

This checklist reflects JFMIP's <u>Inventory System Requirements</u>. The purpose of this guide is to provide a checklist to assist (1) agencies in implementing and monitoring their inventory system and (2) management and auditors in reviewing the systems to determine if the inventory system is in substantial compliance with FFMIA. This checklist is not required to be used in assessing the inventory system. It is provided as a practice aid available for use as a tool by experienced staff. This checklist, the JFMIP source document, and the two previously mentioned OMB documents (Circular A-127 and the September 9, 1997, implementation guidance) should be used concurrently.

Experienced judgment must be applied in the interpretation and application of this guide to enable the user to consider the impact of the completed checklist on the entire inventory system and whether that system as a whole substantially complies with system requirements.

As technology progresses, new applications emerge replacing older, less efficient and less effective ones. Policies and procedures in effect under older technologies give way to new and different processes. Judgment must be used when assessing an agency's inventory system against JFMIP systems requirements in order to recognize when new and different technologies, although not specified in the guidance, achieve the objectives of JFMIP systems requirements.

The JFMIP systems requirements series supersedes the standards previously issued in appendix III, "Systems Standards," Title 2, "Accounting," of the GAO <u>Policy and Procedures Manual for Guidance of Federal Agencies</u>.

Additional copies of this checklist can be obtained from Room 1100, 700 4th St. NW, U.S. General Accounting Office, Washington, D.C. 20548, or by calling (202) 512-6000, or TDD (202) 512-2537. It is also available on the Internet on GAO's Home Page (*www.gao.gov*) under "Special Publications."

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Abbreviations

  EOQ   economic order quantity
  FFMIA Federal Financial Management Improvement Act of 1996
  JFMIP Joint Financial Management Improvement Program
  OMB   Office of Management and Budget

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OVERVIEW

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and Office of Management and Budget (OMB) Circular A-127, <u>Financial Management Systems</u>. JFMIP requirements documents identify (1) a framework for financial management systems, (2) core financial systems requirements, and (3) 16 other systems supporting agency operations. Figure 1 illustrates how these elements fit together in an agency systems architecture.

Figure 1: <u>Agency Systems Architecture</u>

Source: JFMIP Federal Financial Management System Requirements documents.

To date, JFMIP has issued the framework and core documents and 7 of the 16 systems identified in the architecture (See figure 1.).[1]

In December 1997, GAO issued eight exposure drafts proposing checklists for the then eight documents in the JFMIP series. In early 1998, JFMIP decided to initiate projects to update two of those documents (systems related to employee travel and payroll) and to assess three others (systems related to seized/forfeited assets, direct loans, and loan guarantees) to determine the extent updates may be needed, and if needed, to initiate revisions. When the two documents are updated and the three are either updated or determined not to need revision, GAO will issue related final checklists.

Until the revisions are completed, the exposure drafts reflecting the existing five system requirements documents will be available for use to the extent agencies wish to apply them. Also, in February 1998, JFMIP issued Managerial Cost Accounting Systems Requirements. GAO will develop a checklist of those requirements.

Authoritative Guidance

OMB Circular A-127 and OMB's Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996, issued September 9, 1997, provide the basis for assessing compliance with the FFMIA requirement for agencies to implement and maintain financial management systems that comply substantially with federal requirements. OMB's September 1997 implementation guidance identifies various criteria that an agency must meet to be in substantial compliance with these requirements. One of the criteria listed in the OMB guidance is the JFMIP systems requirements series.

The source of all the questions in this checklist is the Joint Financial Management Improvement Program Federal Financial Management System Requirements Inventory System Requirements (FFMSR-7, June 1995).

How to Use This Guide

OMB's 1997 implementation guidance provides indicators for chief financial officers and inspectors general to assist them in determining whether an agency's financial management systems substantially comply with federal financial management systems requirements. The annual assurance statement required pursuant to section 4 of the

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[1]Thus far, the series includes the (1) Framework for Federal Financial Management Systems, (2) Core Financial System Requirements, (3) Inventory System Requirements, (4) Seized/Forfeited Asset System Requirements, (5) Direct Loan System Requirements, (6) Guaranteed Loan System Requirements, (7) Travel System Requirements, (8) Personnel-Payroll System Requirements, and (9) Managerial Cost Accounting System Requirements.

Federal Managers' Financial Integrity Act is one of those indicators. Agencies can use GAO's checklists to help determine annual compliance with section 4 of the act.

Filling out this checklist will allow agencies to systematically determine whether specific system requirements are being met. In determining substantial compliance, agencies should assess the results of the completed checklist on the inventory system taken as a whole. "No" answers should not be viewed by themselves or taken out of context. Rather, "no" answers should be assessed as to the impact on the overall system and the extent to which the "no" answers inhibit the entire system from meeting substantial compliance.

In the checklist, two columns follow each question. Use the first column to answer each question "yes," "no," or "na." Use the second column to explain your answer. A "yes" answer should indicate that the agency's system or systems provide for the capability described in the question. For each "yes" answer, the second column should contain a brief description how the system(s) contain the capability and should also refer to a source that explains or shows the capability.

A "no" answer indicates that the capability does not exist. For a "no" answer, the second column should provide an explanation and, where applicable, a reference to any related supporting documentation.   Such explanations could include the following examples: (1) the agency is working on modifying or implementing its system(s) to have the capability available in subsequent years or (2) management believes the capability is not cost effective and will not enhance the systems' ability to manage operations. Cost-benefit studies that support each explanation should be identified in the explanation column. If there are no cost-benefit studies or other support, a full explanation should be provided.

Not every guide may apply to each agency. Further, while a guide may be applicable to an agency, certain questions within the guide may not be applicable. Answer such nonapplicable question(s) with "na" and provide an appropriate explanation in the second column.

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INVENTORY SYSTEM REQUIREMENTS

The inventory system requirements document helps agencies meet government guidance for controlling and accounting for inventory in accordance with laws and policies.

The five functions of the inventory system are discussed below.

1. <u>Needs Determination</u> is a supply or logistics function that develops quantity and resource requirements for inventory or production. (The checklist questions for this area are drawn from pp. 20-25 of the source document.)

2. <u>Inventory in Storage</u> is tangible personal property that is (a) held for sale, (b) in the process of production for sale, or (c) to be consumed in the production of goods for sale or in the provision of services for a fee. (The checklist questions for this area are drawn from pp. 26-32 of the source document.)

3. <u>Inventory Undergoing Repair or in Production</u> consists of the following processes: (a) repairing process and (b) work-in-process tracking process. (The checklist questions for this area are drawn from pp. 33-36 of the source document.)

4. <u>Inventory Disposition</u> consists of the following processes: (a) loaning process, (b) issuing process, and (c) disposal process. (The checklist questions for this area are drawn from pp. 37-43 of the source document.)

5. <u>Program Planning and Monitoring</u> consists of the following processes: (a) policies and standards process and (b) monitoring process. (The checklist questions for this area are drawn from pp. 44-49 of the source document.)

The checklist questions follow the JFMIP source document. It should be noted that not all questions will apply in all situations and, as with the use of any checklist, professional judgment should be exercised. Using the JFMIP source document and its glossary along with the two previously mentioned OMB documents will help ensure that the user is cognizant of the background information necessary to fully understand the questions.

Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
1. Does the system record customer demand and replenishment lead time data for a period of years, analyze the data for anomalies, and compute demand and lead time forecasts on a regular, frequent schedule? These should be reviewed regularly by inventory managers, though computer-generated forecasts generally should be changed only when information is available to the manager that is not available to the automated system.		
2. Does the system compute and routinely update the ordering costs, which may vary depending on method of procurement and other factors? The ordering costs might include costs of -- reviewing the stock position; -- preparing the purchase request; -- selecting the supplier; receiving, inspecting, and placing the material in storage; and -- paying the vendor.		

Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
3. Does the system estimate and routinely update the per unit inventory holding cost, which is an estimate of the cost to hold each additional unit of inventory? Its primary elements are storage space, obsolescence, interest on inventory investment, and inventory shrinkage (due to deterioration, theft, damage, etc.).		
4. Does the system recompute the Economic Order Quantity (EOQ) on a regular, frequent schedule, using the demand forecast, ordering cost, inventory holding cost, and unit cost of the material? In lieu of the EOQ, any other optimum order quantity calculation may be used, provided (a) it is based on sound business principles and (b) it minimizes total cost, including the sum of ordering and inventory holding costs.		

Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
5. Does the system recompute the safety stock, if any, on a regular and frequent schedule? The safety stock may include variables manipulated by management to establish intended service levels.		
6. Does the system recompute the reorder point level on a regular and frequent schedule, considering stock available for issue, backorders, quantities on hold, and quantities due in?		
7. Does the system determine if replenishment is needed on a regular and frequent schedule, basing the determination on net stock and reorder point? If needed, immediately initiate a replenishment action using the EOQ or other order quantity, as described above.		
8. Does the system provide information on current inventories and historical usage to be used in capacity planning?		

Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
9. Does the system establish overall production targets necessary to fill customers' orders and meet operating schedules?		
10. Does the system support the incorporation of component availability and anticipated lead times for delivering orders into a master production schedule?		
11. Does the system support predefined inspection plans and quality standards?		
12. Does the system support the budgeting of resources for inventories? Normally, budgeted resources for inventories are determined by considering (a) projected customer orders based on historical customer activity and (b) management decisions projecting future inventory needs.		
13. Does the system identify available funds by inventory commodity?		

Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
14. Does the system distinguish available funds for items that are slow-moving and are carried in the inventory for more than one accounting cycle?		
15. Does the system access the core financial system to ensure that funds are available prior to the approval of a request for acquisition of inventory items? There must be a validation of available funds prior to release of requisition orders or purchase requests for inventory items.		
16. Does the system provide for reducing or terminating acquisitions when funds are limited or not available for new buys?		
17. Does the system identify funds used and rates of fund use by inventory commodity?		
18. Does the system control availability of funds by inventory commodity?		

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Inventory System Requirements

Needs determination function	Yes/no NA	Explanation
19. Does the system calculate fund usage and project the date on which funds will be exhausted at the current rate of usage?		
20. Does the system provide to agency inventory managers and designated internal review officials, on a periodic or requested basis, at least the following types of management information: -- demand? -- procurement lead time? -- procurement cycle? -- requirements? -- assets? -- available funds? -- budget versus actual? -- rates of fund utilization?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
1. Is the system integrated, at a minimum, with the acquisition and core financial systems to share information of items ordered, received, in storage, and sold or otherwise disposed of.		
2. Does the system record information on material returned by customers?		
3. Does the system record information on the receipt in sufficient detail to allow matching of receipt, purchase order/contract, and invoice for payment purposes? Examples of data to collect included item numbers, quantities, units of measure, vendors, and purchase order numbers.		
4. Does the system record the date of receipt to be used for purposes of the Prompt Pay Act and to monitor the timeliness of placing items into inventory and the age of inventory items?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
5. Does the system differentiate between partial receipts against an undelivered order and full receipts?		
6. Does the system perform quantity and price conversions between different units of measure? For example, the item purchase unit may be cases and the receiving activity unit of measure may be each.		
7. Does the system identify transportation discrepancies (i.e., any discrepancy between the government or commercial bill of lading and items received) and initiate the transportation discrepancy report (e.g., SF 361) and follow-up?		
8. Does the system record items in transit and the quantities of each if title to inventory items transfers at the point of origin?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
9. Does the system record the acceptance or rejection of new or returned items at their destination and the quantities of each? Does it update inventory on hand information as a result?		
10. Does the system record the date of acceptance for purposes of the Prompt Pay Act?		
11. Does the system provide information on items received and accepted necessary to support the payment management function of the core financial system?		
12. Does the system provide customer credit/refund on items returned in accordance with the agency's return policy?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
13. Does the system identify shipping discrepancies (e.g., SF 364) and product quality deficiencies (e.g., SF 368) between the items received and the information provided on shipping documents and purchase orders? Does it support the follow-up on discrepancies conducted by the procurement and finance offices?		
14. Does the system identify the intended location of the item and track its movement from the point of initial receipt to its final destination?		
15. Does the system record identifiers, quantities, condition, location, and other elements necessary to establish physical control?		
16. Does the system classify inventory items by commodity class to meet agency needs for management and control?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
17. Does the system distinguish between the unit cost of an inventory item and its selling price?		
18. Does the system maintain sufficient information to support the inventory valuation method chosen in the Program Planning and Monitoring function (e.g., historical cost using First-In First-Out (FIFO), weighted average, or moving average cost flow assumptions or the latest acquisition cost)?		
19. Does the system allow the cost of an item to include all appropriate purchase, transportation, and production costs incurred?		

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Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
20. Does the system categorize inventory items as described in SFFAS No. 3 as (a) inventory held for sale, (b) inventory held in reserve for future sale, (c) excess, obsolete, and unserviceable inventory, or (d) inventory held for repair? These categories shall be used for financial statement purposes.		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
21. Does the system provide financial information in the appropriate format and using the appropriate method to other financial management systems used by the agency? For example: -- Provide total cost information by financial category for items added into inventory to the core financial system for posting by the General Ledger Management function and the Cost Management function. -- If the agency has a cost accounting system to support a manufacturing, industrial fund, or similar function, provide cost and other appropriate information on items provided to that other function.		
22. Does the system provide information needed to support reconciliation between the inventory system's records and other systems' records?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
23. Does the system provide support for physical verification of inventory balances by location and type?		
24. Does the system record changes in physical condition (e.g., excellent, good, fair, or poor), quantities, etc., based on the results of physical inventory verifications?		
25. Does the system provide for the matching of physical counts with inventory quantity and financial records through cycle counting or other inventory management techniques if the agency maintains perpetual inventory records?		
26. Does the system provide for reconciliation using beginning of period inventory balances, receipts, and dispositions up to the cutoff point for the physical inventory if the agency does not maintain perpetual inventory records?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
27. Does the system ensure the retention of records of physical inventory counts until (a) the count is reconciled, (b) all adjusting entries for the physical count are resolved and entered into the financial records, and (c) the next physical count is accomplished, reconciled, and entered into the records?		
28. Does the system provide for identification of all errors arising from reconciliation processes that apply to a time period prior to the last inventory adjustment? All such errors must be corrected to include appropriate adjustments to prior gains and losses.		
29. Does the system record changes in the location of an inventory item, such as from one warehouse to another, and any associated changes in the person or organization responsible for stewardship of the item?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
30. Does the system record the value and quantities of items in transit from one location to another?		
31. Does the system record losses from the recognition of destroyed, lost, or pilfered items?		
32. Does the system send the appropriate information to the core financial system and cost accounting system to ensure that they stay in balance with the inventory system if financial adjustments are required as a result of a physical verification?		
33. Does the system adjust inventory item costs for significant differences between the amount recorded for the items upon receipt and the invoiced amounts paid for the goods?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
34. Does the system generate financial transactions to record the transfer of inventory between financial categories such as from inventory held for sale to excess, obsolete, and unserviceable inventory, or between cost categories as defined for internal management? Does it send this information to the core financial system and cost accounting system as appropriate?		
35. Does the system value excess, obsolete, and unserviceable inventory at expected net realizable value? The difference between the carrying amount of the inventory before identification as excess, obsolete, or unserviceable and its expected net realizable value shall be recognized as a loss (or gain) and either separately reported or disclosed. Any subsequent adjustments to its net realizable value or any loss (or gain) upon disposal shall also be recognized as a loss (or gain).		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
36. Does the system recognize and record unrealized holding gains/losses when using the latest acquisition cost method for valuing inventory?		
37. Does the system calculate the historical cost of ending inventory and cost of goods sold using the cost flow assumption (e.g., FIFO, weighted average, moving average, or standard cost) chosen by the agency in accordance with SFFAS No. 3 when using the historical cost method for valuing inventory?		
38. Does the system make adjustments to inventory valuations to reflect net realizable value instead of historical cost or latest acquisition cost if the conditions specified in SFFAS No. 3 under "Exception to Valuation" are met or if the inventory is declared to be excess, obsolete, or unserviceable in accordance with SFFAS No. 3?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
39. Does the system maintain the distinction between the cost of inventory items and selling price? Does it make adjustments to them separately?		
40. Does the system compute the value of items on the property records by multiplying quantities on hand or on loan by the unit cost of the applicable item? These values are totaled and the sum reconciled with the general ledger value.		
41. Does the system record the value and quantity of items shipped from contractors or vendors for which title has passed to the government?		
42. Does the system record the value and quantity of items shipped from the inventory organization to another organization for which accountability has been retained by the inventory organization until receipt by the recipient?		

Inventory System Requirements

Inventory in storage function	Yes/no NA	Explanation
43. Does the system record the value and quantity of items identified as in transit being moved from one inventory storage location to another?		
44. Does the system provide at least the following types of management information: -- unfilled orders? -- discrepancies? -- acceptance and rejection summary? -- days supply? -- master inventory? -- inactive stock? -- item expiration/shelf life? -- cycle count? -- inventory accuracy?		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
1. Does the system record the transfer of an inventory item from its current status to the status of "in repair?" Does it provide information to the core financial system to record the change in financial category?		
2. Does the system adjust the valuation of inventory items in accordance with the repair accounting treatment selected by the agency in conformance with SFFAS No. 3?		
3. Does the system establish an allowance for repairs consistent with the estimated annual cost of repairs if using the allowance method?		
4. Does the system identify the costs of repair activities?		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
5. Does the system account for repair costs as a charge to the allowance account, a capitalization in the inventory account up to the value of a serviceable item, or a repair expense, depending on the accounting method used and the types and costs of repair?		
6. Does the system separately identify prior period amounts for repair expense and record the appropriate accounting adjustments when transitioning to a new repair accounting method?		
7. Does the system record the transfer of an inventory item from the status of "in repair" to its proper status and location? Provide information to the core financial system to record the change in financial category?		
8. Does the system transfer items determined to be unserviceable to the disposal process?		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
9. Does the system support the establishment (including technical specifications and accounting classification needed by the inventory system) of orders to be placed with a contractor or other government entity to perform production work on items needed?		
10. Does the system project the production elements necessary to complete the production cycle? These production elements must reflect bills of material, manufacturing requirements, and production time to produce or repair products.		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
11. Does the system provide financial information in the appropriate format and method to other financial management systems used by the agency? For example, does it provide work-in-process costs by the designated accounting classification structure (e.g., fund, program, organization, project, or object class) to the core financial system for posting by the General Ledger Management function and the Cost Management function?		
12. Does the inventory system accept cost and other appropriate information from the agency's cost system if the agency has a separate cost accounting system to support cost accumulation by work elements, such as job order, activities, products, etc.?		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
13. Does the system track accumulated costs, which should include the value of direct materials, direct labor, and overhead where applicable (including standard costs and rates, if applicable) for work in process? Percentage of completion information should be used to value work in process.		
14. Does the system provide features to record unit costs and prices of products and services?		
15. Does the system transfer work in process to finished goods for inventory categorization and accounting purposes?		
16. Does the system identify the intended location of the item and track its movement from the point of initial receipt to its final destination?		

Inventory System Requirements

Inventory undergoing repair or in production function	Yes/no NA	Explanation
17. Does the system record identifiers, quantities, condition, location, and other elements necessary to establish physical control?		
18. Does the system classify inventory items by commodity class or type to meet agency needs for management and control?		
19. Does the system provide at least the following types of management information: -- repair status? -- production order? -- work in process tracking?		

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Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
1. Does the system record changes in the location of the inventory items and the associated changes in the person or organization responsible for stewardship of the item?		
2. Does the system record the value and quantities of items in transit from one location to another?		
3. Does the system record the transfer of an inventory item from the status of "on loan" to its proper status and location?		
4. Does the system adjust the value of items being returned in worse condition or that are not returned at all?		
5. Does the system generate the appropriate financial transactions if the financial category needs to be changed to "held for repair" or "excess, obsolete, or unserviceable?"		

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Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
6. Does the system verify that the customer order is received from an eligible customer who is authorized to use the system and order the items?		
7. Does the system record the fund citation provided by the customer so that it may be included on billings?		
8. Does the system ensure that inventory items issued are limited to available funds provided by the customer?		
9. Does the system advise the customer of the new price if available funds are expected to be exceeded because of price changes, etc.? If requested by the customer, performance and/or shipment should be withheld until the customer has provided the additional funds required or has been given an opportunity to cancel or reduce the order.		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
10. Does the system establish and maintain customer records if customers are billed or if trackings of individual customer data, business history, and preferences are important to the program?		
11. Does the system record relevant information on the customer order, including items ordered; quantities requested; customer name and address; specifications, if appropriate; date received; and other data needed consistent with the inventory program?		
12. Does the system record the fund citation provided if the customer is a federal agency?		
13. Does the system issue stock and backorder the balance as policy permits when insufficient stock is available to fulfill the total requirement?		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
14. Does the system send special orders, orders for services or goods to be manufactured to specification, and other similar orders to the Needs Determination function?		
15. Does the system determine and record the value of the customer order?		
16. Does the system send a transaction to the core financial system to record receipt of an unfilled customer order?		
17. Does the system recognize budgetary resources only up to the amount of cash received, unless otherwise authorized by statute if the customer is not a federal agency?		
18. Does the system recognize budgetary resources for the entire amount if the customer is a federal agency?		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
19. Does the system , if checks or cash are received with the customer order, record it against the customer order and send the information to the Receipt Management function of the core financial system?		
20. Does the system prepare picking lists to be used in pulling inventory items from storage?		
21. Does the system reduce quantities on hand by the number of items removed?		
22. Does the system provide advice to customers on shipments of material so that the customers may establish financial controls, as applicable, over shipments in transit from suppliers, and to establish the point of transfer of title? Title to inventory items may be passed to the customer at the point of sale or the point of destination, depending on the sales agreement with the customer.		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
23. Does the system maintain records of items issued, including quantities, shipment methods, dates, destinations, etc., to assist in the resolution activities?		
24. Does the system compare customer order records to issue records and flag any differences for follow-up?		
25. Does the system determine the appropriate price for a particular customer order using the pricing models and formulas defined in the Pricing Method Definition activity?		
26. Does the system provide quality controls to ensure that all appropriate costs have been provided to the pricing formula for a particular customer order?		

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Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
27. Does the system develop the information necessary to prepare an initial invoice for a customer that provides adequate support for the prices charged?		
28. Does the system prepare either the initial invoice itself or pass the information required to the core financial system for it to prepare the invoice?		
29. Does the system provide the core financial system with the data necessary to establish the receivable and support subsequent administration of the receivables management and collection process?		
30. Does the system decrease the inventory (finished goods) account and increase the cost of goods sold account by the amount at which the inventory items sold are valued (cost)?		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
31. Does the system record revenue and the appropriate offsetting account (e.g., cash, receivables, or advances) in the amount for which the inventory items are sold (price)?		
32. Does the system record the value of items issued from storage or shipped to customers for which title does not pass to the customer until a subsequent event occurs?		
33. Does the system decrease the quantity of the inventory item on hand by the number of items sent to the disposal organization?		
34. Does the system record confirmation of receipt of the items by the disposal organization?		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
35. Does the system recognize asset transfers and/or losses as appropriate and in accordance with SFFAS No. 3 for items designated as excess, obsolete, or unserviceable, including items (a) transferred to other federal agencies under mandated federal utilization programs, (b) sold as scrap, or (c) donated to state and local governments under mandated federal donation programs?		
36. Does the system transfer balances between financial categories, for example, from "inventory held for sale" to "excess, obsolete, and unserviceable inventory?"		
37. Does the system account for the proceeds resulting from disposition of inventory items as scrap?		

Inventory System Requirements

Inventory disposition function	Yes/no NA	Explanation
38. Does the system provide at least the following types of management information: -- loaned items? -- stock availability? -- customer order? -- inventory turnover? -- stock usage? -- losses? -- disposals?		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
1. Does the system establish price computation models or formulas to be used in the Bill Calculation activity? Pricing models for federal entities are usually based on costs incurred, but may be based on other factors, such as specific legislation for the agency, utility, and condition.		
2. Does the system provide methods to support pricing by groupings or commodities of items?		
3. Does the system identify separate methods of pricing needed based on statutory authority or other agency policy? For example, the pricing method used may depend on the nature of the customer, such as within the same agency, another federal agency, a U.S. corporation or citizen, or a foreign government.		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
4. Does the system provide quality controls over input data to the pricing model to ensure that all appropriate costs are included and are accurate?		
5. Does the system establish methods or formulas to be used in valuing and accounting for inventory based on cost? Costs to be considered for inventory held for sale include appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location.		
6. Does the system establish appropriate cost methods that apply to the various types of inventories held by an agency? Different methods might also be needed for inventory held for sale based on the type of items, such a medical supplies, perishable goods, and hazardous materials.		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
7. Does the system establish methods to maintain the net realizable value of inventory items?		
8. Does the system establish methods or formulas to be used in valuing and accounting for inventory in the process of production based on cost? Costs to be considered for inventory in repair or in the process of production (work in process) include materials, labor, and overhead used to convert the items to a finished product.		
9. Does the system establish appropriate cost methods that apply to the various types of inventories involved in the production process? Different methods might be needed to assign costs to raw materials, work in process, and finished goods in a manufacturing entity.		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
10. Does the system establish methods to capture and accumulate costs for work in process that account for repair or manufacturing performed by an independent third party, such as contractors or other government activities? The cost for work in process will be based on documented cost incurred. The process used to validate such work-in-process costs should be based, to the maximum extent possible, on reporting mechanisms used for contract management, project management, or other similar purposes.		
11. Does the system provide the ability, where the standard cost method is being used to record costs for work in process, to record standard costs and actual costs for each inventory item, in order to support usage and cost variance analysis? Standard costs will include the anticipated amounts of material, labor, overhead, and other applicable factors.		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
12. Does the system track actual and standard cost variances for materials (price and usage), labor (rate and efficiency), and overhead (actual and applied) when a standard cost method is used?		
13. Does the system establish exception thresholds, perform cost analysis, and monitor trends and variances?		
14. Does the system record reasons for significant deviations between standard and actual costs?		
15. Does the system provide capabilities to support adjustments of rates and dispositions of variances by performing periodic allocations?		
16. Does the system match costs and revenues within the periods they were incurred or realized to identify gains or losses from sales?		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
17. Does the system support analysis of operations on an annual basis to determine if revenues are sufficient to cover the costs of the entire inventory program?		
18. Does the system provide sufficient transaction audit trails to support balances of inventory shown on the agency's general ledger and changes in those balances?		
19. Does the system maintain the documentation supporting inventory transactions until it is audited for accuracy and approved by external financial auditors, but not for less than 3 years? Retention may be longer when (a) required by regulations, (b) there is a possibility of legal action involving the inventories, or (c) contract terms or modifications require longer retention.		

Inventory System Requirements

Program planning and monitoring function	Yes/no NA	Explanation
20. Does the system provide at least the following types of management information: -- cost per dollar of sales? -- operations cost? -- performance measures? -- audit trails?		

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