

## Administrative Policy No. 13.15

<b>Subject:</b>	Consumable Inventory
<b>Information Contact:</b>	Chief, Office of Accounting Services
<b>Authorizing Source:</b>	<a href="#">Chapter 43.88 RCW</a> , State budgeting, accounting, and reporting system <a href="#">Chapter 80.20 SAAM</a> , Generally Accepted Accounting Principles (GAAP) <a href="#">Chapter 35.10 SAAM</a> , Inventories <a href="#">Chapter 43.19 RCW</a> , Department of Enterprise Services
<b>Effective Date:</b>	July 22, 2013
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<b>Approved By:</b>	<b><u>Original signed by Lori Melchiori</u></b> Senior Director, Office of Policy and Rules

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### Purpose

This policy establishes requirements and standards for the management of consumable inventory, managed by DSHS facilities, hospitals, consolidated business services (CBS), maintenance operations division (MOD) or leased facilities & maintenance operations (LFMO) that:

- Provide effective stewardship of public funds.
- Contribute to operational efficiency in alignment with applicable laws and accounting policies.
- Establish sound management of consumable inventory contributing to the department's operational needs, by ensuring the timely availability of critical materials.

### Scope

This policy applies to all supply chain personnel at DSHS facilities, hospitals, CBS, MOD or LFMO. This includes but is not limited to requesting, purchasing, approving, receiving, issuing, processing payment for, or overseeing consumable inventory for DSHS. Specific requirements are addressed in this policy.

### Additional Guidance and References

- [State Administrative & Accounting Manual](#), Office of Financial Management Chapter 35.10 and 85.56 - Inventories
- [DSHS Admin Policy 19.85.32](#), Signature Authority for Financial Documents
- [DSHS Admin Policy 13.19](#), Purchasing Cards – Purchases, Payments and Disputes
- [DSHS Admin Policy 13.08](#), Purchased Goods and Services
- [DSHS Admin Policy 16.10](#), Reporting Known or Suspected Loss of Public Funds
- [DSHS Purchasing Guidance](#)
- [Consumable Inventory Order Form \(17-022\)](#)
- [Washington Administrative Code \(WAC\) 292-110-010](#), Use of State resources
- Revised Code of Washington (RCW) [Chapter 42.52](#), Ethics in Public Service
- [DSHS Admin Policy 18.60](#), Employee Relationships with Clients, Vendors, and Outside Organizations
- [DSHS Admin Policy 5.04](#), Records Retention
- Code of Federal Regulations – [Title 44](#)

### Definitions

**Consolidated business services (CBS):** The DSHS financial services division (FSD) organizational unit responsible for the fiscal, purchasing, and inventory management operations for all or part of the warehouse operations at DSHS facilities located in Washington State.

**Cycle Count:** A cycle count is an auditing technique that involves counting a given portion of the total inventory on an ongoing basis in pre-established time periods.

**DSHS** refers to the Department of Social and Health Services (DSHS).

**Electronic purchasing management extra (ePMX):** The DSHS approved consumable inventory management system used to track consumable inventory by DSHS facilities, hospitals, CBS and LFMO. MOD does not utilize ePMX.

**FEMA** means the Federal Emergency Management Agency (FEMA).

**Fair Market Value:** is the price a product would sell for on the open market.

**In-Kind Donations:** is a non-monetary contribution. Goods or services offered free or at less than the usual charge result in an in-kind contribution.

**Inventory control point (ICP):** The DSHS consumable inventory locations at each facility, hospital, CBS, MOD or LFMO where consumable inventories are aggregated for distribution, valuation, and/or reporting threshold purposes.

**Inventory:** defined as the following:

**Consumable inventory:** Stocked and non-stocked items each facility, hospital, CBS, MOD, or LFMO consumes in the course of daily operations.

**Donated inventory:** Food or other items received at low or no cost at a facility, hospital, CBS, MOD, or LFMO that are consumed in the course of daily operations.

**Emergency supplies:** A specific set of stocked material, parts, or supplies that each facility, hospital, CBS, MOD or LFMO must keep on hand at all times to provide for an effective response to an emergency based on Federal Emergency Management Agency (FEMA) criteria.

**Non-stock supplies:** Facility, hospital, CBS, MOD or LFMO purchases for a specific program, trial, client, staff, or event. Examples include patient-specific medical supplies, items brought in for trial use, and office supplies not available to all staff. Non-stock supply items are not added to the consumable inventory system until usage determines if the item should be deemed a stocked item.

**Safety supplies:** Consumable inventory that each facility, hospital, CBS, MOD or LFMO keeps in addition to normal usage items held as a buffer against uncertainties in demand or in supply system. Includes items needed on short notice that may be difficult to find or acquire through normal supply distribution.

**Shop stock:** Demand-supported repair parts in consumable maintenance inventories to be used in repair work orders at a support-level maintenance activity. The repair parts consist of mission critical parts, parts that require a long lead time to obtain, and those items required to be on hand by safety, legal, or environmental directives. Shop stock is often a combination of bench stock, emergency, and safety supplies.

**Stock supplies:** Items regularly used by facilities, hospitals, CBS or MOD. Items may be in the form of materials, parts, or supplies to be consumed as is, in the production process, or in the rendering of service.

**Item code/stock number:** The number structure used in DSHS consumable inventories, based on the National Institute of Governmental Purchasing (NIGP), a unique alphanumeric 13-digit number assigned to a consumable inventory item that identifies a specific item.

**Just-in-Time (JIT):** an inventory management method that focuses on keeping as little inventory on hand as possible. Instead of stockpiling products and raw materials, you order small shipments to replace inventory as you forecast and fulfill orders.

**Leased facility & maintenance Operations (LFMO):** The DSHS unit responsible for facility project, planning, and surplus services.

**Maintenance operations division (MOD):** The DSHS unit responsible for the service, maintenance, and repair of DSHS facilities, hospitals, and consolidated support services.

**Order quantity:** The quantity of stock that each facility, hospital, CBS or MOD orders when levels reach the reorder point. Inventory control points must periodically review the predetermined reorder point based on usage.

**Other inventory locations:** Supply areas in the facility, hospital, CBS, MOD or LFMO that allow for direct access and contain a low volume of supplies that have a high turnover and use rate. Examples include bench stock, supply rooms and medication rooms.

**Bench stock:** A stock of low-cost repetitively used supplies and repair parts established at or near points of use to ensure continuous and uninterrupted operations. Bench stocks are generally restricted to maintenance and repair activities. They contain small quantities of expendable hardware items (example: nuts, bolts, washers, and screws).

**Supply rooms:** A facility or hospital supply area where small quantities of supplies are stored for immediate use at or near the point of care. The level of supplies is determined based on the customer need and frequency of delivery to ensure the continuous and uninterrupted care of patients, clients, and residents.

**Medication rooms:** A residential facility or hospital medication dispensing point that holds and stores medication prescribed to specific residents or patients.

**Periodic inventory:** An inventory management practice where supply chain personnel periodically perform a physical count and record the current values and quantities of on hand consumable inventory.

**Perpetual inventory:** An inventory management practice where supply chain personnel document inventory transactions directly into the consumable inventory system at the time of transaction.

**Pharmacy:** A location where medications are stored and managed. Pharmacies are directly supervised by a licensed pharmacist, fall under RCW 18.64.011, and must be properly licensed by the Washington State Board of Pharmacy.

**Reorder point:** A set inventory level for each item that triggers an order. This level provides adequate inventory to meet anticipated demand during the time it takes to receive the order. A simple formula for determining the Reorder Point is as follows:

$$(\text{Usage} \times \text{Lead Time}) + \text{Safety Supplies} = \text{Reorder Point}$$

**Requesting location:** End-users of consumable inventory including wards, floors, residential units, cottages, and/or administrative departments.

**Facility:** Residential or other service units including institutions and community facilities.

**Separation of duties:** The roles of multiple DSHS staff approving, ordering, receiving, and issuing consumable inventory to ensure accountability, prevent misappropriation of products, and deter fraud and errors.

**Supply chain:** The total life cycle of materials including supply and demand planning, purchasing, manufacturing, warehousing, transportation, customer service, usage, and disposal.

**Supply chain management:** The people, activities, information, and resources involved in the process of designing, planning, implementing, controlling, and monitoring the operational efficiency and overall performance of a supply chain.

**Supply chain personnel:** DSHS staff members who have a role in the requesting, purchasing, receiving, inventorying, issuing, and payment at each facility, hospital, CBS, MOD or LFMO.

**TRACKS:** The DSHS electronic purchasing and asset inventory system used to track agency purchases and monitor fixed asset inventory.

## Policy Requirements

The DSHS supply chain program specialist within the office of accounting services is designated as the agency inventory officer in accordance with [SAAM, Chapter 35.10](#).

The office of accounting services (OAS) has developed the following consumable inventory requirements for maintaining and safeguarding the agency's inventories.

### A. General Requirements.

1. Each facility, hospital, CBS, MOD and LFMO must develop local procedures that support the requirements listed in this policy to:
  - a. Maintain inventory control point inventories in the ePMX consumable inventory system including consumable inventory, donated inventory, and emergency supplies with the exception of pharmacy inventories.
  - b. Ensure pharmacy operations use a pharmaceutical vendor-supplied inventory system to maintain pharmacy inventories.
  - c. Maintain separate inventories in ePMX, but may keep inventories in the same physical location or warehouse.
  - d. Maintain consumable inventory under the categories listed below:
    - i. Central service (S) – Examples may include medical supplies including wound care, diabetes supplies, catheters, medicated soaps, lotions, powders, masks, and medicine dispensing cups.
    - ii. Commissary (C) – Commonly used items, not included in the other warehouses.

Examples may include janitorial supplies and cleaners, paper products, gloves, office supplies and paper, clothing and shoes, personal care items, incontinence products, linens and towels.

- iii. Dietary/Food (F) – Examples may include frozen, canned/dry goods, refrigerated food products, spices, high turnover perishable items such as produce, dairy, and bread products, should not be include in the Consumable inventory system, but instead be a direct issue to the kitchen.
- iv. Parts/maintenance (P) – Parts and maintenance supplies to be used for repair and maintenance of facility assets and facilities. Examples may include small tools, paint, repair parts for plumbing, electrical, automotive, light bulbs, small fixtures, fuel, and nuts/bolts/screws.
- v. Pharmacy – Controlled substances and pharmaceuticals managed by the pharmacy.
- vi. Inventory Control (I) – Examples are mattresses, fans, gaming consoles, microwaves. High turnover items with higher dollar value.
- vii. Response (R) – Emergency Response supplies. Examples – Personal Protective Equipment (PPE)

**B. Consumable Inventory Valuation and Inventory Requirements**

1. Each facility, hospital, CBS, MOD and LFMO inventory control point must conduct a periodic inventory in accordance with SAAM ([Chapter 35.10](#), inventories and [Chapter 85.56.20](#), consumable inventories) at fiscal year-end.
2. Facilities, hospitals, CBS, MOD and LFMO must conduct a periodic inventory by a person(s) with no direct responsibility for the inventories. If use of such personnel is not feasible for any part of the inventory, those counts are at least to be verified by a person with no direct responsibility for the inventory location.
3. Each inventory control point with a consumable inventory value of \$50,000 ([SAAM Chapter 85.56.20](#)) or more, must physically count, value, and record final data in the general ledger at the end of each fiscal year.
4. Supply chain personnel utilizing the consumable inventory system determine consumable inventory value using the weighted average inventory valuation method as per [SAAM 35.10.45.e](#). Inventory values are based on the average cost per unit for the period.
5. Pharmaceutical inventories must be maintained in the pharmaceutical vendor-provided inventory system. The director of pharmacy must establish effective procedures and maintain adequate records regarding use, disposal, and accountability of controlled substances, and other such drug as appropriate, in compliance with state and federal regulations. (See Section H below)
6. Facilities, hospitals, and CBS must conduct a monthly inventory of food, to include

donated items, and document values on the monthly meal cost summary as per [DSHS Administrative Policy No. 6.11](#).

7. Facilities, hospitals, CBS, MOD and LFMO must not maintain other inventory locations, such as bench stock or supply rooms, in ePMX. Other inventory locations must be minimally stocked based on usage and delivery schedule. Other inventory locations must be assessed quarterly for over stock and needs of the customer.
8. Facilities, hospitals, CBS, MOD and LFMO personnel must maintain a current inventory, monitoring issues and receipt transactions and spot-checking monthly for errors. Any adjustments must be documented. All spot-check inventory documentation must be kept on site and held to appropriate records retention requirements.

Personnel responsible for inventories must monitor and conduct cycle counts monthly to maintain accuracy of overall inventory. The chart below shows a suggested number of stock numbers to be counted each month. It is recommended different sets of items are selected monthly.

<b>Consumable Inventory Spot Check Sample Size</b>	
Number of Inventory Items	Minimum Sample Size
1-79	15
80-200	20
201-300	25
301-400	30
401-600	35
601-800	40
801-1000	45
1001 or more	50

### **C. Inventory Control Requirements**

1. Facilities, hospitals, CBS, MOD and LFMO consumable inventory system access is controlled through each user's unique login and password. Users must not share login and password information. Both access and separation of duties create checks and balances throughout the process and maintain accountability for the consumable inventory.
2. Facilities, hospitals, CBS, MOD and LFMO must store consumable inventories in a secure location with limited access to or under the supervision of those directly responsible for the management of the inventory.
3. Inventory control points are responsible for limiting access and establishing necessary controls for emergency access. Facilities and hospitals must support the controls put into place by the supply chain personnel. Personnel accessing the consumable

inventories after hours, at a minimum must document item number and quantity account for items taken out of a warehouse, per the method set up by each inventory location.

**D. Requirements for Procurement of Stock**

1. Facilities, hospitals, CBS, MOD and LFMO must procure consumable inventory goods in accordance with [DSHS Annual Purchasing Delegation Memo](#) and [DSHS Purchasing guidance](#).
2. Facilities, hospitals, CBS and LFMO must order, receive, and issue consumable inventory to be used by requesting locations.
3. Inventory control points must use Just In Time methodology when procuring additional inventory. Inventory control points must not maintain unnecessary inventories.
4. Inventory control points must use the first-in, first-out (FIFO) method to ensure rotation of stock and limit waste. Inventory control points must use on-hand stock first prior to new inventory unless deemed a health or safety issue.
  - a. If deemed a health or safety issue, the inventory control point must properly dispose of the product and adjust the inventory in the consumable inventory management system.

**E. Requirements for requesting items**

1. Requesting locations must conduct a physical inventory of authorized storage areas to identify supplies on hand and quantities available prior to initiating a request for new or additional supplies.
2. When requesting stocked items, requesting locations will reference and use available shopping lists and facility online catalogs to place orders.
  - a. Where available, requesting locations will utilize the facility online ordering system, such as Possum or Spatula to initiate an inventory request.
  - b. When online ordering is not available, requesting locations complete either a MOD work order or a consumable inventory order (CIO) form [17-022](#) to initiate an inventory request. Electronic versions of the form are the preferred format.
  - c. Requesting locations obtain required approval per facility and hospital approval requirements.
  - d. Requesting locations forward the approved request to the appropriate warehouse.
3. When requesting non-stock items, requesting locations will reference and use their warehouse catalog/inventory for stocked similar items first.
  - a. If a similar item is found, requesting locations complete an order per policy point E.2.



- b. If required item is not found, requesting locations complete an approved requisition to CBS purchasing utilizing the DSHS ordering system, currently TRACKS.
4. Adding new items to inventory:
    - a. Requesting locations fill out a request for product add/change.
    - b. Requesting locations acquire necessary approving signatures per facility and hospital approval requirements.
    - c. Request is forwarded to appropriate warehouse for review and processing.
    - d. Determine how items are received:
      - i. In-Kind or FEMA donations-must assign Fair Market Value for the item.
      - ii. Zero Value Inventory received from other state agencies-keep zero value.
      - iii. Items received through normal procurement-must assign cost of product for item to include tax and shipping, if applicable.
  5. Inventory control points must make quarterly updates to online catalogs available to staff that request items from them.

**F. Issuing Item Requirements**

1. Upon receipt of inventory requests, supply chain personnel are responsible for filling orders and either staging or delivering items per facility and hospital local practices.
2. Supply chain personnel enters transactions into the consumable inventory system after items have been pulled from inventory. A searchable job code should be entered in the system, other than just the date, that ties the transaction to the inventory request.
3. Supply chain personnel run daily transaction reports capturing the day's activity. The transaction reports and supporting documentation must be maintained in accordance with local policy.

**G. Receiving Requirements**

1. Inventory control point receiving areas must secure shipments and examine for external damage upon receipt of the consumable inventory from the vendor or third-party carrier.
2. Inventory control points must compare the packing slip and product to verify that the received product is in an acceptable condition and recorded in the consumable inventory system.
3. Inventory control points must follow up with the buyer and vendor for damaged, partial, and unshipped orders of stocked items. Cancel remaining orders if the vendor cannot provide the requested products by the time requested.

## **H. Pharmacy Requirements**

1. Pharmacy directors are responsible for pharmacy inventories.
2. Each pharmacy must participate in a pharmaceutical wholesaler program to purchase medications. As an exception, a pharmacy must purchase medications not available through the pharmaceutical wholesaler program, directly from pharmaceutical manufacturers.
3. Facilities and hospitals must develop and implement written policies and procedures to safeguard, control, and account for pharmaceutical inventory. The procedures developed must comply with the general requirements in SAAM [Chapter 20.20](#), Internal Control Policies; [Chapter 35.10](#), Inventories; and [Chapter 85.56.20](#), consumable inventories.
4. Pharmacies must use:
  - a. Perpetual inventory method for all schedule II controlled substances. ([WAC 246-873-080](#))
  - b. Periodic inventory method for all schedule III through V controlled substances, legend, and over-the-counter pharmaceuticals.

## **I. Emergency Supply Requirements**

1. Facilities and hospitals must designate personnel to work with supply chain personnel to identify what should be considered emergency supplies to have on hand. Emergency supplies will be identified and maintained as identified by local policy.
2. Emergency supplies will be maintained in the consumable inventory system by supply chain personnel.
3. Inventory control point, supply chain personnel must rotate inventories as the items are consumed and replenished, using the first-in-first-out method.
4. Where an emergent situation involves national/global supply shortages or rationing, DSHS will form a centralized operations committee to oversee the procurement and distribution of the required emergency supplies.

## **J. Transfer of Supply Requirements**

1. The inventory control point must document all items transferred including current value, item description, and quantity.
2. The transferring facility must provide a list of consumable items available to be transferred to all facilities within the department.

3. The transferring facility is responsible for running a consumable inventory transaction report that shows the transfer to accompany the items that each facility will receive.
4. Receiving department must verify items and quantity shipped. DSHS will run a “transfer in” report. If there is a discrepancy on what is transferred in, the transferring department must be notified and inventory transaction reports must be corrected. Once corrected, the receiving department will run the “transfer in” report.

<sup>1</sup> Updated definitions and added clarifying language – does not change the effect of the policy

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