



TITLE

INVENTORY MANAGEMENT

SCOPE

Provincial

DOCUMENT #

1193

APPROVAL AUTHORITY

Enterprise Risk Management Executive Committee

INITIAL EFFECTIVE DATE

April 28, 2022

SPONSOR

Contracting, Procurement, and Supply Management /
Financial Operations

REVISION EFFECTIVE DATE

Not applicable

PARENT DOCUMENT TITLE, TYPE, AND NUMBER

Not applicable

SCHEDULED REVIEW DATE

April 28, 2025

NOTE: The first appearance of terms in bold in the body of this document (except titles) are defined terms – please refer to the Definitions section.

If you have any questions or comments regarding the information in this document, please contact Policy Services at policy@ahs.ca. The Policy Services website is the official source of current approved policies, procedures, directives, standards, protocols, and guidelines. Only the electronic version of this document, as hosted on the Policy Services website or www.ahs.ca, is valid.

OBJECTIVES

- To provide a provincial set of standards to ensure appropriate controls are in place around the processes for managing of **inventory of consumable items**.

PRINCIPLES

Inventories are a significant economic resource managed by Alberta Health Services (AHS) and a key component in delivering many services and programs.

Accurate accounting, reporting, and managing of inventories is essential for AHS. Information about inventories is useful for understanding and assessing AHS' accountability for and management of its inventory and future requirements for replacement. Inventories provide economic resources, normally in the form of potential to support services, which AHS can employ in the future to accomplish its objectives.

AHS is committed to promoting sound financial stewardship through effective controls around the processes for obtaining, maintaining, and recording of inventory. This will allow AHS to commit to ensuring its **inventory management** standards are consistent, transparent, and accurate. This will also facilitate the delivery of quality health care services and balance the efficiency of operations with the financial and operational risks of inventory management.

This Policy does not apply to any items deemed tangible capital assets (regulated by the AHS *Tangible Capital Assets Accounting* Policy), equipment (major or minor), or libraries.

APPLICABILITY

Compliance with this document is required by all Alberta Health Services employees, members of the medical and midwifery staffs, students, volunteers, and other persons acting on behalf of Alberta Health Services (including contracted service providers as necessary).

ELEMENTS

1. Inventory Criteria

1.1 For the purpose of this Policy, there are three (3) main types of inventory held by AHS: asset, expensed based, and consignment. Criteria below outline the requirements for each type of inventory.

1.2 Asset Inventory

- a) Departments that identify a need to hold consumable stocks in their control regularly, to deliver their service within AHS, shall obtain authorization (see Section 3.2 e) below) in advance. Criteria considered in authorizing these requests include, but are not limited to:
- (i) the inventory shall be consumable in nature;
 - (ii) the inventory shall be significant in value;
 - (iii) the inventory requires set up in a **perpetual inventory** system;
 - (iv) the location assigned for the inventory shall have adequate controls around access to inventory and safekeeping of the asset; and
 - (v) the inventory is not yet expensed.

1.3 Expensed Based Inventory

- a) Expensed- based inventories, also known as stock inventories, are inventories that have been expensed, but not yet consumed (i.e., inventory still exists but does not qualify as one of the other categories of inventories). Expensed based inventory:
- (i) must be consumable in nature;
 - (ii) has a defined functional centre to record the expense associated with the primary service consuming the inventory; and
 - (iii) generally is held in the consuming department or unit, and not subject to the additional controls as set in Section 1.2 above.

1.4 Consignment Inventory

- a) Consignment inventory is vendor-owned inventory that is physically stored at an AHS facility. Consignment inventory is not expensed until consumption when the inventory's ownership (legal title) is transferred to AHS, and AHS is invoiced for the inventory. Although AHS does not have legal title to consignment inventory, appropriate controls (including the safe guarding) of inventory must be maintained. Consignment inventory:
 - (i) must be consumable in nature; and
 - (ii) incur no cost to AHS until the point of utilization, at which point, AHS is invoiced by the vendor.

2. Costing

2.1 Elements of Cost

- a) The cost of inventories comprises all costs of purchase, costs of conversion, and other costs incurred in bringing AHS inventories to their present location and condition. For asset inventory acquired through a non-exchange transaction (for example, additional items in kind through special offers or one-off deals), the fair value as at the date of acquisition is deemed to be its cost.
- b) The cost of inventories does not include items such as freight-out (this is a shipping or distribution charge) or warehousing costs.

2.2 Costing Method

- a) Inventories for consumption are valued at the lower of cost (defined as **average moving price**) and replacement cost. Asset inventory held for distribution at no charge or for a nominal charge, such as program supplies, is stated at the lower of cost or current replacement cost.

3. Oversight and Governance

3.1 Contracting, Procurement and Supply Management (CPSM) shall be the lead on:

- a) establishing operational governance structures, accountability, and approval authority for centralized inventory management operations;
- b) ensuring that the work that is being contemplated, to the extent possible, follows already established governance processes; and
- c) developing and implementing supporting documents in respect of this Policy, including, but not limited to, any relevant procedures or guidelines already established.

- 3.2 Finance shall be the lead on:
- a) ensuring compliance to requirements in the Public Sector Accounting Standards (PSAS) and other applicable accounting standards as they relate to AHS financial reporting;
 - b) ensuring inventory movement (purchases and consumption) are recorded in an accurate and timely manner in the General Ledger (GL), whether through sub-ledger interface or manual journal entry;
 - c) ensuring inventory asset balances in the GL are reconciled, including variance analysis as outlined in the AHS *Account Reconciliation* Policy;
 - d) working with **inventory owners** on year-end count processes to ensure compliance with audit requirements and provide comfort over reported asset balances on AHS financial statements; and
 - e) providing guidance for all new asset inventory applications and facilitate approval process
- 3.3 Pharmacy shall be the lead on:
- a) providing guidance and processes for the management of drug inventories; and
 - b) ensuring compliance with all applicable legislative laws, rules, regulations, and standards related to inventory management of controlled substances.
- 3.4 IPC shall be the lead on:
- a) providing guidance and potential processes and outcome surveillance, consultation, and education for best practice methodologies for inventories of medical devices to prevent the potential of infections to AHS' patients; and
 - b) following established CSA Group standards relevant to inventory management practices for medical devices.
- 3.5 Operating Rooms (OR) shall be the lead on:
- a) providing guidance for the management of OR inventories including consignment inventories.

4. Inventory Management Principles

- 4.1 Those responsible for AHS' inventory management shall:
- a) ensure timely delivery of goods to AHS departments;
 - b) ensure integrity and accuracy in financial and administrative recording of inventory;
 - c) promote consistency and accuracy in the valuation and reporting of AHS inventory;
 - d) promote compliance with relevant financial and operational guidance;
 - e) ensure AHS' inventory is properly received, recorded, safeguarded, stored, and managed, to avoid spoilage, waste, and theft;
 - f) ensure there is identifiable ownership for each AHS controlled inventory; and
 - g) safeguard the best interest of AHS and its strategic objectives and values.

5. Accountability - Inventory Owners

- 5.1 All inventory owners are responsible for:
- a) complying with all relevant AHS policies, procedures, and the principles stated in Section 4 above;
 - b) ensuring an appropriate level of segregation of duties is maintained between financial functions, such as ordering and budgetary authority, physical handling such as receiving/issuing, and where applicable, system management;
 - c) prior approved writes-off and adjustments up to limits; and
 - d) the delegation, as necessary, to a subordinate responsible person, either through that person's job description or other suitably documented delegation, the operational responsibilities of day to day management, including limited write-off and adjustment authority.
- 5.2 Inventory owners with responsibility for managing asset inventories are also accountable for:
- a) ensuring that all items are expensed when issued for consumption and provided to the requesting user department(s);
 - b) ensuring all relevant receiving and issuing documents such as invoices, goods received notes, packing slips, goods returned notices, and purchase orders are retained in accordance with the *Records*

Management Policy, Records Retention Schedule, and associated procedures;

- c) ensuring that inventory records are accurate and up-to-date, including deletions, adjustments, and write-offs as necessary;
- d) ensuring that processes are in place to promote safe and secure storage of inventory and that goods are not removed from AHS custody without proper authorization;
- e) determining optimum inventory levels. Items to consider during this review include:
 - (i) inventory turnover rate;
 - (ii) acquisition costs;
 - (iii) storage space;
 - (iv) shrinkage or obsolesce risks; and
 - (v) other related factors;
- f) verifying the accuracy of inventory records to correctly reflect the value of inventories in the financial statements through periodic inventory verifications, such as **annual physical counts** or **cycle counts**;
- g) supporting inventory counts, including frequency of counts and verification of inventories on hand, maintaining records of inventory counts, and providing relevant information to the appropriate stakeholders; and
- h) maintaining and adhering to an appropriate **Control Framework** that meets Internal Controls Over Financial Reporting (ICOFR) requirements, audit (internal or external) recommendations, and is consistent with this Policy.
 - (i) The Control Framework shall include physical and financial controls, including appropriate controls around handling, access, financial reporting, and fraud/theft prevention and detection. It should also ensure operational controls are implemented to reduce inventory-related risks.
 - (ii) The inventory owner shall ensure the documented Control Framework is up-to-date and current with regular industry standards and aligns with this Policy.

- 5.3 Expensed-based inventories are already treated as expended. The specific accountabilities are to ensure appropriate levels of prudent financial management to ensure such expenditures are not abused and to limit waste, but equally ensures workplace efficiency and productivity are not unduly hindered. Inventory owners managing expensed based inventories are responsible for, but not limited to:
- a) stocking the inventory within department's location and ensuring reasonable control and safeguard from loss and wastage;
 - b) ensuring inventory purchases, types, and quantity are in support of the department's provision of service;
 - c) ensuring that all items are expensed on receipt by the inventory owner; and
 - d) ensuring that the inventory is reviewed periodically to determine appropriate products and quantities are held in stock.
- 5.4 Inventory owners with responsibility for managing consignment inventory are responsible for:
- a) monitoring the inventory in the current system to ensure proper inventory level due to the criticality of the products in consignment, but will not expense the item to the appropriate area until the vendor invoices AHS;
 - b) ensuring that all items are expensed when issued for consumption and provided to the requesting user department(s); and
 - c) ensuring that inventory records are accurate and up-to-date, including deletions, adjustments, and write-offs as per contract terms or internal processes.

6. Review and Oversight

- 6.1 All inventories are subject to review, audit, and compliance testing at the discretion of the:
- a) inventory owner and/or the lead for the department responsible for the relevant inventory;
 - b) Chief Audit Executive; and
 - c) AHS Executive Leadership.

DEFINITIONS

Annual physical count means a count completed on an annual basis for an entire inventory, usually at fiscal year end using physical resources (at location counters), for reconciliation between the physical and system inventory.

Average moving price means an inventory valuation method wherein after each product is received, the average unit cost of the item is recomputed. This is done by adding the cost of the newly acquired product to the existing cost of the products already in inventory, then dividing that amount by the total number of products. This is also known as average cost,

Consumable items means all non-capital items, clinical or non-clinical, that are used (consumed) during normal business operations.

Control Framework means a documented list of control measures and activities which, when adhered to, meet the minimum requirements of Internal Controls Over Financial Reporting (ICOFR) and accepted inventory management standards.

Cycle count means a count using a perpetual inventory count methodology that involves the system indicating certain locations to be counted throughout the year. If the sampled counts are within an established tolerance level, the inventory level is deemed valid and there is lower risk of discrepancy between the physical and inventory on hand in the system. This process would still include planning for the count, the actual count, documenting the count, and proper adjustments, when discovered, of the Inventory Management System.

Inventory means consumable goods that meet the criteria to be classified as asset, expensed based, or consignment inventories in this Policy. It therefore does not include capital equipment or loaner pools or libraries.

Inventory management means oversight and control functions including purchasing, receiving, issuance, security, storage, valuation, recording, tracking, write-offs, adjustments, turnover rates, balance levels, obsolesces/expiry, and shrinkage.

Inventory owners means relevant individuals, within areas and/or departments with accountability for their own inventories that are managing their inventories based on the responsibilities outlined in Section 5 of this Policy.

Perpetual inventory means a method of accounting for inventory that records the purchases and consumption of inventory immediately through the use of a computerized system. It provides a highly detailed view of changes in inventory with immediate reporting of the amount of inventory on hand.

REFERENCES

- Alberta Health Services Governance Documents:
 - *Account Reconciliation Policy* (#FR-004)
 - *Corporate Contracting Policy* (#1152)
 - *Financial Systems Access Policy* (#BSFO-002)
 - *Journal Entry Policy* (#FR-001)
 - Pharmacy Services Inventory Management Policies/Procedures
 - *Tangible Capital Assets Accounting Policy* (#FR-002)
- Alberta Health Services Forms:
 - *Inventory Addition/Deletion/Modification Form*
 - *Ordering and Receiving Bulk Stores Supplies Form* (#MDC-h-10)
- Alberta Health Services Resources:
 - *Alberta Health Services Receiving Process*
 - Inventory Count Procedures/Process(es)
- Non-Alberta Health Services Documents:
 - *Controlled Drugs and Substances Act* (Canada) and associated regulations
 - *CPA Canada: Public Sector Accounting Standards* (PSAS) and other applicable accounting standards
 - CSA Group: *Management of Loaned, Reusable Medical Devices* (Z314.22)
 - CSA Group: *Warehousing, Storage, and Transportation of Clean and Sterile Medical Devices* (Z314.15-10)
 - *Food and Drugs Act* (Canada) and associated regulations

© 2022, Alberta Health Services, Policy Services



This work is licensed under a Creative Commons Attribution-Non-commercial-Share Alike 4.0 International license. The licence does not apply to AHS trademarks, logos or content for which Alberta Health Services is not the copyright owner. This material is intended for general information only and is provided on an "as is", "where is" basis. Although reasonable efforts were made to confirm the accuracy of the information, Alberta Health Services does not make any representation or warranty, express, implied or statutory, as to the accuracy, reliability, completeness, applicability or fitness for a particular purpose of such information. This material is not a substitute for the advice of a qualified health professional. Alberta Health Services expressly disclaims all liability for the use of these materials, and for any claims, actions, demands or suits arising from such use.