



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

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July 19, 2016

MEMORANDUM

TO: All Transportation Directors

FROM: Derek Graham, Section Chief
Transportation Services

SUBJECT: Explanations of Inventory Shortages

Inventory loss is reported by each county on the annual transportation report, form TD-1. These are items that should be on hand, but cannot be found. They cannot be allocated to vehicle maintenance because it is unknown whether or not they were actually used. Further, even if an inventory item was used without being properly documented, it is unknown whether or not it was used on a local vehicle (which is not an allowable use of state funds).

Inventory loss will be considered a “questioned cost” for which LEAs will be required to reimburse the state. Invoices will be generated following submission of the TD-1 report in August, 2016, including the processing of any stock loss explanations.

Attached to this memo are some potential scenarios where a stock loss explanation is appropriate. Instructions are also provided for completing the reporting spreadsheet along with a sample spreadsheet that indicates the way that data should be submitted to DPI.

All of these documents are available on the NC School Bus Safety Website:
<http://www.ncbussafety.org/StateForms.html>

DPI Transportation Services is still evaluating how to implement this policy for bulk fluids. As such, losses in known bulk fluid material numbers will not be submitted as questioned costs at this time. In an attempt to be as fair as possible, for the 2015-2016 school year, this exception will cover all items in Oil, Diesel, Gas, DEF and other Fluids as well as select repair parts numbers listed at the end of this document.

Explanations for any shortages that appear on the TD-1 due August 1, 2016 will be accepted through September 1, 2016. It is recommended that LEAs send an initial explanation in advance of the final due date in case corrections are required. Questions should be directed to Kevin Harrison at DPI Transportation Services.

SAFE AND HEALTHY SCHOOLS SUPPORT DIVISION

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

Historical Notes

In the 2013-14 school year and continuing into the 2014-15 school year, DPI Transportation Services sent out a series of memos and documents indicating that LEA transportation department inventory shortages (i.e. missing stock) would be considered a “questioned cost” and referred to the DPI School Business section starting with shortages in the 2014-15 school year.

Further, DPI reported back to each LEA, the transportation inventory losses reported by the LEA in each of 2010-11, 2011-12, and 2012-13.

Finally, in the summer and fall of 2014, DPI did a mock run of how 2014-15 inventory losses would be presented in the fall of 2015 by allowing all LEAs the chance to see the process in the fall of 2014 as if it applied to what happened in 2013-14. This was a low-stakes way of presenting processes well in advance of their actual use.

Exception for Shortages in Bulk Fluids:

Any shortages in the ‘Oil’, ‘Diesel’, ‘Gasoline’, and ‘DEF and other Fluids’ categories need not be justified for 2015-2016 as DPI does not have a standard method of determining acceptable loss in bulk fluids. These losses will automatically be offset and show up as bulk fluid offsets in the final loss report to the LEA. These automatic offsets will also extend to some items under ‘repair parts’ for the DOT numbers listed below. Again, the LEA does NOT need to submit a loss offset request for any shortages in these materials this year.

Various Fluids, Additives, Grease, and Paints:

181091000 - 181092999

Coolant and Diesel Conditioners:

155000500-155000510

155000005

155000007

155000008

155000009

155011030

155011034

155011036

155011325

Freon:

155013900

155013902

155013903

155013904

155013905

Loss Offset Spreadsheet Instructions

These instructions should be used to explain any stock losses (as reported on form TD-1) for which a valid explanation is known. NOTE: Most information can be retrieved from the ZMB20 transaction. Refer to the spreadsheet “Sample Loss Offset Form.”

I. Negative Inventory Adjustment to be Offset:

This section is for details on the loss (702 movement type) adjustment the LEA believes should not have been made.

- a. **DOT Number** – Enter the DOT material number of the part in question
- b. **Posting Date of the Adjustment** – Enter the Posting date of the adjustment from ZMB20
- c. **Material Document Number** – Enter the material document number of the adjustment listed on ZMB20

II. Source of the Error:

This section is for details on the source of the error. There are generally only three places where an error is made: Receipt, Issuance, and Physical Inventory Count.

- a. **Error Source** – Select whether this was a receipt (purchase order) problem, issue (work order) problem, bad count, missed transfer, reported theft, or to request an exception for a bulk fluid not already excluded (see the end of scenarios document for exclusion list)
- b. **Document type where the error originated** – This will fill in automatically.
- c. **Document Number** – If the document type above was a Count Document, missed transfer, or reported theft, then this is the same document number as in section I; otherwise, enter either a Work Order Number or Purchase Order number as in document type.
- d. **Notes** – Give a short description of the problem that was found and corrected

III. Corrective Documents:

This section is to list items documents involved in the offset or correction. In most circumstances, any incorrect 702 will have to be offset with a corrective 701 to adjust the stock back into inventory.

- a. **Positive Adj. Material Doc which offsets** – Material document number of the stock increase done to offset the 702 movement downward (In cases of reported break-in/theft this is not necessary)
- b. **Other corrective documents (opt)** – If the problem was an incorrect count, then these document numbers are not necessary because the fix is the corrective adjustment document above. If corrective actions such as cancelling an incorrect PO were taken, then the LEA may list any additional document numbers for reference purposes.

IV. Offset Request:

This section is to list data on the requested offset.

- a. **Quantity** – Stock quantity of loss to be offset
- b. **Value** – Value of the loss to be offset
- c. **Category** - Category of the TD-1 where this offset should apply (Oil, Tires, Repair Parts, Diesel, Gasoline, DEF and other Fuels)

Sample Inventory Loss Adjustment Scenarios and Explanations

Any inventory adjustment made in 2015-16 is an acknowledgement by the LEA that the source of the increase or loss in that DOT number is not known. Shortages in state-funded inventory will be considered a Questioned Cost and LEAs will be required to refund the State for that loss from local funds.

There are, however, some circumstances where inventory adjustments are made in error and have to be corrected:

1. An entry of an incorrect count of an item which is not caught prior to posting
2. A more detailed examination of purchases or work orders after inventory is complete locates the source of the discrepancy

While it is preferable to catch these things prior to the completion of physical inventory, it is understood that this is not always possible. Thus, the LEA may supplement its TD-1 report to DPI with a detailed explanation of the source of stock losses if they can be determined specifically.

Any explanation must be verifiable within the BSIP system. If sufficient explanation is given DPI may reduce the amount of the required refund.

Examples of acceptable explanations

The following scenarios offer some typical situations that might arise. There is an explanation of how those situations would be explained and entered on the explanation spreadsheet.

Scenario 1:

- A count of 4 was entered for ABC123456 while BSIP indicated there should be 12 in stock (document 4907220963)
- BSIP made a resulting adjustment of -8 of the part at \$20 each for a loss of \$160.
- After this count was posted another case of 6 ABC123456 was found and new count of 10 was entered (document 4907220998).
- BSIP made a resulting adjustment of +6 of the part at \$20 each for an increase of \$120.

Comments: This scenario is a simple miscount at inventory time presented as counting too low. The negative occurred first and the resulting positive occurred after it. The opposite could also occur and result in the loss being reported after the increase.

Scenario 2A:

- After inventory was complete it was determined that work order 61023300405 for bus 150 listed two recapped tires
- The order should have listed two new tires.
- As a result of this, physical inventory adjusted two new tires out of stock as missing (document 49077220555), and two recapped tires into inventory (document 49077220599).
- Those two new tires were worth \$800 and should not have been adjusted out.

Comments: In this scenario, the correction for the problem has not been completed and the work order still shows incorrect parts. The LEA would need to correct the problem as in Scenario 2B below.

Scenario 2B:

- After inventory was complete it was determined that work order 61023300405 for bus 150 listed two recapped tires
- The order should have listed two new tires.
- As a result of this, physical inventory adjusted two new tires out of stock as missing (document 49077220555), and two recapped tires into inventory (document 49077220599).
- Those two new tires were worth \$800 and should not have been adjusted out.
- A count which decreased recapped tires by two was entered (document 49077220602). This indicated a loss of \$200. The recapped tires were then cancelled off the work order returning stock to match actual.
- A count which increased new tire stock by two was entered (document 49077220601). Those tires were then issued to the work order.

Comments: In this scenario, the problem identified in 2A has been corrected. That correction involved two more inventory adjustments, a cancellation of the incorrect issue, and the issuance of the correct part.

If the correction occurred by June 30th 2016, then the offsets are \$1000 for 2016

If the correction occurred after June 30th 2016, then the offsets are split \$800 for 2016 and \$200 for 2017

Scenario 3:

- A receipt for \$624 of brake drums was put into inventory twice (documents 5007123456 and 5007123460). Duplicate PO number: 4500548760
- At inventory this stock was adjusted out of inventory (document 4907722605) for a loss of \$624.
- To correct this, a new count was entered which increased the stock level (document 4907722700) and the duplicate receipt was then cancelled (Document 5007123470).

Scenario 4:

- A receipt of ZZZ000123 was entered with a quantity of six when it should have been four (5007121111). Purchase Order Number: 4500548760
- At inventory the two extra were adjusted out of stock (document 4907722705) for a loss of \$150
- To correct this, a new count was entered which increased the stock level by two (document 4907722710)
- The incorrect receipt was canceled (5007123470), and then entered properly as a quantity of four (5007123471)

Comments: You would need to attach the invoice and TD-21 confirming this information in addition to sending the information on the spreadsheet

Scenario 5:

- After inventory was complete it was determined that work order 61023300500 for bus 250 had 181000555 in quantity one listed on it instead of part number 181000556
- As a result of this, physical inventory adjusted one 181000556 out of stock at a value of \$580 (document 49077220750) and one 181000555 into stock at a value of \$76 (document 49077220760).
- These adjustments should not have occurred
- A count which decreased 181000555 by one was entered (document 49077220770). This indicated a loss of \$76. 181000555 was then removed from the work order.
- A count which increased 181000556 by one was entered (document 49077220780). 181000556 was then issued to the work order.

Comments: If the correction occurred by June 30th 2016, then the offsets total \$656 for 2016. If the correction occurred after June 30th 2016, then the offsets are split \$580 for 2016 and \$76 for 2017

Scenario 6:

- The gasoline fuel tank was cleaned and resulted in the removal of 100 gallons of water/fuel.
- At inventory, the stock was adjusted downward by 300 gallons (\$960) (document 49077220790) but 100 of those gallons (\$320) were the water/fuel which was removed

Comments: This should have been handled via the obsolete/damaged stock process at: http://www.ncbussafety.org/BSIP/documents/BSIP_IA5_MIGO201_Obsolete.pdf

Scenario 7:

- At inventory service truck storage location 8976 showed a loss of two 15523456 lights (49077220794) worth \$210
- At inventory the main storage location 8970 showed an increase of two 15523456 lights (49077220799) worth \$210
- The driver of the truck forgot to restock the vehicle before counts were taken and posted.
- These adjustments should not have been made (the stock either should have been put on the service truck or transferred back to the main storage location)

Comments: Since these adjustments are on the same DOT number already and the adjustments up and down offset each other, there are no further corrections necessary. If the service truck needs to stock the part again, a stock transfer can be made.

Scenario 8:

- A total of \$4500 of tires was stolen from the lot over Spring Break
- Immediately following the theft, the stock was adjusted by \$4500 in various tire numbers (document 49077220800).
- The total of all loss adjustments for the year was \$5200, but \$4500 of those dollars were from the reported theft.

Comments: This type of explanation would require an attached police report. It is one additional circumstance when an inventory adjustment for stock loss is appropriate. Any funds or monetary restitution resulting from the police investigation should be returned to the state. If stock is recovered it may be adjusted back into inventory.

Scenario 9:

- A total of \$500 of a bulk fluid was lost but this loss was not in a normal bulk fluid number

Comments: This type of explanation is an indicator that the stock loss was in a bulk fluid, but not a number normally used for bulk fluids. This is a request to consider the loss as a fluid loss (which is not being considered for reimbursement at the current time) thus reducing inventory losses.

Exception for Shortages in Bulk Fluids:

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