SYNERGY

INVENTORY CYCLE COUNT

DEFINITION

Cycle counting is a method of counting physical inventory on a rolling basis rather than in a single annual "wall-to-wall" count. Cycle counting disrupts day-to-day operations less, and is generally more accurate, than a complete physical inventory count.

PURPOSE

The purpose of cycle counting is to identify inventory inaccuracies. Once identified, inaccuracies should be researched and eliminated. Cycle counting helps to ensure that inventory records are operationally accurate—in other words, that actual item locations and serviceable quantities on hand agree with item locations and quantities recorded in inventory records. Accurate inventory records are necessary in order to properly manage inventory levels and maximize a storeroom's operational efficiency.

In addition to their primary purpose of maintaining inventory accuracy, cycle counts function as an audit of inventory management practices. They may be done to satisfy auditor requirements for verifying the dollar value of facility inventory. Cycle counts also allow the MRO Materials Management Function to check storeroom stock against the facility's maintenance and operational requirements to ensure that the necessary MRO materials are on hand in appropriate quantities.

RESPONSIBILITY

- Storeroom Attendants are responsible for performing inventory cycle counts.

- The Storeroom Manager is responsible for determining items to be counted, processing counts, investigating and approving discrepancies, and ensuring proper counting procedures.

TIMING

- Inventory cycle counts are performed during off-shifts, after all transactions for the day have been completed and entered in the EAM software system, but before transactions for the following day begin. This helps to ensure that counts agree with inventory records.

- Inventory cycle counts are performed every day throughout the year, rather than only on chosen days. This allows the MRO Materials Management Function to obtain a precise representation of inventory accuracy, and causes of inaccuracy, over time.

- Counts must never be performed when stocking or picking, or when verifying stock levels before reordering an item. Such counts are not considered cycle counts but "opportunity counts," which are a poor and inefficient practice.

LOCATION

SwainSmith

All inventoried MRO materials are included in cycle counts. This includes not only the main storeroom but also any satellite storage areas throughout the facility, whether secure or unsecure.

GUIDELINES

Inventory inaccuracies are most likely to occur with items that are used often. This is because errors are usually introduced during transactions such as issues and receipts. As a result, high-usage inventories are more at risk for inaccuracies than slow-moving inventories.

High-usage and high-dollar materials are not only harder to maintain accurately, but they also carry a larger financial risk. It makes sense for the MRO Materials Management Function to focus cycle counting efforts around the materials that pose the most risk to [Company]. Prioritizing counts by usage and dollar value enables a storeroom to more efficiently distribute its auditing and cycle counting efforts.

ABC Codes

With cycle counting, the goal is to count inventory the minimum number of times necessary to achieve required results. This is accomplished by assigning ABC codes to inventory and developing a counting strategy around each item's ABC classification.

The frequency of inventory cycle counts for each item should be determined by the item's ABC classification:

- "A" items are counted once per quarter, or four times per year.
- "B" items are counted once every six months, or twice per year.
- "C" items are counted once per year.

Excluded Items

Certain items should be excluded from the counting process:

- Items with a status of "Inactive" or "Obsolete" should be counted only if there is inventory on hand, or if there was a transaction within the last twelve months.

- Non-stock items should be counted only if there is inventory on hand, or if there was a transaction within the last twelve months.

- Process chemicals, such as caustic or sulfuric acid, should never be counted as part of a cycle count.

All other items in inventory, including consignment inventories, should be counted at least once each year.

Initiation, Completion, Adjustments, and Analysis

To initiate a cycle count, MRO Materials Management personnel should generate daily count sheets comprised of A, B, and C items. The selected items should then be locked in the EAM software system to prevent any transactions from taking place while the cycle count is in process. Once the count is complete, the physical count should be compared to the computer records. In case of a discrepancy,
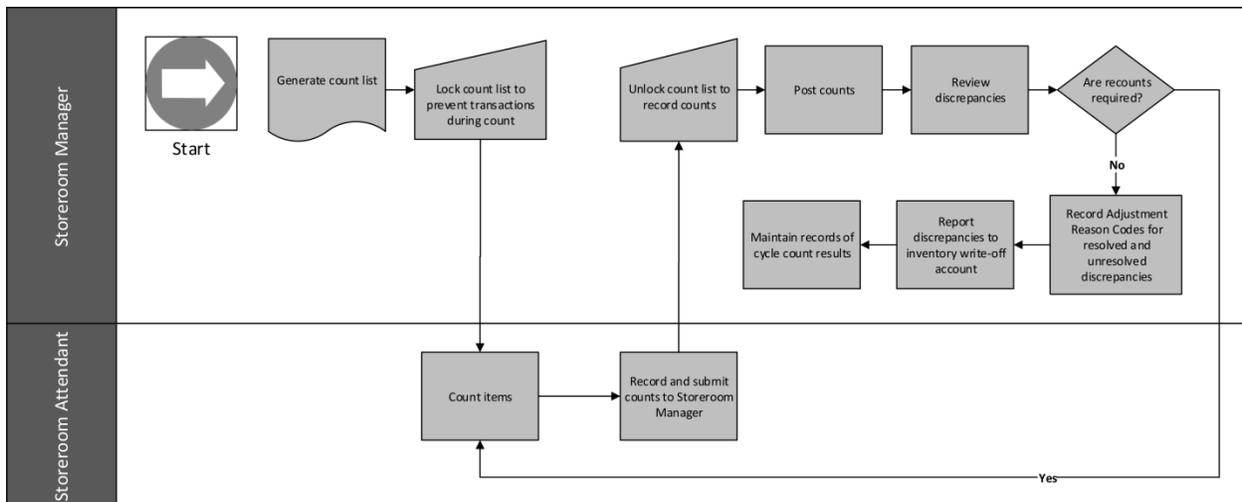
further analysis is required to resolve the discrepancy. If the discrepancy cannot be resolved, then an adjustment must be made to bring the physical inventory in synchronization with the electronic inventory. Whenever an adjustment is made, it decreases the inventory accuracy of the storeroom.

Based upon the results of a cycle count or a complete physical count, the Storeroom Manager should make necessary adjustments and compile a report, at least quarterly, to show inventory adjustments. Any adjustment level above a predetermined threshold immediately requires Root Cause Analysis (RCA). Unless an RCA is performed, there is no reason to believe accuracy will change. Based upon the results of the RCA, a list of corrective actions should be developed to improve the business flow, and to address deficiencies discovered.

Additional Guidelines

- The Storeroom Manager, not the person performing counts, must determine items and locations to be counted on a given day.

- Employees should use barcode scanners to perform cycle counts when possible, as barcode scanners make the process faster and more accurate.

- Counts must be performed blindly—that is, without knowing the quantities recorded in the EAM software system.

PROCESS FLOW

INVENTORY CYCLE COUNT

PROCEDURE

Responsibility	Activity	Reference
Prerequisites		
Storeroom Attendant	1. Lay out storeroom so that specific rows and bins are easy to find. 2. Label and mark all rows and bins for easy locating and counting. 3. Ensure that bin labels identify the specific items they contain. 4. Ensure that all items are stored in discrete locations.	
Counting		
Storeroom Manager	1. Determine inventory items to be counted. (This step may be at least partially automated using the EAM software system.)	
Storeroom Attendant	2. Count selected items, using a barcode scanner if possible, and without checking quantities in the EAM software system.	
Storeroom Manager	3. Review and verify inventory count. 4. Identify discrepancies. 5. Research discrepancies. 6. Attempt to resolve any discrepancies. 7. Assign Inventory Discrepancy Reason Code(s). 8. Make any necessary adjustments to inventory records in the EAM software system. 9. Record, report, and file cycle counting results. 10. If necessary, perform Root Cause Analysis. 11. Develop corrective and continuous plan to improve accuracy.	