

DEFINITION

Inventory cycle counting is a method for counting inventory and comparing it to inventory records. It is an alternative to the traditional annual “wall-to-wall” method of counting physical inventory. Cycle counting is less disruptive to day-to-day operations and is generally more accurate than a complete physical inventory count.

PURPOSE

Inventory cycle counting aims to identify inventory inaccuracies, which are then researched and eliminated. Counting helps ensure that inventory records are operationally accurate—in other words, to ensure that actual item locations and serviceable quantities on hand agree with item locations and quantities recorded in inventory records.

Cycle counts are an audit of inventory management practices and are performed to satisfy auditor requirements for official verification of facility inventory dollar value. Additionally, these counts provide a check of facility maintenance and operational requirements to ensure that materials required for these purposes are on hand at the indicated levels.

Finally, accurate inventory records are necessary to maximize operational efficiency within the storeroom and properly manage inventory levels.

RESPONSIBILITY

- Storeroom Attendants are responsible for performing inventory cycle counts.
- The Storeroom Supervisor 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 are completed and entered but before transactions for the following day begin. This helps to ensure that counts agree with inventory records.
- Inventory cycle counts are performed each day throughout the year, rather than only on chosen days. The purpose of this is to obtain a precise representation of inventory accuracy, and causes of inaccuracy, over time.
- Counts must never be performed immediately before reordering when stocking or picking or at verification. Counting at these times is inefficient: such counts are considered “opportunity counts” rather than cycle counts, and opportunity counts are never a good practice.

LOCATION

All inventoried MRO materials are included in cycle counts, including the main storeroom and any satellite storage areas throughout the facility, whether secure or unsecured.

REQUIREMENTS

Inventory inaccuracies are most likely to occur with high-usage inventories because such inventories are highly transactional (i.e., have many issues and receipts), which presents an increased probability of errors occurring (as opposed to slow-moving inventories). Additionally, high-usage and high-dollar materials are harder to maintain accurately and carry a more significant financial risk to the organization. It makes sense for the storeroom to focus cycle counting efforts around the materials that pose the most risk to the facility. Prioritizing counts by usage and dollar value permits the storeroom to distribute its auditing and cycle counting efforts more efficiently.

ABC Codes

The goal is to count inventory the minimum number of times necessary to achieve required inventory cycle counting 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, including:

- items with a status of "Inactive" or "Obsolete," which should be counted only if there is an inventory on hand or if there was a transaction within the last twelve months;
- non-stock items, which should be counted only if there is an inventory on hand, or if there was a transaction within the last twelve months;
- process chemicals, such as caustic or sulfuric acid.

All remaining items in inventory, including consignment inventories, should be counted annually.

Initiation, Completion, Adjustments, and Analysis

To initiate a cycle count, 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 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. Further analysis is required to resolve the discrepancy in case of a difference. If the discrepancy cannot be resolved, an adjustment must be made

to synchronize the physical inventory 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 Supervisor 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). There is no reason to believe accuracy will change unless an RCA is performed. Based upon the results of the RCA, a list of corrective actions should be developed to improve the business flow and address deficiencies discovered.

Additional Requirements

- Items and locations to be counted on a given day must be determined by the Storeroom Supervisor, not by the person performing counts.
- If available, barcode scanners should be used to perform cycle counts, as this method is generally much faster and more accurate.
- Counts must be performed blindly—that is, without knowing the quantities recorded in the EAM system.

PROCEDURE

Responsibility	Activity	Reference
Prerequisites		
Storeroom Attendant	<ol style="list-style-type: none"> 1. Layout storeroom so that specific rows/bins are easy to find. 2. Label and mark all rows/bins to be easily located and counted. 3. Ensure that bin labels contain specific information about items they have. 4. Ensure that all items are stored in discrete locations. 	
Counting		
Storeroom Supervisor	<ol style="list-style-type: none"> 1. Generate/determine inventory items to be counted. 	
Storeroom Attendant	<ol style="list-style-type: none"> 2. Perform inventory count for selected items, using barcode scanner if possible, and without checking inventory quantities in the EAM system. 	
Storeroom Supervisor	<ol style="list-style-type: none"> 3. Review / 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 inventory adjustments in the EAM system. 9. Record, report, and file cycle counting results. 10. If necessary, perform Root Cause Analysis. 11. Develop corrective and continuous action plans to improve accuracy levels. 	