Federal Standards for Inventory Management Systems
Career, Technical and Agricultural Education
Georgia Department of Education

Federal Education Grants Management requires recipients to have in place an inventory management system to track items purchased with federal funds. The specific Education Department General Administrative Regulations (EDGAR) thresholds apply to recipients of Perkins federal funds. In essence, the cost principles contained in Office of Management and Budget (OMB) Circulars A-21, A-87 and A-122 require expenditures of federal funds to be---at a minimum---necessary, reasonable, allocable to the program, allowable under the program and legal under state and local law. It is nearly impossible to demonstrate that items purchased with federal funds comply with these cost principles, and benefit the applicable program, if the items cannot be tracked and located by the federal grant recipient.

From a practical perspective, proper inventory management for items purchased with federal funds is reduced to the following:

“if a recipient purchases an item with federal funds, the recipient is best protected against adverse audit or monitoring findings if it has a system to track the item, regardless of its value.”

I. Elements of an Equipment Inventory Management System

All recipients of federal education funds should be familiar with the specific requirements outlined in EDGAR, because U.S. Department of Education (U.S. ED) monitors appear to be conceptually applying EDGAR equipment standards as an internal control “yardstick” when determining whether expenditures meet federal cost principle requirements even where the EDGAR standards may not formally be required. Moreover, the U.S. Department of Education Office of Inspector General (OIG) often issues findings citing agencies for having weak internal controls when property purchased with federal funds is lost or not readily accounted for through an inventory system.

A. Definition of Equipment

As described in EDGAR Section §80.3, for state and local government, “equipment” is tangible, nonexpendable personal property that has a useful life of more than one year and an acquisition cost of $5,000 or more per unit. State requirements also have set a $5,000 threshold for equipment – please see chapter 16 (Capital Assets) of the Financial Management for Georgia Local Units of Administration Manual. State and local governments may set a lower threshold for defining equipment, but not a higher one. Georgia requires all equipment falling under object codes 615, 616, 730, and 734 to be accounted for. If a state or local government set a lower threshold, such entities, as well as other grantees and subgrantees, must use that lower number for defining equipment. EDGAR requires that grantees and subgrantees maintain controls over equipment through a compliant inventory management system.

Audit Tip #1

Be sure that any equipment purchased with federal grant funds is being used to benefit the program that provides the funding in accordance with the relative benefit received. For example, if the Perkins Education program paid 100 percent of the cost of computers, then the computers must be used exclusively to benefit the Perkins Education program. This has been a common finding in federal monitoring reviews by ED.
B. Property Records

Grantees and subgrantee must keep very specific records to document the location and use of equipment purchased with federal funds. A grantee or subgrantee that cannot identify each piece of equipment purchased with federal funds for an auditor risks an audit finding even if the purchase was allowable under the relevant federal program.

Under Section §80.32(d)(1) of EDGAR, grantees and subgrantees to which that section applies must maintain specific property records that include:

(1) a description of the property and who holds title to the property;
(2) a serial number or other identification number (such as an asset tag);
(3) the source of property (i.e. fund source used to purchase the property);
(4) the purchase date;
(5) the cost of the property;
(6) the percent of federal funds used in the purchase;
(7) the location, use and condition of the property; and
(8) any ultimate disposition data, including the date of disposal and sale price of the property.

To facilitate proper tracking of property, grantees and subgrantees should tag any piece of equipment, as well as small and attractive items (such as laptops, printers, cameras and personal digital assistants) that cost less than the equipment threshold but are easily stolen or damaged. The asset tag should be affixed to the equipment in a location that can be easily read. The asset tag should have a unique inventory number so the equipment can be tracked by the asset tag number. The funding source (i.e. the federal or state program or local revenue source) used to purchase the equipment should be recorded. Recording the fund source used in purchasing the equipment is an effective mechanism for demonstrating proper recordkeeping when U.S. ED monitors or OIG auditors conduct on-site visits.

Audit Tip #2

Taking routine physical inventories and comparing the results to property records is a sound internal control. But it is not sufficient to conduct an inventory and then put the list away until the next time. Your inventory list should be continuously updated to reflect any change in the location or status of an item, so the item can be located on demand.

C. Control System

As part of an inventory management system, grantees and subgrantees must develop a control system to ensure that adequate safeguards are in place to prevent loss, damage or theft of the
property. Any loss, damage or theft must be investigated by the grantee or subgrantee.

D. Physical Inventories

Grantees and subgrantees must take a physical inventory of their equipment annually and must reconcile the results of the physical inspections to their records. If any equipment is missing, the grantee or subgrantee must follow up.

E. Adequate Maintenance of Equipment

Grantees and subgrantees must ensure adequate maintenance procedures to keep equipment purchased with federal funds in good condition. Assuming they are necessary, reasonable and properly allocated, maintenance costs can generally be charged to federal grants if they:

- keep property in efficient operating condition;
- do not add to the permanent value of the property or appreciably prolong its recommended life; and
- are not otherwise included in rental fees or other charges for space.

F. Disposition of Equipment

Section §80.32(e) of EDGAR establishes specific rules for disposing of equipment, depending on what the equipment will be used for and the value of the equipment. When a grantee or subgrantee no longer needs equipment for its original program for which it was purchased, the grantee or subgrantee may use the equipment for other programs that are currently, or were previously, supported with federal funds. If such a disposition is made, the transfer must be recorded in the property management system.

If there are no federally supported programs that need the equipment, the disposal rules depend on the current fair market value of the equipment. If the equipment has a current fair market value of less than $5,000, the grantee or subgrantee may keep the equipment, sell it or otherwise dispose of it with no further obligation to the U.S. ED. If the equipment has a current fair market value in excess of $5,000, the grantee or subgrantee may keep or sell the equipment.

Audit Tip #3

It is a good idea for grantees and subgrantees to:

- maintain written procedures explaining how they value equipment;
- ensure employees are trained on these procedures; and
- maintain sufficient documentation to support a valuation.
equipment but must pay the U.S. ED a share based on the percentage of federal participation in the initial acquisition.

Grantees and subgrantees must take care to accurately value equipment. Ensuring proper valuation is an important part of a sound control system.
G. Supplies

Supplies are addressed in Section §80.33 of EDGAR and chapter 12 (Inventory Accounting for Consumable Supplies) of the Financial Management for Georgia Local Units of Administration Manual for state and local governments. Supplies are any tangible personal property that is not considered equipment. Generally, supplies do not cost much money and are used fairly quickly because they are perishable items (e.g., pens, paper, and printer toner). As a result, supplies do not have to be recorded in an inventory management system and do not require a formal inventory annually; however, all grantees and subgrantees must maintain enough information about their purchases to prove all costs are necessary, reasonable and allocable, as required under OMB Circular A-87.

If a grantee or subgrantee has unused supplies that, in aggregate, have a fair market value of more than $5,000 at the termination of the grant award, the grantee or subgrantee should use the supplies for another project that is supported with federal funds. If the supplies are not needed for another federally supported project, the grantee or subgrantee must compensate the U.S. ED for its share of the value of the supplies.