Monitoring and Counting

Consistent records will enable proper monitoring. Basic things to be regularly monitored are:

Levels of stock with special requirements:

- Items reaching critical thresholds (like re-order or safety stock levels).
- Items belonging to specific projects.
- Items with expiry dates.

Consumption patterns, and the length of time that inventory will last:

- Items with high rotation.
- Items that are core to running relief operations.
- Items with short order cycles.
- Items with a significantly increased demand that could lead to stock-out situations.
- Items with a significantly reduced demand that could lead to over-stock situations.

In addition, the performance of inventory management can also be monitored. To adjust the management processes, consider monitoring the following information:

- **Inventory rotations** - Transactional frequency, volume and value, identifying those items with higher turn-over. The value of individual transactions can be compared to the average inventory value and to the required workload to manage them.
- **Actual time to completion** - The amount of time from issuing instruction to completion of a task. This might include the time for dispatch preparation, including the time lapse between the moment when the stock release order is received and when goods formally dispatched.
- Number of stock-outs in a given period.
- **Stock valuation**.
- **Quantities and values lost**.

When coming to control and monitor particular items, consider that stocks follow the*Pareto principle*, also known as the “80/20 rule”, the “law of the vital few”, or the “principle of factor sparsity”. This principle states that roughly 80% of consequences come from 20% of the causes. When applied to inventory management, 80% of the movements tend to come from 20% of the line of items. Identifying this 20% of “high-rotation” items is vital for an optimal inventory management.

Physical Inventory

To ensure that records are consistent and aligned with the stock physically on hand, it is recommended to regularly reconcile stock records with actual physical counts. This process is referred as "physical inventory". The frequency of physical inventories may be determined by the number of stock movements, by the value or nature of the stored goods, the frequency of visits to third-party managed locations, or by donor requirements for a specific project.

To optimise the efforts of controlling mechanisms of a physical inventory, an A-B-C system can be put in place dividing the inventory into three categories:

- "A items" with very tight control and accurate records.
- "B items" with less tightly controlled and good records.
- "C items" with the simplest controls possible and minimal records.

Regular control can be achieved dividing the inventory in A, B and C groups and counting a rational combination of each category per period of review. This type of counting occurs when some parts of the stock on hand are counted more often than others, usually following a schedule, is referred as “Cycle Counting”.

Other forms of counting are:

- **General physical inventory:** Typically happens in predefined periods such as on a yearly, semester or quarterly basis and covers the whole inventory in a given storage facility.
- **On demand inventory of specific items:** For specific reports or requests, particularly for items that may require more regular counting.
- **Inventory by sample:** Random spot checks usually performed by request of auditors or program management. Random spot checks are good to carry out during random or infrequent visits.

When conducting physical inventories, stock should remain stationary - no stock movement should be performed for those items under scrutiny. On demand or random spot checks are easier to conduct and may occur as needed; during random spot checks or on demand inspections only movement of the selected stock item should be halted. A full physical stock count will require the entire facility to be closed to stock movement for a pre-defined period of time.

Random Spot Checks

Random spot checks are encouraged throughout any operation, and at any time. They are useful for when counters only have access to storage facilities for limited periods of time, due to security or operational constraints. Spot checks are also a relatively low effort way to continually monitor activities.

To conduct a spot check, counters should pick out 3-7 line items from any random cargo item in the warehouse ledger and conduct a blind count. To facilitate a blind count, locate the items in the warehouse.

- If the items cannot be located, ask the storekeeper or warehouse manager to help locate them.
- The inspector should conduct their own count, and ask the third-party or other team member to do a separate count conducted at the same time.
- At the end of both counts, compare the two numbers and reconcile any discrepancies between the two counts.
- Cross-check between the physical count and the stock count in the warehouse ledger afterwards. If the physical count does not match the numbers on the ledger, counters should make a note of the discrepancy.

Weights and Dimensions (if required)

- Weigh and measure the 3-7 selected items.
- Cross check against the weights and volumes in the warehouse ledger. Discrepancies in weights and dimensions should be recorded and fixed.

Full General Physical Inventory

When general physical inventory happens, the warehouse should be locked down during the entire inventory period. The overall size of the warehouse and quantity of items stored within it will determine the length of time required to complete a full count. A small facility could be

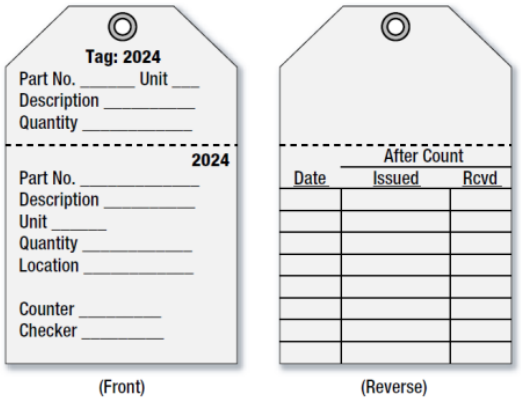
completed in a just a few hours, while a large facility might take several days.

If the physical inventory is expected to take more than a few hours, all users of the warehouse should be informed of the delay and closure. If incoming deliveries are expected, they should be rescheduled in advance.

In order to mitigate the chance of human error and bias, it is recommended that two separate teams count the same set of items without any information exchange between them. A third person should be appointed to oversee or manage the counting teams. If available, employ the "stock tag" system to facilitate counting.

Inventory Sheet **Stock Tags**

PO	Description	Position	Quantity



While on-demand or random spot checking may occur as needed, it is strongly advised that a full stock count should be conducted at least once a year, if not more frequently depending on the size of the facility and the overall volume of throughput. The standard accepted best practice for a full stuck count is called "double-blind", and follows the below steps:

Double Blind Count Procedures	1. Two teams of two persons each (four persons total) are identified in advance. These two teams will conduct the count sequentially. All four persons should ideally come from different parts of the organisation, and not have direct control over the stock or direct financial incentive to tamper with stock counts. 2. Warehouse activities are completely halted during the time of the stock count. This means that no cargo goes in or out, and stored items are not moved around the facility. Ideally, only counters should be let inside the facility during counting. 3. The two teams should meet in advance to ensure all parties understand the process. 4. The first two-person team starts at one far end of the warehouse/storage facility and begins counting, using a pre-defined common understanding (example: Piece count per shelf, piece count per line item, etc). The first team member counts, while the second team member records on a pre-defined recording system. 5. The second two-person team begins after the first two-person team. The second count can begin after the first count has ended, or even by waiting for only a few minutes. 6. The second team will count using the same agreed upon common understanding. The second two-person team can start from the same location as the first team, or start from the opposite side of the warehouse. 7. Once the full warehouse/stockroom has been counted fully by both parties, both parties compare counts. Any time there are discrepancies between the two counts, both parties must go to that stock location and reconcile the differing counts. 8. Only after both teams have come to a mutual agreement on the stock numbers can the count be considered closed.

Discrepancies

Once a physical inventory is complete, the counter should record discrepancies for further analysis and follow up.

Types of Discrepancies:

- **Loss** – There are fewer of one or more line item than is recorded in the warehouse ledger, and there are no waybills/release files to explain the difference.
- **Expired/Spoiled/Infested** – Items are considered unusable because they are past their expiration date or infested.
- **Surplus** – There are more line items than are recorded in the warehouse ledger, and there are no waybills/received notes to explain the difference.
- **Damage** – Stored items too damaged to be usable by the requester.
- **Mislabelled** – Stored items have been erroneously listed as a different item or belonging to a different project in the warehouse ledger.
- **Unidentified** – Stored items do not appear to be associated with any known other item or project in the warehouse ledger.
- **Incorrect Dimensions** – Stored items have incorrect volumetric or weight measurements than what is recorded in the warehouse ledger, or no measurements are recorded at all where required.

Many discrepancies result from simple administrative error. Common problems include:

- A warehouse worker or a loader may confuse two similar line items from two projects and store them together as one.
- Cargo is released, but the warehouse manager forgets to update the warehouse ledger.
- Cargo was recently received but not yet recorded on the warehouse ledger.

Only a full physical inventory will tally the total numbers of all items on hand. If counters find loss or mislabelled cargo during random spot checks, additional investigation may be required to understand the full problem.

Corrective Actions

In cases of loss, spoilage or damage:	Counters should reinspect items and conduct additional counts if required. If loss or damage persists after additional counts, then a loss report must be filled out, and the warehouse ledger must be updated. The owner of the cargo must be informed of the loss.
In cases of mislabelled or unidentified cargo:	Counters and warehouse staff should correctly link cargo to anticipated deliveries. Mislabelled cargo should be properly labelled, an updated stock card placed with the items and the warehouse ledger updated. Unidentified cargo should be linked to a project, donor, budget code or category as required, and be properly labelled in the warehouse and updated in the warehouse ledger. If no information on the cargo exists, warehouse staff must investigate where the stored items may have come from.
In cases of surplus cargo:	Counters and warehouse staff should reconcile cargo movements with stock on hand. If there is no explanation for additional items discovered, warehouse staff must investigate where the stored items may have come from.
In cases of mis-measurement:	Newly corrected measurements – weights and volumes – should be updated in the warehouse ledger.

Follow Up

The frequency and number of inaccuracies should be regularly monitored for each warehouse location. Any stock discrepancy should be reported and analysed and corrective actions should be taken to reduce the risk of further inaccuracies. The logistics team should record the results of general inventories in a file specific to that warehouse location. If a warehouse continues to perform below the acceptable standards, corrective action or training may be required.