

## How are you dealing with Examining Inventory during Covid-19? *Remote test counts offer an alternative solution*

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Published April 6, 2020. The Covid-19 pandemic has created obstacles for all of us in the financial world who are practicing social distancing by working remotely. Although today's technology has allowed us to perform many of our tasks remotely with a certain level of efficiency, there are still a few that require hands on attention. The task of performing physical inventory counts is probably the most challenging.

The nature of the field exam and the client's requirements may dictate that testing the physical existence of inventory cannot be postponed or waived as a field exam requirement. There is no better way to test the physical existence of inventory than to be on site and sample count inventory items. When this is not possible, Lenders may want to consider the following alternatives:

Rollforward / Rollback – When the validation date is a specific date that must be adhered to Field Examiners can work with the client to determine if it is realistic to postpone the inventory counting to a later date, when the stay-at-home orders might be lifted. The Field Examiner could count inventory and observe it at that point and then roll back the quantity using transaction data to the specified date.

When a subsequent physical count is not possible or the delay would be detrimental to the field exam results, the Field Examiner may want to consider using prior physical count data and rollforward the quantity using transaction data to the specified date. These methods can produce fairly reasonable results when the transactional data is accurate and does not include a significant amount of manual adjustments. This can be burdensome when there are a large number of inventory items or there is a significant amount of transactions associated with each inventory item.

Video / Photographic evidence – Video or photographic evidence may be an acceptable alternative. When a client is versed in performing cycle counts, the skill set already exists to perform the physical count remotely. The Field Examiner may request the cycle counter to video tape the actual count process.

Pre count requirements.

- Field Examiner is familiar with the physical location enough to authenticate the video location. (Not very practical for a new business survey).
- The Field Examiner is familiar with the physical nature of the inventory that will be included in the video.
- The video equipment can produce quality images.

Pro's

- Effective when inventory counted is physically large and in relatively small numbers as it is much easier to verify 100-bedroom dressers than it is 100,000 bolts.
- Effective when inventory is identified by specific serial number or other identification method including heavy equipment haulers and rental fleet inventory.

- For new business surveys, a video tour can provide a useful overview of the warehouse including square footage, shipping, receiving, manufacturing process, production time, procedures, departmental overview etc.

#### Con's

- Digital file size will most likely be lengthy and of a size or format that is unacceptable to email systems.
- The roll forward/roll back process is a very limited analysis and might not be useful to most lenders since it effectively produces an as of date inventory listing. Essentially it provides what the inventory was supposed to be at a given date but does not validate that the inventory is physically on hand. It is not a true replacement of a real time inventory report that shows what the inventory value should reconcile to based on actual test count results.
- Providing test counts selections even an hour in advance without being onsite can compromise the field exam process. Timing is key and more controlled when onsite.
- Inspecting and opening individual boxes to confirm quantities becomes challenging. Borrowers could easily manipulate quantities based on items selected with other like items from samples not selected from the inventory reports.
- Another key disadvantage is inspection of slow-moving inventory. It would be difficult to get a good sense of other areas in the warehouse where slow moving inventory might be prevalent and are sometimes stored in places which are not as visible. Having inquiries with warehouse personnel is sometimes key when performing onsite test counts.
- Counts from floor to sheet would not be practical

#### Conclusion

Remote test counts could potentially be a temporary solution prior to full recovery of the Covid-19 Virus. However, there are several risks associated with the process and it might not be practical for many businesses. The lender must weigh the risks involved with the process to see if the remote counts can provide confidence in the inventory systems being sought, or if it's more practical to simply delay the onsite visit until travel restrictions are lifted.

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