|Asset|Services|

Whitepaper

IT Asset Management

Physical Inventory Justification

|Asset|Services|

| Fixed Asset Inventories | Ledger Reconciliations | Asset Valuations |

Contents

1. Purpose

The purpose of this whitepaper is to illustrate the importance of effectively managing an information technology (IT) equipment inventory and the importance of having professional ITAM physical inventories performed on a periodic basis. This information will assist IT asset managers and executives in determining if the current method of tracking and reporting IT equipment is satisfactory, or if it is necessary to have a professional fixed asset inventory performed. This document also provides detailed information on Asset Services and its IT Asset Management (ITAM) inventory solution.

This document will provide information technology and financial personnel with the following information:

- The leading questions pertaining to current inventory practices.
- The importance of having a professional IT inventory completed.
- The ramifications of not having inventories completed regularly.
- An overview of the inventory, reconciliation and valuation processes.

2. Definition of an IT Asset Management (ITAM) Inventory

An IT inventory should be performed periodically to assist organizations in maintaining accurate financial records pertaining to IT assets within the facilities, and also assist IT departments in maintaining an up-to-date inventory to identify obsolete equipment. IT fixed assets are non-consumable items that typically fall under the following asset classes.

- PCs
- Laptops
- Monitors
- Servers
- Network Printers
- Supporting Network Hardware

3. Leading Questions

Leading questions pertaining to current inventory practices are necessary to gain an understanding of your organization's current IT inventory process. It also identifies where this process can be improved by having a professional inventory performed, and identifies the scope of such a project. Review these questions and take a self-evaluation of your current inventory process.

The following steps have been established to assist organizations maintain the investment in fixed assets and capitalized equipment.

Questions

- Do you currently perform regular IT asset inventories?
  - If not, how does your finance department prepare annual reports, accounting for fixed assets and how does your IT department track assets still in use?
  - If you do perform annual fixed asset inventories, how are the inventories performed?
    - Is the "paper & pen" method being used? This is a method where a listing of all assets for a particular department is printed and distributed to each department. Then a representative "checks off" each asset identified on the list.
    - Are items bar-coded? If so, are you using barcode scanners to inventory?
    - Are untagged assets added to the inventory? In other words, if you run across an item that does not have a tag, or is not on the inventory list, are they added or ignored?
- If you do perform regular IT inventories, who performs the inventory? Are you using administrative personnel to inventory their respective departments, or are you using professional inventory personnel? If you are using administrative personnel, what is the true cost of having them perform inventory functions? There is the tangible loss of professional salaries to perform an inventory, but there is also the intangible loss; is customer service being compromised during the inventory process?
- If you do perform periodic IT inventories, how confident are you that the inventory is as close to 100% as possible? If administrative personnel are performing the inventories, we have found that they are not usually enthralled with the idea and tend to perform a less than accurate inventory. They also tend to be interrupted frequently to assist with more urgent tasks.

4. Justification for an IT Asset Management Inventory

Effective IT asset managers and executives understand the importance of having a physical IT equipment inventory rather than relying solely on auto-discovery tools.

The approach and methodology of the two techniques are quite different, although they both support the same goal: an accurate accounting of the IT assets owned by an organization.

The most effective asset management solution occurs when both a manual, physical inventory and an auto discovery tool are used in conjunction with one another. In best practice IT asset management, a physical inventory is used to develop the baseline data to load into the CMDB, followed by the discovery tool to append additional data and fill in any gaps from the manual inventory.

A physical inventory will:

- Provide "eyes on" every asset.
- Ensure assets are physically tagged with a property tag.
- Collect data for assets not reachable through a discovery tool for reasons such as:
    - Powered down
    - Not connected to the network
    - Not having the correct service/agent for the discovery tool installed
    - Firewall setting that prevents the discovery tool from accessing the hardware
- Provide additional data not available through a discovery tool, such as:
    - Location information
    - Physical condition assessment
    - User information
    - Identification of assets potentially offsite

- Provide a reminder to employees that the IT assets are being tracked, and deters theft and vandalism.

Upon completion of the physical inventory baseline, and validation/data fortification through the discovery tool, ongoing IT asset management occurs. The continuing ITAM includes implementing a policy and procedures for acquisition, transfer and disposition of assets. Monitoring through the use of discovery tools and periodic physical inventories for audit control and validation.

5. The Importance of a Professional Inventory

The following are justifications why an organization should perform an annual fixed asset inventory:

- **Financial Reporting Accuracy** – Business are required to provide accurate financial reports on an annual basis. An accurate fixed asset ledger is an integral part of that financial report, as it identifies current assets and determines the worth.

- **Financial Reporting Compliance** – Businesses, whether publicly or privately owned, still have financial requirements that need to be met. An accurate accounting of all assets owned by the organization, including IT assets, assists in ensuring compliance with accounting regulations such as FASB and Sarbanes-Oxley (SOX).

- **Capital Budgeting** – Accurate knowledge of current assets is critical in planning for purchasing requirements. An annual inventory may identify equipment that has been lost or stolen, and therefore require replacements be purchased. An inventory may also uncover equipment believed to have been disposed of, stored in an undisclosed location, therefore nullifying the need to purchase replacements.

- **Accurate Asset Listing** – Some organizations never inventory. Instead, they receive assets through the materials management department, where the assets may be tagged, and then the asset information is sent to the financial department. The financial department then enters the assets in the FA ledger and sets up the depreciation of the item. Then, on an annual basis, depreciation is calculated, and the item is <u>assumed</u> to still be owned and in use by the organization, when in fact it may have been lost or stolen. If an organization assumes, from year-to-year that all items are still accounted for and in-use, the FA ledger becomes more and more inaccurate as each year passes. This is known as the snowball effect.

- **Locate Missing Assets** – An annual inventory will assist a business in locating assets that are assumed missing, or may verify that the assets are in fact, lost.

- **Identify Surplus Equipment** – After a thorough inventory has been completed and a review of the fixed asset ledger is performed, surplus equipment may be identified that can be sold on the open market.

- **Decreased Tax Payments** – An accurate inventory ensures the organization is only paying taxes on equipment that it actually owns. If an organization is still carrying equipment on its books, that may have been lost, stolen, or inadvertently disposed, it would be paying unneeded taxes on that equipment.

- **Accurate Insurance Premiums** – A business insures the equipment that it currently owns. An accurate inventory ensures the organization is only paying insurance premiums on equipment that it has in its possession, yet is adequately insured.

- **Disaster Preparedness** – If a disaster were to occur, does the business have an accurate picture of what it owns? This is critical on two accounts: a) insurance claims, and b) the ability to recover. Being able to provide insurance carriers with an accurate listing and value of items lost in a disaster ensures faster and more accurate reimbursement.

  Just as critical, if not more, is the ability to recover from the disaster and rebuild. An accurate inventory identifies not only what assets were lost, but where the assets were located in the facility. This provides the organization with a virtual plan for rebuilding the damaged area.

- **Accurate and Efficient Inventory** – The use of barcode technology ensures that annual inventories are accurate because all of the information is loaded onto handheld readers and can validate data as it is entered. The efficiency of an inventory is tremendous due to the fact that on an annual rescan, the asset is verified with nothing more than a scan of the barcode using a handheld reader – no clumsy lists to scan through in order to find the asset. The user will know immediately if the equipment has been moved, and can quickly update the data.

- **Standardized Inventory Across Departments** – The standardization of data ensures a more accurate FA Ledger. If there are numerous people across several departments performing the inventory, the data will lack standardized results, and require more time being spent “cleaning” the data.

- **Return on Investment (ROI) and Cost Savings** – The return on investment realized by a company may be enormous based on the low cost of having an inventory completed and the savings the organization may realize through reduced taxes and insurance premiums. The cost of an inventory is far less expensive than what organizations may believe.

- **Inventory Professionals Prevent Lost Man-Hours by Company Personnel** – If administrative personnel are performing the inventories, they are being taken away from their primary responsibilities.

6. Ramifications of Not Having a Professional Inventory

The following are possible implications an organization could face if annual inventories are not completed:

- **Noncompliance of Annual Financial Reporting** – Often times, organizations are required to submit accurate annual financial reports in order to comply with financial accounting requirements. An important part of this financial report is to properly account for all equipment owned by the company and to report the value of those assets. Without performing an inventory, the report is based on the assumed accuracy of the fixed asset ledger and the possibility of inaccurate financial reports is greatly enhanced.

- **Inaccurate Tax Payments & Insurance Premiums** – Organizations pay taxes and insurance premiums based on actual asset value. If the company does not have an accurate account of its equipment, it may be inaccurately paying taxes and insurance premiums.

- **Snowball Effect of an Inaccurate Fixed Asset Ledger** – After performing inventories for clients who have not regularly inventoried their facilities, we have seen fixed asset ledgers that are less than 60% accurate. Meaning 40% or more of the items on the asset ledger cannot be located, or there are items identified during the inventory that are not on the asset ledger prior to the inventory. Once an organization decides not to validate their asset ledger on an annual basis, the inaccuracy of the ledger multiplies each year.

- **Items that may be Lost or Stolen** – When equipment is needed in the routine activity of the organization, and it gets lost, stolen, or wrongly disposed of, the non-availability of that equipment may not be realized until it is too late. It then takes time to replace the item. Annual inventories may identify missing items as well as identifying items that may be misplaced in another location in the facility.

- **Efficient Capital Budgeting**– Without an accurate inventory and fixed asset ledger, capital budgeting is more difficult. An accurate fixed asset ledger assists in the identification of equipment that needs to be purchased.

- **Unable to Recover from a Disaster** – It is said that an organization that does not recover from a disaster within a few months, will never reopen. Having an accurate fixed asset ledger that identifies the equipment owned by the company, and ensures that insurance claims are recouped quickly and for the correct amount. It also acts as a virtual floor plan for identifying equipment (by room) for recovering from a disaster.

7. Contact Asset Services

Please feel free to contact us with any questions pertaining to our asset management solution, or if you would like an estimate for completing an inventory for your organization.

For additional information, please visit our website at: www.assetservices.com

Or contact us at:
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