



## Hard Assets in Hard Times

As companies batten down the hatches to weather the current economic storms, ample evidence has exposed unacceptably weak internal controls over fixed assets based on past practices. The spotlight shows, one again, the high risk of assuming that systems will operate properly without proper audit.



For example, a construction company has a number of projects that are at or near completion and, with no backlog to replace them, has laid off staff and had the assets shipped back to the company's storage lots to await the pick-up in orders. Unfortunately, what was discovered is that a substantial number of these assets have simply disappeared and the company faced a material write-down, further aggravating their diminished financial performance.

Equally important, the task of identifying the assets returned and/or missing required hundreds of hours of staff time. And no system was in place to prevent a recurrence when the economy rebounds and it is necessary to reuse these assets.

The lesson is clear: asset management is not a luxury but a fundamental and integral aspect of proper financial and management controls.

So how does an organization with thousands of assets spread over a large number of locations justify the necessary investment to implement a workable solution? Easily. Over the past 20 years, the cost of implementing an automated asset management system including software, hardware, inventory services, labels and implementation support, has averaged 2% of the cost of the underlying assets. This is usually a small fraction of the write-downs incurred as the result of the



occasional inventory like the above example. Much less, the cost of the chaotic inventory scramble that weak controls force on the unsuspecting organization.



As the solution is pursued, it is important to keep in mind that, while the cost of inadequate controls appears in the financial statements, the problem involves the entire organization. The problem is, in fact, systemic. An accounting system solution is destined to fail because the accountability for managing the physical assets lies elsewhere. A stovepipe asset tracking application will likewise miss the mark because it will force considerable duplication of effort. Until these issues are confronted and duties are assigned to those responsible, no system can succeed.

A note of caution is in order when pursuing asset management solutions that the selected tools and vendors are equal to the challenges. Most organizations face a steep learning curve and are best served by a full-service provider capable of a complete turn-key solution. Though not every component may be purchased, these vendors will generally possess far more expertise, are better equipped to integrate the solution and can provide guidance on best practices. Finally, keep in mind scalability and evolving technologies and make certain your solution can keep pace.

Fortunately, hard times, like these, are rare. But they can provide a rare opportunity to put in place controls that will make future downturns far less calamitous.

Alden Snyder  
President  
Asset Systems, Inc.

*Tales from the Front is a periodic publication of Asset Systems, Inc. that is designed to provide users and prospective implementers' insight and perspective on current trends and issues in asset management.*