

## The Physical Inventory Plan- A Road Map to Success

---

By Brandon Kriner, CPPM, NOVA Chapter and Lana El-Eryan, CPPS, NOVA Chapter

Physical inventory. The mere mention of the term brings dread to property managers, contracting officers and organizational management. Taking stock of all of your organization's accountable property can be stressful and time-consuming. However, if conducted properly, the physical inventory is the ultimate opportunity to visibly demonstrate property management's value to the organization's bottom line. To quote Dr. Douglas Goetz: "Businesses need to know where their capital is located- every item of property ties up some of the business capital that could be used for other purposes." Just as you wouldn't take a long car trip without a road map, it's unwise to begin a physical inventory without an execution plan. Your execution plan must address the following essential questions before a single asset is counted:

**-Why are you conducting the inventory?** The answer to this question may at first seem obvious, but the purpose of the inventory should drive all subsequent decisions concerning the resources and stakeholders involved. For example, a routine spot check of network printers in a building will have very different requirements than a wall-to-wall annual inventory of government furnished equipment at a secure contractor facility.

**-When is the inventory happening?** Unless you plan to conduct a rolling inventory by exception it's important to define a clear time frame for completion of the inventory. Establishing a fixed time period allows you to schedule off-site visits in advance, gain access to secure areas and coordinate with key stakeholders at each inventory location. A fixed time frame also creates a sense of urgency around the inventory and a deadline that the entire team can work toward. It's also important to consider the timing of the inventory. It might be best to postpone the inventory until after a major IT refresh or move the inventory up to accommodate a planned building move. Selecting an inventory period that works best with business needs will go a long way toward ensuring the inventory's success.

**-Which assets are you looking for?** The most obvious answer for many organizations may be "everything!" especially if you are accountable for a good deal of sensitive property or if you've had weaknesses with past inventories. However, there are many cases in which it is not practical or desirable to perform a wall-to-wall inventory. Sensitivity, accountability and contract requirements are several factors that determine the assets that should be included in a particular inventory. An organization concerned with protecting Personally Identifiable Information (PII) might decide to conduct a special inventory just for servers and desktop and laptop computers. A government contractor might decide to focus exclusively on Government Furnished Equipment to satisfy the stipulations of the contract. An organization with a large number of assets might choose to concentrate on those items that meet or exceed a given accountability threshold. Large, decentralized organizations may find greater success conducting a series of smaller, specialized inventories designed around some of these criteria. Each of the specific inventories can roll up to an overall inventory report for the entire organization. The inventory stands a much greater chance of success if the base of assets to be counted is clearly defined and manageable.

**-How are you finding the assets?** There are many ways to account for assets during an inventory, ranging from the classic "tick-and-tie" method to the latest in high-tech Radio-Frequency Identification (RFID) functionality. It's important to consider the range of "valid finds" available to your organization and select those that provide the most accuracy and efficiency. Bar code and RFID scanning are quick and effective ways to physically "touch" a large volume of assets in a wall-to-wall inventory. Scanners also promote greater record accuracy and provide real time results by syncing directly to the property database. However, the need to physically touch each asset during an inventory can be reduced by employing

inventory by exception practices. Routine asset events such as maintenance, location changes or disposal can also be counted as valid finds if they occur during the inventory period. Only those assets that have not had such an event during the inventory period need to be scanned when using inventory by exception.

The "tick and tie" practice - walking around with a list of all assets in the property system and checking off each as it is encountered - is time consuming and creates plenty of opportunity for inaccuracies. This method is the least reliable in that it relies almost exclusively on the accuracy of the records in the property system. It is just as important to find assets in your custodial area that do not have records in the property system as it is to identify those assets that do have records in the system but can't be located. The tick and tie practice makes it much more difficult to confirm that the property records reflect the true reality of the organization's assets and misses an opportunity to find "assets on station".

Regardless of the methods your organization uses to account for assets it is important that they be consistent and clearly understood by all stakeholders and inventory participants.

**-Who is finding the assets?** Virtually anyone can participate in finding the assets during the initial data gathering phase of the inventory. It doesn't matter who is scanning bar codes or crossing items off a list as long as they understand how to use any technology involved and can be relied upon to promptly transmit the collected data back to the property management system. Property custodians should not be involved in conducting the inventory of those assets belonging to their custodial areas in order to maintain independence and integrity. Apart from this important limitation you are free to select the most efficient and cost effective inventory team available. A relatively small team of people armed with bar code scanning technology can account for a surprisingly large amount of assets in a relatively short time. A variety of contractors are available if more manpower is needed for a very large inventory. Who actually scans or counts each asset is not nearly as important as who synthesizes, reconciles and reports on all of the collected data.

Many organizations place too much focus on the data gathering phase at the expense of the reconciliation. While the actual scanning or counting of assets may be the most visible phase of the inventory, the hard work comes in reconciling all of the corrected data in the property system. Inventory reconciliation requires painstaking research, analysis and documentation and should thus be entrusted to a few capable property professionals. These individuals must be able to reach across the organization to gather documentation on any unaccounted assets and communicate with key stakeholders. Finally, these individuals must document and report the results of the inventory to management or contracting representatives.

**-How will the inventory results be reconciled to the property management database?** It is important to identify the group of assets that will be the base of your inventory, or what you are expecting to find. This will provide you with a "list" to reconcile against as well as auditable results. Ideally you would be able to compare your "valid finds" to your "list" in an automated manner, which can yield more audit friendly results, as it eliminates manual intervention and significantly decreases opportunity for error. Identifying the process you will use will allow you to plan sufficient time to execute this important step in the inventory.

**-How will reports be prepared and presented to management and other stakeholders?** At the end of the physical inventory, management and stakeholders want to know a) how much of what you expected to find was actually found, b) what was found that you were not expecting to find, and c) what was not found. Synthesizing this information in detailed and summary reports will provide the interested parties with the information they need in a format that is understandable to them. The types of reports produced may vary based on the assets you are looking for. If you are looking for PII assets, management will most likely be interested in the detailed information of every missing asset. If you are looking for furniture, management might want to see a summary of the number of chairs you didn't find. The results of the physical

inventory can also provide an opportunity to assess the overall property management system you have in place, including business processes, the property database and its users.

**-How will your plan be communicated?** Securing buy-in from all stakeholders and management is critical before you begin to execute your plan. Ensuring that everyone involved is supportive of your plan will correlate to the success of your execution; "Management is behind this plan and will see that it succeeds". You should also communicate with anyone who may be indirectly impacted by the physical inventory activity, such as the users of the assets. They will be more likely to participate if they are made to feel that they are part of the process and important enough to be notified in advance of the activity. Communicating the planning and execution activities also allows people to plan their group's participation in the physical inventory.

Answering all these questions and securing buy-in from all impacted stakeholders will put you on the path to executing a successful physical inventory.

**Brandon Kriner, CPPM** is a Solutions Development Manager for Sunflower Systems, Inc. Brandon has over eight years of property management experience in the public and private sectors and has worked extensively with Federal Agencies and Government Contractors as a consultant. Brandon currently serves as the Treasurer of the NOVA Chapter.

**Lana El Eryan, CPPS** is a Customer Solutions Manager with Sunflower Systems, specializing in the federal agencies sector. Prior to joining Sunflower Systems, Ms. El Eryan was a Senior Consultant with BearingPoint, Inc serving on the change management team of an ERP implementation. Ms. El Eryan has 10 years of system implementation experience from documenting requirements and designing the solution to training and supporting the user community. Ms. El Eryan is a member of the NPMA NOVA Chapter.

---

<sup>i</sup> *Property Professional*, Volume 19 Issue 1, "Physical Inventories - A Process Requirement Under the Federal Acquisition Regulation Government Property Clause, 52.245-1"

*Sunflower Systems is an asset management solutions company specializing in the deployment of software tools and business processes to simplify asset management tasks. Sunflower's portfolio of solutions enables organizations to improve decision-making, accountability and regulatory compliance for all types of assets including personal property, real property, IT assets, materials, vehicles and more. Sunflower Systems offers a wide range of services including software implementation, training, consulting and operational support. Sunflower Systems has been serving the property management needs of federal government agencies, universities, government contractors and national laboratories since 1997. The company has offices in San Ramon, California and Arlington, Virginia. For more information please call 866-209-3516 or visit our website at [www.sunflowersystems.com](http://www.sunflowersystems.com).*