

Case Study :: Professional Inventory Services

The Client

A multi-location Pharmaceutical Company had an internal accounting policy mandating a fixed asset inventory and a reconciliation of their fixed asset general ledger every five years. An executive management directive to the financial staff was to complete this mandate prior to year-end, so that all unbooked disposals could be properly reflected on the year-end financials, and ensure compliance for financial reporting purposes under the Sarbanes-Oxley Act. The scope of the Pharmaceutical Company's engagement included approximately 31,000 fixed assets comprised of furniture, machinery, laboratory, testing, and research equipment assets located at three US facilities with a capitalized cost in excess of \$400 million dollars.



The Problem

The Pharmaceutical Company had previously attempted to complete this project internally. Prior headcount reductions within the Company had already minimized internal financial staff and the deadline was rapidly approaching. In addition, the internal and external auditors were suggesting that an outside service provider would provide an "independent" result.



The Solution

AMR's Fixed Asset Inventory & Reconciliation (FAIR) Solution

AMR was awarded the FAIR project for the following reasons:

1. Unique delivery model that focuses on a quality inventory data capture and establishing a strong audit trail for each asset.
2. Depth of experience of executing FAIR projects in a professional manner in defined and concise timeframe.
3. Demonstrated ability to produce a payback on the project.

The AMR Model

Planning: AMR dedicates significant resources during the planning phase to ensure that a detailed road map is developed for the project. The planning deliverable is a comprehensive Project Work Plan that documents the final scope and specifications for the project. The Project Work Plan takes into account technological, logistical, and operational issues to ensure that the project is completed in a defined timeframe, with minimal disruption to the operating environment, and meets all of the client's objectives. The planning phase is AMR's opportunity to lay the groundwork that ensures a high degree of customer satisfaction. This phase was completed by AMR in two weeks.

Physical Barcode Inventory: AMR's field staff completed the inventory in a three-week period with an inventory and bar-code tagging of 27,500 assets (3,500 less assets than originally estimated or 11.2%).



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Financial Reconciliation: Upon completion of the inventory, AMR performed a multi-phased process to reconcile the inventory to the existing Fixed Asset Register (FAR):



1. The first step was a comparison of the physical inventory to the FAR ("floor-to-book") using an automated matching process to exactly tie-out tag and/or serial number information;
2. The next step was to continue the floor-to-book process by iteratively matching the remaining inventoried assets by combinations of description, manufacture, and model information – otherwise know an "like matching";
3. The last step was to close the loop by reviewing all of the remaining assets on the FAR in a book-to-floor fashion to affirmatively resolve the status of those assets (e.g. un-booked disposals; bulk asset records; non-tagable assets; cannibalized assets; etc.)

The reconciliation was completed by AMR within one month after the inventory phase was complete.

The Result

The FAIR project produced the following results for the Pharmaceutical Company:

1. The three phases of Planning, Inventory, and Reconciliation were completed in nine weeks.
2. AMR inventoried 27,500 assets, a significantly less amount than estimates calculated from information contained on the Company's financial ledgers.
3. The Reconciliation process identified assets totaling over \$40 million in gross book value (over \$8 million of net book value) that were no longer owned by the Pharmaceutical Company and yet were still maintained on the Company's financial ledgers as "active" assets. These assets represented over 9.5% of total book cost and 6.1% of total net book cost.
4. The AMR Reconciliation data improved/fortified fixed asset data integrity over 40%.
5. All "group" entries contained in the fixed asset system were segregated into individual entries allowing future partial retirements to be accurately booked.
6. The identification of capitalized assets retired at year-end and enhanced personal property tax classifications for each asset reduced personal property tax liability by more than 13%.



Conclusion

The Pharmaceutical Company realized the value of AMR's ability to complete this project in a very concise, defined timeframe, and with a highly professional and independent approach. This project also delivered to the Pharmaceutical Company a 13% reduction in personal property taxes or the ROI equivalent of 300% for this project.