

**Fixed Asset & Clinical
Equipment
Inventories & Valuations
for
Hospitals & Healthcare
Facilities**

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1. Purpose

The purpose of this document is to demonstrate to hospitals and healthcare facilities the importance of having professional fixed asset inventories performed. This information will assist healthcare organizations determine if its current method of tracking and reporting fixed assets is satisfactory, or if it is necessary to have a professional fixed asset inventory completed. This document also outlines the Asset Services fixed asset inventory solution.

This document will provide hospital and healthcare personnel with the following information:

- Definition of Fixed Assets
- Leading questions pertaining to current inventory practices.
- The importance of having a professional fixed asset inventory completed.
- The implications of not performing a professional inventory annually.
- An overview of Asset Services' inventory and valuation processes.

2. Definition of a Fixed Asset Inventory

Fixed asset inventories should be performed regularly to assist hospitals and healthcare facilities maintain accurate financial records pertaining to fixed assets, major moveable equipment and clinical equipment within its facilities. Fixed assets typically include items with an original cost of more than \$1,000 and a life expectancy greater than one year. These items are non-consumable and typically fall under the following asset classes:

- Clinical Equipment
- Medical Equipment
- Furniture & Fixtures
- Information Technology
- Audio Visual Equipment
- Health & Fitness Equipment
- Kitchen Equipment
- Maintenance Equipment

In addition to the fixed asset classes listed, controlled items that cost less than the determined threshold are typically inventoried as well. Those controlled assets include, but are not limited to, serialized items such as:

- Various Pumps
- Monitors
- Laptops
- Personal Computers
- Cameras
- DVD Players

3. Leading Questions

Answering the following questions will help you identify where your organization's current inventory processes can be improved by having a professional inventory performed. Answer these questions, and take a self-evaluation to review your organization's current inventory methods.

Questions

- Does your healthcare facility currently perform fixed asset inventories?
 - If your healthcare facility does not currently perform fixed asset inventories, how does your finance department prepare annual reports, accounting for fixed assets?
 - If your healthcare does currently perform fixed asset inventories, how are the inventories performed?
 - Is the "pen and paper" 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 identified by a property tag?
 - Are untagged assets added to the inventory? If an item does not have a tag, or is not in the inventory list is it added to the inventory or ignored?
- If your healthcare organization does perform fixed asset inventories, who is responsible for performing the inventory?
 - Are healthcare professionals responsible for their respective departments or are you using professional inventory personnel?
 - If you are using healthcare professionals, what is the true cost of having them perform the inventory functions? There is a tangible loss of healthcare professional salaries to perform an inventory, but an intangible loss can also be seen as well. Is patient care being compromised during the inventory process?
- How confident are you that the inventory is as close to 100% as possible? We have found that if healthcare professionals are tasked with performing the inventory, they are usually not enthralled with the idea and tend to yield less accurate inventory results.
- Healthcare professionals also tend to be interrupted frequently to assist with more urgent medical treatment. This can allow for duplicate and/or missing data to appear in the inventory.

4. The Importance of a Professional Inventory

The following are justifications as to why hospitals and healthcare facilities should regularly perform fixed asset inventories:

- **Financial Reporting Accuracy** – Hospitals and healthcare facilities are required to provide accurate financial reports on an annual basis. An accurate fixed asset ledger is an integral part of financial reporting, as it identifies current assets and determines the worth.
- **Financial Reporting Compliance** – Healthcare facilities and hospitals, whether publicly or privately owned, have financial requirements that need to be met. An accurate accounting of all assets owned by the organization assists in ensuring compliance with accounting regulations such as FASB and Sarbanes-Oxley (SOX).

- **Capital Budgeting** – An accurate inventory helps identify equipment that may have been lost or stolen, and therefore require replacements to be purchased. An inventory may also locate equipment believed to have been disposed of, but is actually stored in an undisclosed location, therefore nullifying the need to purchase replacements.
- **Accurate Asset Listing** – Some organizations never inventory. Instead, assets are received through the materials management department, and at which time they may be tagged. The asset information is then sent to the finance department to be entered into the fixed asset ledger. Then on an annual basis the depreciation is calculated, and the item is assumed to still be owned and in use by the facility, when in fact it may have been lost or stolen. If a healthcare facility assumes from year-to-year that all items are still accounted for and in-use, the fixed asset ledger becomes more inaccurate each year, this is known as the snowball effect. On average, we have seen 35-40% ledger bloat.
- **Locate Missing Assets** – An annual inventory assists healthcare organizations locate assets that are assumed missing, or may verify that the assets are lost.
- **Identify Surplus Equipment** – After a thorough inventory is complete 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 has in its possession. If an organization is still carrying equipment on its books that may have been lost, stolen or inadvertently disposed of, the organization is paying unnecessary taxes on that equipment.
- **Accurate Insurance Premiums** – Healthcare facilities insure the equipment that it owns. An accurate inventory ensures that the organization is only paying insurance premiums on equipment that it currently has in its possession, and also ensures that the organizations is accurately insured.
- **Disaster Preparedness** – If a disaster were to occur, does the facility 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, 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. The inventory reports provide the organization with a virtual plan for rebuilding the damaged area.

- **Standardized Inventory Across Departments** – The standardization of data ensures a more accurate fixed asset ledger. If there are numerous people across several departments or clinics 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 the healthcare organization 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.

5. Implications of Not Having a Professional Inventory

The following are possible implications healthcare organizations could face if annual inventories are not completed:

Noncompliance of Annual Financial Reporting – Healthcare organizations are required to submit accurate annual financial reports in order to comply with accounting requirements. An important part of this financial report is to properly account for all equipment owned by the facility 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.

Snowball Effect of an Inaccurate Fixed Asset Ledger – After performing inventories for healthcare organizations that have not regularly performed an inventory, we have seen fixed asset ledgers that are less than 40% accurate. Meaning 60% 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 a facility decides not to validate their asset ledger on an annual basis, the inaccuracy of the ledger multiplies each year.

Lost or Stolen Items – When equipment is needed in routine activity of the healthcare facility, and it gets lost, stolen, or wrongly disposed of, the unavailability 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 identify items that may be misplaced within the facility.

Efficient Capital Budgeting – Without an accurate inventory and fixed asset ledger, capital budgeting is more difficult. An accurate fixed asset ledger identifies 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 organization ensures that the insurance claims are recouped quickly and for the correct amount. It also acts as a virtual floorplan for identifying equipment, by room, for recovering from a disaster.

6. The Inventory Process

Asset Services works with each client to develop a project scope that meets the organization's needs, and works to accomplish the project goals. Once the scope of the project is determined, Asset Services will create an inventory database and conduct the physical field inventory based on the project requirements.

The following is an overview of the inventory process used by Asset Services for a typical hospital or healthcare facility:

Asset Tagging

Asset Services will apply a property tag to each item inventoried and capture all descriptive data pertaining to each asset.

Standard data collected for each item includes:

- Asset Number
- Asset Description
- Facility/Location
- Department
- Room (if applicable)
- Manufacturer
- Model or Product Number
- Serial Number



Deliverables

Upon completion of the project, the client is provided with the following:

- Inventory data in electronic spreadsheet format that can be easily uploaded into your current asset management system.
- Printed inventory report of assets by location.
- Electronic copy of inventory report.

7. Asset Valuation

Asset Services performs asset valuations based on the list of assets created from the physical inventory, including physical condition code. To determine replacement and market values, a number of sources are utilized, including: equipment, IT, and furniture distributors, manufacturers and used equipment dealers across the US. A number of other sources are researched including equipment catalogs, internet sources, and data gathered from previous clients. Through all of these sources, Asset Services has built a comprehensive database of values has been compiled and works to keep it continuously updated.

Market value is largely determined by a number of factors including condition, type, and age of the item. One of the most important elements in determining market value is what comparable items are selling for in the open marketplace. The valuation professionals at Asset Services are apprised of the current trends in the marketplace and continue expand their knowledge to ensure that market value is appropriately determined.

8. Contact Asset Services

Please feel free to contact Asset Services with any questions pertaining to our asset management solutions, or if you would like an estimate for completing an inventory for your hospital or healthcare organization.

For additional information, please visit our website www.AssetServices.com.

Contact us:

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