



The Vital Connection: Physical Asset Management and Financial Reporting for Federal Agency Leaders

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Executive Overview

Physical asset management and financial reporting are often treated as two separate disciplines within U.S. federal agencies. However, agency executives can more effectively deliver on their missions if they connect their data about physical assets and financial assets.

Linking information from these two critical areas will allow agencies to improve mission outcomes, gain valuable insights, increase informed decision making, enhance operational efficiency, and more accurately represent their financial position.

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Benefits of Making the Connection

Let's begin by exploring some key benefits of connecting physical asset and financial departments and the shared data that provides mutual benefits for their leaders.

Accurate Financial Reporting and Compliance

Connecting asset data to financial reporting ensures the accuracy and reliability of financial statements. Accurate valuation of assets, depreciation calculations and assessment of impairments are critical components of financial reporting. By aligning asset management practices with financial reporting, agency leaders can provide a more precise representation of their assets' value, support transparency and, very importantly, increase compliance with relevant regulations and accounting standards.

Optimal Budget Allocation and Decision Making

Effective physical asset management integrated with financial reporting allows agency leaders to optimize budget allocation. Every agency has a long list of competing asset-related acquisition requests from internal stakeholders. It is extremely challenging for decision makers to prioritize these requests without information such as asset utilization, cost of replacement, maintenance costs, and performance metrics against an asset's expected useful life. Asset management data allows agency leaders to make more informed decisions regarding capital investments, maintenance schedules, and replacements. This proactive approach minimizes unnecessary expenditures and ensures that resources are allocated to assets that generate the greatest benefit to the agency and its stakeholders.



Future Strategies for Success

What can agency leaders do to realize these benefits? In a perfect world, agency executives would have detailed asset information identified, available, and accessible via business intelligence and digital reporting tools. In reality, functional departments and information systems are often disconnected, with information exchanges taking place through arduous manual data calls to meet reporting deadlines or audit reviews. Communication among department staff often ceases until the next reporting deadline or audit “fire drill.” Let’s consider some of the functional departments, the primary information systems they use, the information gaps they face, and then some recommendations for greater efficiency.

Contracts/Procurement

The contracts or procurement department is responsible for acquisition of goods and services, ensuring delivery from suppliers, compliance with acquisition regulations and budgeting. This department uses the acquisition module of the agency’s Enterprise Resource Planning (ERP) system to carry out its mission. There is often a critical information gap between the procurement system, where items are purchased, and the asset management system, where items are received. The procurement team may not receive timely notification of whether assets were received in the proper quantity, form, and function ordered, thus reducing the efficiency of the acquisition process.

Acquisition systems are typically well-integrated with accounting systems by design, as they are often part of the same ERP system. The issuance of contracts or Purchase Orders (POs) creates a financial obligation on the balance sheet that cannot be liquidated until the asset is received, inspected and accepted, and the supplier invoice is paid. Challenges can arise in closing out these obligations—and thus, paying suppliers on time—when assets are physically received and inducted into the asset management records without a link to the purchasing system.

For example, consider a single purchase order line with high-level information for 10 computers. Ten individual asset records are created in the asset management system upon receipt and inspection, but these records do not include information about the purchase order on which they were acquired. Without a link between the asset management and procurement system, the agency relies on receiving personnel to manually communicate receipt of the items to the procurement personnel in order to close out the purchase order.

This situation becomes more challenging when a purchase order contains multiple lines—such as a computer and its related accessories—for what will become a single-tracked asset. The accounting and cost information need to be manually combined to accurately capture the asset’s acquisition cost on the asset records. Even more complicated, assets from the PO may arrive in different shipments, or perhaps the organization purchased identical assets from multiple vendors. These common occurrences require agency personnel to manually map which assets pertain to which POs.

Agency leaders should consider establishing software integration between the procurement /inventory/supply chain and asset management systems to mitigate these issues. The integration should allow PO lines to be assigned to individual asset records at the time of receipt. This has the benefit of providing an automatic feedback loop to the procurement system that authorizes payment of the invoice from the financial system. This integration also preserves accounting string information from the purchasing system to the asset record, providing complete traceability back to the original acquisition information throughout the asset’s lifecycle.

Financial Management

The financial management department is responsible for budgeting, accounting, financial reporting and ensuring compliance with financial regulations and policies. This department uses the financial module of the agency’s ERP system to support financial accounting and reporting activities. Financial modules often have fixed asset accounting capabilities that track asset financial data, but are not designed to handle detailed information such as the specific location, custody and operational status of physical assets.

Items that meet the agency’s capitalization threshold are typically recorded as financial assets on the General Ledger (GL) when placed into service. The GL has high-level information about the cost center that the asset is accountable to, and the general location of the asset, such as city and state. The GL also records the original cost of the asset and initiates depreciation or amortization, deriving the Net Book Value (NBV) of the asset. This NBV is carried on the agency’s balance sheet and incorporated into financial reports.

The financial management department often loses sight of the assets after they are placed into service, creating information gaps that may materially impact one or more aspects of the assets’ financial status. For example, an asset may have been transferred from one cost center to another or moved to a different location, or disposal of, without this information being reflected in the financial system. Also, a capital improvement or impairment made during its useful life affects an asset’s NBV. The organization needs processes that allow for updates of the financial systems when assets are impaired, improved, or replaced. A car that has suffered significant damage in an accident will have a lower NBV than it would have otherwise.

Software integration between the financial and physical asset management systems can provide a valuable link that reduces manual data reconciliation and increases the accuracy of financial reporting. The software interface can be configured such that relevant physical asset events automatically trigger the appropriate accounting entries to the general ledger. For example, if an asset is transferred from one bureau of an agency to another, the appropriate debits and credits can be transmitted to the GL to align the asset's NBV and depreciation to the correct accounting string. Similarly, journal entries can be automatically generated in the financial system for physical asset management transactions like capital improvements, impairments, or disposal of assets, avoiding the need for dual manual entry of these events in both the financial and physical asset records.

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Conclusion

Integrating physical asset management with procurement and financial data is crucial for agencies to increase auditability and transparency. Shared information provides increased opportunities for procurement, asset management, and finance departments to collaborate. Automating the exchange of data facilitates accurate financial reporting and enhances budget allocation and decision-making. Agencies that recognize the importance of this connection and invest in robust asset management systems will benefit from more efficient operations and may prevent material weaknesses or other deficiencies in audit reports.

Resources

The National Academies of Sciences, Engineering, and Medicine published “Strategies to Renew Federal Facilities” in 2023. The 244-page report is a guide for federal agencies to improve management of facility funding and assets, assist investment decision making related to assets, and addresses enterprise risk management through continual improvement. The free PDF is available at:

<https://nap.nationalacademies.org/catalog/26806/strategies-to-renew-federal-facilities>

ISO 55010

As part of ongoing process of improving international consensus standard the ISO Technical Committee 251 is evolving its documentation of asset management best practices. In addition to editing the core ISO 55000, 55001, and 55002 asset management documents, TC 251 is in the process of finalizing ISO 55010. This standard provides guidance on physical asset management reporting and financial reporting. The standard is anticipated to be published in 2024.

The following is from the ISO webpage: <https://www.iso.org/standard/84051.html>

“This document gives guidelines for the alignment between financial and non-financial asset management functions, in order to improve internal control as part of an organization’s management system. Alignment of these functions will enable the realization of value derived from the implementation of asset management detailed within ISO 55000, ISO 55001 and ISO 55002, particularly ISO 55002:2018, Annex F.”



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CGI's Sunflower Asset Management solution provides a broad portfolio of software features that manage the asset lifecycle to help clients achieve total asset visibility, improve decision-making, accountability and regulatory compliance.

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About The Asset Leadership Network

The Asset Leadership Network is a non-profit industry association that advocates for the dramatic benefits available by using a structured approach to asset management, such as ISO 55000. Through our organizational members, close relationship with government executives, and leading experts, the Asset Leadership Network provides content that assists organizations in their path to improved mission success with a structured approach to asset management. Visit www.AssetLeadership.net for more information.

