HOUSING & HOSPITALITY SERVICES

STUDENT TECHNOLOGY CENTER

AUDIT REPORT #17-2204

Audit & Advisory Services

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Background

In accordance with the UCLA Administration fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) conducted an audit of the Housing & Hospitality Services (H&HS) - Student Technology Center (STC) operations.

STC provides technical assistance for the UCLA On-Campus Housing Residential Network and Cable TV services. Staff provide technical support with computer problems over the phone and in person. Computer repair services are offered for a fee. Lab computers with internet access and basic productivity software, printing/copying/scanning (in black & white or color), and domestic and international faxing is also provided. STC is located in the center of Sunset Village Plaza, inside of Covel Commons.

STC converts to the Covel Business Center (CBC) during the summer and provides special services for conference guests. The CBC is On-Campus Housing's center for the computing and business needs of residents and UCLA guests. The CBC offers a variety of computer services and repairs, cable TV support, high quality printing and copying, faxing and a broad range of technical and information support. The CBC also offers access to a computer lab which provides internet access and basic productivity software.

Revenue for fiscal year ending 2015-16 was $3.5 million, and expenses were $2.4 million. A majority of STC’s operating expenses are covered by revenue from Regular Session On‑Campus Room Contracts. There are approximately four full-time career employees, along with 12 student staff. An Assistant Director oversees the operation and reports to the Director of H&HS Information Technology.

Purpose and Scope

The primary purpose of the review was to determine the adequacy and effectiveness of internal controls over STC’s operations. Where applicable, compliance with University policies and procedures was also evaluated. The scope of the engagement focused on the following:

* Purchasing
* Equipment Inventory
* Reconciliation and Monitoring

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included such tests of records, interviews, and other procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, STC’s overall organizational structure and controls are generally conducive to accomplishing its business objectives. However, internal controls and certain business practices could be further strengthened by implementing the following:

*Purchasing*

* Management should ensure that vendors are properly charging for software maintenance plans by periodically reviewing current service agreements to verify that tax charges are appropriate.

*Equipment Inventory*

* STC equipment inventory records should be updated to accurately reflect the current inventory. Also, management should ensure that during their periodic reviews, serial numbers match the appropriate device and associated records.
* Management should remind staff to verify that the hard drives have been removed, prior to the disposal of the equipment.

*Reconciliation and Monitoring*

* Management should continue to collaborate with the printing company Wepa (“Wireless Everywhere. Print Everywhere”) on accessing detailed data for printing kiosks (including information such as print job data, dates, student names, kiosk location, etc.). This information can then be used to review the reasonableness of charges assessed, and/or perform a reconciliation between kiosk data and the Virtual Debits report.
* Designated mandatory reviewers should be reminded to read their Post Authorization Notifications (PANs) in a timely manner to help ensure transactions are proper and appropriate.

The audit results and corresponding recommendations are detailed in the following sections of the report.Audit Results and Recommendations

Purchasing

Purchasing business practices were evaluated to determine compliance with applicable University policies and procedures. The separation of duties was reviewed and it appears that adequate separation of duties exist between ordering, receiving, recording, and reconciliation of purchases. In addition, A&AS examined a sample of 20 expenditure items incurred from August 2015 to November 2016 from various UCLA purchasing order class codes taken from the general ledger, to verify their appropriateness. More specifically, A&AS conducted test work to verify that:

* The disbursement was an appropriate University expenditure.
* Supporting documentation was appropriate and accurately recorded (in source documentation, general ledgers, and any related systems).
* The disbursement was properly authorized and approved by designated individuals.
* The item was properly received and documented.
* The purchase method used was appropriate.

Audit review indicated that purchases were appropriate University expenditures, and were properly authorized and approved by designated individuals. However, the following improvements are warranted:

Tax Assessment

Testing of software maintenance support purchases revealed that a sales tax was assessed on STC for four selections in the sample reviewed. In these cases, the maintenance support is provided remotely by the vendors. As a result, these service charges should be tax exempt, and the associated taxes should not have been paid by STC (amounting to $2,026.26).

Review of *Sales & Use Tax for UC Purchasers - Sales & Use Tax Codes & Common Exemption Reasons* within the UCLA Purchasing and Accounts Payable website, indicates that 100% of a lump sum charge is tax exempt if all maintenance is received electronically during the term of the agreement, and no tangible media such as CDs are received.

The following charges were noted, for which tax charges should not have been charged:

* + Purchase Order (PO) #3170AT7966 maintenance support provided by Alcatel Lucent, with an extended price of $9,720 and a 9% tax charge of $874.80, (for a total of $10,594.80).
  + PO #3170ATW239 maintenance support provided by Alcatel Lucent with an extended price of $6,520 and a 9% tax of $586.80, (for a total of $7,106.80).
  + PO #3170NTB361 maintenance support provided by SolarWinds, with a lump sum price of $3,180, tax included.
  + PO #3170ATB917 maintenance support provided by Ricoh with an extended price of $3,094 and a 9% tax of $278.46, (for a total of $3,372.46).

Recommendation: Management should ensure that vendors are properly charging for software maintenance plans by periodically reviewing current service agreements to verify that tax charges are appropriate.

Response: Agreed. The H&HS IT Director has reviewed the Sales & Use Tax for UC Purchasers – Sales & Use Tax Codes & Common Exemption Reasons with the H&HS IT purchasing team to verify that each member clearly understands the policy. Effective June 2017, the H&HS IT Director will verify that tax charges are appropriate for each software and maintenance purchase order item that is received.

Equipment Inventory

Audit review included an analysis of the last physical equipment inventory performed by STC, and a physical observation of ten sampled items. AMS records indicate that the total active cost of equipment is approximately $1,395,871. Also, five disposed equipment items were reviewed, as well as a determination of the controls surrounding the disposal of non-inventorial items. A&AS obtained STC’s (custody code 0456) equipment listing and disposals from the Asset Management System (AMS), as of

April 13, 2017. Management indicated that periodic reviews of equipment inventory are regularly performed.

A&AS selected a sample of ten inventorial equipment items to test and performed a walk-through, in order to physically locate and observe the items.  Specifically, A&AS verified the following:

* The equipment information is accurately recorded in AMS, noting the propriety of item description, status, location, and final disposition.
* The equipment property tag is secured to the item, and the property tag number agrees to AMS records.
* The equipment is securely stored, and proper safeguards are in place to prevent theft or loss.

Also, surveillance cameras and custodian keycard access to the equipment rooms were observed. The Keywatcher Key Management System is used to store and release access keys. Keywatcher is a computerized key control system allowing access to keys to be selected at an individual level. It can track who, when, and where keys were accessed. Each user has their own user ID and is authenticated via Biometrics (fingerprint).

Based on audit review, the following were noted:

1. Recording of Equipment Inventory

Out of ten items reviewed during the audit, two items could not be located at the designated location.

* Based on discussions with STC management, a Catalyst 3850 Switch with an active total cost of $5,724.68, may have been moved to another location by Network Services, the department that manages STC's residential network.
* For another item, Catalyst 4500E Supervisor Engine with an active total cost of $17,598.90, while the property tag numbers matched between the physical item and AMS, the serial numbers did not match. STC maintains a manual log of property tag numbers, in the event that property tag numbers cannot be affixed to equipment, which was used in this case. The serial numbers on this log did not match the selected item, nor AMS records.

Recommendation: STC equipment inventory records should be updated to accurately reflect the current inventory. Also, STC should work with Network Services to locate the equipment noted above. Further, management should ensure that during their periodic reviews, serial numbers match the appropriate device and associated records.

Response: Agreed. In the specific case of the serial number that did not match the AMS record, the incorrect serial number had been entered inadvertently. The H&HS IT Senior Administrative Analyst has since corrected the entry in the AMS records.

Effective immediately, H&HS IT has implemented a procedure with ITS/MNS that requires MNS technicians to submit a service desk request to H&HS IT when moving networking equipment belonging to H&HS IT or STC. The H&HS IT/STC Inventory Coordinator will visually inspect the new location, and verify the serial numbers and tag numbers. The H&HS IT Inventory Coordinator will document the verification in the service desk ticket and notify the H&HS IT Senior Administrative Analyst who will update the AMS records.

The H&HS IT/STC Inventory Coordinator will verify all serial numbers, tags, and locations by the November 2017 deadline, and each year in the annual full physical inventory.

B. Equipment Disposal

A sample of five equipment disposal items were selected for testing to verify that an Equipment Inventory Modification Request (EIMR) form, or other supporting documentation, was properly prepared, approved, and sent to UCLA Equipment Management. STC submits EIMR forms electronically and hard copies are not maintained, however, thedisposal status is maintained through the AMS system. While STC’s disposal process is generally adequate, the following was noted:

One item was not disposed of according to UC Business and Finance Bulletin BUS-38, “Disposition of Excess Property and Transfer of University-Owned Property” (BUS-38), which was discovered by STC during the disposal process. The hard drive of a digital copier/printer/scanner was not removed and destroyed prior to the disposal of the equipment, as the vendor had retrieved the item before this occurred. Disposing of sensitive data helps to prevent this information from being released to unauthorized parties. Management identified the error and attempted to (but was unable to) retrieve the hard drive from the vendor after the item was removed.

Recommendation: Management should remind staff when disposing items with sensitive data to verify that the hard drives have been removed, prior to the disposal of the equipment.

Response: In March 2015, a copier was disposed of with the hard drive still intact. The vendor retrieved the copier from an off-campus location without notifying the H&HS IT department of the retrieval date. The H&HS IT staff attempted to retrieve the hard drive, but the vendor could not comply with the request.

Effective April 2015, we require the vendor obtain a Purchase Order from H&HS IT before retrieving copiers for disposal. The purchase order stipulates that the vendor must surrender the hard drive to H&HS IT, and H&HS IT will pay the hard drive surrender fee.

C. Non-Inventorial Equipment Disposal

Based on discussions held and review of STC’s internal procedures, STC appears to have adequate controls in place for the disposal of non-inventorial equipment. UC Business and Finance Bulletin BUS-29, “Management and Control of University Equipment” (BUS-29), defines non-inventorial equipment as equipment which is non-expendable, tangible, personal property acquired for less than $5,000, which is freestanding, complete in itself, does not lose its identity when affixed to or installed in other property, and which has a normal life expectancy of more than one year. When assets are no longer in working condition or obsolete, they are e-wasted.  Some e-wasted items include chassis (the outer structural framework of a piece of computer equipment), flat screen monitors, projectors, ink/toner cartridge, small electronic waste (cell phones, batteries, etc.).

STC uses the Service Pro system for asset management and tracking of non-inventorial items. The e-waste vendor will provide documented proof of pick up that has an estimated count of the items that were picked up, and this is also maintained on file.  An itemized list of e-wasted inventory is reviewed and approved by management.

There were no significant control weaknesses noted in this area.

D. Biennial Equipment Inventory

A&AS reviewed the biennial certification of equipment inventory and verified that the physical inventory of all equipment in the department’s care and custody was performed in a timely manner, properly approved, and submitted to the UCLA Equipment Management unit by the November 18, 2016 deadline. The certification of equipment inventory was approved by the Assistant Director.

There were no significant control weaknesses noted in this area.

Reconciliation and Monitoring

On a monthly basis, STC ledgers for revenue and expenses are reconciled and reviewed by the Administrative Analyst or her designee. The Assistant Director and Director also review monthly reconciliations to ensure that reconciliations are properly performed. Audit testing of STC monthly reconciliations of November 2016, December 2016, and January 2017 indicated that monthly ledger reconciliations are timely and appropriate. A&AS also analyzed PANs and their timely review, and reviewed printing reconciliation processes. The following improvements are warranted:

A. Wepa Reconciliation

STC implemented Wepa printing kiosks in January of 2017. The kiosks, which are provided by a print company called Wepa, are located in ten locations throughout H&HS. These self-service kiosks allow students to send documents to a cloud (i.e., Google Drive, Dropbox etc.) from their own phones or computers, and students can retrieve their documents, by swiping their BruinCards at the kiosks. The kiosk screens will display all of the student’s available documents and allow them to choose what they want to print and pay for. There are different ways to upload a document to the cloud, including using a printing application, a Universal Serial Bus (USB) drive, e-mail, or uploading through BruinPrint.com. The cloud is accessible immediately after the student swipes their Bruincard at the kiosk. Print pricing varies, and depends on the type of print job requested.

Wepa provides the kiosk stations at no cost to UCLA. STC is not responsible for maintaining the kiosks (i.e., toner, paper, troubleshooting, etc.). Wepa provides all consumables from toner to maintenance for the kiosks, and Residential Life loads the machines with these items. STC allocates funds from their annual budget for each student resident to receive a $5 credit on their BruinCard to use at the kiosks. Students receive this $5 credit on a semi-annual basis. Any amounts over the $5 credit are charged directly to the student.

Wepa sends a monthly invoice to STC, for the printing charges incurred by the students. Wepa also sends a monthly Virtual Debits report to STC, which shows total charges by student. Discussion with management and review of Wepa reconciliations for January and February 2017 were analyzed. Also, A&AS selected a judgmental sample of ten students that appear on the Virtual Debits report, and verified the appropriateness of their student status.

Based on audit review, it is unclear if Wepa charges are properly assessed to STC, as current Wepa reports have limited information (only the student name and total dollar amount are detailed in the Virtual Debits report). Print counts by kiosk are not included in the data provided by Wepa. As a result, it is not possible to reconcile the Virtual Debits report to supporting data (by kiosk, date, itemized print jobs, etc.).

Management indicated that STC is working with Wepa to create an online portal to be able to access data and run various reports. A&AS supports these efforts.

Recommendation: Management should continue to collaborate with Wepa on accessing detailed data for printing kiosks (including information such as print job data, dates, student names, kiosk location, etc.). This information can then be used to review the reasonableness of charges assessed, and/or perform a reconciliation between kiosk data and the Virtual Debits report.

Response: Agreed. H&HS IT Management will continue to work with Wepa and Audit to fine tune the reports for monthly reconciliation of the kiosk data and virtual debits data. Wepa is developing an online reporting portal for customer use and anticipates rolling this out to H&HS IT in September 2017.

B. Post Authorization Notifications (PANs)

A&AS reviewed the January 4, 2016 through December 4, 2016, audit logs of individuals to verify that PANs were reviewed in a timely manner, in accordance with the UCLA Financial Policy. This 11 month period was reviewed to minimize the holiday break effect on the query. Although the UCLA Financial Policy states that transactions must be reviewed within two working days of receipt, A&AS used a five-day criterion for determining compliance to account for weekends, holidays, alternative work schedules, and short absences.

For the sample selected, all three STC mandatory reviewers did not review their PANs within five days of receipt.  Reviewers had over 200 PANs unread in their queue, ranging from seven to 37 calendar days.

Recommendation: Designated mandatory reviewers should be reminded to read their PANs in a timely manner to help ensure that transactions are proper and appropriate.

Response: Agreed. This is now part of our employee training.

C. General Ledger Reconciliation

Audit review included an analysis of November 2016, December 2016, and January 2017 general ledger reconciliations, along with supporting documentation such as internal tracking spreadsheets, BruinCard Weekly Sales reports, Cable TV signal recharges, BruinCard debit fees, etc.

The Assistant Director and Director review monthly ledgers to ensure that reconciliations are properly performed, as noted below.

*Reconciling Revenue to the General Ledger*

Revenue earned each month is reconciled to the General Ledger by the IT Coordinator of Purchasing.  This individual logs daily transactions for income accounts on a Monthly Income Deposit Record, which is used to reconcile the STC income against the General Ledger.  Also, this individual balances revenue accounts against STC records, and compares sales amounts for each account which are recorded on the ledgers.  Further, the IT Coordinator of Purchasing compares the weekly sales amount for the BruinCard and Pharos sales to the general ledgers.

*Reconciling Expenses to the General Ledger*

Expenses incurred each month are reconciled to the General Ledger by the Senior Administrative Analyst. This individual uses a Payment Tracking spreadsheet to document all expenses incurred during the month, with a brief description for each vendor.  Also, this individual matches ledger detail to invoices and vendors, etc., and reviews other expenses for reasonability.  The Senior Administrative Analyst further reconciles totals to each expense account on the General Ledger.  Additionally, the Assistant Director compares the invoices and supporting documents to the spreadsheet, as part of her approval process.

*Budget Variances*

Once missing or incorrect entries identified during the reconciliations are corrected or adjusted (by the individuals noted above), a report is submitted to the Assistant Director for review.  Once approved, the file is submitted for final review to the Director, typically during the middle of the following month.

There were no significant control weaknesses noted in this area.

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