FACILITIES MANAGEMENT

EQUIPMENT INVENTORY REVIEW

AUDIT REPORT #20-2002

Audit & Advisory Services

October 2020

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# Background

In accordance with the UCLA Administration fiscal year 2019-20 audit plan, Audit & Advisory Services (A&AS) conducted an audit of equipment inventory controls and practices administered by the Finance, Space, and Logistics division within the Facilities Management (FM) department.

Facilities Management provides a wide range of services including the maintenance and renovation of buildings, grounds, and utility infrastructure of the Campus and Medical Enterprise. The FM department also ensures an environment conducive to the educational mission of the University by supplying reliable power, state of the art classrooms and research facilities, and environmentally responsible business practices. The department supports the campus effort to advance sustainability through the Climate Action Plan, waste reduction, recycling and energy management programs. Facilities Management maintains over 12 million square feet of state and non-state funded building space, 415 acres of hardscape, landscape, roadways, utilities distribution infrastructure and manages construction projects up to $3 million in costs. Under FM oversight, the cogeneration plant produces 85% of the campus demand for power. The department is key to the Campus Emergency Response Plan and staffs a 200-plus emergency response team.

As of March 2020, FM had 314 inventorial equipment items with a total acquisition cost of $5.3 million including:

* Construction equipment such as backhoes, excavators, and concrete breakers
* Grounds equipment such as lawn mowers and blowers
* Custodial equipment such as floor scrubbers and washers
* Vehicles such as trucks, tractors, and utility carts
* Information technology equipment

Each piece of inventorial equipment is assigned to a custody code, which provides divisions with a more granular option to track their items. Facilities Management has established the following custody code categories:

|  |  |  |
| --- | --- | --- |
| **Custody Code Name** | **# of Equipment Items** | **Total Acquisition Cost** |
| Facilities – Campus Crafts Administration | 70 | $1,332,763 |
| Facilities Management – Energy Systems | 51 | $1,284,508 |
| Facilities – Campus Maintenance Administration | 50 | $856,971 |
| Campus Crafts & Alterations | 65 | $768,312 |
| Facilities Financial Operations | 24 | $399,770 |
| Facilities – Utilities Maintenance  | 25 | $367,174 |
| Facilities – Central Maintenance Support | 18 | $239,420 |
| Office of AVC – Facilities | 6 | $70,339 |
| Grounds Maintenance | 2 | $20,352 |
| CHS Maintenance | 2 | $17,928 |
| Purchased Utilities | 1 | $11,964 |
| **Grand Total** | 314 | $5,369,501 |

Equipment inventory activities are regulated by University of California (UC) systemwide and local policies and procedures. UC Business and Finance Bulletin BUS-29, “Management and Control of University Equipment,” defines *inventorial equipment* as “equipment for which the University holds title, which is non-expendable, tangible, personal property acquired for $5,000 or more, and which has a normal life expectancy of more than one year.” Systemwide guidance for the disposal of equipment is established in UC Business and Finance Bulletin BUS-38, “Disposition of Excess Property and Transfer of University-Owned Property.” UCLA Procedure 720.2, “Acquisition and Disposal of Surplus and Salvage University Property,” further clarifies local requirements for equipment disposals.

Equipment custodians are responsible for:

* Controlling, maintaining, and monitoring inventorial equipment
* Locating and tagging new equipment with barcodes
* Processing inventories
* Recording and reporting changes in equipment and disposition transactions
* Controlling agency equipment

The FM department’s equipment custodian is the Stores, Warehouse & Material Manager, who reports to the Director of Finance, Space, and Logistics.

Purpose and Scope

The primary purpose of the review was to ensure that FM’s organizational structure and controls related to equipment inventory were conducive to accomplishing its business objectives. Where applicable, compliance with campus and University policies and procedures was also reviewed.

The scope of the audit included:

* Asset Management System (AMS) Access
* Disposals
* Physical Inventory
* Physical Inventory Certifications

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

Summary Opinion

Unfortunately, the Coronavirus (COVID-19) pandemic has resulted in reduced staffing levels for FM and a shift in their priorities to focus on essential services. COVID-19 has also affected A&AS’ ability to perform certain audit procedures as a part of this engagement. Typically, for equipment inventory audits, under normal circumstances, A&AS would perform in-person physical verification of equipment to ensure that the equipment items tested actually exist and correspond with AMS and departmental records. However, with the Safer at Home requirements, this was not possible. Alternative audit steps were developed for the FM equipment custodian to take photos for a sample of equipment items to verify their existence or to provide documentation from the last physical inventory verification. However, due to the reduced staffing levels and FM’s focus on essential services, the alternative procedures and documentation could not be provided for audit review. This limited the scope of the audit and A&AS’ ability to independently verify the existence of inventorial equipment and provide an evaluation of the adequacy and effectiveness of internal controls over this area.

The remaining areas within the audit scope, including review of AMS access, equipment disposals, and the physical inventory certification forms could be performed remotely and the scope was not impacted by COVID-19. Internal controls over these areas were generally adequate and effective. However, management could further strengthen controls by implementing the following:

* Promptly disabling access to AMS for separated employees.
* Transferring the dental equipment that was incorrectly recorded to FM’s custody code to the School of Dentistry.

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

Audit Results and Recommendations

AMS System Access

A&AS interviewed the FM equipment custodian and UCLA Equipment Management to understand how user access to the AMS is controlled. In addition, a list of all users with access to edit or approve FM equipment records in AMS was reviewed to verify whether access is restricted to authorized and appropriate individuals. The following was noted:

Access to AMS is granted by UCLA Equipment Management with signature approval from the FM Director of Finance, Space, and Logistics.

|  |  |  |
| --- | --- | --- |
| **AMS Profile** | **AMS Profile Description** | **Users with Access** |
| Equipment Custodian | One individual per custody code who is responsible for updating all information in AMS with full edit rights. Access is managed by Equipment Management staff. | Stores Inventory and Warehouse Manager |
| Department Approver | Responsible for approving equipment disposals, transfers, and loans in AMS. Users with this profile can run reports; however, they do not have edit rights in AMS. Access is managed by the Department Security Administrator. | Director of Finance, Space, and Logistics; Accounting and Finance Manager; Purchasing, Contracting and Materiel Manager |
| Department Representative | Full edit rights in AMS to assist the equipment custodian. Access is managed by Equipment Management staff. | Two Purchasing Specialists. A Materiel Management Analyst who left the University in 2017 continued to have an active AMS account during the audit. |

Recommendation: Management should ensure that access to AMS is promptly disabled when employees separate from the University.

Response: Facilities Management concurs and will review its procedures for promptly disabling AMS access when employees separate from the University no later than December 31, 2020.

Equipment Disposals

For the period of July 1, 2019 through March 11, 2020, FM disposed of 34 inventorial equipment items. A&AS selected a judgmental sample of five items and reviewed the corresponding AMS records noting that the disposals were properly approved by the either the FM Accounting Manager or Director of Finance, Space, and Logistics. In addition, AMS records were properly updated to a status of “disposed” by UCLA Equipment Management staff.

There were no significant control weaknesses noted in this area.

Physical Inventory

As we noted in the Summary Opinion section of this report (p. 4), the COVID-19 pandemic and resulting Safer at Home requirements affected A&AS’ ability to perform certain audit procedures as a part of this engagement. Although our audit scope was impacted and A&AS was unable to physically verify the existence of a current sample of inventorial equipment items as a part of our assessment, we were still able to verify the last inventory dates recorded in AMS for all 314 FM inventorial equipment items. Based on our review, it was noted that all inventorial items had been properly inventoried within the past two years as required by UC Business and Finance Bulletin BUS-29, “Management and Control of University Equipment.”

There were no significant control weaknesses noted in this area.

Physical Inventory Certifications

Physical verification of FM’s inventorial equipment is performed annually by appropriate department personnel. The equipment custodian delegates this task to FM purchasing staff and department managers. A purchasing staff member and a manager are paired to verify each item within their assigned custody code. The equipment custodian provides the teams with printouts related to their particular areas to take detailed notes throughout the inventory process. The purchasing staff then uses these notes to update the AMS records. The equipment custodian and FM Director of Finance, Space, and Logistics review the listings after all updates have been entered and then submit the Annual Certification of Equipment Inventory forms to UCLA Equipment Management.

For each of the 11 FM equipment custody codes, A&AS obtained and reviewed the Annual Certification of Equipment Inventory forms, noting that the most recent physical verification of equipment inventory was performed in November 2019 for all 11 FM equipment custody codes. The certification was signed by the equipment custodian and FM Director of Finance, Space, and Logistics and then submitted to UCLA Equipment Management.

There were no significant control weaknesses noted in this area.

Other Observation

Equipment Custody Codes

Some inventorial equipment items for the School of Dentistry (SOD) were incorrectly recorded to a FM custody code (1963 – Facilities Management Energy Systems). The equipment was purchased as part of renovation projects that FM assisted the SOD with. For some equipment items, the SOD custody code was noted on the purchase order; however, UCLA Equipment Management personnel erroneously recorded the equipment to FM's custody code. For some other dental equipment items, the SOD custody code was not noted on the purchase order. The relevant items are presented in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Asset Number** | **Description** | **$ Cost** | **PO #** | **Acquisition Date** |
| 1 | 194001187 | Incubator CO2 Thermo Fisher Scientific Heracell | $6,806 | 3403PWA343 | 7/6/2019 |
| 2 | 184001653 | Incubator CO2 Thermo Fisher Scientific Heracell | $6,806 | 3403PWA343 | 12/27/2018 |
| 3 | 184001652 | Cabinet, Biological Safety Thermo Fisher Scientific 1300 Series A2 Dr. Bo Yu, W/ SOD | $7,643 | 3403PWA343 | 12/27/2018 |
| 4 | 184001651 | Cabinet, Biological Safety Thermo Fisher Scientific 1300 Series A2 Dr. Bo Yu, W/ SOD | $7,643 | 3403PWA343 | 12/27/2018 |
| 5 | 194000546 | Freezer. ULT, TSX70086A 5BB Thermo Fisher Scientific | $14,098 | 3403PWA802 | 3/27/2019 |
| 6 | 194000545 | Freezer. ULT, TSX70086A 5BB Thermo Fisher Scientific | $14,098 | 3403PWA802 | 3/27/2019 |
| 7 | 194000544 | Freezer, ULT, TSX40086A5BB Thermo Fisher Scientific | $11,387 | 3403PWA802 | 3/27/2019 |
| 8 | 194001319 | Disinfection Ultrasonic Cleaners Steris CORP/AMSCO IWULTRAPLACAB  | $21,583 | 3435PWB213 | 7/22/2019 |
| 9 | 194001318 | Disinfection Ultrasonic Cleaners Steris CORP/AMSCO IWULTRAPLACAB  | $21,583 | 3435PWB213 | 7/22/2019 |

Recommendation: During the audit, A&AS identified and communicated to FM management that some dental equipment items had been incorrectly recorded to FM’s custody code. As a result, the FM equipment custodian acted promptly to initiate the process of transferring the equipment to the SOD where it properly belonged. In addition to confirming that the dental equipment is completely transferred to the appropriate SOD custody codes, FM should ensure that the proper custody code equipment is associated with is recorded on purchase orders going forward.

Response: Facilities Management concurs and will complete the dental equipment transfer no later than December 31, 2020 and all personnel generating Purchase Orders will be adequately trained on the importance of recording the proper equipment custody code on purchase orders.

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