INFORMATION TECHNOLOGY SERVICES

PROCUREMENT AND ASSET MANAGEMENT

AUDIT REPORT #17-2215

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 Procurement and Asset Management unit within Information Technology Services (IT Services). Procurement and Asset Management is one of four functional units that comprise IT Services Administration. Budget & Finance, Human Resources, and Administrative Support make up the remaining functional areas in Administration.

Procurement and Asset Management is responsible for processing all IT Services purchases including, but not limited to, inventorial equipment, telephone equipment, computer hardware, computer software, professional services, and general office supplies. For fiscal year 2015-16, IT Services procured approximately $19.4 million in goods and services.

The Equipment Custodian, who is part of the Procurement and Asset Management unit, is responsible for managing and tracking inventorial equipment from purchase to final disposition, authorizing and reporting equipment disposals, and organizing the annual physical inventory. The University’s centralized Asset Management System (AMS) is utilized to manage inventorial equipment. As of August 2016, IT Services managed approximately 1,100 active inventorial equipment items with an acquisition value of approximately $26.7 million. In fiscal year 2015-16, IT Services disposed of 101 pieces of inventorial equipment with acquisition costs of roughly $1.1 million through trade-in, sale, dismantling, or other methods of retirement.

The IT Services Chief Business Officer (CBO) oversees Procurement and Asset Management operations and reports to the Associate Vice Chancellor of IT Services.

Purpose and Scope

The primary purpose of the audit was to ensure that the related systems and procedures surrounding procurement and asset management activities are conducive to accomplishing IT Services’ business objectives. The secondary purpose was to assess the adequacy and efficiency of internal controls, and compliance with University policies and procedures. The scope of the audit included:

* Purchasing, Receiving, and Invoice Processing
* Procurement Cards (Pcard)
* Equipment Inventory
* Equipment Disposals
* Accountability Structure

The audit was conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing* and included tests of records, interviews, and other procedures considered necessary to achieve the audit purpose. Interviews were conducted with IT Services management and staff, and supporting documentation was also examined.

Summary Opinion

Based on the results of the work performed within the scope of the audit, IT Services’ internal controls and procedures related to procurement and asset management activities are generally adequate and effective. However, business practices could be further strengthened in the following areas:

*Purchasing, Receiving, and Invoice Processing*

* Management should continue to remind mandatory reviewers to review their Post Authorization Notifications (PANs) in a timely manner.

*Asset Management*

* As part of IT Services annual equipment inventory, AMS records should be updated to accurately reflect equipment inventory.

*Accountability Structure and System User Access*

* To prevent unauthorized access and ensure proper accountability over requisitions, IT Services should remove separated employees from having access to the Requisition System.  Also, management should perform a periodic review of user access and approver rights to ensure that Requisition System access is appropriate.

The audit results are detailed in the following sections of this report.

Audit Results and Recommendations

Purchasing, Receiving, and Invoice Processing

IT Services utilizes an internal web-based Requisition System for all purchasing requests. The end user, or requestor, creates a requisition in the Requisition System. The completed requisition is electronically reviewed and approved by the area manager or supervisor. High dollar purchases are reviewed and approved by the IT Services Senior Director of Administration or the Associate Vice Chancellor of IT Services. Once approved, an e-mail of the requisition is automatically generated and sent to the Procurement and Asset Management’s procurement staff.

The procurement staff processes the order in BruinBuy. The end user is responsible for receiving and inspecting the goods purchased, and notifying the procurement staff that goods have been received. The procurement staff completes the receipt in BruinBuy, which indicates to Corporate Financial Services’ Accounts Payable that the invoice can be paid.

Designated mandatory reviewers receive and review PANs for purchasing transactions. The IT Services Manager of Budget & Finance reviews supporting documents and reconciles all purchases to the general ledger on a monthly basis.

A sample of 24 purchases from fiscal year 2015-16 was judgmentally selected for detail testing. For each transaction, supporting documentation (invoices, packing slip, requisition details, BruinBuy order details, PANs, general ledgers, etc.) was reviewed to verify that the disbursement was an appropriate University expenditure, the purchase was appropriately approved, the transaction was properly processed, the goods procured were received, and the invoice was accurately paid. Also, the PAN for each transaction was reviewed to verify that mandatory reviewers read the PAN in accordance with the University Financial Policy.

While controls surrounding purchasing, receiving, and invoice processing appear to be adequate, PAN reviews warrant improvement.

1. Post Authorization Notifications (PANs)

Based on audit review, purchases were proper and appropriate, but PANs were not always read in a timely manner. For 10 of 24 sampled transactions, the PAN was not read by one or more mandatory reviewers until 6 to 11 calendar days after receipt. Discussions with the CBO indicated PAN audit reports are reviewed weekly and emails are sent to reviewers requesting they review their inbox. Each FAU has multiple reviewers including the CBO and Manager of Budget & Finance.

According to UCLA Financial Policy, section III.F, “A reviewer must review all transactions within two working days of receipt.”  Timely review of PANs helps to ensure that all related financial activities are appropriate and adhere to University policies and procedures.

Recommendation: Management should continue to remind mandatory reviewers to review their PANs in a timely manner.

Response: PANs audit reports PNSPAN3A, PNSPAN3S and PNSPAN5 are reviewed weekly by the Chief Business Officers. If there are exceptions, emails are sent to reviewers reminding them to review.

Procurement Cards (Pcard)

According to UCLA Policy 741, Low-Value Purchases, “Pcard purchases are a form of low-value purchase orders, and are subject to the same restrictions as LVOs, as well as separate Pcard restrictions found in the UCLA Procurement Card User Guide.” The UCLA Procurement Card User Guide parameters and restrictions for Pcard usage include: a maximum charge of $2,500 (including tax, freight and handling charges) per transaction, up to a $5,000 daily limit, and a $100,000 monthly limit; a prohibition against personal, business travel, or entertainment purchases; and a restriction against using the Pcard for recurring expenses or for service awards. Cardholders also sign the Pcard Application to indicate that they understand and agree to Pcard usage restrictions and other policy guidelines. There is only one cardholder for IT Services. For fiscal year 2015-16, IT Services had about 150 Pcard transactions totaling approximately $42,000.

Pcard statements for a six month period (October 2015 to March 2016) were reviewed to verify that statements were properly reviewed and approved in accordance with the UCLA Procurement Card User Guide. In addition, a judgmental sample of 10 Pcard transactions from the same period was selected for testing, including verifying for each selection that the original receipt was properly maintained, the purchase was an appropriate University expense, and the transaction was in compliance with University Pcard restrictions and guidelines. Test work indicated all transactions reviewed were appropriate and properly approved.

No significant control issues were found in this area.

Asset Management

The IT Services’ Equipment Custodian is responsible for maintaining inventory records, and authorizing and reporting equipment disposals in AMS.  Management indicated that email reminders, which provide direction on the Annual Equipment Inventory requirements, are sent to responsible staff. End users are responsible for physically maintaining and securing the inventorial equipment assigned to their use.  During the annual physical equipment inventory, the Equipment Custodian generates the Equipment Inventory Listing from the AMS for Custody Code 0741 (IT Services). The report is sorted by end user and distributed accordingly.  The end user and another employee physically observe each inventorial item and report any equipment status changes (such as location changes, disposals, etc.) to the Equipment Custodian.  The Equipment Custodian updates records in AMS as specified by the end user.

A&AS conducted a physical equipment inventory observation on a sample of items on October 18 and 20, 2016. The Annual Certification of Equipment Inventory required by UCLA Equipment Management was due on November 18, 2016. As a result of the annual physical equipment inventory being conducted around the time of the audit, some of the observations noted below were corrected during the annual inventory. The following were noted:

1. Equipment Inventory Records and Management

A judgmental sample of 20 inventorial equipment items was selected for audit testing. A&AS physically observed the items with the Equipment Custodian and end users.  For the 20 items, A&AS verified that:

* The equipment information was accurately recorded in AMS noting especially the propriety of item description, status, location, user and final disposition.
* The equipment property tag was properly secured to the item and the tag number agreed to AMS records.
* The equipment was securely stored and proper safeguards were in place to prevent theft/loss.

During observation of the 20 inventorial equipment items, two items could not be physically located and verified. A&AS staff noted the following:

* For one item, an asset with a similar asset tag number, serial number, and same make and model was observed in a different building location. IT Services indicated that there may have been a typographical error during entry of the asset number and serial number into AMS, and that the item was moved but not yet updated in AMS.
* For one item, IT Services indicated that the asset was moved to the Math Sciences Building, and that the updated location had not yet been recorded in AMS. This particular piece of equipment is a mobile unit used for air conditioning equipment and moves around frequently.

For the remaining 18 inventorial equipment items that A&AS was able to observe, the following were noted:

* For three items, the observed location did not match the location as recorded in AMS.
* For three items, the actual user did not match the user as recorded in AMS.
* One item (a radio frequency system purchased in 2008) did not have a property tag.  According to IT Services, the problem was already identified prior to the audit, and a new property tag has been requested from Equipment Management.

Additionally, data analytics was performed on the IT Services’ Equipment Inventory Listing that was obtained from AMS as of August 29, 2016, to determine the completeness of inventory records. Results indicated that there were six items without a serial number and five items without a room number.

Recommendation: AMS records should be updated to accurately reflect the items observed above.

Response: This audit was simultaneously conducted during the department annual Equipment Inventory. As such items reviewed may not yet have been updated in the system. The annual audit has been completed and appropriate updates have been completed. In the future, we will not schedule both reviews at the same time.

1. Equipment Disposals

Interviews were conducted with IT Services staff, and departmental written procedures were reviewed, to evaluate controls over the equipment disposal process. The end user notifies the Equipment Custodian when an inventorial equipment item needs to be disposed. The manager or supervisor of each unit is responsible for ensuring that all data contained on the hard drives of any disposed IT Services equipment item is destroyed before the equipment is recycled or dismantled.

The Equipment Custodian will initiate the disposal in AMS and complete a Facilities Service Request (FSR) if the item needs to be physically removed. IT Services management reviews and electronically approves the disposal in AMS. Corporate Financial Services’ Equipment Management division completes the disposal in AMS which removes the item from IT Services’ equipment inventory. End users maintain possession and ensure the physical security of items awaiting removal by Facilities Management.

A judgmental sample of 10 inventorial equipment items that were disposed of was selected for audit review. For each item, AMS records were evaluated to verify that disposals were properly reviewed and approved. Also, FSRs were reviewed to verify that decommissioned items were physically removed from IT Service’s possession. For items that were sold or traded-in to a vendor, purchase orders, sale documents, and other pertinent records were reviewed to determine the adequacy of supporting documentation and propriety of the disposal.

No significant control issues were found in this area.

Accountability Structure

IT Services’ accountability structure in DACSS as of October 2016 was evaluated for effectiveness. Specifically, within the scope of the audit, A&AS assessed the appropriateness of mandatory reviewers of purchasing and equipment management transactions, and users with access to complete BruinBuy orders (DACSS function code AP730 – PAC Campus Department Order Entry). Management indicated that access is reviewed monthly by the CBO as part of the SAS115 reporting process.

1. Requisition System Access

User access and approver rights in IT Services’ Requisition System were evaluated for appropriateness. According to user and approver listings generated from the Requisition System at the time of the audit, there were 337 users and 33 approvers. The user listing was compared to the Employee Database (EDB) records to verify each individual’s department and employment status. The approver listing was also compared to EDB records to verify that approver rights were commensurate with each individual’s job title. While approver rights appear appropriate, the following regarding user access were noted:

* In eight instances, Requisition System Users have separated from the University.
* In one instance, a user's University ID (UID) was incorrect in the Requisition System.  Since Bruin Logons are used to access the Requisition System, all users’ UIDs must match EDB to ensure that they have the needed access.

During the audit, IT Services management began the process of working with the Requisition System administrator to address the above observations.

Recommendation: To prevent unauthorized access and ensure proper accountability over requisitions, IT Services should remove separated employees from having access to the Requisition System.  Also, management should perform a periodic review of user access and approver rights to ensure that Requisition System access is appropriate.

Response: The requisition system was retired in January 2017.

1. Distributed Administrative Computing Security System (DACSS)

While mandatory reviewers assigned to review purchasing and equipment management transactions appear appropriate, three users with access to complete BruinBuy orders for IT Services in DACSS should be adjusted to lower amounts.

A listing of 12 users identified with DACSS function code AP730 for IT Services was discussed with the CBO, who noted that while all 12 individuals with AP730 access is appropriate, for three users, their transaction amounts should be lowered to one dollar to ensure consistency within the group of users.  This configuration allows them to have the ability to access BruinBuy and create orders, but does not allow them to complete orders.

At the time of the audit, the CBO contacted the Departmental Security Administrator (DSA) to implement the changes stated above.

No significant control issues were found in this area.

1. Separation of Duties

Based on interviews and audit testing of the procurement and equipment management business practices, proper separation of duties is maintained throughout the procurement and equipment management processes.  The responsibilities of initiating, processing, and reviewing purchases and equipment management transactions are appropriately delineated so that one individual does not have the ability to perform all parts of a transaction.

No significant control issues were found in this area.

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