# RIVERSIDE: AUDIT & ADVISORY SERVICES

December 17, 2020

To: Bobbi McCracken, Associate Vice Chancellor-Business & Financial Services

Subject: Equipment Inventory Audit

Ref: R2019-10

We have completed our Equipment Inventory Audit in accordance with the University of California, Riverside Internal Audit Plan. Our report is attached for your review.

Should you have any questions regarding the report, please do not hesitate to contact me.

 Gregory Moore

 Director

cc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

 Chief Financial & Administrative Officer Ruiz

Assistant Controller Librenjak

Director Henderson

Director Clemons

General Accounting Supervisor Monahan

 Financial Services Analyst II Custodio

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

REPORT R2019-10

EQUIPMENT INVENTORY AUDIT

DECEMBER 2020

Approved by:

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 Gregory Moore

 Director

**UC RIVERSIDE**

**EQUIPMENT INVENTORY AUDIT**

**REPORT R2019-10**

**DECEMBER 2020**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the review, we found that overall, the design of processes associated with the recording and tracking of inventorial assets appears reasonable and that capitalized assets are accurately accounted for in the campus asset management system and in compliance with applicable University policies and best business practices. We observed several areas of opportunity to strengthen internal controls and improve the efficiency and effectiveness of the equipment inventory and management processes in the following areas:

* Physical Recounts (Observation III.A)
* Electronic Inventory Modification Request (EIMR) (Observation III.B)
* Completeness of Verifications/Physical Counts (Observation III.C)
* Asset Management System (AMS) Limitations (Observation III.D)
* Communication and Training (Observation III.E)
* Reconciliations (Observation III.F)
* Off Campus Use (Observation III.G)
* Disposal of Laptops and other Data Holding Devices (Observation III.H)

These are explained in greater detail in Section III of this report.

Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

**II. INTRODUCTION**

 **A. PURPOSE**

University of California, Riverside (UCR) Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an audit of the UCR campus Equipment Inventory. The purpose of the audit was to assess whether the design of processes associated with the recording and tracking of inventorial assets appears reasonable and that capitalized assets are accurately accounted for in the campus asset management system in compliance with applicable University policies and best business practices.

**B. BACKGROUND**

UCR deployed a web-based in-house Asset Management System (AMS) in June 2017 to replace the aging IBM mainframe Equipment Management System (EMS). AMS is a University wide database of all the University’s Inventorial Equipment assets administered by the Accounting Office (Accounting). The system tracks all Inventorial Equipment assets under the University’s custodial control regardless of the assets’ current titleholder or current fair market value.

Inventorial Equipment is movable tangible property with acquisition cost exceeding the $5,000 inventorial threshold with an expected useful life of one or more years.

Generally, the AMS was implemented in order to:

* Maintain accountability of University, federal, and agency assets in the custodial control of the University.
* Ensure compliance with the terms and conditions of University awards and University policy.
* Facilitate the property reporting requirements of federal and agency awards.
* Ensure proper procedures for dispositions and transfers of University assets.
* Track and verify departmental completion of the mandatory inventory counts.
* Provide departments a user-friendly and readily accessible tool for users.

The primary relevant Policies are UC Business & Finance Bulletin BFB-29: Management and Control of University Equipment, BFB-38: Disposal of Excess Property and Transfer of University-Owned Property, and UCR Policy 750-12: Equipment Management – Purpose and Responsibilities.

Departments/Units assign Equipment Custodians who are responsible for the integrity of asset data in AMS. They verify completion of the Annual Inventory and biennial Physical Inventory for their Department/Unit, maintain assets in AMS (i.e. serial number, location, etc.), and request asset dispositions and transfers.

Equipment Management (EM) responsibilities reside in the Accounting Office to establish and maintain procedures that bring the University in compliance with federal, state and agency regulations. The Accounting Office maintains all transactions in AMS and assists the departments in their roles.

Inventory Transfer and Disposal is handled by ScotSurplus (formerly known as Distribution Services), which resides within Campus Business Services (CBS).

**C. SCOPE**

This audit analyzed equipment (generally assets with an acquisition cost of over $5,000) as of June 30, 2019 and the processes surrounding acquisition, recording, and disposition. We designed the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the review. The audit procedures cannot ensure that errors and irregularities are detected, especially minor or isolated incidents.

The review included, but was not limited to the following areas:

* 1. Performed data analytics to look for unusual activity or areas of focus/high risk.
	2. Reviewed relevant UC and UCR Policies & Procedures.
	3. Performed physical counts/recounts of judgmentally selected assets.
	4. Reconciled AMS information to the General Ledger.
	5. Reviewed processing of disposition of assets.
	6. Reviewed access to AMS.
	7. Reviewed AMS functionality, training and documentation.

Our substantive audit procedures were performed from June 2019 to July 2019. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS, RECOMMENDATIONS AND MANAGEMENT CORRECTIVE ACTION**

1. **Physical Recounts**

There were 8,126 assets in the AMS at June 30, 2019 with an initial cost of $218M. A&AS judgmentally selected the following seven departments and observed the performance of their respective physical counts in June 2019. If the physical count was already completed, we recounted judgmentally selected assets in July 2019. See Table below for the summary of the physical counts and recounts.



A&AS noted that in several departments there were assets selected for recount that were on the AMS, but could not be located. In some cases, the departments informed us that these items had EIMRs[[1]](#footnote-2) months and even years ago, but had not been processed by Accounting and Distribution Services. See Observation B - EIMRs.

In some cases, we noted that the asset’s physical location did not match the AMS location. This makes the counts harder to complete. Consequently, an asset not found in the recorded location may be erroneously requested for write-off, a replacement may be purchased when not needed, and the item will be unavailable for use if it cannot be located. Also, if there is a fire, burglary, etc. then it will be difficult to come up with an accurate listing of assets for insurance recovery. Some custodians report lack of understanding of how to update the asset location in AMS.

In some cases, physical tags were not found on items, or items had an incorrect tag. Per policy BFB-BUS-29: Management and Control of University Equipment, replacement tags should be requested.

Other comments regarding accuracy of data elements in AMS are as follows:

1. One department noted that the Equipment Depreciation Code does not seem to match the actual asset in some cases. The result is that the wrong depreciable life could be used. Per the Equipment Management Desk Guide, the department should inform Equipment Management of these types of discrepancies by the end of the month that equipment is added to the AMS. Annually, in the January/February timeframe, equipment asset information is submitted to the University of California Office of the President (UCOP) for depreciation calculations. So it is important to update incorrect Depreciation Codes in a timely manner because an adjustment after the annual submission to UCOP will not retroactively or prospectively correct the asset depreciation calculations.
2. Some serial numbers for items counted were missing or inaccurate.

**Recommendations to Accounting Office:**

Provide enhanced training/communication to departments on how to obtain/affix replacement tags and update asset locations, depreciation codes, and serial numbers.

**Management Response/Corrective Action – Accounting Office**

Accounting has been keeping an open line of communication through email/phone with the department custodians to resolve the issues outlined above. Any major changes in AMS have be communicated through the Users Groups meetings, and on the Accounting website. It should be noted that Accounting has provided training at UCRFS Users Group meetings (March 4, 2019; June 14, 2019; September 10, 2019; and December 6, 2019), and addressed some of the concerns above at the March 6, 2020 UCRFS Users Group meeting. Additionally, the Inventory Information Sheets (usually sent out with new property tags) have been updated to note contact information for any additional issues the departments may have.

 **Implemented.**

1. **EIMRs**

There were 499 pending EIMR requests as of July 30, 2019. They are aged[[2]](#footnote-3) based on the request date as follows:



BFB-BUS-29: Management and Control of University Equipment states that UCR should “maintain up-to-date departmental records that reconcile to the official records maintained by Equipment Management.”

The department records indicate that assets with EIMRs are no longer assets of the department. The asset ledger (AMS) still reflects these assets years later in some cases.

Accounting also noted that some of the EIMRs were not made correctly. For example, the EIMR code 91 - Transfer to Equipment Management was not assigned to the Distribution Services department so they were unaware that the item required action until the next inventory verification was conducted and continued to appear on the department’s inventory list until action was eventually taken. As a result, the item can languish as a pending EIMR and when uncovered, may be harder to find the required supporting documentation to write the item off the books. For example, of the 333 items that were coded 91, only 37 were coded to Distribution Services/Equipment Management; the other 296 were pending because the department did not indicate the appropriate Department Code for Distribution Services. Accounting has discussed a request with Information Technology Services (ITS) to modify AMS so code 91 defaults to Distribution Services.

The aging of those EIMRed assets that were not coded as 91 were as follows:



An aging of EIMRs by organization was as follows:



**Recommendations to Accounting Offices:**

We recommend that Accounting age the EIMRs and work to resolve them in a timely manner. For EIMR requests that cannot be substantiated, a process needs to be developed to write items off with exceptional approval in a timely manner. Also, these items should be excluded from the reporting to OP as they overstate the assets. A process should be devised so that items sent to Distribution Services are accounted for and processed in a timely manner. The process should be documented and communicated to the appropriate campus staff through Users Group Meetings, and other appropriate means (see Communication & Training).

**Management Response/Corrective Action – Accounting Office**

* As of February 27, 2020, there were nine pending EIMR requests.
* Ryan Charette in Distribution Services, has been given access to AMS, and Charmane Custodio, Accounting/Equipment Analyst in Accounting has trained the Distribution Services team on the submission and approval of EIMRs in September 2019.
* The Director of Campus Business Services spoke at the UCRFS Users Group meeting on September 19, 2019 to provide an overview of the disposition process.
* The AMS user guide includes instructions on completing EIMRs using code 91. The guide will be updated as necessary when the modification requests submitted to ITS have been completed.
* One of the modification requests currently under review with ITS is to make Code 91 requests have the new Department pre-filled with D02054 to prevent departments from missing this step.
* The majority of items related to EIMRS were fully depreciated. These pending EIMRs were reviewed and processed by performing the following steps: the Equipment/Accounting Analyst in Accounting assembled a list for Distribution Services to review and confirm that they were not able to verify that the equipment was received and disposed of properly; once Distribution Services’ confirmation was received, the Equipment/Accounting Analyst separated the listed EIMRs by Organization.

The lists included: (1) if the equipment’s primary fund source is a Contract & Grant (C&G) fund, (2) if UCR has title, (3) the status of the C&G award (Open or Closed) and (4) noted if the items were fully depreciated.

The Campus Controller sent each list to the respective Organizational Chief Financial Administrative Officers (CFAOs) to obtain approval from them for the write-off of equipment. Once the approvals were received, the EIMRS were processed, and the equipment was written-off.

**Implemented.**

1. **Completeness of Verifications/Physical Counts**

Physical counts are to be completed every two years and verifications are to be made annually.

The following units were outstanding with their physical counts as of June 2019:

**Department Uncounted Assets**

Earth and Planetary Sciences 171

Physics and Astronomy 329

Evolution, Ecology & Organismal Biology 186

Stem Cell Center 32

Environmental Sciences 277

Molecular, Cell & Systems Biology 338

**Total 1,333**

One department, Physics, from the list above indicated that they had completed their physical counts on June 14, 2019, but was unsure how to update the system. The system showed that 100% of their assets were not counted by Fiscal Year End (FYE), but we observed some of the physical counts with Physics representatives so we know that they counted at least what we counted. Accounting Office noted that because 16 of their assets were added after the physical verification was completed, it continued to show that the physical verification was overdue. As of August 20, 2019, Physics had updated the 16 assets with the required data and Accounting’s Equipment Analyst noticed that the system showed that the verification was completed.

The following units had not completed verifications for 10 or more items as of June 30, 2019 as follows:



**Recommendations to Accounting Office:**

Accounting should ensure that physical counts are completed every two years and verifications annually. Any counts that are not completed in a timely manner should be escalated for management action.

 **Management Response/Corrective Action – Accounting Office**

For future annual verifications, Accounting will notify the department custodians to begin the process in March in order to give them enough time to complete it by the May 31st deadline. Accounting will monitor the status of annual and physical inventory verifications throughout April and May. Reminder notices will be sent out periodically, and the Accounting/Equipment Analyst will follow up with individual departments as necessary to ensure verifications are completed by the due date, and if necessary, escalate it to the Organizational CFAO for action. COVID-19 Note: With the campus closure, physical inventories were not possible. Office of the President requested an exception from Health & Human Services to delay physical inventories.

**Implemented.**

1. **AMS Limitations**

AMS is an in-house developed system that was rushed to completion so that the legacy EMS and the mainframe on which that application ran could be retired. Because of limited resources and time constraints, there are vital features not available in the AMS such as: interfaces from purchasing and back to the General Ledger for acquisitions, adjustments and disposals; integrity and other standard reports and inquiry/query features. As an example, an ‘as of date’ reporting (i.e. a report as of fiscal year end any time after that fiscal year end) is not available.

It is not widely known that the AMS can track Low Value Theft Sensitive Assets (LV/TS)[[3]](#footnote-4). As a result, many departments (e.g. School of Medicine) have purchased third party systems to track items under $5K for business purposes. However, some departments also include the assets greater than $5K into those systems so they can have a complete inventory of items[[4]](#footnote-5). Some units track LV/TS items on an Excel spreadsheet, which does not have proper controls, while some units do not track these items at all. See audit report R2017-11C – Financial Analytical Review – Low Value/Theft Sensitive (LV/TS) Computing Equipment issued on August 23, 2018.

The current version of the UCR Financial System (UCRFS)/PeopleSoft has an integrated Asset Management System module that has these and many other enhanced features. The issue is that the current version of UCRFS/PeopleSoft is out of date and has not been updated because it is heavily customized. When a new financial system is implemented, perhaps it will be an opportune time to determine if this integrated solution is a better option.

**Recommendations to Accounting Office:**

Accounting should determine if AMS is a good solution to track LV/TS for the campus or if there is a better all-around solution to track Inventorial Equipment and other types of assets such as LV/TS assets.

**Management Response/Corrective Actions** - **Accounting Office**

Business & Financial Services will implement a true asset management system as part of the new financial system project. The AMS was a stop gap project focused on inventorial assets.

**Implemented.**

1. **Communication and Training**

One live training was delivered around the time AMS went live in June 2018. There were no other live or on-demand training options. There is some rather extensive documentation, but some users have reported that they have not reviewed the documentation.

**Recommendation to Accounting Office:**

Users in the transactor role, department approver/certifiers, and custodian should have required training that should be available on-demand.

**Management Response/Corrective Actions** - **Accounting Office**

Since the system is not difficult to navigate, Accounting has been forwarding any new department custodians the link to the Accounting website where there are procedures noted for almost every situation in AMS. If additional assistance is needed, Accounting is contacted to walk through any procedures so that the user is comfortable performing the actions themselves.

AMS updates and training have been provided at the following UCRFS Users Group meetings: (March 4, 2019; June 14, 2019; September 10, 2019; and December 6, 2019). Accounting will also continue to communicate with the Department Custodians any equipment-related issues in future meetings.

**Implemented.**

1. **Reconciliations**

Accounting indicated that it performs an annual reconciliation of AMS to the General Ledger at the end of each calendar year. BUS-29 states:

Reconciliation of Value – The cost of inventorial equipment recorded by the Accounting Office is regularly reconciled against the corresponding value recorded in the equipment database (see UC Accounting Manual, Chapter P-415-2, Plant Accounting: *Costing and Reconciling Inventorial Equipment* Acquisitions for details). The Reconciliation of Value Recorded and Amount Paid for Equipment report (EQ80), or University location equivalent, is run monthly and reconciliations performed.

**Recommendation to Accounting Office:**

Reconciliations should be performed monthly by Accounting.

**Management Response/Corrective Actions** - **Accounting Office**

The Equipment/Accounting Analyst monitors transactions posted to all of the inventorial equipment accounts on a weekly basis and requests corrections for equipment expenses that do not meet the inventorial equipment criteria as needed.

 **Implemented.**

**G. Off Campus** **Use**

It is unclear if the form AUTHORIZATION TO USE UNIVERSITY PROPERTY IN AN OFF-CAMPUS LOCATION should be completed for assets taken under the custody of a faculty or staff (i.e. equipment for research, laptops to home, etc.).

**Recommendation to Accounting Office:**

Accounting should clarify the use of the form and provide instructions to departments.

**Management Response/Corrective Actions** - **Accounting Office:**

As a result of COVID-19 and the remote work environment, multiple communications have been communicated to the campus about the restriction on taking inventorial equipment home and the required monitoring of non-inventorial items:

<https://bfs.ucr.edu/news/2020/07/30/announcement-regarding-relocation-university-equipment-remote-work-sites>

<https://bfs.ucr.edu/news/2020/06/26/guidelines-reimbursable-expenses-remote-work-during-shelter-place>

<https://bfs.ucr.edu/news/2020/03/20/covid-19-interim-guidance-delivery-location-university-goods>

**Implemented.**

**H. Disposal of Laptops and other Data Holding Devices**

It appears that some of campus departments are unaware that Distribution Services has contracts with outside vendors who shred or otherwise destroy data on data holding devices, and certify such disposals. As a result, some departments are hoarding these items at end of life and trying to figure out how to do the work themselves or by contracting with outside vendors to perform this redundant service. There is risk that highly sensitive/critical data could be compromised by holding on to the devices and improperly disposing of them, and there is also potential economic waste if other outside vendors are contracted to perform the redundant work.

**Recommendation to Distribution Services:**

Distribution Services should communicate with and train the departments in the proper disposition of these devices.

**Management Response - Distribution Services**

Campus Business Services was given the opportunity to present the proper procedure for disposition of equipment at the September 10, 2019, UCRFS Users Group meeting and will continue to update the departments as needed.

The modification request to change disposal code 91’s description will include a reference to BFB-BUS-38: Disposition of Excess Property and Transfer of University-Owned Property.

**Implemented.**

1. A request for equipment disposition and transfer. [↑](#footnote-ref-2)
2. Note: Accounting believes the aging schedule shown here was actually worse than presented because when they determine an EIMR request was made incorrectly, they close the request and a new one has to be submitted. It is generated with the date the new EIMR was requested thus ages from that date. There is no system feature to age based on the original EIMR request date. [↑](#footnote-ref-3)
3. As long as the departments’ custodians are granted access to enter equipment (with the inventorial equipment box unchecked), then the burden of adding all the non-inventorial equipment would not fall upon Equipment Management. A testing phase and some sort of procedure/guidelines would probably be needed before giving out this access to departments. [↑](#footnote-ref-4)
4. One of the issues is that with this second system they print and affix bar codes to each item. And they count the items both for this system and for AMS. Items over $5K are counted twice and have barcode tags for each system. This other system is not interfaced with purchasing so items also have to be entered and retired manually. This increases the risk that the system is out of balance with the General Ledger. [↑](#footnote-ref-5)