

UCLA AUDIT & ADVISORY SERVICES



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February 4, 2016

SENIOR VICE PRESIDENT/CHIEF COMPLIANCE AND AUDIT OFFICER SHERYL
VACCA EXECUTIVE VICE CHANCELLOR & PROVOST SCOTT WAUGH:

Re: Housing & Hospitality Services – Information Technology Equipment Inventory
Audit #15-2231

Enclosed is the audit report covering our review of the Housing & Hospitality Services (H&HS) equipment inventory business practices. The audit focused on information technology equipment that is overseen by the H&HS Information Technology (IT) unit.

The primary purpose of the review was to ensure that H&HS IT's organizational structure and controls surrounding information technology inventorial equipment are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following areas related to information technology inventorial equipment:

- Equipment Management
- Equipment Disposals
- Purchasing, Receiving, and Invoice Processing

Based on the results of the work performed within the scope of the audit, H&HS IT's overall structure and controls are generally conducive to accomplishing its business objectives related to equipment inventory management. However, controls and business practices could be further strengthened by implementing the following:

- Management should ensure the serial number, location, and custody codes for all inventorial equipment are accurately recorded in the Asset Management System (AMS).
- Management should ensure that all inventorial equipment disposals and releases are properly documented and approved.
- Management should remind H&HS mandatory reviewers to read their Post Authorization Notifications (PANs) in a timely manner.

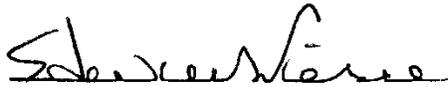
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The corrective actions implemented by management satisfactorily address the audit concerns and recommendations contained in the report. In accordance with our follow-up policy, a review to assess the implementation of our recommendations will be conducted approximately four months from the date of this letter.

Please feel free to contact us if we can be of further assistance.

A handwritten signature in black ink, appearing to read "Edwin D. Pierce".

Edwin D. Pierce, CPA, CFE
Director

Enclosure

cc: S. Olsen

HOUSING & HOSPITALITY SERVICES
INFORMATION TECHNOLOGY EQUIPMENT INVENTORY
AUDIT REPORT #15-2231

HOUSING & HOSPITALITY SERVICES
INFORMATION TECHNOLOGY EQUIPMENT INVENTORY
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Background

In accordance with the UCLA Administration fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) performed an audit of Housing & Hospitality Services (H&HS) equipment inventory business practices. The audit focused on information technology equipment that is overseen by the H&HS Information Technology (IT) unit.

H&HS IT provides information technology support and administrative services to all H&HS units. These services include purchasing and installation of computer equipment and software, ensuring compatibility of such equipment across H&HS units, server management, administration of wireless communication devices, and on-going maintenance of various equipment databases.

H&HS IT utilizes the UCLA campus Asset Management System (AMS) to monitor, track, locate and record inventorial equipment. As of June 11, 2015, H&HS IT had 178 pieces of inventorial equipment with an original acquisition value of \$1,961,068.

Purpose and Scope

The primary purpose of the review was to ensure that H&HS IT's organizational structure and controls surrounding information technology inventorial equipment are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following areas related to information technology inventorial equipment:

- Equipment Management

- Equipment Disposals
- Purchasing, Receiving, and Invoice Processing

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 purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, H&HS IT's overall structure and controls are generally conducive to accomplishing its business objectives related to equipment inventory management. However, controls and business practices could be further strengthened by implementing the following:

- Management should ensure the serial number, location, and custody codes for all inventorial equipment are accurately recorded in AMS.
- Management should ensure that all inventorial equipment disposals and releases are properly documented and approved.
- Management should remind H&HS mandatory reviewers to read their Post Authorization Notifications (PANs) in a timely manner.

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

Audit Results and Recommendations

Equipment Management

Inventorial equipment is tracked in the UCLA campus AMS. Physical inventory verifications are conducted of the equipment on an annual basis by the department's Equipment Custodian and are reviewed by the H&HS IT Director.

A judgmental sample of 32 inventorial equipment items were reviewed to verify the existence of the items, locations are correctly recorded, property tags have been affixed to the items, and the equipment records have adequate descriptions to enable identification.

Also, the Equipment Listing per AMS as of June 11, 2015, (which included 178 items) was reviewed to ensure that correct equipment custody codes were assigned.

Further, A&AS verified that biennial equipment inventories have been performed within the past two years, as required by University of California Business and Finance Bulletin BUS 29, "Management and Control of University Equipment" (BUS-29).

A. Equipment Serial Numbers

The serial number has been recorded for a majority of the department's inventorial equipment; however, at the time of the audit, serial numbers were not recorded for 17 out of the 178 equipment records reviewed.

Per discussions with H&HS IT staff, serial numbers were not recorded in these instances due to timing issues.

Recommendation: Management should ensure that the serial number for all inventorial equipment is recorded in the equipment records to facilitate identification of these items.

Response: Agreed. Management is in the process of recruiting an inventory specialist to focus on the inventory management for the department as the primary function of the position. This employee is expected to be hired by February 29, 2016. This will help to alleviate future delays in entering or updating data in the system. Further, management will review the AMS listing on a monthly basis to ensure all critical information is entered in a timely manner.

B. Equipment Location

Location information has been recorded in the equipment records for a majority of the department's inventorial equipment. However, in reviewing locations for 178 records, the following recording errors were noted:

- In six instances, the specific room location was not properly recorded in the correct field.
- In the inventory verification sample of 32 items, there were four items where the current location did not match the equipment records. Management indicated that two of these items had recently been moved; however, the equipment records had not yet been updated. It is unclear why the location did not match for the other two equipment records.

Recommendation: Management should ensure the location of equipment is accurately recorded in the equipment records, by updating AMS records to indicate where equipment is currently located at the time a piece of equipment is moved to a new location.

Response: Agreed. Management is in the process of recruiting an inventory specialist to focus on inventory management for the department as the primary function of the position to avoid future delays in entering or updating data in the system. This employee is expected to be hired by February 29, 2016. Further,

management will review the AMS listing on a monthly basis to confirm that all critical information is entered in the appropriate fields.

C. Custody Codes

The custody codes for a majority of the inventorial equipment were correct; however, due to timing issues, 16 out of the 178 items were incorrect. These 16 items were H&HS Major Maintenance purchases, which were incorrectly assigned to the 0447 Major Maintenance custody code. This custody code functions as a default inventory clearing account for inventorial equipment, and it is the responsibility of H&HS IT to review and transfer items to the appropriate custody code.

Recommendation: Management should ensure that the custody code assigned to inventorial equipment is correctly recorded. The H&HS IT Equipment Custodian should ensure this happens at the time property tags are received from the campus Equipment Management department.

Response: Agreed. Management is in the process of recruiting an inventory specialist to focus on inventory management for the department as the primary function of the position to avoid future delays in entering or updating data in the system. This employee is expected to be hired by February 29, 2016. Further, management will review the AMS listing on a monthly basis to ensure all equipment is allocated to correct custody code.

Equipment Disposals

Disposal of inventorial equipment must be approved by the H&HS IT Director. Releases and returns of leased equipment must be approved by the H&HS IT Assistant Director. During fiscal years 2012-13 to 2014-15, there were a total of 13 equipment disposals and releases. A judgmental sample of five disposals and releases were selected to verify they were properly authorized and in compliance with University of

California Business and Finance Bulletin BUS 38, "Disposition of Excess Property and Transfer of University-Owned Property" (BUS-38).

A. Equipment Disposal Approval

Three of the five equipment disposals and releases were properly authorized. However, one disposal was missing the signature of the former H&HS IT Director, which management indicated was an oversight. Also, one disposal was approved by the H&HS IT Director; however, the approval (on February 5, 2015) was after the equipment had already been disposed of (on December 3, 2014). None of the disposals sampled for review were sold.

Recommendation: Management should ensure that all inventorial equipment disposals and releases are properly documented and approved.

Response: Agreed. Management is in the process of recruiting an inventory specialist to focus on inventory management for the department as the primary function of the position. This employee is expected to be hired by February 29, 2016. This position will ensure all policies and procedures regarding equipment disposal are followed properly at all times. In the interim, management and the current team have reviewed the procedures and confirmed that each team members understands and will adhere to the proper procedures at all times.

Purchasing, Receiving and Invoice Processing

Purchases of IT inventorial equipment must be approved by the H&HS IT Director and Assistant Director. Equipment is received and inspected by H&HS IT staff, whom initials the packing slips. A three-way match of the purchase order, packing slip, and vendor invoice is performed by staff in the H&HS Budget and Financial Planning office. PANs are reviewed by the Executive Director of Financial and Administrative Services, H&HS Assistant Vice Chancellor, and H&HS Director of Finance and Budget.

Ten inventorial equipment items were judgmentally sampled to verify if the purchases associated with these items were properly approved by H&HS IT management, price reasonableness was evaluated by obtaining and comparing quotes from multiple vendors or buying from established blanket agreements, equipment was received by H&HS IT staff, and the invoices were reconciled to the purchase orders and packing slips before authorizing payment. No audit concerns were noted in any of these areas. Also, the associated PANs were reviewed to determine if they were read in a timely manner. Audit testing indicated the following concern with regards to PAN reviews:

A. Post Authorization Notifications (PANs)

The PANs for eight out of ten selections sampled were not reviewed in a timely manner by one of the required mandatory reviewers. The unread PANs ranged from six to nine calendar days. These PANs represented a total of five equipment purchases. There were two other mandatory reviewers for these inventorial equipment purchases that did review the PANs in a timely manner.

Recommendation: Management should remind H&HS mandatory reviewers to read their PANs in a timely manner.

Response: Agreed. Effective immediately, PANs will be reviewed in a timely manner.