

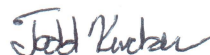
February 15, 2013

PROVOST AND EXECUTIVE VICE CHANCELLOR PETERSON

Subject: Audit Report No. M13A002
 Review of Furniture, Fixtures, and Equipment (FF&E)

Attached is the final report for the Review of Furniture, Fixtures, and Equipment part of the Departmental Financial Procedures Audit (No. M13A002). Three separate reports will be issued from this audit. The action plans on the report will be entered into the TeamCentral Database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by the Information Technology and Physical Planning, Design, and Construction staff. If you should have any questions, please feel free to contact me.



Todd Kucker
Internal Audit Director
UC Merced Internal Audit Services

Attachment

cc: SVP Vacca
 Chancellor Leland
 Vice Chancellor Miller
 Dean Aldenderfer
 Interim Chief Information Officer Gorham
 Management Services Officer Hansen

**UNIVERSITY OF CALIFORNIA, MERCED
INTERNAL AUDIT SERVICES**

**Departmental Financial Procedures Audit -
Review of Furniture, Fixtures, and Equipment (FF&E)
Report No. M13A002**

February 15, 2013

Work Performed by:
Todd Kucker, Internal Audit Director

Purpose and Scope

Internal audit has completed an audit of departmental financial procedures, which was part of the fiscal year 2013 audit plan. Three separate reports were issued from this audit as the issues noted related to areas under different Vice Chancellors. This report relates to the audit objective of determining whether departments properly safeguard University assets and the issues related to Furniture, Fixtures, and Equipment (FF&E) that were noted.

The audit focused on assets included on the University's asset listing as of June 30, 2012 and items purchased during fiscal year 2012. We reviewed how departments maintain control over inventorial equipment, "theft sensitive" equipment, computers, and other valuable supplies. Various assets tested related to FF&E purchases for new University buildings.

Background

Business and Finance Bulletin BUS-29: "Management and Control of University Equipment" establishes requirements for the prudent management and control over the University's property and equipment. The University capitalizes assets with an original cost of \$5,000 or more. To maintain control over this "inventorial" equipment, asset tags are affixed to the equipment, information related to the equipment is included on the University's asset listing, and the equipment is assigned to a department custodian.

Large amounts of University assets are purchased as a part of "movable equipment" to be used in new buildings. During the planning for a building project, lists of furniture, fixtures, and equipment are compiled and approved when financing is obtained. The detailed FF&E list is used to establish the budget for FF&E which is separated from the regular construction budget.

At UC Merced, an employee in Administration compiles the list of furniture while an IT Planning employee works with employees and faculty to compile the list of IT equipment and audio-visual equipment that will be installed in offices and classrooms. Purchasing of FF&E during the project is required to be in line with the original FF&E list submitted at the time financing was approved.

Building projects can take years to complete. As technology is constantly changing and older technology can quickly become obsolete, IT Planning attempts to purchase most of the IT and audio-visual equipment towards the end of the building project. As this equipment can be expensive to install, there is an incentive to negotiate installation costs directly with qualified installers rather than pay construction contractors and their subcontractors to complete this work as contractors would add a set profit percentage (e.g. 15%) over and above the costs submitted by the specialized installers.

Conclusion

Based upon the review of IT and audio-visual equipment purchased as a part of FF&E, we concluded that control and management of this equipment needs improvement.

We noted the following areas for improvement:

- Equipment should be installed in offices and classrooms in a timely manner
- Segregation of duties for maintaining custody of uninstalled FF&E should be improved

Observations

1. Equipment should be installed in offices and classrooms in a timely manner

During the audit, we noted the following issues related to IT and audio-visual equipment purchased for new buildings:

- We noted computer equipment and audio-visual equipment purchased for new buildings which has not yet been installed in classrooms or offices. Some of the identified uninstalled equipment was purchased for a building back in 2005 and 2006. Other uninstalled equipment was purchased during early 2012.
- During the audit, we reviewed storage areas throughout the campus for underutilized equipment. We noted thirty-two “instructor stations” that were originally designed to enable instructors to control the IT and audio-visual equipment in a classroom. Problems noted with the stations after they were manufactured have kept the stations from being installed. The costly stations were constructed back in 2006 and have sat in storage since then.

From discussions with employees, as IT and audio-visual equipment is purchased at the end of building projects, it can be difficult to allocate the necessary funds for installation. As equipment was not installed in a timely manner, there is the risk that the IT and audio-visual equipment could become out-of-date before it is installed. Also, faculty and instructors haven't been able to fully utilize the planned technological aspects of the classrooms as the equipment they originally requested for the new buildings has not been installed.

IT employees should evaluate the equipment that has not been installed to determine the funding needed to properly install the equipment. Older equipment should be evaluated to determine whether it can still be used for the original purpose for which it was purchased. If not, other uses for the equipment should be identified.

Per BUS-29, department asset custodians are responsible for identifying unused equipment and reporting equipment utilization to equipment management. It is important to communicate when equipment is not being used as equipment management might be

able to identify other ways the campus can use the equipment. Also, Accounting Services should be able to identify when valuable assets are impaired.

To keep these issues from occurring during future building projects, the different departments involved with managing building projects and purchasing IT and audio-visual equipment as a part of FF&E (IT, Physical Planning, Design, and Construction, Academic Planning, etc.) should work together to improve coordination and communication during planning and completion of the building projects. Funds to install the equipment should be set aside so it is available when the equipment is ready to be installed. After equipment is purchased, it should be assigned to department asset custodians who will be responsible for reviewing and reporting the utilization of the equipment.

Management Action Plan:

Physical Planning, Design, and Construction has identified that there are still funds available in the building project where installation costs are needed to install IT and audio-visual equipment. A specialized installer will be selected and the work will be completed. This action plan will be completed by June 30, 2013.

IT will evaluate the older, uninstalled equipment noted during the audit to determine the costs and potential benefits of utilizing the equipment. Based upon this analysis, IT will recommend installing the equipment or finding other uses for this equipment. This action plan will be completed by June 30, 2013.

2. Segregation of duties for maintaining custody of uninstalled FF&E should be improved

During the audit, we reviewed IT and audio-visual equipment purchased as part of FF&E for the University's most recently completed academic building. We noted inadequate control over this equipment that resulted from poor segregation of duties.

As there was a delay in installing and delivering IT and audio-visual equipment to classrooms and offices in the new building, many incompatible duties related to the equipment fell to one employee. The employee helped compile the approved FF&E list and worked with Purchasing to procure the approved IT and audio-visual equipment. After the equipment arrived, he reviewed information in the purchasing system to reconcile what had been received versus what was ordered, and put together a list of the received equipment. The employee was one of the few people with access to the equipment as he helped maintain physical security of the uninstalled equipment. The employee maintains the records as to which equipment has been delivered or installed. To achieve proper segregation of duties, one employee should be responsible for maintaining a record of the equipment purchased while another employee should keep physical custody of the equipment.

The uninstalled equipment includes inventorial assets (original cost was over \$5,000) and theft sensitive equipment. Per BUS-29, department asset custodians are responsible for inventorying and maintaining control over this equipment. The department asset custodian had not updated the University's asset listing to identify the current location of the assets. Also, the department does not maintain a listing of theft sensitive items, such as computer equipment.

As only one employee has been responsible for controlling the IT and audio-visual equipment since it was received on campus, it would be difficult for another employee to verify whether the items were correctly delivered or installed.

Overall, too much reliance is being placed on one employee. Per UC policy, the responsibility for the inventorial and theft sensitive equipment rests with the departments located in the new building. Employees from these departments should maintain physical custody of the equipment. Lists of the equipment purchased as a part of FF&E should be maintained by these departments and they should periodically verify that the equipment can be located.

Management Action Plan:

The department asset custodian from the School of Social Sciences, Humanities, and Arts (SSHA) will review and begin maintaining the IT and audio-visual equipment noted during the audit. The custodian will update the University's asset listing to show the current locations of the assets purchased as a part of FF&E. The custodian will complete steps to maintain proper control over the inventorial and theft sensitive equipment.

This action plan will be completed by March 31, 2013.