FACILITIES MANAGEMENT

FINANCE & INFORMATION SYSTEMS

EQUIPMENT INVENTORY REVIEW

AUDIT REPORT #16-2003

Audit & Advisory Services

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# Background

In accordance with the UCLA Administration fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) conducted an audit of equipment inventory controls and practices that are administered by the Finance & Information Systems (F&IS) division within the Facilities Management (FM) department. FM supports UCLA’s mission by maintaining and enhancing buildings, grounds and the physical infrastructure in a cost-effective, safe and environmentally responsible manner. The department 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 cost.

Equipment inventory activities are regulated by University 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.

UCLA’s Asset Management System (AMS) tracks all equipment and allows equipment custodians to manage department inventorial items online. Each piece of inventorial equipment is assigned to a custody code, which provides departments with a more granular option to track items. For example, a custody code may represent the full accounting unit (FAU) used to purchase an item, or it may reflect the location of that item. Some campus departments opt to have one custody code for all equipment, while others establish multiple codes to manage the inventory. As of October 28, 2015, FM had 11 custody codes, 10 of which had equipment records. FM’s AMS equipment list contained 324 items with a total acquisition cost of $5.7 million.

According to UCLA Equipment Management, 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

FM’s Equipment Custodian is the Stores, Warehouse & Material Manager, who reports to the Director of Finance & Information Systems.

Purpose and Scope

The primary purpose of the review was to ensure that F&IS’ 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:

* Departmental Records
* Inventory Management
* Physical Inventory
* System Controls

The review 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, internal controls over equipment inventory were generally adequate and effective. However, management could further strengthen controls by implementing the following:

* Departmental and AMS records should be reconciled to ensure that equipment inventory information is consistent and accurate.
* FM should ensure compliance with UCLA Equipment Management guidelines when conducting its biennial inventory by physically locating and viewing each piece of equipment listed on the AMS inventory report. This includes confirming the property tag number, description, building and room number, serial number, current user, utilization/condition codes and title.

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

Audit Results and Recommendations

Departmental Records

FM maintains a database of inventorial equipment that contains additional details, such as the applicable cost center, for departmental use that are not found in the AMS record. A&AS selected a judgmental sample of 20 pieces of equipment across all custody codes from FM’s AMS inventory list as of October 28, 2015, to verify that departmental records agree with the official University record. The total acquisition cost for the sample was $419,964.

The number of items selected from each custody code was roughly proportional to that custody code’s share of the entire FM inventorial equipment population:

|  |  |  |
| --- | --- | --- |
| Custody Code | # of Items | # of Selections |
| 1700 | 8 | 1 |
| 1701 | 26 | 2 |
| 1756 | 55 | 3 |
| 1846 | 6 | 1 |
| 1859 | 62 | 3 |
| 1860 | 3 | 1 |
| 1872 | 76 | 4 |
| 1959 | 19 | 1 |
| 1963 | 37 | 2 |
| 1976 | 32 | 2 |
| TOTAL | 324 | 20 |

A&AS compared the two sets of records and identified discrepancies in the recorded location of five items when comparing departmental records with AMS:

|  |  |  |
| --- | --- | --- |
| Asset # | DepartmentRecords | AMS |
| 994003678 | DOOR 2 | YARD AREA |
| 024003250 | GROUNDS | YARD AREA |
| 884005528 | 1111 | KC SHOP SHEET |
| 994005347 | S3 VAULT | (BLANK) |
| 124001004 | YARD AREA | (BLANK) |

Recommendation: Management should update inventory records to reflect the current location of the items noted above, and ensure that AMS and departmental records are periodically reconciled and agree.

Response: FM concurs and will reiterate with departmental personnel the importance of data entry accuracy and will review its procedures for all aspects of if the biennial inventory process. This will be completed by May 31, 2016.

Inventory Management

1. Physical Inventory

Using the same sample of 20 items as the Departmental Records testing, A&AS conducted a physical verification of each piece of equipment during the month of December 2015. The purpose of the verification testing was to confirm the following:

* The item could be physically located;
* The item was tagged with a University of California property number (if possible); and
* The property number, serial number, description, manufacturer/model, and current user or location of the item matched the AMS records.

For the 20 items selected for testing, A&AS noted the following issues:

* One of the items (computer equipment that was purchased February 16, 2000, for $19,280) could not be physically located and verified. According to the FM Equipment Custodian, the computer equipment was believed to be stored in the basement of the Cogeneration building after having been replaced by a non-inventorial item; A&AS was unable to verify the selected item. In addition, the AMS record for this asset indicated that the item was active and part of FM's current inventory, even though the computer equipment was no longer in use.
* Of the 19 items that were located and verified, A&AS was unable to find a University of California property number tag on 12 selections (63%). For three selections, A&AS concluded that it was reasonable that the items were untagged. According to the FM Equipment Custodian, due to frequent outdoor use, the property tags on these equipment items fell off repeatedly. In those cases, A&AS verified the validity of the item using the serial number and other descriptors. However, the remaining nine items should have had a property tag affixed.
* Information recorded in AMS was inaccurate for two items. In the first, the AMS and departmental records for asset # 994003678 showed the same number for the serial number. The FM Equipment Custodian indicated that, when the serial number cannot be found, then instead of leaving a blank space in the serial number field, the asset number is used in the field. However, A&AS was able to subsequently locate the serial number on this item. In the second, the serial number of asset # 124001004 was not included in the AMS records.

Recommendation: Management should locate the asset that could not be verified and dispose of the equipment if it is no longer in use. Management should also request new University property tags and affix them to the items identified above, and update the pertinent records to reflect the current equipment inventory. In addition, FM management should ensure compliance with UCLA Equipment Management guidelines when conducting its biennial inventory by physically locating and viewing each piece of equipment listed on the AMS inventory report. This includes confirming the property tag number, description, building and room number, serial number, current user, utilization/condition codes and title.

Response: FM will process a disposal record for the missing item listed above. FM concurs and will continue to affix property tags where physically possible and ensure serial numbers are recorded in the AMS system. FM policy is to follow Equipment Management guidelines for biennial inventory, and will reemphasize with persons performing the inventory the importance for proper verification, and the need for data entry accuracy. This will be completed by May 31, 2016.

1. Inventory Records

A&AS judgmentally selected 10 equipment items for testing from the FM Cogeneration building and yard area during the month of December 2015, and verified that the asset number, serial number, description, manufacturer/model, and current user for each item agreed with the property record maintained in the AMS. A&AS traced the items back to the AMS record and found that the information for one equipment item was incorrect. Specifically, asset # 984018412 (a forklift) was selected from the Cogeneration building yard area, but the AMS record indicated that the location was room 1120. The departmental record was more descriptive for this item, indicating that the location was room “1120, CO-GEN YARD.”

Recommendation: Management should direct staff to update AMS records to accurately reflect the item noted above and, going forward, ensure that information reported in AMS is as detailed as departmental records.

Response: FM concurs and will underscore the need for data entry accuracy with departmental personnel and implement a process to crosscheck each other’s entries. This will be completed by May 31, 2016.

1. Equipment Disposals

A&AS obtained the AMS equipment disposals report for FM and determined that the department had disposed of 65 items as of November 17, 2015. Of these 65 items, five pieces of equipment were selected for testing to verify that the disposals were performed and accounted for in accordance with University policy. Review of supporting documentation for the selections indicated that the disposals had been approved by department management and that records had been adequately maintained.

There were no significant control weaknesses noted in this area.

1. Custody Codes

A&AS conducted interviews with the FM Equipment Custodian and solicited feedback from the FM Fund Accounting Manager to determine if the existing custody code structure was conducive to the effective management of inventorial equipment.

The FM Fund Accounting Manager explained that some custody codes may no longer be used due to departments being split or eliminated. These custody codes were directly correlated with Full Accounting Units (FAUs) that are no longer used. Further review of the equipment listings for these custody codes revealed that no new equipment acquisitions had been added since 2010, which appeared to corroborate the Fund Accounting Manager’s explanation. The FM Equipment Custodian stated that the number of custody codes has minimal impact on the department’s management of inventorial equipment.

There were no significant control weaknesses noted in this area.

Physical Inventory

A&AS interviewed the FM Equipment Custodian to help determine whether physical inventory business practices were in compliance with University policies and procedures. A&AS also reviewed the following documents from the Equipment Custodian:

* Equipment inventory procedures
* Documentation used in the physical inventory process
* Annual Certification of Equipment Inventory form(s) for 2015

A physical verification of FM’s equipment inventory is performed annually. 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. The purchasing staff then uses these notes to update both departmental and AMS records. The Equipment Custodian reviews the listings after all updates have been entered and submits the Annual Certification of Equipment Inventory (one for each custody code) to UCLA Equipment Management. The most recent certification was submitted on November 11, 2015.

The current physical inventory practices appear reasonable and generally comply with University policies and procedures.

There were no significant control weaknesses noted in this area.

System Controls

A&AS interviewed the FM Equipment Custodian to understand how access to the AMS and departmental inventory records are controlled. Access to AMS is granted by UCLA Equipment Management with signature approval from the Director of Finance & Information Systems. According to UCLA Equipment Management, the following are the most common user profiles in AMS:

* 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.
* Department Representative: Full edit rights in AMS to assist the Equipment Custodian. Access is managed by Equipment Management staff.
* Department Approver: Responsible for approving disposal, transfer, and loan transactions in AMS. Users with this profile can run reports, but do not have edit rights in AMS. Access is managed by the Department Security Administrator (DSA).

A&AS contacted UCLA Equipment Management to obtain a list of all users with access to approve or edit FM inventory records in AMS. Aside from the Equipment Custodian, FM has three department approvers and five department representatives.

Access to the departmental inventory database is limited to the Equipment Custodian, Purchasing Manager, and five Purchasing staff. The Equipment Custodian places the Access database in a folder on the department's shared drive only during the equipment inventory process. The Equipment Custodian and Purchasing employees update the database via an electronic form; users do not directly edit the database. The internal FM list is not the official equipment record, but contains information supplemental to AMS, such as the cost center for each item, to help support departmental operations.

There were no significant control weaknesses noted in this area.

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