

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Capital Assets Surplus Program Review
Project #17-075**

May 2017

University of California
San Francisco



Audit and Advisory Services

May 15, 2017

JIM HINE

Associate Vice Chancellor/Chief Procurement Officer
Supply Chain Management

SUBJECT: Capital Assets Surplus Program Review

Audit and Advisory Services (“A&AS”) conducted a review of the capital assets surplus program. Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

The preliminary draft report was provided to department management in April 2017. Management provided us with their final comments and responses to our observations in May 2017. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', with a horizontal line extending to the right.

Irene McGlynn
Director
UCSF Audit and Advisory Services

EXECUTIVE SUMMARY

I. BACKGROUND

Audit and Advisory Services (A&AS) conducted a review of the capital asset surplus program. The purpose of this review was to assess the adequacy of the processes and controls in place for the management and disposal of surplus items.

At UCSF, the Capital Asset Surplus Program is managed by the Logistics Department within the Supply Chain Management. Effective November 2015, Logistics management made a business decision to coordinate and handle the disposition of capitalized assets only, i.e. items with an initial purchase value of at least \$5,000 or more with a UCSF property number. Items below \$5,000 are either recycled or sent to landfill with the exception of certain bulk items that departments had identified for disposal and were deemed to have significant resale value by Logistics. For such items, it is solely Logistics' decision to either recycle it or to post it on Public Surplus, a third-party online auction website. Logistics retain the proceeds from sale of non-capital assets.

Logistics charges an hourly rate fee to transport the items to the Oyster Point facility, as well as for any other related work. Logistics retains the first \$500 of sale proceeds to cover the costs of maintaining the Capital Asset Surplus Program; and the originating (selling) departments receive all revenue in excess of \$500.

The University's Business and Finance Bulletin (BUS-38) "Disposition of Excess Property and Transfer of University-Owned Property" and UCSF's Campus Administrative Policy 200-25: "Surplus Equipment and Supplies" sets out the requirements for the management and disposition of University's excess property.

Items sold (Public Surplus) (January 1, 2016~December 31, 2016)

	# of Items Sold	Revenue
Capital Assets	22	\$49,927
Non-Capital Assets	33	\$48,720
Total	55	\$98,647

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of the processes and controls in place for the management of capital asset surplus items, including:

- Effectiveness of operations for the disposition of capital asset surplus items.
- Completeness and accuracy of the accounting of revenue generated from the sale of capital asset surplus items; and,
- Compliance with regulatory requirements and University policies/procedures.

The scope of the review covered transactions and activities for the period January 1 to December 31, 2016.

Procedures performed as part of the review included interviews with Logistics personnel and walkthroughs to understand disposition processes; assessment of existing controls and processes for receipt, sales and disposal of the capital asset surplus items; and validation of receipts and accounting posting for a sample of capital asset surplus item sales. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended, nor can it be relied upon, to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in March 2017.

III. **SUMMARY**

Based on work performed, existing processes and controls for the management of capital asset surplus goods provides reasonable assurance on the accuracy of the accounting of revenues from sales of surplus capitalized equipment.

Opportunities for enhanced controls and processes exist in the areas of clarity of policy requirements, alignment of practices to be compliant with campus policy and renewal of service agreement.

The specific observations from this review are listed below:

- Proceeds from the sale of capital asset surplus items were not passed onto the originating departments.
- There is no process in place for ensuring that sale of capital asset surplus items purchased using government funds comply with University Policy and federal procurement guidelines.
- Current Logistics practices are not aligned with UCSF Campus Policy.
- Capital asset surplus items available for UCSF internal departments on the online Public Surplus site are not well publicized.
- Compliance requirements on the capital asset surplus request form are not clearly defined.
- The service contract agreement for the recycling and destruction of electronic items is expired.

Further details on the specific observations and management corrective actions are set out below.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCA)

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>MCA</u>
1.	<p><i>Proceeds from the sale of capital asset surplus items were not passed onto the originating departments</i></p> <p>During the period of review, proceeds from the sale of 4 of 16 capital assets sold in excess of \$500 had not been credited to the assets' originating departments as Logistics had not provided the information to the Finance Service Center (FSC) for processing the journal transfer.</p> <p>According to University Policy BUS-38: "Disposition of Excess Property and Transfer of University-Owned Property" sale revenues should be credited to the department after the cost of handling and transportation, plus administrative costs are deducted. UCSF Logistics retain the first \$500 of sale proceeds to cover the costs of maintaining the Capital Asset Surplus Program with the remaining balance credited to originating (selling) department's account.</p>	<p>Non-compliance with University policy requirements.</p>	<p>Logistics should implement processes for better tracking of all capital assets sales and ensuring that departments are appropriately credited with the revenue.</p>	<p>a) A journal transfer will be created to credit the Departments' accounts for the missed revenue.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 5/31/2017</p> <p>b) A new procedure will be added to the monthly financial review with FAS business partner to scrutinize Public Surplus transactions to ensure that departments are properly credited each month.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 06/30/17</p>
2.	<p><i>There is no process in place for ensuring that sale of capital asset surplus items purchased using government funds comply with University Policy and federal procurement guidelines.</i></p> <p>Current Logistics practices do not call for tracing capital asset surplus items back to the original funding source and therefore a determination cannot be made to verify</p>	<p>Non-compliance with University and federal sponsor policy requirements.</p>	<p>Logistics should consult with the Controller's Office, Capital Accounting and other related department(s) to develop procedures to identify items originally purchased with federal government</p>	<p>Logistics will work with the Controller's Office, Capital Accounting and any other departments to design procedures to identify items originally purchased with federal funds to ensure compliance with BUS-38.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>that we are in compliance with University Policy on disposition of items purchased with federal government funds.</p> <p>University Policy BUS-38: "Disposition of Excess Property and Transfer of University-Owned Property" stipulates that University-titled property originally purchased with Government funds must not be sold to other departments, campuses or educational institutions if the purchaser intends to use Government funds as the payment source.</p>		funds.	<p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 10/31/2017</p>
3.	<p><i>Current logistics practices are not aligned with UCSF Campus Policy.</i></p> <p>UCSF Campus Administrative Policy 200-25: "Surplus Equipment and Supplies" stipulates that inventorial equipment "must be held at Distribution & Storage for 30 days to accommodate departments that may wish to purchase them." However, Logistics' current workflow for selling of capital asset surplus items through the online Public Auction website does not follow this requirement.</p> <p>Logistics management indicated that this policy is outdated and needs to be updated to reflect current processes.</p>	Policy with outdated requirements may lead to misunderstanding and inconsistent approach for handling capital asset surplus items.	Logistics should review and update UCSF Campus Administrative Policy 200-25: "Surplus Equipment and Supplies" to be consistent with their current processes.	<p>UCSF Campus Administrative Policy 200-25 has been revised and will be submitted for approval.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 6/30/2017</p>
4.	<p><i>Capital asset surplus items available for UCSF internal departments on the online Public Surplus site are not well publicized.</i></p> <p>When an item is posted on the online public site (Public Surplus.com) for resale, it is made available for UCSF departments for the initial seven days before it is opened to the general public for sale. However, there is very little internal communication to UCSF departments on the availability of the items so it is uncertain how they are able to take advantage of this benefit.</p>	Potential missed opportunity for re-use of items for internal use.	Logistics to develop communication channels to notify UCSF internal departments on the availability of capital asset surplus items	<p>a) Website text will be updated to include language specific to capital equipment sales; stating the first seven days are held exclusively for UCSF departments.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 05/31/17</p>

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				<p>b) A newsfeed article will be added to the website focused specifically on departmental sales via the Public Surplus website.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 06/30/17</p> <p>c) A hard copy mailing will be send two times per year to all departments advertising Public Surplus capital equipment items that are available for sale to them.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> First mailing by 5/31/17 and then on an ongoing basis</p> <p>d) The same text will be forwarded to all the Logistics account holders, once a year, via a listserv mailing.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> First email by 6/30/17 and then on an ongoing basis</p>

No.	Observation	Risk/Effect	Recommendation	MCA
5.	<p>Compliance requirements on the capital asset surplus request form are not clearly defined.</p> <p>The Logistics' capital asset surplus items request form requires departments to certify compliance with a number of University policies as follows: Capital Assets</p> <ul style="list-style-type: none"> • Completion of equipment inventory modification request form • Meet Environmental, Health and Safety (EH&S) Policy • Meet data security standards <p>However, these certifications of policy are very wide and specific EH&S and Data Security policy requirements for which the departments are held accountable for are not defined. Additionally, certification of compliance is not required to be signed-off by department management - as typically the certifications are completed by department administrative staff.</p>	<p>Without clearly defined requirements for compliance, department management may not fully understand their accountability which may result in the inadvertent non-compliance.</p>	<p>a) Logistics should define the specific policy requirements for compliance that departments must comply with.</p> <p>b) Logistics should establish a process to obtain signoffs from an appropriate level of management and retain the evidence of signoff.</p>	<p>a) Logistics will work with IT to identify the proper policy and/or procedure to meet data security standards. Once identified, these details will be added to the UCSF Capital Asset Surplus form.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 9/30/17</p> <p>b) UCSF Capital Surplus form will be updated to include the following language; "When entering the department manager's name, you must secure their approval in advance due to the strict compliance protocols."</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p> <p><u>Implementation Date:</u> 09/30/17</p>
6.	<p>The service contract agreement for the recycling and destruction of electronic items is expired.</p> <p>During the course of our review, we identified that the contract service agreement between UCSF and ECS Refining for recycling of electronic equipment and destruction of data had expired in July 2014. Surplus electronic items that Logistics and Information</p>	<p>Vendors operating without executed legal agreements expose the organization to unnecessary</p>	<p>SCM Procurement should work with IT and Logistics to renew the ECS agreement.</p>	<p>SCM buyers are currently working to renew the ECS agreement.</p> <p><u>Responsible Party:</u> AVC/CPO Supply Chain Management</p>

Capital Asset Surplus Program Review

Project #17-075

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	Technology (IT) receive from departments are picked up by an e-waste company (currently ECS Refining) for recycling and destruction of any data stored therein.	risk as contract terms and conditions may not be enforceable.		<u>Implementation Date:</u> 9/30/2017

APPENDIX A

To conduct our review, the following procedures were performed for the areas in scope:

- Interviewed Logistics and FSC personnel to gain an understanding of receipt, sales and disposal of the capital asset surplus items;
- Interviewed Information Technology (IT) personnel to gain an understanding of the disposal of electronics within IT;
- Interviewed the recycling coordinator within the UCSF Campus Facility Services, Sustainability Program to gain an understanding on efforts and initiatives being taken at the University;
- Reviewed a sample of revenues received from Public Surplus and payments to selling departments and assessed their appropriateness;
- Reviewed University policies and procedures related to capital asset surplus to gain an understanding on the requirements and verify the compliance with the requirements;
- Assessed the appropriateness of physical security controls in the areas where capital asset surplus items are stored; and,
- Assessed the appropriateness of the disposals of electronics through the vendor, ECS Refining.