UCSB Audit and Advisory Services

Internal Audit Memorandum

University Inventories
Audit Follow-Up Review

May 28, 2015

Performed by:
Laurie Liao, Staff Auditor

Approved by:
Robert Tarsia, Director

Report No. 08-15-0014

This page intentionally left blank.

UCSB AUDIT AND ADVISORY SERVICES

May 28, 2015

To: David McHale, Director
        Facilities Management

        Jim Corkill, Director
        Business and Financial Services

From: Robert Tarsia, Director
        Audit and Advisory Services

Re: **University Inventories - Audit Follow-up Review**
        Project No. 08-15-0014

PURPOSE

Audit and Advisory Services performed an audit of University of California, Santa Barbara (UCSB) inventories in two phases in fiscal year 2013-14, with detailed work in eight departments. The purpose of this follow-up review was to assess and report on the progress of the campus in implementing the recommendations from both phases of the 2013-14 audit.

SCOPE, OBJECTIVES, AND METHODOLOGY

Consistent with auditing standards and University of California internal audit policies, Audit and Advisory Services has a systematic follow-up process in place to track and report on the implementation status of management corrective actions agreed to as a result of recommendations in our audit reports. For most of the departments included in the scope of our 2013-14 inventory work, we have summarized the results of our regular follow-up activities, and performed necessary additional follow-up, to report on the current status of recommendations as part of this follow-up review. For Facilities Management, we also performed detailed audit fieldwork as part of this review; at the time of our 2013-14 audit, the department was working on significant enhancements in its processes and controls, and we agreed at the time to check in on the progress of these enhancements by performing additional fieldwork steps during fiscal year 2014-15.

To conduct this follow-up review, Audit and Advisory Services:

- Documented the implementation status of all management corrective actions included in two fiscal year 2013-14 audit reports, *University Inventories - Phase 1* and *University Inventories - Phase 2*.

- Interviewed Facilities Management personnel, including the Director of Facilities Management, Associate Director of Systems Planning and Projects, and the Senior Storekeeper; and performed a walkthrough of the department's storeroom.

- Reviewed, documented, and evaluated relevant Facilities Management policies, procedures, flowcharts, and other documentation.

- Evaluated the implementation status of Facilities Management corrective actions from our 2013-14 work, as well as the status of specific internal control and other concerns we noted as part of that work.

This audit follow-up was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

BACKGROUND

Campus operations include a wide variety of inventorial and non-inventorial equipment, supplies, materials, substances and other items located at, and utilized by, a wide range of facilities, including offices, labs, garages, machine shops, and other facilities. The scope and decentralization of UCSB's operations increase the likelihood that University resources will be used for non-UC business, otherwise misused, or stolen.

The primary purpose of our fiscal year 2013-14 audit was to ensure that UCSB campus inventories (and non-inventoried stock) such as supplies and equipment, were properly controlled and safeguarded from loss, and to assess whether processes and procedures implemented by campus departments were in compliance with University and sponsor regulations and policies. The two phases of our 2013-14 audit included detailed audit work in the following areas:

Audit Phase 1 Areas of Focus:

- Facilities Management
- Central Stores
- Police Department
- Department of Music

Audit Phase 2 Areas of Focus:

- Housing and Residential Services
- Transportation and Parking Services
- Chemistry and Biochemistry
- Intercollegiate Athletics

Facilities Management

Facilities Management is one of the divisions under the umbrella of Campus Design & Facilities, which is part of the Vice Chancellor, Administrative Services organization. It provides a wide range of services to the campus, including landscaping and grounds maintenance, pest

management, energy and utility (including electrical and plumbing), and custodial services. Facilities Management also includes a Financial Services unit that supports the entire Campus Design & Facilities organization, including Design and Construction. Our fiscal year 2013-14 inventory audit work in Facilities Management reviewed inventorial items such as equipment, tools, parts, materials, and supplies to determine whether they were properly controlled and safeguarded from loss, and to assess whether department processes and procedures comply with University and sponsor requirements

RESULTS OF FOLLOW-UP

Campus-wide

Campus departments have made significant progress in addressing the recommendations included in the 2013-14 audit reports; Table 1 summarizes the status of all issues from both reports. Some management corrective actions have been fully implemented; the remaining corrective actions have been partially implemented, but are still scheduled for completion in a reasonable timeframe. We will continue to use our regular follow-up process to track and report on the implementation status of all management corrective actions.

Facilities Management

This follow-up review found that Facilities Management has made significant progress in the implementation of the 2013-14 audit recommendations.

1. Physical Safeguard of Assets

Our 2013-14 audit recommended establishing adequate access restrictions to safeguard inventory, which was stored in both locked and unlocked areas. Entryways and delivery gates were not being closely monitored or restricted, and there was no central point to account for inventory being received or purchased.

Facilities Management has now secured inventory within a restricted area, with one monitored central point for receiving and distributing inventory. Entryways and delivery gates are restricted to stockroom staff, as well as to select outside personnel for campus emergencies. Entry logs are occasionally reviewed to identify any irregular access outside of regular business hours.

2. Written Departmental Policies and Procedures

Our 2013-14 audit recommended written departmental policies and procedures that define processes, roles, and responsibilities. Policies and procedures are an essential component of internal control; they provide guidance and clarity to staff, improve accountability and accuracy, and help in consistently training new staff.

Facilities Management has now prepared written procedures in the following areas:

- Stock Reordering
- Stock Checkout
- Non-stock Ordering
- Checkout of Specialized Tools

3. Implementation of a New System

At the time of our 2013-14 audit, Facilities Management was planning a re-engineering process that included replacing the current PartsNet[1] system with TMA Systems.[2] Our audit recommended continuing with the process, including the implementation of a new system that adequately tracks supplies inventories, provides management information, and reports on inventory use, turnover, etc.

Facilities Management is still in the process of fully transitioning to TMA Systems. The complete transition plan includes the implementation of maximum and minimum inventory thresholds and assigning barcodes to stockroom inventory, among other improvements.

4. Other Internal Control Issues

Our 2013-14 audit also recommended the following:

*   *Tracking of Theft-Sensitive Equipment Under the $5,000 Inventorial Threshold*: Facilities Management has now restricted access to items such as specialized tools to an office that is accessible only to stockroom employees. This is to help facilitate the newly established checkout procedure to track and document the status of specialized tools.

*   *Adequate Employee Accountability for Tools and Equipment*: The department's new checkout procedure better tracks and documents the status of specialized tools. This procedure requires a stockroom employee to administer the checkout procedure, which includes obtaining and documenting information such as name, date, and time.

*   *Sufficient Segregation of Duties Between Custodial and Record-Keeping Functions:* The department has since revised stock reordering and non-stock ordering procedures to include better segregation of duties. These revisions were made to ensure that the same person is not able to receive, record, and input inventory data for each order into the systems.

We recommend that Facilities Management continue with its re-engineering process and other enhancements in inventory-related processes, including:

*   The transition from PartsNet to TMA Systems.
*   Incorporating 3-way matching into purchasing procedures.
*   A written procedure for performing the annual inventory.
*   Ensuring appropriate inventory reconciliation to the general ledger.

It is also our understanding that additional improvements may be considered, such as:

*   Establishing identification checks to ensure proper distribution and checkout.
*   Regular, periodic inventory checks for specialized tools.
*   Establishing a regular schedule for review of access entry logs.
*   Revising written procedures to define all processes in greater detail.

---

[1] Inventory tracking system used by the stockroom.
[2] Maintenance management software, which includes a materials management module.

MANAGEMENT CORRECTIVE ACTIONS

Facilities Management will continue with its re-engineering process and other enhancements in inventory-related processes, including the transition from PartsNet to TMA Systems, incorporating 3-way matching into written procedures, a written procedure for performing the annual inventory, and ensuring appropriate inventory reconciliation to the general ledger.

Audit and Advisory Services will follow up on the status of these issues by May 31, 2016.

We would like to thank Facilities Management personnel for their assistance in completing our work.

Respectfully submitted,

Robert Tarsia
Director
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang
    Vice Chancellor Administrative Services Marc Fisher
    UCSB Audit Committee
    Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
    Jeff Monteleone, Associate Director of Systems, Planning and Projects, Facilities Management
    Leslie Griffin, Associate Director, Business & Financial Services
    Kimberly Ray, Associate Director of Controls, Business & Financial Services

Table 1	Implementation Status of Recommendations from 2013-14 University Inventories Audit - Phase I & II			
Department or Unit *	**Finding**	**Recommendation**	**Management Corrective Actions Agreed To**	**Status**
Business & Financial Services	- Better campus guidance needed for non-inventorial equipment. - Campus-wide requirements needed for documenting the release to Central Stores and disposal of property under $5,000.	- Establish more restrictive local policies and procedures or provide campus-wide guidance for property under $5,000. - Establish more rigorous practices for tracking and disposal of equipment under $5,000.	- Communicate guidance to departments for tracking and safeguarding property valued below $5,000. - Reach out to the UC policy owner (BFB 29 & 38) to expand the scope to include additional guidance on non-inventorial assets.	Not Implemented – extended to July 31, 2015
Police Department	- Armory: Firearms records in the Capital Assets Tracking System (CATS) needed updates. - Evidence Room: Complete physical inventory and reconciliation needed.	- Armory: Ensure that CATS is updated and perform a complete physical inventory annually. - Evidence Room: Complete implementation of new tracking system.	- Armory: Ensure accuracy of CATS firearms records, and perform a complete physical inventory annually. - Evidence Room: Complete implementation of the new evidence tracking system.	Armory: Fully Implemented Evidence Room: Partially Implemented – extended to July 31, 2015
Facilities Management	- Improvements needed in the physical safeguard of assets; written policies and procedures; an adequate inventory system; and overall internal controls.	- Continue work on the department's re-engineering process to implement improved systems and practices.	- Address issues regarding safeguarding of assets; complete written policies and procedures; and implementation of a new system.	Partially Implemented – extended to June 30, 2015
Housing and Residential Services	- Perpetual inventory system or consistently maintained inventory lists needed for higher risk inventory.	- Evaluate the costs and benefits of a perpetual inventory system. - Maintain detailed inventory lists for theft-sensitive items.	- Evaluate the costs and benefits of implementing a perpetual inventory system. - Establish and maintain detailed inventory lists for theft-sensitive items.	Partially Implemented – extended to June 30, 2015
Transportation and Parking Services	- Vehicles could be purchased or acquired through a gift without being reflected in campus records.	- Consult with the California DMV to identify all vehicles registered to the campus. - Annually obtain DMV reports to reconcile with campus inventory records and follow up on discrepancies.	- Consult with the California DMV to determine the ability to identify all vehicles registered to campus. - Obtain DMV reports, reconcile them with campus inventory records, and follow up on any discrepancies.	Partially Implemented – extended to May 31, 2015
Department of Music	- A consistently maintained, comprehensive property or inventory listing was needed.	- Develop written policies and procedures covering tracking and physical inventory. - Update department property/inventory listing. - Perform a complete physical count.	- Develop written departmental policies and procedures. - Update department property/inventory listing to include all theft-sensitive items under $5,000. - Perform a complete physical count annually.	Fully Implemented

* Minor issues identified during our review of Chemistry and Biochemistry were resolved during the audit and not detailed in the audit report.