



AUDIT AND ADVISORY SERVICES  
SANTA BARBARA, CALIFORNIA 93106-5140  
Tel: (805) 893-2829  
Fax: (805) 893-5423

July 31, 2020

To: Distribution

Re: **University Inventories**  
**Audit Report No. 08-20-0009**

We have completed a limited review of equipment management as part of the 2019-20 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Business and Financial Services, Transportation and Parking Services, and Mechanical Engineering personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen  
Director  
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services

Jim Corkill, Associate Vice Chancellor/Controller

Jacob Godfrey, Associate Director & Chief Procurement Officer

Vaughn Boyle, Equipment Manager

Transportation and Parking Services

Nestor Covarrubias, Director

cc: Chancellor Henry Yang  
Chuck Haines, Assistant Chancellor for Finance and Resource Management  
Garry Mac Pherson, Vice Chancellor for Administrative Services  
UCSB Audit Committee  
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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# UC SANTA BARBARA

UCSB Audit and Advisory Services

Internal Audit Report

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## University Inventories

July 31, 2020

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**Performed by:**

Antonio Mañas-Melendez, Associate Director

Irene Camargo, Senior Auditor

**Approved by:**

Ashley Andersen, Audit Director

Report No. 08-20-0009

## EXECUTIVE SUMMARY

### OBJECTIVE

The purpose of our review was to assess current asset management business practices and internal controls and to determine whether the inventory management process at the University of California, Santa Barbara (UCSB) complies with appropriate University policies and procedures. The objectives of this audit included:

- Obtain a detailed understanding of significant processes and practices employed in the implementation of the equipment management process.
- Determine whether the integrity of equipment management data is adequate and complete.
- Determine whether acquisitions and disposals of assets are properly reported and managed.

### CONCLUSION

Based on the results of the work performed within the scope of the audit, we found University inventories and related processes reviewed appear to be functioning as intended. Business and Financial Services has established overall effective internal controls over equipment management administration of data, acquisitions, and disposals of University assets. However, our work identified the following opportunities of improvement in the equipment management process and the disposal process to help safeguard University assets:

- Evaluate a more automated interface between the Campus Procurement System (Gateway) and the Asset Management module in the Campus Financial System (CFS).
- Request updating thresholds in the UCSB Policy *Reporting the Loss or Theft of Inventorial Equipment*.
- Improve disposal support documentation to include the release of liability documentation for vehicles and firearms.
- Document and maintain a list of authorized department disposal approvers.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. EQUIPMENT MANAGEMENT PROCESSES

#### OBSERVATION

We reviewed the equipment management process at the central office<sup>1</sup> level and the department level to gain an understanding of current practices and procedures. The results of our work highlighted a need to reduce the human component in the interface between the campus procurement system (Gateway) and the Campus Financial System (CFS) to improve efficiency and reduce time, effort, and administrative costs. Additionally, we found a need for departments to track and maintain an inventory of theft-sensitive items for items with value under the threshold for tracking equipment inventory, defined by UCSB policy.

#### *Equipment Management Administration*

We found that the process to feed the Asset Management module in CFS is performed manually. The current process is time-consuming, requiring the use of several shadow systems and detail oriented personnel to mitigate human errors. In order to reduce the dependency on key personnel, time, effort, and administrative costs associated with managing University assets, Equipment Management should evaluate implementing a more automated interface between Gateway and the Asset Management module in CFS.

The process to track and manage campus equipment inventory includes the following steps:

- Equipment purchase notification: An email is generated and sent to Equipment Management for items over \$5k after items have been approved in Gateway.
- Gateway system verification: Equipment Management reviews department purchase orders to ensure proper classifications of assets.
- Purchase order finalizing: Equipment Management uses a Microsoft Excel spreadsheet to track the progress of the purchase order and to ensure the correct object code is used.
- Asset control: Equipment Management reviews the Asset Information Update Webform<sup>2</sup> with the serial number of the equipment and enters the information manually into the Asset Management module to assign asset numbers to be affixed to equipment.
- Reconciliation: Equipment Management uses a local database (Filemaker<sup>3</sup>) to track and compare the acquisition value amount to the data in the Asset Management module for each order to ensure the purchase amounts match.

We also found the UCSB Policy *Reporting the Loss or Theft of Inventorial Equipment* has not been updated since October 2003 to reflect the current threshold for tracking equipment

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<sup>1</sup> Central Office: Business and Financial Services.

<sup>2</sup> The *Asset Management Update Webform* is used to provide Asset Management with new information for an University asset.

<sup>3</sup> FileMaker is a cross-platform relational database application from Claris International, a subsidiary of Apple Inc.

inventory in the Asset Management module. The threshold identified in the policy is \$1,500; however, the current threshold used by Equipment Management is \$5k.

### **RECOMMENDATION**

We recommend Business and Financial Services:

- Evaluate implementing a more automated interface between Gateway and the Asset Management module in the Campus Financial System, in order to reduce the dependency on key personnel, time, effort, and administrative costs associated with managing University assets.
- Request an update to the \$1,500 threshold for tracking equipment inventory in the UCSB *Policy Reporting the Loss or Theft of Inventorial Equipment* to reflect the current threshold of \$5K used by Equipment Management.

### **MANAGEMENT RESPONSE**

Business and Financial Services will:

- Evaluate implementing a more automated interface between Gateway and the Asset Management module in the Campus Financial System, in order to reduce the dependency on key personnel, time, effort, and administrative costs associated with managing University assets.
- Request an update to the \$1,500 threshold for tracking equipment inventory in the UCSB *Policy Reporting the Loss or Theft of Inventorial Equipment* to reflect the current threshold of \$5k used by Equipment Management.

*Audit and Audit services will follow up on the status of these issues by November 30, 2020.*

#### *Campus Departments Administration*

We determined Transportation and Parking Services (TPS) and Mechanical Engineering follow UC Policy processes and guidelines set forth for reporting and tracking the campus equipment inventory. However, we identified one unit within TPS where theft-sensitive items under the \$5k threshold for tracking equipment inventory were not updated and tracked by the department.

We evaluated departmental equipment management internal controls to track and maintain inventory of theft-sensitive items under the policy threshold for Transportation and Parking Services (TPS) and Mechanical Engineering. We found departments selected had adequate controls in the following areas:

- Purchasing and receiving inventory items through the Gateway procurement system with adequate separation of duty roles and responsibilities.
- Processing equipment disposals by completing the Equipment Inventory Modification Request (EIMR) and the Excess and Surplus Property Disposal (ESPD) forms and forwarding to Equipment Management for approval and removal from the Asset

Management module.

- Tracking and updating physical inventory of equipment above the \$5k threshold and forwarding changes to Equipment Management to update in the Asset Management module.
- Safeguarding theft-sensitive equipment stored in locked storage areas with limited authorized access.
- Tracking and updating theft-sensitive items under the threshold, with the exception of the Fleet unit within TPS. The department has not updated the inventory of theft-sensitive tools since 2015.

### **RECOMMENDATION**

We recommend Transportation and Parking Services update and maintain an inventory of theft-sensitive items for tools in the mechanic shop under the \$5k threshold for tracking equipment inventory.

### **MANAGEMENT RESPONSE**

Transportation and Parking Services will update and maintain an inventory of theft-sensitive items for tools in the mechanic shop under the \$5k threshold for tracking equipment inventory.

*Audit and Audit services will follow up on the status of these issues by October 31, 2020.*

## **2. SEPARATION OF DUTIES AND DATA INTEGRITY**

### **OBSERVATION**

Administrative roles were restricted to equipment management personnel with administrative duties and we did not identify any issues with the integrity of data.

#### *Separation of Duties*

We performed a review of access in the CFS to the Asset Management module and found administrative roles in the Asset Management module were limited to authorized personnel, the Equipment Manager and the Equipment Management Assistant.

#### *Data Integrity*

Our review of the equipment management data in the Asset Management module found the database to be complete and includes adequate data that is sent to the University of California Office of the President (UCOP) for tracking and capitalization.

We analyzed the adequacy and completeness of the equipment management data by reviewing data fields reported to UCOP for tracking and capitalization. We found asset data to be adequate and complete and did not include duplicate or erroneous entries in the Asset Management module.

### *Physical Inventory*

We found that all equipment record discrepancies identified in the periodic physical inventory performed in three departments was updated in the Asset Management module.

We reviewed the physical count of three departments with a high volume of inventories to ensure that discrepancies between the periodic physical inventory and the Asset Management module were updated. We compared fifteen physical asset changes in the inventory for Physics, Earth Research Institute, and Marine Science Institute to the entries made in the Asset Management module. Discrepancies included, but were not limited to, changes in room numbers, building numbers, asset custodians, and disposal of assets. We concluded that all discrepancies in our sample had been updated in the Asset Management module.

## **3. ACQUISITION AND DISPOSAL PROCESSING**

### **OBSERVATION**

We reviewed a sample of equipment acquisitions and disposals and found that Equipment Management is adequately processing asset purchases and disposals. However, we found that there is not a formal list of authorized disposal approvers. Additionally, we found that the Surplus Administrator's roles and responsibilities should be evaluated and clearly defined to ensure disposals are adequately managed.

#### *Acquisitions*

We determined Equipment Management is adequately tracking equipment purchases to ensure items purchased are properly classified as non-inventorial items.

We reviewed a sample of items purchased, that were not included in the Asset Management module, to ensure purchases were properly classified as non-equipment. We randomly selected twenty-five purchase orders from the Gateway procurement system during the fiscal year 2018-19. We identified the unit price to determine whether the value of the item purchased exceeded the threshold to be included in the Asset Management module. We reviewed the description of the items purchased and found that the items were properly classified as non-equipment.

#### *Disposals*

We determined Equipment Management is adequately tracking disposals and removing the assets from the Asset Management module. Departments are completing and signing the UCSB Equipment Inventory Modification Request forms (EIMR) and the Excess and Surplus Property Disposal (ESPD) forms. Equipment Management receives and approves the forms mentioned above. However, there is not an official list of department disposal approvers. In addition, we found vehicles and firearms support documentation did not include a Notice of Transfer and Release of Liability for vehicles and a Transfer/Release of Firearms<sup>4</sup> for guns to provide evidence of a release of liability of assets owned by the University.

We randomly selected fifteen assets that were disposed of in the last two years. We obtained

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<sup>4</sup> Notice of Transfer of Title and Transfer/Release of Firearms: evidence of an asset transfer and release of liability.

the EIMR and the EPDS disposal forms that were completed. We reviewed that the form was adequately completed by the departments and approved by Equipment Management. Specifically, we found:

- Two trade-in requisitions were completed and recorded through the workflow process in the Gateway procurement system. Equipment Management trade-ins are processed through the gateway system and removed from inventory.
- Four assets were sold through the UCSB Surplus Sales unit:
  - Three low-value items were sold and approved using the EIMR disposal form.
  - One vehicle was sold through a Public Surplus Auction and approved using the EPDS disposal form. However, we found that the department did not provide a Notice of Transfer to provide evidence of a release of liability of assets owned by the University.
- Six assets were cannibalized for parts. EIMR disposal forms were adequately completed and approved. One firearm was no longer serviceable and was disposed of by an FFL Dealer. However, the department did not provide a Transfer/Release of Firearms support documentation when submitting the disposal forms to provide evidence of the release of liability of assets owned by the University.
- One asset was returned to Federal Surplus. The vehicle was returned to the agency at the end of the grant. The EIMR disposal form was adequately completed and approved.
- One asset was shipped to a government entity following termination of the contract. The contract had ended and the asset was returned to the agency. The EIMR form was completed and approved.
- One asset was transferred to another University as part of a faculty transfer. An agreement was executed and approved by the Vice Chancellor of Administrative Services.

## **RECOMMENDATION**

We recommend the Surplus Administrator document a procedure to ensure:

- Departments provide additional support documentation: Transfer/Release of Liability for vehicles sold, and Transfer/Release of Firearms for firearms destroyed whereby the University holds title.
- A list of authorized disposal approvers is maintained.

## **MANAGEMENT RESPONSE**

The Surplus Administrator will document a procedure to ensure:

- Departments provide additional support documentation: Transfer/Release of Liability for vehicles sold, and Transfer/Release of Firearms for firearms destroyed whereby the University holds title.

- A list of authorized disposal approvers is maintained.

*Audit and Audit services will follow up on the status of these issues by November 30, 2020.*

Some of the Surplus Administrator's responsibilities have been historically performed by personnel in Business and Financial Services. This practice is consistent with University of California Business and Finance Bulletin BUS 38, *Disposal of Excess Property and Transfer of University-Owned Property* (UC Policy BUS 38).

In 2018, Business and Financial Services was transferred from the Administrative Services division to the Finance and Resource Management division. However, the Surplus Administrator's role was not officially transferred. During this audit, the Vice Chancellor of Administrative Services agreed to discuss the transfer of the Surplus Administrator role to the appropriate party in order to ensure disposals are adequately managed.

## **RECOMMENDATION**

We recommend Administrative Services discuss with the Finance and Resource Management division transferring the Surplus Administrator's roles and responsibilities to the appropriate party to manage surplus disposals.

## **MANAGEMENT RESPONSE**

Administrative Services will discuss with the Finance and Resource Management division transferring the Surplus Administrator's roles and responsibilities to the appropriate party to manage surplus disposals.

*Audit and Audit services will follow up on the status of these issues by December 15, 2020.*

## **GENERAL INFORMATION**

### **BACKGROUND<sup>5</sup>**

Equipment Management, a unit within Business and Financial Services, is charged with maintaining asset control of items owned or in the custody of The Regents of the University of California managed through the Asset Management module and updating the data upon acquisition or disposal of assets.

The department head is responsible for the security, physical inventory, disposal, and control of department equipment. Asset custodians are responsible for the physical identification and tracking of department equipment. The department is charged with updating the physical equipment inventory count every other year and forwarding the Equipment Inventory Modification Request form (EIMR) or the Excess and Surplus Property Disposal form (EPDS) to Equipment Management upon disposal of assets.

Equipment Management reviews all transactions related to the acquisition, modification, transfer and disposition of inventorial assets, in order to provide compliance with University policies and Federal, State and agency regulations, screening and audit requirements and in

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<sup>5</sup> Business and Financial Services: Equipment Management website.

order to assist departments, in the most efficient manner possible, in the accurate maintenance of their equipment records.

### *Acquisitions*

Acquisitions include non-expendable, tangible, personal property, which has an acquisition cost of \$5,000, or more, is freestanding, is complete in itself, does not lose its identity when affixed to or installed in other property and has a normal life expectancy of one year or more. The purchase price of the item must be at least \$5,000 (including sales tax). The cost of accessories, start-up supplies, installation and/or freight cannot be counted toward the initial \$5,000 in value. However, if the \$5,000 threshold has been reached, then these additional costs can be included as inventoried equipment value.

The item must be freestanding: it cannot be part of a building (electrical, plumbing, air-conditioning, etc.) system, or an item of modular office furniture. The item does not necessarily have to be functionally independent: an expensive lens objective for a microscope, for example, may receive a separate property number.

The life expectancy of the item must be at least one year. Otherwise, it is considered to be a consumable item and categorized as a supply purchase.

It is important to note the distinction between generic “equipment” and “inventorial equipment.” All computers may be viewed as “equipment,” but a \$2,000 laptop will not receive a University property number because its value is less than \$5,000 – it is equipment only in the generic sense of the word; it is not inventoried equipment.

### *Disposals*

The disposal (including via transfer) of all inventorial equipment must be reported promptly and accurately, using the appropriate form and method. Disposals fall into four broad categories: 1. Direct disposal by department of assets that have been: traded in, cannibalized for parts, destroyed, lost, or sold in coordination with Central Stores. 2. Transfers to other institutions. 3. Surplus disposals via transfer to Central Stores, of excess, obsolete or scrap assets that are sold or destroyed or trashed. 4. Donations.

Equipment Management removes the assets from the inventory after the department submits an Equipment Inventory Modification Request (EIMR) or an Excess and Surplus Property Disposal (ESPD) form. Departments are not authorized to conduct direct sales of equipment without the prior approval of Surplus and Equipment Management. If such permission has been granted, all funds received for the sale must be sent to Surplus for deposit into the University's approved income account for surplus sales; the department's share of the proceeds will be journaled to it. The sale is reported to Equipment Management by submitting an EIMR.

### *Surplus*

On the Santa Barbara campus, surplus property disposal is the responsibility of the Surplus unit of Central Stores. Individuals and departments are not allowed to dispose of University property without the prior approval of Equipment Management and Surplus Administrator.

If a department has property, which is surplus to its needs, is obsolete or no longer functional,

it must list such property on an Excess and Surplus Property Disposal Form (ESPD) and submit the form to Equipment Management, which will process the form, ensuring that the University holds title to all listed assets, and forward it to Surplus.

Surplus will contact the department to arrange for pick-up of the property (the department may also deliver it), at which time the property will be removed from the department's inventory. The property is removed from the campus inventory (i.e., a disposal transaction is processed) at that time that Surplus either sells it or disposes of it as trash.

## SCOPE

The limited scope of our work included compliance with equipment management processes and administration, data integrity, and acquisition and disposal processing. Specifically, we:

- Researched and reviewed relevant UC and UCSB policies, best practices, and other guidance related to equipment management of University Inventory.
- Conducted interviews with personnel in Equipment Management, Transportation and Parking Services, and Mechanical Engineering to gain an understanding of department's processes, policies, and procedures for administering and managing University assets.
- Evaluated Equipment Management business practices to determine whether they incorporated adequate internal controls and reviewed opportunities to enhance and improve operational efficiency.
- Performed an analysis of separation of duties within the Asset Management module and the data integrity of the University equipment inventory maintained within the Asset Management module.
- Reviewed asset acquisitions and disposals of equipment and whether Equipment Management is adequately processing purchases and disposals.

## CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- University of California Business and Finance Bulletin BUS 29, *Management and Control of University Equipment*. (UC Policy BUS 29)
- University of California Business and Finance Bulletin BUS 38, *Disposal of Excess Property and Transfer of University-Owned Property*. (UC Policy BUS 38)
- University of California Business and Finance Bulletin BUS 43, *Purchases of Goods and Services, Supply Chain Management*. (UC Policy BUS 43)
- University of California Business and Finance Bulletin BUS 54, *Operating Guidelines for University Supply Inventories*. (UC Policy BUS 54)

- University of California Santa Barbara Policy and Procedure, *Reporting the Loss or Theft of Inventorial Equipment*, dated October 2003.

**AUDIT TEAM**

Ashley Andersen, Audit Director  
Antonio Mañas-Melendez, Associate Director  
Irene Camargo, Senior Auditor