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John A Lohse
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CHIEF COMPLIANCE AND AUDIT OFFICER

April 7, 2017

CONTROLLER MCGUIRE

RE: Final Report Project No. P17A012: ANR Federal Excess Property Program

Attached is a copy of the final report for: Audit Services Project No. P17A012 ANR Federal Excess Property Program. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Interim Senior Vice President Lohse
Director Oatman
Director Yu
Manager Cataldo
Contractor Schneider

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

ANR FEDERAL EXCESS PROPERTY PROGRAM
Audit No. P17A012
February 2017

Audit Conducted by:
Laura Schneider, Contractor

Executive Summary

Introduction

As the University of California system is a land grant university it is eligible to participate in the Federal Excess Property Program (FEPP). The FEPP program is administered by the US Department of Agriculture (USDA) and allows eligible organizations to acquire equipment and other property that is no longer in use by the federal government at no cost. FEPP equipment is posted on an online marketplace for eligible organizations to review and obtain. The surplus federal property is relocated to the organization for use in accordance with FEPP guidelines, but title does not transfer to the organization. The USDA has outlined requirements for FEPP participation in the *Federal Excess Property Program Guide* (USDA Program Guide). Organizations must be in compliance with the requirements in the *USDA Program Guide* in order to participate further in the FEPP program.

The Agriculture and Natural Resources (ANR) division of the University of California participates in the FEPP program. ANR operates the state's largest research management system for agriculture and natural resources. The ANR system includes nine Research and Extension Centers (RECs) that support education and research programs in agriculture, natural resources, and human resources throughout the state of California. As of 2015, there were over 400 pieces of FEPP equipment with an acquisition cost of approximately \$9.7 million assigned to ANR and FEPP equipment is located across all 9 RECs and other ANR locations.

The ANR FEPP program, including acquisitions and disposals, is managed centrally through the FEPP Coordinator. Prior to expanding use of the FEPP program, ANR requested an audit of the existing FEPP activities and compliance with the *USDA Program Guide*.

Objectives and Scope

As part of the fiscal year 2016 – 2017 annual audit plan, Internal Audit (IA) performed a review of the ANR FEPP program. The audit objectives were to:

- Verify internal controls and ANR procedures are in place to address FEPP program compliance requirements.
- Assess the design effectiveness of internal controls and identify opportunities for improvement.
- Evaluate opportunities to streamline and automate internal controls to support future scalability of the FEPP program.

The audit scope included:

- All ANR and campus locations that have acquired FEPP program assets as of 6/30/2016.
- Site visits for two locations: Kearney REC and Hopland REC.

The scope of the audit did not include and is not intended to advise on 1) the operating effectiveness of internal controls across all locations or 2) the existence of assets at ANR and campus locations (with the exception of sampling at the two selected locations).

Procedures Performed

To accomplish the audit objectives and scope as documented above, Internal Audit performed the following procedures:

- Obtained and reviewed the *USDA Federal Excess Property Program Guide* for background on the FEPP program.
- Reviewed the *USDA Program Guide* and identified the FEPP compliance requirements. Reviewed the compliance requirements with the ANR Director of Risk and Safety Services and the ANR FEPP Coordinator to understand which activities are performed centrally by the ANR FEPP Coordinator and which activities are performed on location.
- Gained an understanding of current ANR procedures, processes, and controls to address the identified FEPP requirements. This included:
 - Review of the *ANR Administrative Handbook Section 280 – FEPP*
 - Review of ANR FEPP inventory reports from the USDA
 - Inquiry with the ANR Director of Risk and Safety Services and the ANR FEPP Coordinator regarding:
 - Existing procedures and documentation
 - Reporting and monitoring
 - Personnel and responsibilities
 - Historical or known issues with the FEPP program at ANR
- For each FEPP compliance requirement, identified the corresponding internal control or procedures in place to address the requirement. We further evaluated design of each control or procedure for effectiveness and identified opportunities for improvement.
- Prepared and distributed an internal control self-assessment questionnaire to each in-scope ANR location to verify existence of internal controls in place to address FEPP compliance requirements.
- Reviewed the results of the internal control self-assessment questionnaire from each in-scope location to determine whether internal controls exist, and identified potential control gaps and control activities that may require improvement.
- Selected two ANR locations to perform site visits (Kearney REC and Hopland REC). For each location selected, performed the following:

- Reviewed internal control self-assessment questionnaire responses to address any questions or clarifications with REC personnel.
- Reviewed documentation and FEPP property to validate existence of internal controls reported by the location in the internal control self-assessment questionnaire.
- Inspected a sample of inventory items based on the FEPP inventory report to validate existence and disposition.
- Based on the information gathered from inquiry with the ANR FEPP Coordinator, internal control self-assessment questionnaire, and REC site visits, identified potential opportunities to streamline internal controls and support future scalability of the FEPP program.

Conclusion

Based on the audit steps performed, ANR has practices in place to properly facilitate the FEPP program and address a majority of USDA requirements. The ANR FEPP Coordinator is the primary contact for managing the FEPP program at ANR and the primary point of contact for communications with the USDA. His knowledge of the FEPP program helps to ensure program requirements are met. In discussions with personnel during site visits and in reviewing responses to the self-assessment questionnaire, we noted individuals at the RECs are eager to improve their understanding of the FEPP program and streamline current processes.

We noted several USDA requirements that do not appear to be sufficiently met by current ANR FEPP activities. Specifically, USDA requirements around maintaining a FEPP database and returning or disposing of excess FEPP inventory are not fully addressed. Additionally, we noted opportunities to improve ANR policies to more adequately address the USDA Program Guide requirements.

Actions developed by ANR will strengthen processes to ensure compliance with USDA requirements and help streamline existing FEPP-related processes as ANR considers expanding use of the FEPP Program.

Opportunities for Improvement and Management Action Plans

1. Inaccurate FEPP Inventory Listing

We noted that ANR does not maintain a consolidated, accurate, and up-to-date listing of FEPP inventory at ANR custodian locations. As the FEPP inventory count occurs every other year, the inventory listing available from the USDA is outdated due to ongoing acquisitions, disposals, and transfers. While records and documentation for FEPP transactions are retained by the ANR FEPP Coordinator, ANR does not maintain a separate inventory listing to reflect current state of FEPP equipment.

The *USDA Program Guide* requires that participants in the FEPP program “must establish and maintain a database to account for all FEPP including expendable property. The database must include [...] custodian and property location.”

We noted the following discrepancies in the USDA FEPP inventory listing maintained by ANR:

- We noted that 39% of items did not list a custodian location.
- During the sample inventory count during site visits for two RECs, noted items on the USDA inventory the REC had disposed of, transferred, or reported missing.
- Noted items on the USDA inventory listing that were assigned to the incorrect custodian as verified during the site visits.

Per discussion with the ANR FEPP Coordinator, many of the discrepancies in the USDA listing are due to delays with USDA processing updates that have already been requested by ANR. The ANR FEPP Coordinator is responsible for submitting and retaining all forms and supporting documentation for FEPP transactions. While the ANR FEPP Coordinator has the supporting documentation to back up the discrepancies with the USDA listing, an accurate and current ANR FEPP database has not been established in accordance with the program requirements.

Management Action Plan:

The ANR FEPP Coordinator will maintain a central ANR FEPP inventory spreadsheet to track FEPP property by location. The spreadsheet will contain additional detail to track FEPP transactions real time between the every other year USDA FEPP inventory counts. The ANR FEPP Coordinator will continue to retain all forms and documentation for FEPP transactions to support any differences between the ANR FEPP inventory listing and the USDA listing.

Target Date: June 30, 2017

2. Excess FEPP Property Pending Disposal or Return

We noted multiple ANR REC locations have FEPP property that is no longer in use by the REC. Continuing to hold excess FEPP equipment is inconsistent with the USDA guidelines. According to the *USDA Program Guide*, participants in the FEPP program are required to “report underutilized, unserviceable, or property no longer needed for their programs. Do not stockpile excess property.”

Processes to identify excess FEPP equipment appear to be in place at the RECs as all self-assessment questionnaire responses show that RECs have either already identified excess FEPP items for disposal or have disposed of FEPP inventory in the last 12 months. These monitoring processes include periodic monitoring of inventory throughout the year, the every other year FEPP inventory count, and the university inventory count.

While excess FEPP items are being identified by the RECs, unclear procedures regarding how to process a disposal have caused a buildup of excess FEPP inventory held by the RECs. The self-assessment questionnaire responses indicate a lack of familiarity with the FEPP disposal process. Six RECs submitted questions regarding the disposal process as part of the self-assessment questionnaire, and discussions during REC site visits focused on how to remove and dispose of FEPP inventory. Without resources to refer to on how to process a FEPP disposal, REC personnel direct all questions to the ANR FEPP Coordinator, which often occurs informally. As a result, the FEPP disposal process has been infrequent, inconsistent, and heavily reliant on the knowledge of the ANR FEPP Coordinator. The lack of familiarity with the process and no established disposal procedure slows and deters the process, resulting in unused FEPP equipment held by ANR.

Management Action Plan:

The ANR Director of Risk and Safety Services and the ANR FEPP Coordinator have agreed to establish procedural documents to reflect an updated FEPP disposal process for REC contacts. The revised procedural documents will include disposal forms for RECs to submit to the ANR FEPP Coordinator when requesting a disposal. The updated procedures will be reviewed with REC Superintendents to ensure they are trained on the process, and the documents will be posted to the Collaborative Tools site which REC personnel can access as needed.

Additionally, ANR will track requested disposals via an internal spreadsheet to monitor status of pending requests. The spreadsheet will include dates of milestones in the disposal process (e.g., date request was submitted by REC, date of notice from USDA). This will allow ANR to provide REC personnel with more visibility into the status of items in the disposal process.

Target Date: Action completed in December 2016 prior to issuance of report.

3. Insufficient or Inaccurate ANR Policies on FEPP

The *ANR Administrative Handbook Section 280 – FEPP* (ANR Handbook) documents the policy requirements for the ANR FEPP program. In comparing the ANR Handbook against the requirements outlined by the USDA Program Guide, we noted several discrepancies or gaps in ensuring all FEPP program requirements are properly addressed.

Specifically, we noted:

- The FEPP program classifies items as either loaned or expendable, depending on original acquisition cost, and the USDA requirements differ for loaned and expendable items. The ANR Handbook incorrectly lists the acquisition cost threshold as >\$1,000 instead of >\$5,000.
- While the ANR Handbook states “Records shall be maintained that track the disposition of all FEPP from acquisition through disposal or transfer,” it does not specify what records need to be kept. The USDA Program Guide identifies additional specific information that must be tracked for each FEPP item. The unclear guidance on what records need to be maintained may contribute to inaccurate or insufficient record keeping (see Observation #1).
- The ANR Handbook section on records does not indicate who is responsible for FEPP record keeping. A lack of a clearly identified owner may be causing RECs to undertake additional record keeping responsibilities they are not responsible for given the current structure of ANR FEPP activities.
- The ANR Handbook does not mention the Monthly Transaction Reports (MTR) that are distributed by the USDA summarizing the activity from the prior month. The USDA requires that the MTRs be reviewed and returned (with any corrections).

Management Action Plan:

ANR will review and update the ANR Handbook to address the loaned equipment, disposal records, record keeping responsibilities, and MTR compliance. Additionally, the revised ANR Handbook will align with or reference revised procedural documents (see Management Action Plan #2) and will be posted as part of the online ANR Handbook.

Target Date: June 30, 2017

Additional Recommendations

Internal Audit recommends management consider the following additional improvement opportunities to better align with leading operational practices. The recommendations below do not require formal management action plans.

1. REC Personnel Access and Training on GSAccess

Items available for acquisition through the FEPP program are listed on the online USDA GSAccess marketplace. Per discussions with the ANR FEPP Coordinator, REC Superintendents have access to view the GSAccess online market of available FEPP items. Per the self-assessment questionnaire responses and discussions during REC site visits, REC personnel were not aware of this access. While all FEPP purchases must be processed with the USDA by the ANR FEPP Coordinator, ANR should consider training the REC Superintendents or other REC personnel on how to access and view the GSAccess FEPP marketplace. Extending GSAccess or increasing the use of existing access can help facilitate the FEPP program as follows:

- Increased access could speed up the FEPP acquisition process since it would eliminate the need for the ANR FEPP Coordinator to confirm needs with the REC prior to purchasing.
- REC personnel are more familiar with current equipment needs so FEPP acquisitions identified by the location will be more likely to meet the specific needs of the REC.
- Giving REC personnel more visibility to available FEPP items on GSAccess may encourage additional use of the FEPP program as opposed to purchasing items from an alternative source.

Training or developing procedures around the GSAccess platform can help streamline the ANR FEPP processes should use of the program expand.

2. Bottleneck of processes through the ANR FEPP Coordinator

As part of existing FEPP practices at ANR, all transactions (including acquisitions, disposals, and transfers) are processed with the USDA by the ANR FEPP Coordinator. The ANR FEPP Coordinator's extensive knowledge and experience with the FEPP program and his position as a central gatekeeper role for all FEPP transactions helps ensure all USDA requirements are met; however, this practice may slow down processing at times and may cause a central bottleneck of transactions.

In addition to more formally detailed ANR FEPP procedures (refer to Management Action Plan #2), ANR should consider whether there are activities that can be performed or initiated by individuals at the RECs. By delegating certain activities to the RECs (such as submitting a completed form to the ANR FEPP Coordinator rather than the ANR

FEPP Coordinator completing the form), ANR may be able to speed up the duration of FEPP transactions within the current process. This would allow the ANR FEPP Coordinator more time to focus on activities that should be performed centrally (such as review and submission of the completed forms to the USDA).

ANR should consider delegating certain FEPP activities to other REC personnel in order to speed up processing of ANR transactions, encourage REC personnel to take ownership of FEPP activity at their location, and transfer knowledge of the FEPP program to other individuals. The use of the FEPP program may increase or FEPP activities may be more efficient with additional involvement of REC personnel.