

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. The letters are closely spaced, with "UC" and "IRVINE" being particularly prominent.The logo for Internal Audit Services, featuring the words "INTERNAL" and "AUDIT SERVICES" stacked vertically in a black, serif font. A vertical line is positioned to the left of the text.

Small Computing Devices  
Charged to Federal Awards  
*Internal Audit Report No. I2019-106*  
March 26, 2020

*Prepared By*

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*Approved By*

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INTERNAL AUDIT SERVICES  
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March 26, 2020

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HENRY SAMUELI SCHOOL OF ENGINEERING**

**Re: Small Computing Devices Charged to Federal Awards  
No. I2019-106**

Internal Audit Services has completed the review of the Small Computing Devices Charged to Federal Awards and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

A handwritten signature in black ink that reads "Mike Bathke".

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

Brian Fahnestock, Special Assistant to the CFO, Accounting & Fiscal Services  
Nancy Lewis, Executive Director – Sponsored Projects Administration

**I. MANAGEMENT SUMMARY**

*Introduction*

In light of recent incidents involving alleged thefts of a University-owned portable computing devices that may have stored sensitive, confidential, and/or restricted information such as payroll, personnel, and/or protected health information, as well as other investigations into improper computing device purchases, Internal Audit Services (IAS) was requested to perform a review of computing device purchases that were charged directly to Federal awards to determine and assess if the current campus-wide procedures and practices implemented comply with University policies and requirements for the life cycle of computing devices, from purchasing to disposition, as well as the protection of information and resources from unauthorized access, use, disclosure, disruption, modification, or destruction.

Utilizing the object code for computer equipment non-software less than \$5,000, IAS performed data analysis for the last five fiscal years on small (under \$5,000) computer equipment purchases on Federal awards and compared them to all small computer equipment purchases. Small computer equipment purchases on Federal awards stayed fairly consistent in comparison to all small computer equipment purchases over the last five fiscal years and represents less than one half percent of all Federal award expenditures. **See Table below.**

**Percentage of Small Computer Equipment Purchases charged to Federal Awards (under \$5,000) to all Small Computer Equipment Purchases**

| Fiscal Year | Total of All Small Computer Purchases (under \$5K) | Total of Small Computer Purchases (under \$5K) charged to Federal Awards | % of Small Computer Equipment Purchases on Federal Awards |
|-------------|--|--|---|
| FY15        | \$ 3,210,292                                       | \$ 304,692   | 9.5%  |
| FY16        | \$ 3,525,269                                       | \$ 307,860   | 8.7%  |
| FY17        | \$ 4,810,280                                       | \$ 543,458   | 11.3%   |
| FY18        | \$ 5,281,676                                       | \$ 623,266   | 11.8%   |
| FY19        | \$ 7,227,887                                       | \$ 767,555   | 10.6%   |
| FY15-19     | \$24,055,404                                       | \$2,546,832  | 10.6%   |

Through data analysis, IAS was able to determine that the following six schools had the highest volume purchases of small computing devices (under \$5,000) charged to Federal awards: Biological Sciences, Education, Engineering, Information and Computer Sciences (ICS), School of Medicine, and Physical Sciences.

### *Objectives and Scope*

The scope of this audit was limited to small computing device purchases charged to Federal awards in the six schools mention above and the objectives included the following audit procedures.

1. Determine and review procedures, processes, and internal controls for the purchasing, monitoring, and oversight currently in place and assess if procedures complied with University requirements pertaining to 2 Code of Federal Regulations (CFR) 200.
2. Ascertain if an inventory or asset management system is maintained, updated, and monitored to account for the safeguarding and securing of all computing devices, including purchases considered to be supplies or non-inventorial (less than \$5,000) from theft, loss, or damage.
3. On a sample basis, perform physical inventories on small computing device purchases charged to Federal funds to determine if the devices are accounted for and in use as documented and intended.

### *Conclusion*

IAS sampled small computing device purchases (under \$5,000) on Federal awards for the six schools mentioned above and was able to account for all of the items during physical inventories. IAS did note opportunities for improvement: (1) reinforce to faculty and staff the established procedures for purchases of small computing devices on Federal awards to include adequate documentation of the business purpose and justification as required by Federal regulations and University policies and obtain approval in advance, prior to purchase, as required by University policies, and (2) establish, implement, and maintain procedures for an asset management system that will track the life cycle of small theft-sensitive

computer devices purchased on Federal awards in order to meet the regulatory and legal obligations to safeguard essential, sensitive, confidential and/or restricted information stored or accessed on the devices.

Based on the audit observations as well as recent warnings from Federal agencies, IAS believes this is the opportune time to establish and implement the necessary procedures and guidelines to address the observations and ensure compliance with 2 CFR 200 and University policy on electronic information security.

The observations and recommendations in this report are limited to the six schools noted above and include the inherent risk that some small computer equipment purchases might not have been coded correctly and thus not accurately accounted for in our sample.

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## II. RELATED POLICIES

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### *Overview of 2 Code of Federal Regulations (CFR) 200, effective December 26, 2014*

- 2 CFR Section 200.20 states that “Computing devices means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information.”
- 2 CFR Section 200.62 states that “Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.”
- 2 CFR Section 200.453 (c) states that “Materials and supplies used for the performance of a Federal award may be charged as direct costs. In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.”

### *Overview of UCI Guidance and Requirements*

UC Irvine Uniform Guidance Budgeting and Charging Quick Guide issued by Sponsored Projects Administration summarizes the cost principles specified in the

Office of Management and Budget (OMB) Uniform Guidance or 2 CFR 200 and specifically addresses the purchasing of computing devices under \$5,000.

Documentation and justification requirements issued by Contracts and Grants Accounting state that documentation is required to justify any expense charged to a sponsored award and that documentation should be adequate to support and justify that the expense provides a direct benefit to the award.

### *Overview of the Process for Purchases on a Federal Award*

The purchasing process is decentralized by school and/or department with oversight primarily from department contract and grants analysts as well as guidance and monitoring from Sponsored Projects Administration and Contracts and Grants Accounting.

### *Overview of BFB IS-3 Electronic Information Security*

#### III. B. Risk Assessment, Asset Inventory and Classification

##### 1. Risk Assessment

Appropriate risk assessments or business impact analyses shall be conducted:

- to inventory and determine the nature of campus electronic information resources,
- to understand and document the risks in the event of failures that may cause loss of confidentiality, integrity, or availability of information resources, and
- to identify the level of security necessary for the protection of the resources.

Risk assessments should:

- take into account and prioritize the potential adverse impact on the University's reputation, operations, and assets,
- ensure full review and classification of University information assets by the level of security objectives assigned to them,
- be conducted by units or departments on a periodic basis by teams composed of appropriate campus administrators, managers, faculty, and information technology and other personnel associated with the activities subject to assessment,
- address all University information assets or electronic resources held or managed by the unit or department, or by individuals in the unit or department, and

- address the appropriateness and frequency of staff and management security awareness training.

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### III. OBSERVATIONS AND RECOMMENDATIONS

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#### 1. Documentation of Computing Device Purchases

IAS reviewed the current practices and procedures for the purchases of computing devices that are directly charged to Federal awards found that requests to purchase the devices are generally documented either formally on internal requisition forms or informally in emails and reviewed by contracts and grants analysts before the authorized purchaser places an order. However, IAS noted that documentation supporting the approval and justification (why computing device purchase is necessary and essential in the performance of the sponsored project when charged directly to a Federal award) for computing device purchases was not consistently applied throughout the six schools reviewed.

IAS also noted that prior authorization was not always obtained from and/or documented by the Principal Investigator (PI). In addition, IAS noted that some PIs had delegated the purchasing authority to a subordinate, which weakens the internal control structure and financial responsibility.

The following is a summary of department/unit observations by school:

#### 1. Biological Sciences

- Prior approval from PI was not consistently obtained and/or documented.
- Did not maintain a comprehensive asset management system for the life cycle of computing device supplies, purchases under \$5,000.

## 2. Education

- Did not document business purpose or justification specifying how the device is essential and allocable to the performance of the Federal award.
- Prior approval from PI was not consistently obtained and/or documented. Also, IAS noted that purchasing authority was delegated for some purchases.
- Did not maintain a complete or accurate comprehensive asset management system for the life cycle of computing devices, but tagged devices and maintained an inventory log of purchases.

## 3. Engineering

- Did not consistently document business purpose or justification specifying how the device is essential and allocable to the performance of the Federal award.
- Prior approval from PI was not consistently obtained and/or documented.
- Did not maintain a comprehensive asset management system for the life cycle of computing device supplies, purchases under \$5,000.

## 4. Information and Computer Sciences

- Did not consistently document business purpose or justification specifying how the device is essential and allocable to the performance of the Federal award.
- Prior approval from PI was not consistently obtained and/or documented.
- Did not maintain a comprehensive asset management system for the life cycle of computing device supplies, purchases under \$5,000.

## 5. Medicine

- Did not consistently document business purpose or justification specifying how the device is essential and allocable to the performance of the Federal award.
- Prior approval from PI was not consistently obtained and/or documented. Also, IAS noted that purchasing authority was delegated for some purchases.
- Did not maintain a comprehensive asset management system for the life cycle of computing device supplies, purchases under \$5,000.

## 6. Physical Sciences

- Did not consistently document business purpose or justification specifying how the device is essential and allocable to the performance of the Federal award.
- Prior approval from PI was not consistently obtained and/or documented.
- Did not maintain a comprehensive asset management system for the life cycle of computing device supplies, purchases under \$5,000.

By establishing and implementing the additional procedures, proper and sufficient documentation and review, the University also reduces the risks of waste and fraud or even possibly prevent improper purchases due to significant changes to a project.

## **Recommendations**

### Schools

To ensure the conformance to the cost principles specified in the OMB Uniform Guidance or 2 CFR 200 which became effective December 26, 2014, school management and administrators should remind faculty and staff to properly

document the justification for computer purchases under \$5,000 charged to Federal awards as required.

In addition, also remind faculty and staff that purchase approvals are to be obtained and documented in advance from the PI and that the purchasing authority should not be delegated.

#### Office of Research

Consider a campus-wide communication about documenting the justification for computing device purchases under \$5,000 on Federal awards and why the device is essential in performance of the project as well as discuss it at an upcoming Quality Research Administration Meeting (QRAM).

## **2. Inventory and Asset Management**

A sampling of six schools' current practices and procedures found that none of the schools had a complete and accurate asset management system that included small theft-sensitive computing device purchases under \$5,000 that were charged directly a Federal award. However, IAS did find that the School of Education did maintain an inventory log of most computing device purchases and created the School's own inventory tag.

### **Recommendations**

#### Schools

While UC Irvine policy does not require an inventory and/or asset management procedures for small computing device purchases on Federal awards (under \$5,000), the University still has regulatory and legal obligations for safeguarding essential, sensitive, confidential and/or restricted information stored on such devices. UC policy, BUS-29, states that campus locations may establish guidelines governing the control of theft-sensitive items valued at less than \$5,000. Therefore, to ensure the compliance with 2 CFR, Section 200.62 and adhere to regulatory and legal obligations, the schools' should establish detailed procedures that track and monitor small computing devices that are charged directly to Federal awards. IAS believes that implementing detailed asset management procedures for small computing devices is a best practice that will enable the University track and monitor a device through its life cycle,

from the time of its purchase, assignment, return, and disposal, or in the event of loss, theft, or destruction. In addition, the schools' should ensure that individuals assigned such devices are appropriately trained on acceptable/expected procedures for physically securing the device(s) issued to them, and instructed on procedures for reporting the loss, theft and/or destruction of the device(s).

#### Division of Finance and Administration (DFA) and Office of Research (OR)

The vice chancellors of DFA and OR should consider a campus-wide communication emphasizing the importance of compliance with 2 CFR, Section 200.62 and risks associated with non-compliance.

The Vice Chancellor of DFA should consider developing a policy relating to the internal controls necessary to properly safeguard, track and monitor a device through its life cycle, from the time of its purchase, assignment, return, and disposal.

#### **Management Action Plan (DFA)**

The Chief Financial Officer and Vice Chancellor of DFA will develop a policy regarding the controls surrounding the inventory and asset management of small theft-sensitive computing devices purchased for under \$5,000. Anticipated completion date will be October 2020.