



AUDIT AND ADVISORY SERVICES
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January 10, 2022

To: Distribution

Re: **University Inventory - Supplies, Materials, and Non-Inventorial Equipment**
Audit No. 08-22-0003

A part of the 2021-22 annual services plan, Audit and Advisory Services has performed a review of University Inventory - supplies, materials, and non-inventorial equipment. The purpose of this audit is to evaluate whether inventories are being properly safeguarded, inventoried regularly, and how they are being recorded on campus ledgers. The review 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 Administrative Services and Business and Financial Services 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

Housing, Dining, and Auxiliary Enterprises

Wilfried Brown, Associate Vice Chancellor Housing, Dining, and Auxiliary Enterprises (HDAE)
Brian Graham, Director Residential Operations,
Louis Reynaud, Director, University Center, Events Center, Distribution and Logistical Services
Melissa Jarnagin, Chief Financial Officer / Director HDAE Business and Financial Planning

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Design, Facilities & Safety Services

Renee Bahl, Associate Vice Chancellor Design, Facilities, and Safety Services

David McHale, Director Facilities Management

Chris Kelsey, Associate Director Facilities Management

Jennifer Moss, Chief Financial Officer (CFO) / Director of Business and Financial Planning

Business and Financial Services

Olga Mery, General Accounting Manager

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

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UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

**University Inventory - Supplies, Materials, and Non-
Inventorial Equipment**

January 10, 2022

Performed by:

Antonio Mañas Meléndez, Associate Director
Anne-Sophie Gatellier, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-22-0003

EXECUTIVE SUMMARY

OBJECTIVE

The purpose of this audit was to evaluate whether inventories of supplies, material, and non-inventorial equipment in selected departments within the Division of Administrative Services are being properly safeguarded, inventoried regularly, and how they are being recorded on campus ledgers.

CONCLUSION

Inventory processes vary along with the value of the inventory across the departments in scope and some practices could be reassessed to optimize stock monitoring, and the processes could be documented. We found the following areas of improvement:

- Stock management practices have not been formalized.
- For some valuable items in Facilities Management and Residential Operations, no inventory is maintained and documented.
- Physical security should be enhanced for some store rooms.
- There is no guidance for accounting practices relating to supplies, material, and non-inventorial equipment, and the types of accounts used should be reevaluated to allow better asset visibility.
- Centralizing the ordering and distribution processes of departments with similar needs could help optimize stock management.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. INVENTORY AND STOCK MANAGEMENT PROCESSES

OBSERVATION

We found that inventory processes vary along with the value of the inventory across the units. Some inventory practices could be reassessed to optimize stock monitoring, and the processes could be better documented.

Two departments included in the scope of this review require an inventory of supplies, materials, and non-inventorial equipment based on the University of California *Accounting Manual*. The high level of decentralization of the procurement process in the division and the practice of ordering on an as-needed basis has allowed the rest of departments in the scope to maintain low levels of inventory and only require implementation of basic stock management practices.

Facilities Management

Facilities Management (FM) has one of the largest inventories within Administrative Services and maintains a documented inventory of most of its supplies, materials, and non-inventorial equipment. The inventory process overall is adequately managed through the web application WebTMA¹, where processes, roles, and responsibilities are defined to order and restock supplies. Additionally, WebTMA allows monitoring the use of the items and determining a reorder threshold.

- FM counts the items on a regular basis and performs adjustments as necessary. However, the analysis in the case of unjustified adjustments is not documented and the FM inventory does not include several categories of items, more specifically:
 - Tools and equipment on the trucks. Our review showed that the trucks contain a variety of tools and items, with varying values.
 - Custodial rooms' inventories are partially documented on paper sheets. Staff performs a count of items in custodial rooms on a regular basis for restock purposes from the main store room.
 - Left-over items. During our visits, we identified a significant number of left-overs in the shops. Some items are still packaged and have a market value.

FM is considering including trucks and left-overs as mobile stock rooms in WebTMA for tracking. However, this is still a topic of conversation, and no project has been officially outlined so far.

- In addition to the on-going maintenance through WebTMA, an annual count of all the items in the main storeroom is performed, as well as regular spot-checks during the

¹ WebTMA is a strategic solution for managing assets used on campus by FM and Residential Operations – it includes features and functionality for managing the people who maintain them, the parts and materials that support them, as well as the scheduling and execution of both preventive and corrective maintenance.

year. Adjustments are automatically performed when there is a discrepancy between the items counted in store and WebTMA data. When there are a high level of adjustments following an inventory count, the Store's Supervisor recounts the items to verify the numbers and investigates further if items cannot be located. However, this analysis is not documented, and no threshold has been determined to perform this analysis. Keeping track of adjustment analyses could help identify trends.

To assess the integrity of the inventory:

- We selected six items from two different storerooms and verified whether the number of items available was consistent with WebTMA data. For two items out of six, we were not able to locate the full sample selected:
 - We were informed that three samples out of five had been used for emergencies and had not been recorded as such. These items are valued \$2,026 in total. The work ticket number could not be provided during the audit.
 - No specific explanation could be provided for two missing samples out of two, valued at \$57 in total.
- We looked at the adjustments² performed for one day³, and we verified that the number of items in store was entered in WebTMA by authorized personnel. That was the case for all 35 adjustments performed that day.

RECOMMENDATION

We recommend Facilities Management:

- Develop a plan to integrate service vehicle/truck stock into an extension of the stockroom (mobile stockroom) through the CMMS⁴ WebTMA.
- Evaluate if current custodial service closet(s) stock inventory documentation can be improved.
- Develop a documentation plan to account for stock parts being used during emergency conditions (outside normal stockroom business hours).
- Develop a documentation plan to conduct scheduled stockroom inventory counts and use CMMS WebTMA for tracking and generating reports.
- Identify the locations for three (3) installed water heaters.

MANAGEMENT RESPONSE

Facilities Management will:

- Develop a plan to integrate service vehicle/truck stock into an extension of the

² Code 11 is used when the number of items in store is lower than the number of items in WebTMA.

³ September 1, 2021.

⁴ Computerized Maintenance Management Systems.

stockroom (mobile stockroom) through the CMMS WebTMA.

- Evaluate if current custodial service closet(s) stock inventory documentation can be improved.
- Develop a documentation plan to account for stock parts being used during emergency conditions (outside normal stockroom business hours).
- Develop a documentation plan to conduct scheduled stockroom inventory counts and use CMMS WebTMA for tracking and generating reports.
- Identify the locations for three (3) installed water heaters.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

Housing, Dining, and Auxiliary Enterprises

Housing, Dining, and Auxiliary Enterprises (HDAE) departments in the scope are managing their inventory in a more manual way, specifically:

- Residential Operations mostly orders on an as-needed basis and has implemented a separation of function between the order and the purchase. Items are also resupplied to ensure that the stock is sufficient in case of emergency or if delivery time is too long. Residential Operations maintains lists of items, either in WebTMA or on spreadsheets:
 - Inventory in WebTMA includes all the appliances currently being used in residential halls and apartments, but is still being completed with specific information such as the location or the model number. Information is added when work is performed on the appliance.
 - An inventory of kitchen appliances and other furniture in stock is maintained on a continuous basis on a spreadsheet. This inventory is updated when items are delivered and distributed. However, Residential Operations does not perform a regular reconciliation to ensure that the inventory is accurate.
 - An annual count of the items in residence hall store rooms and trade shops is performed and documented. However, each residence hall and trade shop use a different inventory template. A standardized template would allow comparison and accurate analysis of the inventory. In addition, the number of items on-hand cannot be reconciled with the expected number of items, due to the absence of perpetual inventory systems. The expected number of items is unknown.
- UCen and ECen do not maintain a full inventory of their supplies, materials, and non-inventorial equipment. Instead, UCen maintains a list of supplies to assess reorder needs. Additionally:
 - UCen and ECen's monitoring is highly dependent on key personnel, who are responsible for checking, ordering, and receiving the items, mostly with a Flexcard⁵.

⁵ Flexcard is a Visa procurement card issued by U.S. Bank to UCSB employees who have authority to buy goods and services on behalf of their departments (<https://www.bfs.ucsb.edu/procurement/flexcard>).

- No additional procedure describes how stock and resupplies are handled. A procedure could help optimize this process.

During the audit, a new Flexcard Policy was introduced to both UCen and ECen personnel, with fewer cardholders and a separation of duties between the orderer and the purchaser.

- Surplus Sales⁶ does not maintain an inventory of the most expensive items they resale. Surplus Sales either picks up the items or departments deliver the items and a resale price is determined, but not necessarily documented. Surplus Sales is in the process of using WebTMA to track the process steps⁷.

RECOMMENDATION

We recommend Residential Operations:

- Evaluate using WebTMA as a full inventory system. The evaluation should include a cost-benefit analysis approved by the Director of Residential Operations. If the decision is made to use WebTMA as a full inventory system, a plan would need to be provided including a timeline and a description of the enhancement phases.
- Perform and document an annual reconciliation between the most expensive items in stock and the list of items.
- Include emergency appliances in the documented inventory.
- Complete the inventory of currently used appliances in WebTMA, including location and model number.

MANAGEMENT RESPONSE

Residential Operations will:

- Evaluate using WebTMA as a full inventory system. The evaluation will include a cost-benefit analysis approved by the Director of Residential Operations. If the decision is made to use WebTMA as a full inventory system, a plan will be provided including a timeline and a description of the enhancement phases.
- Perform and document an annual reconciliation between the most expensive items in stock and the list of items.
- Include emergency appliances in the documented inventory.
- Complete the inventory of currently used appliances in WebTMA, including location and model number.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

⁶ Our review of Surplus Sales only included items disposed of by other departments. It did not include supplies, materials, and non-inventorial equipment used by Surplus Sales.

⁷ For Surplus Sales, our review included physical inventory of the items. The delivery and pricing process were out of scope.

RECOMMENDATION

We recommend UCen, ECen, and Distribution & Logistical Services:

- Evaluate the possibility of implementing a centralized inventory process to optimize stock management of common supplies.
- Document the stock management process for supplies, materials, and non-inventorial equipment. This should include roles and responsibilities and expected levels of stock for relevant items, to be identified by unit.
- Evaluate the possibility of monitoring the level of supplies, materials, and non-inventorial equipment in order to optimize their stock.

MANAGEMENT RESPONSE

UCen, ECen, and Distribution & Logistical Services will:

- Evaluate the possibility of implementing a centralized inventory process to optimize stock management of common supplies.
- Document the stock management process for supplies, materials, and non-inventorial equipment. This will include roles and responsibilities and expected levels of stock for relevant items, to be identified by unit.
- Evaluate the possibility of monitoring the level of supplies, materials, and non-inventorial equipment in order to optimize their stock.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

2. PHYSICAL SECURITY

OBSERVATION

Physical security controls are mostly adequate for all the units in the audit's scope considering the value of the inventory observed, with locked doors, and in some cases camera surveillance. However, Residential Operations should evaluate implementing an access code system for their main store rooms, and UCen and Surplus Sales should reevaluate the list of individuals authorized to access the store rooms.

In particular, our review showed that:

- Residential Operations stores items in several locations, including:
 - Cabrillo Business Park: The most expensive items are stored in this location, which is an isolated building accessible only with two physical keys, kept in a cabinet in the staff office. However, the cabinet is not a secured key watcher system. Additionally, Cabrillo Business Park is not under video surveillance, there is no access logs, and no one is on-site.

- Locked cage in San Clemente Lot 50: The area is accessible with an access code, and the keys to the cages are kept in a key watcher.
- Distribution and Logistical Services (DLS): The items can wait for some time before they are moved to a store room or distributed for a work order. Although a staff member is at the front desk during working hours, and cameras are installed outside of the warehouse, the area is accessible to several team members, including students. Turn over within Residential Operations and other teams could make it difficult to identify external individuals.
- UCen's list of authorized personnel is incomplete and has not been formalized. Our review of access logs for a period of two days⁸ showed that one external expert had accessed a store room, but had not been identified as authorized personnel by the manager.
- Surplus Sales' items to be sold or recycled are stored in the warehouse and in the yard. The yard is locked, and cameras cover the whole perimeter. However, many items are accessible to anyone with access to the warehouse. At the time of the audit, 13 people had access to the warehouse within the Surplus team, and other teams like Residential Operations were sharing the building.

No theft has been identified in the recent fiscal years in any of the audited units.

RECOMMENDATION

We recommend Residential Operations:

- Evaluate the possibility of enhancing the physical security of Cabrillo Business Park. For example, through an access code system, video surveillance, or a check-in/check-out system. The evaluation should include a cost-benefit analysis approved by the Director of Residential Operations. If the decision is made to enhance physical security, a plan will be provided including a timeline and a description of the enhancement phases.
- Review the list of individuals authorized to access the store rooms, including the provision of keys and/or a badge.
- Document an approval process to grant access to the store rooms, including roles and responsibilities.

MANAGEMENT RESPONSE

Residential Operations will:

- Evaluate the possibility of enhancing the physical security of Cabrillo Business Park. For example, through an access code system, video surveillance, or a check-in/check-out system. The evaluation will include a cost-benefit analysis approved by the Director of Residential Operations. If the decision is made to enhance physical security, a plan will be provided including a timeline and a description of the enhancement phases.

⁸ September 23 and 24, 2021.

- Review the list of individuals authorized to access the store rooms, including the provision of keys and/or a badge.
- Document an approval process to grant access to the store rooms, including roles and responsibilities.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

3. ACCESS CONTROL

OBSERVATION

Design, Facilities & Safety Services (DFSS)

DFSS is the only unit in our scope that is systematically using an IT system, WebTMA, for their inventory⁹. The access management process is mostly adequate, but could be improved with a regular full review of the users' permissions.

The access management process relies on information provided by the Human Resources team (HR), but system responsibility resides within Facilities Management. This process is overall appropriate on a daily basis, due to the cooperation between the WebTMA administrator, who grants access, and superintendents and other managers. However, there is no regular review of the user's list to verify that access is adequately granted and updated as needed. For example:

- Two generic users for students working for the Fiscal Team were active during our audit, but they were not officially assigned to anyone.
- Two accountants from the Fiscal Team have access to perform on-hand adjustments. This could be a separation of duties issue due to their accounting responsibility. We were informed that this is a legacy access from a previous organization.
- 129 users were active in WebTMA Facilities Management and we were informed of a high staff turn-over during the previous months. A systematic and regular review of access would help maintain a list of users aligned with the operations.

RECOMMENDATION

We recommend Design, Facilities & Safety Services evaluate and develop a scheduled review process to ensure current user and permissions within WebTMA.

MANAGEMENT RESPONSE

Design, Facilities & Safety Services will evaluate and develop a scheduled review process to ensure current user and permissions within WebTMA.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

⁹ WebTMA is a strategic solution for managing assets – it includes features and functionality for managing the people who maintain them, the parts and materials that support them, as well as the scheduling and execution of both preventive and corrective maintenance.

Residential Operations

Residential Operations does not systematically use WebTMA for its inventory. The system is mostly used for work-orders on appliances currently being used, and an equipment add-on allows additions and edits the list of items based on their life cycle. Access control is adequate, with few users being able to edit the items. In addition, the Business System Analyst reviews the list of users on a regular basis. However, this review is not documented.

4. ACCOUNTING

OBSERVATION

Sound business practices recommend recording costs associated with inventory items as an asset on the General Ledger, when the costs are substantial. Then the costs should be recorded as expenses when the items are used. This practice would allow accurate real-time financial statement reports. However, for low value items such as a small stock of supplies, materials, and non-inventorial equipment, the cost of this accounting practice could outweigh the benefits. As a consequence, each department should evaluate in coordination with General Accounting whether such practices would be beneficial depending on the value of their stock.

Our review found that all departments in the scope are posting their purchases of supplies, materials, and non-inventorial equipment transactions to an expense account independent of the total value of the inventory they manage even though part of these items could be in inventory for some time.

When the cost of supplies, materials, and non-inventorial equipment is significant enough, using only expense accounts does not allow accurate asset visibility, and makes reporting with real-time numbers impossible.

Identifying a threshold of total value of the inventory above which purchases should be posted to an asset account would limit this practice to the departments' significant inventories.

Although some units such as the UCen, Residential Operations, or Facilities Management have an inventory account, General Accounting uses these accounts only at the end of each fiscal year to record the total inventory. No campuswide policy or procedure describes the process to follow in that matter.

RECOMMENDATION

We recommend Business and Financial Services document and communicate guidance to record supplies, materials, and non-inventorial equipment to the General Ledger. This should include informing when supplies, materials, and other equipment should appear on the balance sheet as a current asset, and when they should be expensed.

MANAGEMENT RESPONSE

Business and Financial Services will document and communicate guidance to record supplies, materials, and non-inventorial equipment to the General Ledger. This will include informing when supplies, materials, and other equipment should appear on the balance sheet

as a current asset, and when they should be expensed.

Audit and Advisory Services will follow up on the status of these issues by March 31, 2022.

RECOMMENDATION

We recommend Design, Facilities & Safety Services evaluate, in cooperation with General Accounting, implementing and using asset accounts for their inventories.

MANAGEMENT RESPONSE

Design, Facilities & Safety Services will evaluate, in cooperation with General Accounting, implementing and using asset accounts for their inventories.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2022.

RECOMMENDATION

We recommend HDAE evaluate, in cooperation with General Accounting, implementing and using asset accounts for their inventories.

MANAGEMENT RESPONSE

HDAE will evaluate, in cooperation with General Accounting, implementing and using asset accounts for their inventories.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2022.

GENERAL INFORMATION

BACKGROUND

We looked at the evolution of purchases identified as supplies or non-inventorial equipment between fiscal year 2018-19 (last full year before campus closed) and fiscal year 2020-21. Table 1¹⁰ shows the amount of supplies and non-inventorial equipment of the units in scope of this audit.

Here are the results of our analysis:

- Facilities Management supplies and non-inventorial purchases decreased by 8% between fiscal year 2018-19 and fiscal year 2020-21¹¹. Most Facilities Management staff were operating on campus to ensure the infrastructure was secured and functional. In addition, Covid related supplies like hand-sanitizers, gloves, and masks, had to be purchased.

¹⁰ Transactions were filtered on object codes related to supplies and non-inventorial equipment.

¹¹ Recharge processes were not reviewed in this audit.

- Over the same period of time, ECen purchases of supplies and non-inventorial equipment increased by 75%, but are still at a low-level value of \$8,822. The ECen reopened in October 2020, and Covid related supplies had to be purchased.
- UCen reduced the purchase of supplies or non-inventorial equipment by 84%, while staff was still partially operating from campus.

Table 1		Purchase of Supplies and Non-Inventorial Equipment Over the Years (in \$)		
Department	FY 2018-19	FY 2019-20	FY 2020-21	Evolution*
Facilities Management	4,380,711	5,094,413	4,026,359	- 8 %
UCen	821,610	168,758	130,588	- 84 %
ECen	5,044	6,452	8,822	+ 75 %
Residential Operations	2,156,426	1,982,084	863,841	- 60 %
Surplus Sales ¹²	N/A	N/A	N/A	N/A

Source: Datawarehouse and auditor analysis.

*From fiscal year 2018-19 to fiscal year 2020-21.

Facilities Management

Facilities Management resides under Design, Facilities & Safety Services. It provides a wide range of services to the campus, including building and infrastructure daily operations and maintenance, custodial, grounds and landscaping services, as well as, energy and utility operations and support services. Facilities Management operates and maintains the University of California Santa Barbara (UCSB) facilities as set forth in the University of California Office of the President Facilities Manual Volume 6. Facilities Management provides vital services which support the campus daily operations, academic mission and research activities. Facilities Management is not responsible for the daily operations or replacement of specialized research equipment.

Facilities Management resources considered relevant to the scope of this review include a wide range of equipment, tools, parts, materials, and supplies.

UCSB Housing, Dining & Auxiliary Enterprises¹³

UCSB Housing, Dining & Auxiliary Enterprises provides housing and associated residential life services for UCSB's undergraduate student, graduate student, and faculty population. While the majority of functions at UCSB operate during the traditional "40-hour" workweek, HDAE operates on a 24-hour daily basis throughout the year. The scope of the services

¹² Surplus Sales supplies, material, and non-inventorial equipment were out of scope. Only items disposed of by other departments were included in this review (items to be sold or recycled).

¹³ Housing, Dining, & Auxiliary Enterprise website.

offered can be compared to those of operating a small city. The business of HDAE involves the entire range of services associated with the administration of that small city, including physical and capital planning, maintenance and upkeep, community supervision and safety, and support services.

*Supplies*¹⁴

Inventories are to be maintained at levels which will provide a service level commensurate with bona fide user need and at the lowest ultimate cost to the University. An item should be placed in stock when usage is repetitive and/or there is a net economic advantage to the University which more than offsets the cost of handling as a stock item or when the requisitioner's service requirement cannot be met by direct shipment from the supplier.

SCOPE AND METHODOLOGY

The scope of our work included a review of local practices related to inventory of supplies, material, and non-inventorial equipment within the Administrative Services. In particular, we reviewed the following units:

- Design, Facilities & Safety Services (DFSS):
 - Facilities Management
 - Business and Financial Planning
- Housing, Dining, and Auxiliary Enterprises (HDAE):
 - University Center (UCen)
 - Event Center (ECen)
 - Surplus Sales (Items disposed of by other departments only)
 - Residential Operations

We focused on the following areas:

- Inventory and stock management processes
- Physical security
- Physical inventory
- Access control of the main inventory system
- Inventory recorded in the campus ledger

CRITERIA

Our review was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the review. This review 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:

- BFB-BUS-29: *Management and Control of University Equipment*
- BFB-BUS-38: *Disposition of Excess Property and Transfer of University-Owned Property*

¹⁴ BFB-BUS-54: *Operating Guidelines for University Supply Inventories*. This does not apply to items that Surplus Sales sells to non-university customers.

- BFB-BUS-43 *Purchases of Goods and Services; Supply Chain Management*
- BFB-BUS-54: *Operating Guidelines for University Supply Inventories*
- *UC Accounting Manual*, Disbursements: Approvals D-371-16
- *UC Accounting Manual*, Inventories

AUDIT TEAM

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