INFORMATION TECHNOLOGY SERVICES

PROCUREMENT AND ASSET MANAGEMENT

AUDIT REPORT #20-2210

Audit & Advisory Services

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# Background

In accordance with the UCLA Administration fiscal year 2019-20 audit plan, Audit & Advisory Services (A&AS) conducted a review of the Information Technology (IT) Services’ Procurement and Asset Management unit. Procurement and Asset Management is a sub-unit within the Administration unit; one of nine units that comprise IT Services.

Procurement and Asset Management is responsible for processing all of IT Services purchases, including but not limited to, inventorial equipment, telephone equipment, computer hardware, computer software, professional services, and general office supplies. IT Services utilizes the Requisition module in ServiceNow for the creation, processing, tracking, approving, and electronic storage of purchase order requests. ServiceNow is a workflow based platform-as-a-service application used to create and automate workflow and related processes. After the requisition is submitted, it is electronically routed to the appropriate Manager, Director, Unit Head, Chief Business Officer (CBO), or Associate Vice Chancellor (AVC) for approval, depending on the amount of the purchase, before it is automatically forwarded to the Procurement and Asset Management unit. For fiscal year 2018-19, total operating expenses in IT Services amounted to approximately $21.1 million.

The Equipment Custodian, who is a part of the Procurement and Asset Management unit, is responsible for managing and tracking inventorial equipment from purchase to final disposition, authorizing and reporting equipment disposals, and organizing the annual physical inventory. The University’s centralized Asset Management System (AMS) is utilized to manage inventorial equipment. As of January 31, 2020, IT Services managed 1,235 active inventorial equipment items with an active total cost of approximately $29.1 million. In fiscal year 2018-19, IT Services disposed of 141 pieces of inventorial equipment through dismantling and other methods of retirement.

The IT Services Director of Administration oversees Procurement and Asset Management operations and reports to the Associate Vice Chancellor of IT Services.

Purpose and Scope

The primary purpose of the review was to ensure that the related systems and procedures surrounding procurement and asset management operations are conducive to accomplishing IT Services’ business objectives. The secondary purpose of the review was to evaluate the adequacy and efficiency of internal controls. Where applicable, compliance with University and departmental policies and procedures was also evaluated.

The scope of the audit focused on controls surrounding the following activities:

* Purchasing, Receiving, and Invoice Processing
* Equipment
* Accountability Structure
* System Access

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests and other procedures considered necessary to achieve the audit purpose. Interviews were conducted with IT Services management and staff, and various other financial and administrative documents were examined.

# Summary Opinion

Based on the results of the work performed within the scope of the audit, IT Services’ overall organizational structure and controls are adequate to help achieve their business objectives. However, management could improve internal controls by implementing the following:

*Purchasing, Receiving, and Invoice Processing*

* Management should continue to review PAN audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe and in accordance with the UCLA Financial Policy.
* Management should consider implementing a reconciliation process while the search for a permanent Director of Finance & Budget continues.

*Equipment*

* Management should review AMS records and update any missing or erroneous information. The department should continue to ensure that AMS records are complete and up-to-date as part of the regular departmental physical inventory.

The results of the audit and corresponding recommendations follow.

# Audit Results and Recommendations

Purchasing, Receiving, and Invoice Processing

Audit work included discussions with IT Services management and Campus Purchasing (Purchasing), and a review of 25 purchases processed in fiscal year 2018-19 that were judgmentally selected for detailed testing. For each transaction, supporting documentation was reviewed to verify that the disbursement was an appropriate University expenditure, the purchase was appropriately approved, the transaction was properly processed, the goods procured were received, and the invoice was accurately paid. Supporting documentation included: invoices, packing slips, requisition details, BruinBuy order details, Post Authorization Notifications (PANs), and general ledgers. Also, the PAN for each transaction was reviewed to verify that mandatory reviewers read the PAN in accordance with the University Financial Policy.

Further, Procurement Card (Pcard) test work and an analysis of fiscal year 2018-19 purchasing data was performed with information obtained from the Campus Data Warehouse (CDW) to determine whether there were adequate internal controls over the purchasing process. The following were noted:

1. Post Authorization Notifications (PANs)

 For 10 of 25 sampled transactions, the PAN was not read by one or more mandatory reviewers until 11 to 21 calendar days after receipt. According to the UCLA Financial Policy, Principles of Financial Accountability, Section III.2, “A reviewer must review all transactions within two working days of receipt.” Timely review of PANs helps to ensure that all related financial activities are appropriate and adhere to University policies and procedures.

Recommendation: Management should continue to review PAN audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe and in accordance with the UCLA Financial Policy.

Response: Concur. IT Services reviews the PAN audit log on a bi-monthly basis to ensure that mandatory reviewers are reading their PANs within two business days. Mandatory reviewers are emailed the results of the PAN review on a bi-monthly basis if PAN’s are not reviewed timely.

1. Reconciliations

Based on discussion with management, there is currently no reconciliation process in place to ensure that purchases are accurately recorded in the general ledger because a permanent Director of Finance & Budget has not been hired. A&AS recognizes that there are various layers of review imbedded in ServiceNow, however, reconciliations of the general ledger helps to ensure that purchases are valid and accurately recorded.

Recommendation: Management should consider implementing a reconciliation process while the search for a permanent Director of Finance & Budget continues.

Response: Concur.  IT Services will strengthen its underlying controls and will work towards developing a more formal reconciliation process. A capstone process is being developed for Full Accounting Unit (FAU) owners/stakeholders to review all General Ledger transactional activity on a periodic basis until a Director of Finance & Budget is hired.

1. Pcard

Pcard statements for a six-month period (January to June 2019) were reviewed to verify that the statements were properly reviewed and approved in accordance with the UCLA Procurement Card User Guide. Also, a judgmental sample of 10 Pcard transactions from the same period were selected for testing, including verifying that the purchase was an appropriate expense and in compliance with University policies and procedures.

There were no significant control weaknesses found in this area.

1. BruinBuy Order Input Delay

To verify whether any purchases were created in BruinBuy at the time of commitment and prior to the event taking place or the service being provided, A&AS obtained purchasing and invoice data from the Purchasing – Accounts Payable Query Data Base (QDB) tables for analysis, for fiscal year 2018-19. The data was filtered to identify purchase orders and LVOs and 10 of those transactions were selected for further testing. Out of the 10 selections reviewed, eight orders were not created in BruinBuy until after the goods and services were provided. The delay for these eight items (between invoice date and BruinBuy order input date) ranged between seven and 79 calendar days. Review of supporting documentation revealed that there were valid reasons that the orders were created in BruinBuy after the goods and services were provided. Reasons included; subscription renewals, vendor sent the invoice to the wrong address, and delays with Campus Purchasing.

There were no significant control weaknesses found in this area.

1. LVO Purchasing Controls

To verify whether there were any LVOs executed above the $5,000 per vendor, per account, per day limit, and to verify whether any LVOs were split to circumvent purchasing controls, A&AS generated a query from the CDW showing all financial transactions processed in fiscal year 2018-19. The query was filtered to highlight LVO transactions and the data was organized to identify purchases with the same vendor, account number, and transaction document date that also exceeded the $5,000 threshold. Five instances of LVO purchases (consisting of 11 transactions) that were potentially split or went over the daily limit were selected for further review.

Based on sample test work, there were no LVOs identified that went above the delegated $5,000 per vendor, per account, per day threshold. Also, LVOs were not split to circumvent controls.

There were no significant control weaknesses found in this area.

1. Conflict of Interest

To verify whether there were any potential employee-vendor relationships, A&AS utilized TeamMate Analytics to compare the IT Services employee roster, as of February 26, 2020, with a listing of vendors that had purchasing activity within the last five years to identify address matches. One potential address match was identified but based on a review of invoices, the employee history, and discussion with management, the employee-vendor address match appears reasonable. No conflicts of interest were identified.

There were no significant control weaknesses found in this area.

Equipment

Audit work included discussions with management and a review of 10 pieces of equipment that were disposed of in fiscal year 2018-19.

Further, an analysis of the AMS records as of January 31, 2020 was performed, to identify missing information and to verify that all equipment was accounted for in the most recent inventory that was performed, which was completed on December 2, 2019. The following were noted:

A&AS utilized data analytics to review all 1,235 inventorial equipment records associated with custody code 0741 in the AMS. Based on the work performed, equipment inventory information in the AMS is not always complete. Specifically, the results of the data analytics showed the following:

* In 48 instances, items were missing a serial number;
* In 35 instances, serial numbers were duplicates; and
* In one instance, an item was missing a room number.

According to UC Policy BFB-BUS-29 - Management and Control of University Equipment, Section IV.G.1, the head of the custodial department and the Principal Investigator must "maintain up-to-date departmental records that reconcile to the official records maintained by the Equipment Management Office. The location-current building number and room number - of each item of inventorial equipment shall be maintained in such a manner that any item of can be located for inspection or inventorial purposes within a reasonable time. All manufacturer, model number and serial number information shall be completed for each equipment record."

Complete and accurate records ensure proper accounting of inventorial equipment, and allows items to be quickly located for use, inspection, or inventorial purposes.

Recommendation: Management should review AMS records and update any missing or erroneous information. The department should continue to ensure that AMS records are complete and up-to-date as part of the regular departmental physical inventory.

Response: Concur. Management will review AMS records and update any missing or erroneous information on a continual basis to ensure records are update to date as part of IT Services regular physical inventory.

Accountability Structure

The IT Services accountability structure in DACSS in effect for March 2020 was evaluated to ensure it provides proper oversight over procurement and equipment management functions and for adherence to the UCLA Financial Policy on “Principles of Financial Accountability.” According to the UCLA Financial Policy, maintaining and securing an effective accountability structure should provide for the routine update of DACSS to ensure that proper access is granted to inquire, prepare, and/or review transactions. In addition, proper separation of duties should be maintained throughout the procurement and equipment management process.

### The following Campus Data Warehouse reports for IT Services department code 3200

### and 4100 for functions and process identifications related to purchasing and equipment

### management were obtained in March 2020:

* Users and their Access by Appt Unit
* Users and their Access by System Access Request (SAR) Unit
* Users with Access to a Specific Unit
* Reviewers for a Specific Unit
* Reviewers by Home Department Code

Data from the reports was used to create worksheets that provided a listing of all users and reviewers that have access to inquiry, process, and review purchasing transactions. The worksheet was provided to the Chief Administrative Officer (CAO) and the Department Security Administrators (DSA) so they could confirm that access is appropriate. Records from UCPath were used to verify that users were current employees.

IT Services has established an accountability structure that ensures proper oversight over procurement and equipment management functions. Proper separation of duties is maintained throughout the procurement and equipment management process. The IT Services CAO verified that user access and reviewer setup is appropriate and based on employees’ job descriptions.

There were no significant control weaknesses found in this area.

System Access

The adequacy of system controls was evaluated through interviews with management and examination of user listing reports. Controls over system access to the Requisition module in ServiceNow were reviewed to verify that access has been granted based upon job classification, responsibilities, and that users are current employees.

Audit test work indicated that for a judgmental sample of twenty users who have access to the Requisition Module in ServiceNow, all twenty users were current employees and access was appropriate.

There were no significant control weaknesses found in this area

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