CAPITAL PROGRAMS

MATERIALS AND EQUIPMENT PURCHASING

AUDIT REPORT #20-2102

Audit & Advisory Services

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# Background

In accordance with the UCLA Campus fiscal year 2019-20 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated procedures governing materials and equipment management business practices within the UCLA Capital Programs (CP) department.

The CP department is responsible for conceptualizing, planning, designing, and constructing major capital construction and renovation projects at UCLA. Projects having total costs of $1,000,000 and above are considered major capital construction. CP develops financial strategies, obtains project approvals, reviews plans and specifications, completes environmental reviews, prepares and negotiates construction contracts, coordinates staging plans, and serves as a repository for project records and as-built plans.

The department’s mission is to create projects that “support the instruction and research mission of the University by providing a physical campus environment that fosters excellence, creativity, and a sense of community.” Capital projects are developed to take into account UCLA land use priorities, established physical designs, University policies and procedures, environmental and regulatory requirements, and community interests.

Purpose and Scope

The primary purpose of the review was to ensure that CP’s organizational structure and controls surrounding its materials and equipment management processes and procedures are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University requirements was also evaluated. The scope of the audit included:

* Purchases, Receipts, and Invoices
* Equipment Inventory
* Separation of Duties / Accountability Structure

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests of records, and other auditing procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, CP’s organizational structure and controls are generally conducive to accomplishing its business objectives related to materials and equipment management activities. However, controls and business practices could be further strengthened by implementing the following:

* Management should consider expanding the use of the electronic workflow system to request, track, and approve purchases for other CP units outside of the Information Technology (IT) unit. The workflow system may help streamline the purchasing process and provides a clearer audit trail of approvals.
* Management should remind Mandatory Reviewers to read their PANs in a timely manner to help ensure that transactions are proper and appropriate, and to maintain compliance with the UCLA Financial Policy.
* Management should review and update the equipment records in the Asset Management System (AMS) and the Capital Programs Inventory Listing to ensure all records are complete, accurate, and current.
* Management should ensure that UCLA equipment property tags are obtained and affixed to all inventorial equipment items as by University policy BFB BUS-29.
* To help minimize the risk associated with a lack of separation of duties over equipment physical inventories, the CP Accounting Manager should sample and independently verify the existence of inventorial equipment as part of the review and sign-off on the biennial equipment certification.

The audit results and corresponding recommendations are detailed in the following sections of the report.

Audit Results and Recommendations

Purchases, Receipts, and Invoices

Information Technology purchase requests are entered in a web-based application called Document Management. An electronic review and approval workflow has been established that requires IT purchase requests to be approved by the CP IT Manager, Accounting Manager, and Capital Planning & Finance Associate Vice Chancellor (AVC). When all required approvals are obtained, the CP Administrative Specialist enters the purchase requisition or Low Value Order (LVO) into the UCLA Campus Purchasing and Accounts Payable system, BruinBuy. Entering the LVO information or creating a purchase order in BruinBuy generates a Post Authorization Notification (PAN) to the purchasing Mandatory Reviewers for CP, which currently are the Accounting Manager and Capital Planning & Finance AVC.

Requests for non-IT purchases are communicated to a CP Administrative Specialist, and if the request is beyond routine office supplies, approval by the Accounting Manager is required before the purchase requisition is entered into BruinBuy. Similar to IT purchases, the creation of the purchase order in BruinBuy generates a PAN that is sent to the purchasing Mandatory Reviewers for CP, which currently are the Accounting Manager and Capital Planning & Finance AVC.

1. Purchasing Approvals

A judgmental sample of 19 equipment purchases from fiscal years 2016-17, 2017-18 and 2018-19 were reviewed. Purchases were for authorized University purposes and approved by appropriate CP employees.

There were no significant control weaknesses noted in this area.

1. Work Flow System – Electronic Approvals

Non-IT purchases are not requested, tracked, and electronically approved in the Document Management system.

Recommendation: Management should consider expanding the use of the electronic workflow system to request, track, and approve purchases for other CP units outside of IT. The workflow system may help streamline the purchasing process and provides a clearer audit trail of approvals.

Response: Capital Programs believes current controls are sufficient for the purchase of non-IT items. Current controls include the reviewing of PANs, utilizing the receiving function in BruinBuy, and requiring signatures or email approval for payment of invoices. Finance personnel also independently review a purchase request and will ask questions if the request seems out of the ordinary. Capital Programs utilizes workflows for a wide variety of processes and will continue to evaluate which processes would benefit from the use of workflows in the Document Management System.

1. Full Accounting Unit (FAU) and Object Code

For the same judgmental sample of 19 equipment purchases noted earlier, A&AS was able to verify that the appropriate FAU and object code was assigned.

There were no significant control weaknesses noted in this area.

1. Post Authorization Notification (PAN)

According to the UCLA Financial Policy, Principles of Financial Accountability, “A reviewer must review a transaction within two working days of receipt.” Timely PAN reviews help to ensure that transactions are proper and appropriate, as well as maintaining compliance with the UCLA Financial Policy.

For UCLA Capital Programs equipment purchases, the following employees were set up as PAN Mandatory Reviewers:

* 2016-17: Former Project Manager, Building Operations; and Former Administrative Services Director.
* 2017-18 to present: Accounting Manager and Capital Planning and Finance AVC.

Based on our judgmental sample of 19 purchases, the following was noted:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Purchasing Mandatory Reviewer** | **Total # of PANs** | **Reviewed in 2 Days****or Less** | **Reviewed in 3 Days****or more** | **Range****(# of Days)** | **Average****# of Days Before Review** |
| Former Project Manager, Building Operations | 5 | 2 | 3 | 1-46 | 12 |
| Former Administrative Services Director | 4 | 0 | 4 | 3-11 | 6 |
| Accounting Manager | 15 | 10 | 5 | 0-12 | 3 |
| AVC Capital Planning & Finance | 14 | 4 | 10 | 0-17 | 7 |

Recommendation: Management should remind Mandatory Reviewers to read their PANs in a timely manner to help ensure that transactions are proper and appropriate, and to comply with the UCLA Financial Policy.

Response: Capital Programs will encourage mandatory reviewers to review their PANs in as timely a manner as possible. With the addition of a supervisor in the Finance unit, Capital Programs will consider a minimum dollar amount for transactions that require mandatory review by the AVC Capital Planning & Finance. This will reduced the number of transactions that would be reviewed by the AVC.

1. After-the-Fact Purchases

Purchase orders with the University’s standard terms and conditions should be approved and presented to vendors prior to procuring goods or services. The risks with after-the-fact purchases include not having the protection of the standard terms and conditions in the University’s purchase orders, and not recording an encumbrance for the purchase. Capital Programs purchases made during the past three fiscal years (2016-17, 2017-18, and 2018-19) were analyzed to identify purchases where the invoice date was before the purchase order date. A&AS sampled the top five vendors with purchases that met this criterion and discussed with the CP Accounting Manager to clarify if these were after-the-fact purchases. The purchases included professional membership fees, subscription renewals, and purchases from existing University-wide agreements, where it is reasonable that the purchase order dates were after the invoice dates.

There were no significant control weaknesses noted in this area.

1. Low Value Orders (LVOs)

Low-value orders (LVOs) are intended to streamline the process for smaller, low-risk purchases, where the involvement of Purchasing is unlikely to net a better deal. Departments are authorized to place low-value, N-class orders for up to $5,000 per vendor per account per day in BruinBuy, UCLA’s online purchasing application. Although LVOs help streamline the purchasing process, there is also a risk LVOs may be split to circumvent purchasing controls.

LVOs for the past three fiscal years (2016-17, 2017-18, and 2018-19) were analyzed to identify if multiple orders on the same day with the same vendor exceeded the $5000 LVO threshold. There were 360 LVOs totaling $106,984 of which a majority did not exceed the LVO threshold. There were four LVOs for nine Microsoft tablets that totaled $5,242 processed on August 13, 2018. A&AS reviewed the CapSTAR workflows, BruinBuy purchase orders, and invoices for these purchases, noting the following: These purchases were approved by the CP IT Manager, Accounting Manager, and Capital Planning & Finance AVC.

There were no significant control weaknesses noted in this area.

1. Competitive Bidding Threshold

Capital Programs purchases were analyzed for the last three fiscal years (2016-17, 2017-18, and 2018-19) to verify whether any purchases exceeding the $100,000 threshold were competitively bid, as required in UC Business and Finance Bulletin BUS-43, “Materiel Management.” There were two vendors whose total purchases exceeded the competitive bid threshold.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Vendor Name** | **FY 2016-2017** | **FY 2017-2018** | **FY 2018-2019** | **Total** |
| Roberto Alexander Lopez Sole Proprietor / RHLopez Consulting Inc. | $239,688 | $199,975 | $309,995 | $749,658 |
| Ann Summers | $149,909 | $119,934 | $129,981 | $399,825 |

The two vendors noted above have been providing services to CP since 1996 (Ann Summers) and 2014 (Roberto Lopez). However, these services were not competitively bid out until 2019. A&AS obtained and reviewed documentation to verify the vendors were selected based on a competitive bid process and noted the following:

A Request for Quotation (RFQ) was issued to gather information and identify a supplier with the resources and capabilities to provide enhancement to UCLA Capital Programs' Capital Projects Status, Tracking, and Reporting (CapSTAR) web applications. The proposed enhancement would accommodate a new accounting system, cash flow tracking, project management budget tracking, vendor portal module, core libraries updates and other upgrades determined by management. The RFQ was posted on the CalUsource Public Bid Site and four vendors responded.

An evaluation team, which included the CP IT Manager, Network Engineer, and Accounting Manager, scored the responses from each of the bidders. Each member of the evaluation team was required to review and sign a "Conflict of Interest & Non-Disclosure Agreement.” A minimum score of 70 out of 100 points was required to qualify for the technical phase of the evaluation, of which only two of the vendors qualified, RHLopez Consulting and Ann Summers. These two vendors were then required to submit a financial proposal, which was reviewed by the evaluation team. RHLopez Consulting and Ann Summers were both awarded contracts to continue with the development and enhancement of the CapSTAR web applications. A&AS also confirmed with the UCLA Campus Purchasing Associate Director, who confirmed the two software developers were selected based on a competitive bid process and there were no specific concerns noted.

There were no significant control weaknesses noted in this area.

1. Receiving and Invoice Review

Discussions were held with the CP IT Manager and the Accounting Manager to determine whether there were adequate internal controls over the receiving and invoice review processes. For the same judgmental sample of 19 equipment purchases discussed earlier, A&AS verified the “receiving required flag” in BruinBuy was set to yes, which requires CP to confirm that items ordered have been received before the Campus Accounts Payable department can pay the invoices, and the items were noted as received. Equipment purchases that were tracked in the CP's workflow system were also reviewed and verified as received before approving the invoices for payment.

In addition to the judgmental sample review, A&AS initially planned to analyze all of the CP purchases for the past three fiscal years (2016-17, 2017-18, and 2018-19) to verify whether the receiving required flag in BruinBuy was set to yes. The CP Accounting Manager clarified that the department maintains the practice to set the receiving required flag in BruinBuy to yes for CP operating purchases since October 2018. Thus, A&AS focused our analysis on purchase transactions from October 1, 2018 to June 30, 2019, noting the following: The receiving required flag was set to yes for a majority of the purchases (224 out of 231). There were seven purchases for which the flag was not set to yes; however, these purchases were not significant in value ranging from $12 for office supplies to $1,248 for moving services.

There were no significant control weaknesses noted in this area.

1. Duplicate Invoice Payments

A&AS analyzed vendor invoice payments processed during the last three fiscal years (2016-17, 2017-18, and 2018-19) to identify possible duplicate payments, noting the following: There were four sets of invoices of which the vendor ID and invoice number matched another invoice. The amounts of the invoices were less than $100, therefore A&AS determined the items to be immaterial for further review. There were 450 invoices where the vendor ID and invoice amount matched another invoice. However, these could be false-positive matches such as valid recurring charges that are the same amount each month, (e.g., rent) that are not true duplicate invoice payments. A&AS sampled the top 10 invoices and reviewed the actual copies of the supporting invoices, noting they were not duplicate payments.

There were no significant control weaknesses noted in this area.

1. Procurement Card Purchases

A report of all procurement card (pcard) transactions from July 1, 2016, to December 31, 2019, was generated from the UCLA BruinBuy Purchasing and Accounts Payable system. There were 44 pcard purchases totaling approximately $7,500. A judgmental sample of five pcard purchases were selected for audit testing, and supporting documentation was reviewed to verify whether they were for authorized University purposes. There is currently only one pcard in use for CP employees and it has been issued to the Accounting Manager. The Accounting Manager verifies that requests from CP employees for goods or services are for authorized University purposes before paying for them with the pcard. Monthly pcard statements are reviewed and signed by the CP Capital Planning and Finance AVC. All purchases A&AS tested had the appropriate supporting documentation to demonstrate they were for authorized University purposes.

There were no significant control weaknesses noted in this area.

Equipment Inventory

1. Equipment Records

A judgmental sample of 10 inventorial equipment purchases (> $5,000) made by CP during the past three fiscal years (2016-17, 2017-18, and 2018-19) was reviewed. Nine items were recorded and tracked in AMS. One item was not recorded because an asset number has not been assigned to it by the Campus Equipment Management department. The CP IT Manager indicated he will follow-up with Equipment Management. In addition, a judgmental sample of 10 theft sensitive, non-inventorial equipment purchases (<$5,000) were reviewed, noting that all 10 are recorded and tracked in the CP Inventory Listing application.

A&AS also selected a judgmental sample of five inventorial equipment items from CP building, server rooms, and other locations to verify that the equipment information is accurately and completely recorded in AMS.

In addition to the sample review, all inventorial equipment records in AMS as of January 17, 2020 were analyzed to determine whether any information such as serial numbers or location were missing. The following was noted:

Of the 71 active inventorial equipment items in AMS for CP (custody code 0311), the majority of the records were complete; however, there were 10 records where the serial number field was blank and one record where the room location was blank.

|  |  |  |
| --- | --- | --- |
| **Asset Number** | **Description** | **Blank Field** |
| 174001121 | Vehicle, GEM E4, White Body (4971) | serial # |
| 174001122 | Vehicle, GEM E4, White Body (4971) | serial # |
| 174001430 | NAS Server System | serial # |
| 184000166 | Catalyst, Port Gigabit Ethernet Switch | serial #, room |
| 184000258 | Coper/Printer/Scanner | serial # |
| 184000397 | Printer, HP Designjet Postscript | serial # |
| 184001434 | Network Essentials Switch 48 Ports | serial # |
| 194000373 | Vehicle, 2019 Chevrolet Bolt EV (4339) | serial # |
| 194000913 | Printer, Color Laserjet Enterprise | serial # |
| 194001869 | Rackmount Server – Flash Storage Array | serial # |

There was also one item where the serial number in AMS did not match the serial number on the equipment.

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Number** | **Description** | **Serial # in AMS** | **Serial # on Equipment** |
| 94001059 | Fiber Channel | 3802ZD1 | CWZ1ZD1 |

Equipment less than $5,000 is not tracked in the campus-wide AMS. Departments are still responsible, however, for tracking non-inventorial equipment, especially theft sensitive equipment. CP IT tracks these items using an on-line application called CP Inventory Listing. There are over 600 IT equipment items tracked in the CP Inventory Listing. Information such as the description, model number, serial number, location, and employee assignment is recorded for a majority of the items; however, A&AS identified some records with missing and outdated information.

* Location information has not been recorded for 66 equipment records, which included computer monitors, computers, and printers.
* Serial numbers have not been recorded for 45 equipment records.
* Records for seven employees that have separated from the University continue to show equipment still assigned to them. Capital Programs IT Manager confirmed the items were retrieved from the employees and the records need to be updated.

Recommendation: Management should review and update the equipment records in AMS and the CP Inventory Listing to ensure all records are complete, accurate, and up to date.

Response: All blank serial number and location fields have been updated or corrected. Capital Programs will ensure that its equipment records are complete and that the CP Inventory Listing match the records in AMS for item above $5,000. Capital Programs will utilize multiple employees in the IT and Finance departments to help with this tracking.

1. Physical Inventory

The University requires departments to conduct a physical inventory of all equipment with a cost greater than $5,000, at least once every two years. A&AS obtained and reviewed the "Annual Equipment Certification Form" for CP from the Campus Property, Plant, and Equipment Assistant Manager, noting the last inventory was conducted within the last two years, in December 2019.

A&AS also analyzed the dates of the last physical inventory count for all equipment records in AMS, noting a physical inventory was performed for all inventorial equipment within the last two years.

Furthermore, A&AS selected a judgmental sample of 10 inventorial equipment items from AMS and physically verified the existence of these items with the CP IT Manager, Network Systems Engineer, and User Support Technician on December 11, 2019.

There were no significant control weaknesses noted in this area.

1. Equipment Property Tag

The UCLA property tag for inventorial equipment should be properly secured to each item and the tag number should agree with AMS records. A&AS was able to verify that 12 of the 15 items sampled had the appropriate tag affixed. The remaining three inventorial equipment items did not have a property tag affixed.

|  |  |
| --- | --- |
| **Asset Number** | **Description** |
| 194000373 | Vehicle, 2019 Chevrolet Bolt EV (4339) |
| No asset number assigned in AMS as of 12/16/19 | Dell Poweredge R840 Server - Windows Server 2019, hyper-v host for virtual servers running SQL, SharePoint and file storage |
| 194001869 | Rackmount Server – Flash Storage Array |

Recommendation: Management should ensure that equipment property tags are obtained and affixed to all inventorial equipment items as required by University policy BFB BUS-29.

Response: The property tag has been affixed to the Chevrolet Bolt and the Flash Storage Array. Capital Programs is working with Equipment Management to get inventory tag and it is expected that the tag will be received and affixed in July 2020. As outlined above, Capital Programs will utilize more staff in its IT and Finance departments to track the inventory to ensure that the tags are affixed properly and on a timely basis.

1. Equipment Security

A&AS selected a judgmental sample of 15 inventorial equipment items from AMS and verified that the items are maintained in a secure location with the CP IT Manager, Network Systems Engineer, and User Support Technician on December 11, 2019. The majority of the items sampled were IT equipment that are secured in the CP server room, with access restricted to IT staff. The other items sampled were printers, copiers, and scanners, which are maintained in the CP building’s office areas that are locked after regular business hours.

Capital Programs has theft sensitive non-inventorial IT equipment, such as tablets and cell phones that are issued to employees. Discussions were held with CP IT management to determine how these items are secured. The following was noted:

Computrace Absolute software is installed on tablets, which allows the functionality to locate and remotely wipe data from the tablet in the event it is stolen or lost. A judgmental sample of five tablets that have been issued to employees was reviewed, noting that Computrace Absolute software has been installed on each of the tablets.

Capital Programs has a mix of Apple, Android, and Windows cell phones that have been issued to employees. The operating systems native to each type of phone allows employees to locate and remotely lock and wipe their phones in the event they are stolen or lost. Cell phones are setup and configured by CP IT staff.

There were no significant control weaknesses noted in this area.

Separation of Duties / Accountability Structure

1. Separation of Duties - Purchasing

Discussions were held with CP management and staff, and sample purchases were reviewed, noting there is an adequate separation of duties with regards to the purchasing of materials and equipment for the CP department. Separate individuals are responsible for requesting items, approving purchases, receiving materials and equipment, and approving invoices for payment.

There were no significant control weaknesses noted in this area.

1. Separation of Duties – Equipment Management

UCLA Policy 360: “Internal Control Guidelines for Campus Departments – B.3.c. Custodial and Security Arrangements” recommends that the responsibility for the physical security (custody) of assets is separated from the related recordkeeping (accounting) for those assets, to minimize the risk of misappropriation of assets.

The majority of inventorial equipment items for CP are in the information technology area. The IT Manager and Network Systems Engineer, whom both have custody and access to IT equipment, also have responsibility for the biennial physical inventory counts. By not separating these duties, there is a higher risk that equipment could be misappropriated and then not reported as missing during the physical inventory. Although the CP Accounting Manager, who does not have custody of the IT equipment, reviewed the results of the biennial physical inventory performed by the IT staff, the review did not include an independent check of physically verifying the existence of equipment reported in AMS records.

Recommendation: To help minimize the risk associated with a lack of separation of duties over physical equipment inventories, the CP Accounting Manager should sample and independently verify the existence of inventorial equipment items as part of the review and sign-off on the biennial equipment certification. The independent review should include the following:

* Focus on more theft sensitive items that have a higher value and are portable.
* Select different items each time an equipment inventory is performed.
* Conduct surprise physical inventory verification checks, if possible.

Response: Capital Programs will have the Accounting Manager, or a designee, perform a random sample of physical inventory prior to the sign-off of the equipment certification to strengthen its internal controls. Capital Programs will consider performing an occasional surprise spot check on its physical inventory as well.

1. Accountability Structure

Users and reviewers granted access to purchasing and equipment management system functions were reviewed to determine whether an appropriate accountability structure has been established and users’ access are appropriate based on their job functions. To accomplish this objective, A&AS reviewed the following Distributed Administrative Computing Security System (DACSS) reports and discussed them with the CP Accounting Manager: Users and their Access by Appointment Unit, Users and their Access by SAR [System Access Request] Unit, Users with Access to a Specific Unit, Reviewers by Home Department, and Reviewers by Specific Unit. Based on our review of the DACSS reports and subsequent discussion CP management, the accountability structure and users’ access appeared appropriate.

There were no significant control weaknesses noted in this area.

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