



UNIVERSITY OF  
**TEXAS**  
ARLINGTON

**EQUIPMENT INVENTORY AUDIT**

**MAY 21, 2013**

INTERNAL AUDIT DEPARTMENT  
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**MEMORANDUM**

**TO:** Dr. Vistasp Karbhari  
President

**FROM:** Ken Schroeder *Ken Schroeder*  
Director of Internal Audit

**DATE:** June 17, 2013

**SUBJECT:** Equipment Inventory Audit Report Dated May 21, 2013

***Executive Summary***

We have completed an audit of Equipment Inventory as included in our FY 2013 audit work plan. The objective of the audit was to provide assurance that adequate controls exist over property administration to ensure the safeguarding of assets and that there is compliance with the University's policies.

Based on our physical verification of University equipment, an annual inventory of equipment is being performed by all departments in compliance with the State Law. We noted, however, that there were deficiencies in the process of ensuring accuracy and completeness of inventory records. Some of these deficiencies included: inventory listed in the inventory records that could not be located in the department; inventory noted in the department that did not contain an inventory tag and/or was not included in the inventory records; lack of completion of a *Removal of Equipment from University Campus* form; controlled assets below \$500 not being properly accounted for, and departments not completing the annual inventory certification timely. These recommendations are considered significant to the process or the department.

We appreciate the courtesy and cooperation we received from the management and staff of the Asset Management Department and the 10 departments examined throughout this audit. If you have any questions, please contact me at extension 2-2018.

**MEMORANDUM:** June 17, 2013

**SUBJECT:** Equipment Inventory Audit Report Dated May 21, 2013

cc: Dr. Ronald L. Elsenbaumer, UT Arlington, Provost and Vice President for Academic Affairs  
Ms. Kelly Davis, UT Arlington, Vice President for Business Affairs and Controller  
Mr. John Hall, UT Arlington, Vice President for Administration and Campus Operations  
Mr. Ehren Wixson, UT Arlington, Executive Director, Business Services  
Dr. Pedro Reyes, UT System, Executive Vice Chancellor for Academic Affairs  
Mr. Alan Marks, UT System, Attorney – General Law Section  
Mr. J. Michael Peppers, UT System, Chief Audit Executive  
Ms. Moshmee Kalamkar, UT System, Audit Manager  
Mr. Ed Osner, Legislative Budget Board  
Mr. Jonathan Hurst, Governor’s Office of Budget, Planning and Policy  
Internal Audit Coordinator, State Auditor’s Office  
Mr. Ken Levine, Sunset Advisory Commission  
Report File

Departmental Distribution:

Mr. Eric Jakubisin, UT Arlington, Interim Manager, Asset Management  
Dr. Donald Gatzke, Dean, School of Architecture  
Mr. Doug Kuykendall, Assistant Vice President and Director, Campus Recreation  
Dr. Pete Smith, Associate Vice President, Center for Distance Education  
Dr. Charla Markham Shaw, Chair, Communication Studies  
Dr. Fillia Makedon, Professor and Chairperson, Computer Science and Engineering  
Dr. Wendy Faris, Department Chair, English  
Dr. Louise Fincher, Chair, Kinesiology  
Dr. Jianzhong Su, Professor and Department Chair, Mathematics  
Dr. Rick Bogard, Interim Chair, Music  
Dr. Elizabeth Poster, Dean, College of Nursing

## ***Background Information***

A complete physical inventory of all capital and controlled assets in the possession of departments, centers, and designated University offices is taken at least once a year. Each department is responsible for performing the inventory as well as submitting a signed copy of the annual inventory certification form to Asset Management (AM).

Personal property is any possession of the State of Texas having sufficient value to warrant inclusion in the fixed asset portion of financial reports. It does not include consumable items, nor does it include real property such as land or buildings, improvements to land or buildings, or infrastructure. A capital asset is a possession that meets the personal property criteria and has a single unit value of \$5,000 or greater, with an estimated useful life of more than one year.

The State Comptroller defines “controlled assets” as assets that qualify as personal property but do not meet the capitalization threshold and must be secured and tracked due to the nature of the item. Controlled assets include guns, computers, mobile devices, data projectors, cameras, TVs, and printers.

The following University procedures provide the processes and procedures for governing inventory of equipment:

- Procedure 2-43: Responsibilities, Inventories, Reporting and Tracking of University Property;
- Procedure 2-44: Addition of Property to a Department's Inventory;
- Procedure 2-45: Removal of Property from a Department's Inventory;
- Procedure 2-46: Removal of Equipment from the University Premises;
- Procedure 2-47: Departmental Property Records.

AM is responsible for assuring that state requirements and University procedures are followed for property in possession of the University. AM provides instructions to each department outlining the procedures to be used to conduct the annual inventory.

## ***Objectives***

The objective of the audit was to provide assurance that adequate controls exist over property administration to ensure the safeguarding of assets and that there is compliance with the University’s policies.

## ***Scope and Methodology***

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*. The *Standards* set criteria for internal

audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department. UTS 129 titled "Internal Audit Activities" requires that we adhere to the *Standards*.

To accomplish the audit objective, we selected a sample of 10 departments and physically verified the existence of assets based on the DEFINE inventory listing as of 12/03/2012. We also interviewed departmental personnel to determine compliance with the University procedures surrounding equipment inventory.

## ***Audit Results***

### ***Accuracy and Completeness of Inventory***

Based on our physical verification of equipment inventory in the sampled departments, we noted that there are equipment listed in DEFINE belonging to these departments, yet this equipment was not found during the verification process. According to some of the departments we tested, equipment moves around the department building making it difficult to find for the audit verification. Additionally, faculty and staff take equipment off campus and this hinders in the verification process. Another cause pertaining to the inaccuracy of the inventory was that the DEFINE records had not been updated by AM though the departments had turned in the Inventory Transaction Form (ITF). Some departments were not able to provide explanation as to why some of their equipment could not be found. Equipment can potentially get lost or be susceptible to theft if not properly and timely accounted for. This testing indicates that inventory in most of the sampled departments examined was not accurately performed.

#### **1. Recommendation:**

As required by University Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, departments are required to conduct an annual inventory to account for all equipment noted in their respective inventory list. If an equipment item cannot be found, the DEFINE record should be updated as per Procedure 2-45, *Removal of Property From a Department's Inventory*, by submitting a *Lost or Missing University Inventory Report Form* (Form 6-4) to the UT Arlington Police Department and Asset Management. We recommend that the following departments conduct a thorough review of their inventory to ensure its accuracy with University records and procedures. The expectation is that this will be completed during the current inventory validation as requested by the Vice President for Business Affairs and Controller.

Unit Name	Equipment Items Not Located	Responsible Party	Target Implementation Date
Architecture	24	Administrative Assistant II	June 18, 2013
Campus Recreation	30	Assistant Director of Facilities	June 18, 2013
Center for Distance Education	18	Manager of Technical Operations	June 18, 2013
Communications	6	Administrative Assistant II	June 18, 2013
Computer Science and Engineering	70	Manager of Operations and Services	June 18, 2013
English	39	Administrative Assistant	June 18, 2013
Kinesiology	13	Professor and Chair	June 18, 2013
Mathematics	25	Professor and Chair	June 18, 2013
Music	16	Chair	June 18, 2013
Nursing	47	Executive Assistant to the Dean	June 18, 2013

*Note: a separate report with the details of the assets not located in the department was provided to the responsible party listed above.*

**2. Recommendation:**

Since departmental management have responsibility for their property as per Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, Asset Management needs to timely update DEFINE for any new purchases that have already received an inventory tag. Additionally, Asset Management needs to update the DEFINE inventory records more timely to reflect changes in the department inventory as supported by the Inventory Transaction Forms remitted by the departments.

**Management Response:** *The Asset team is working together getting new purchases that belong on inventory added to Define in a timelier manner. We have moved a staff person over temporarily to help with the process.*

**Target Implementation Date:** *Immediately*

**Responsible Party:** *Assistant Director of Asset Management*

While performing our testing, we found equipment in the department that either was not listed in DEFINE or that belonged to a different department, per its unit code. Some of this equipment did not fall under the classification of controlled or capital assets as defined in Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, for inclusion in the DEFINE records as it was “written off” when capitalization thresholds changed. As this equipment is still in use and of value, it may be considered as a departmental

high-risk asset per the policy. We also found equipment without inventory tags, and equipment with inventory tags that were not recorded in DEFINE. AM explained that they are pending an update to DEFINE for this equipment. Also noted was equipment obtained from different departments that was not properly recorded to the DEFINE records to reflect the new department owners. Also, some equipment identified as “missing” in previous annual physical inventory verifications completed by the department were found during our physical verification. Failure to record assets in either the University official inventory system or in the departmental listing of high-risk assets could result in theft due to lack of accountability.

**3. Recommendation:**

Since some equipment was removed from the DEFINE system when capitalization levels changed, this equipment is still valuable. Although this equipment may not fall under the classification categories listed as "Controlled Assets" in Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, such equipment should be considered as a high-risk asset and tracked by the department via a listing maintained in the department. The expectation is that this will be completed during the current inventory validation as requested by the Vice President for Business Affairs and Controller.

Unit Name	Responsible Party	Target Implementation Date
Architecture	Administrative Assistant II	June 18, 2013
Campus Recreation	Assistant Director of Facilities	June 18, 2013
Center for Distance Education	Manager of Technical Operations	June 18, 2013
Communications	Administrative Assistant II	June 18, 2013
Computer Science and Engineering	Manager of Operations and Services	June 18, 2013
English	Administrative Assistant	June 18, 2013
Kinesiology	Professor and Chair	June 18, 2013
Mathematics	Professor and Chair	June 18, 2013
Music	Chair	June 18, 2013
Nursing	Executive Assistant to the Dean	June 18, 2013

**4. Recommendation:**

As noted in Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, it is the responsibility of the departments to conduct the annual inventory and ensure its accuracy. We recommend that departmental management work closely with AM to ensure their inventory is accurate. This includes, but is not limited to, ensuring that assets in the department have inventory tags and are properly included in DEFINE; assets identified as missing or sent to surplus but found during the audit are properly recorded in DEFINE; and assets listed as inactive in DEFINE but that are in use are properly classified. The expectation is that this will be completed during the current inventory validation as requested by the Vice President for Business Affairs and Controller.

Unit Name	Equipment Found but not in DEFINE	Responsible Party	Target Implementation Date
Architecture	6	Administrative Assistant II	June 18, 2013
Campus Recreation	18	Assistant Director of Facilities	June 18, 2013
Center for Distance Education	16	Manager of Technical Operations	June 18, 2013
Communications	10	Administrative Assistant II	June 18, 2013
Computer Science and Engineering	6	Manager of Operations and Services	June 18, 2013
English	28	Administrative Assistant	June 18, 2013
Kinesiology	15	Professor and Chair	June 18, 2013
Mathematics	6	Professor and Chair	June 18, 2013
Music	2	Chair	June 18, 2013
Nursing	39	Executive Assistant to the Dean	June 18, 2013

*Note: a separate report with the details of the assets located in the departments that were not recorded in DEFINE was provided to the responsible party listed above.*

In addition to the equipment not found and equipment found but not recorded in DEFINE, 8 of the 10 departments tested did not maintain a listing of controlled assets that are below \$500 and did not label these assets with a departmental tag.

**5. Recommendation:**

As required by University Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*, departmental high-risk assets (e.g., printers, data projectors, still and video cameras, TVs, stereo systems), with a value of less than \$500, should be labeled with a departmental tag and a listing of the assets should be maintained in the department. We recommend that the following departments comply with this policy. The expectation is that this will be completed by the end of the current fiscal year.

Unit Name	Responsible Party	Target Implementation Date
Architecture	Administrative Assistant II	August 31, 2013
Campus Recreation	Assistant Director of Facilities	August 31, 2013
Center for Distance Education	Manager of Technical Operations	August 31, 2013
Computer Science and Engineering	Accountant I	August 31, 2013
English	Administrative Assistant	August 31, 2013
Mathematics	Professor and Chair	August 31, 2013
Music	Chair	August 31, 2013
Nursing	Executive Assistant to the Dean	August 31, 2013

**6. Recommendation:**

Since 8 of the 10 departments tested were not aware that they were to keep a listing of Departmental High-Risk Assets and that those assets should be tagged with a departmental tag per Procedure 2-43, *Responsibilities, Inventories, Reporting and Tracking of University Property*; we recommend that AM provide training to the campus community on an annual basis so that they understand the requirements of this procedure.

*Management Response: The annual inventory is already in progress. This gives the Asset staff an opportunity to educate the departments regarding the tracking of university property, which is not added to Define. In addition, we are going to talk to Office of Information Security staff and see if we can have some time during the monthly meetings to discuss this expanded inventory further with departments. We will also provide training to the campus.*

*Target Implementation Date: September 30, 2013*

*Responsible Party: Assistant Director of Asset Management*

Equipment Management

In the course of verifying the physical existence of the departmental equipment, we noted laptops were taken outside of the department but not supported by any removal documentation. As required by Procedure 2-46, *Removal of Equipment from the University Premises*, University-owned property may be removed from the campus and other university facilities to be used in conducting official business of the University. When the equipment is removed, a *Removal of Equipment from University Campus* form must be completed, signed by the person responsible for the equipment and signed by the Department Chair or Director.

**7. Recommendation:**

As required by Procedure 2-46, *Removal of Equipment from the University Premises, Section I.B*, the Center for Distance Education needs to require all of its faculty and staff to sign a *Removal of Equipment from University Campus* form (Form 2-47) when assigned equipment is taken off campus.

*Management Response: The Center for Distance Education will implement this policy and require all faculty and staff who remove equipment from campus to complete the necessary forms. We will also ensure that such forms are reviewed and updated as required.*

*Target Implementation Date: August 31, 2013*

*Responsible Party: Administrative Assistant, Center for Distance Education*

Our testing revealed that there were departments that did not complete their inventory certification timely. All University departments were required to conduct an inventory of their respective equipment starting in March 2012 to be completed by June 18, 2012.

**8. Recommendation:**

Departmental management needs to ensure that the annual inventory is completed by the deadline set by the Vice President for Business Affairs and Controller.

Unit Name	Inventory Certification Date	Responsible Party	Target Implementation Date
Computer Science and Engineering	7/6/2012	Manager of Operations and Services	June 18, 2013
English	Client could not produce a copy of the certification. A copy was eventually signed by client dated 1/31/2013.	Administrative Assistant	June 18, 2013
Mathematics	8/7/2013	Professor and Chair	June 18, 2013
Nursing	The inventory certification was not dated. Client indicated that inventory was completed in November 2012.	Executive Assistant to the Dean	June 18, 2013

***Conclusion***

Based on our physical verification of University equipment, an annual inventory of equipment is being performed by all departments in compliance with the State Law. We noted, however, that there were deficiencies in the process of ensuring accuracy and completeness of inventory records. Some of these deficiencies included: inventory listed in the inventory records that could not be located in the department; inventory noted in the department that did not contain an inventory tag and/or was not included in the inventory records; lack of completion of a *Removal of Equipment from University Campus* form; controlled assets below \$500 not being properly accounted for, and departments not completing the annual inventory certification timely. These recommendations are considered significant to the process or the department.

We appreciate the courtesy and cooperation we received from the management and staff of the Asset Management Department and the 10 departments examined throughout this audit.