Financial Internal Controls
Capital Equipment (APR) Project Update

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Financial Forum

April 27, 2015

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Background

➤ In FY14, UW-Madison invested significant resources performing a 100% capital equipment physical inventory and update of detailed equipment records.

➤ UW-Madison property-related process and control deficiencies were identified.

➤ As part of the Financial Internal Controls Initiative, campus leadership chartered an APR team to address the deficiencies.

➤ In the meantime, the Property Control unit conducted a limited scope inventory in FY15 prior to the annual LAB audit.

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Context

Internal Financial Controls Initiative

Capital Equipment APR Project
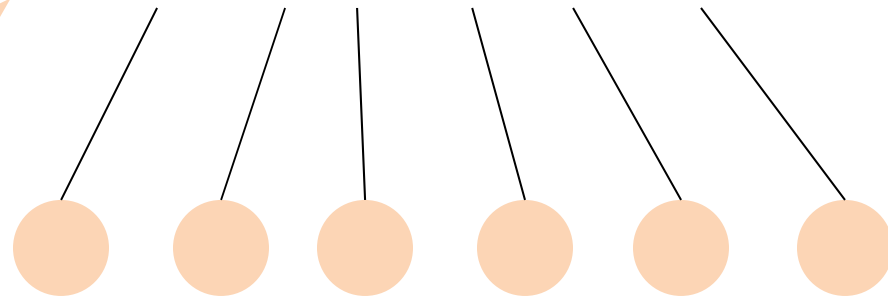
Multiple Projects

APR Capital Equipment Team Charter

Why…

Errors in physical inventory or asset values require potentially significant adjustments and result in adverse effects to UW-Madison's financial position and reputation.

What…

Primary objectives were:

- Eliminating errors having direct and indirect costs related to subsequent corrections, and
- Enhancing internal controls.

APR Capital Equipment Team

1. Kris Ackerbauer — Facilities, Planning, & Management
2. Sandy Fowler — College of Agricultural and Life Sciences
3. Matt Griffith — Accounting Services
4. Brenden Hedberg — Accounting Services
5. Tammie Hodgson — DoIT
6. Carl Johnson * — School of Medicine and Public Health
7. Steve Kuhn — Business Services
8. Dennis Manthey * — College of Engineering
9. Karen Mier * — School of Veterinary Medicine
10. Hartley Murray — Purchasing Services
11. Nick Novak — Research and Graduate Education
12. Janel Oster * — Facilities, Planning, & Management
13. Gerry Pelanek — Administrative Process Redesign
14. Colleen Reilly * — DoIT
15. Mehdi Rezai — College of Letters and Science
16. Kathleen Sielaff — Research and Sponsored Programs
17. Matt Thies — SWAP
18. Jim Thompson — Administrative Process Redesign
19. Jim Walker — School of Business

* Acting Departmental Property Administrators

Project Methodology & Timeline

- **Goals & Deliverables**
  - ✓ Recommended Future State Process Maps
  - ✓ Recommendations to Achieve Physical Inventory & Information Accuracy
  - ✓ Recommendation of Asset Management Tracking & Financial Depreciation Software

- **Lean-Six Sigma Project (Sept 2014 - Jan 2015)**
  - ✓ Asset Life-Cycle: Intake, In Use, Exit/Disposal
  - ✓ External Benchmarking
  - ✓ VOC/Process Walks
  - ✓ Couldn't Redesign → Design

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Key Recommendations

1. Reduce complexity and unnecessary asset tracking.

2. Acknowledge mobile nature of capital assets.

3. Broaden, empower and strengthen support for DPA role and make it a focal point for asset activity.

4. Reduce time to tag and capitalize assets.

5. Optimize the tagging technology (investment requirement).

6. Strengthen periodic inventory practices and allow reasonable time to conduct inventory.

7. Increase control of disposals and transfers.

8. Improve overall campus disposal process.

9. Clearly document and train on all property control processes / procedures and improve their accessibility.

10. Migrate to electronic workflow with integrated information exchanges.

11. Select and implement an enterprise system for end-to-end integrated financial and asset information, history and electronic processing workflow.

12. Optimize Property Control group's focus and foster asset management culture change across campus.

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Summary

Recommendations Designed To:

- ✓ Set-Up DPAs and Process For Success

- ✓ Accurate Physical Inventory Records

- ✓ Accurate Valuation With Different Asset Management Software

- ✓ Achieve Successful Audits & Internal Controls

- **Points of Note:**

  - ✓ Decrease Tracking Volume and Complexity

  - ✓ Expand Technology Investments → Accuracy, Efficiency and Time/Effort

  - ✓ Increase Visibility & Accountability

- **Implementation Team Being Chartered**
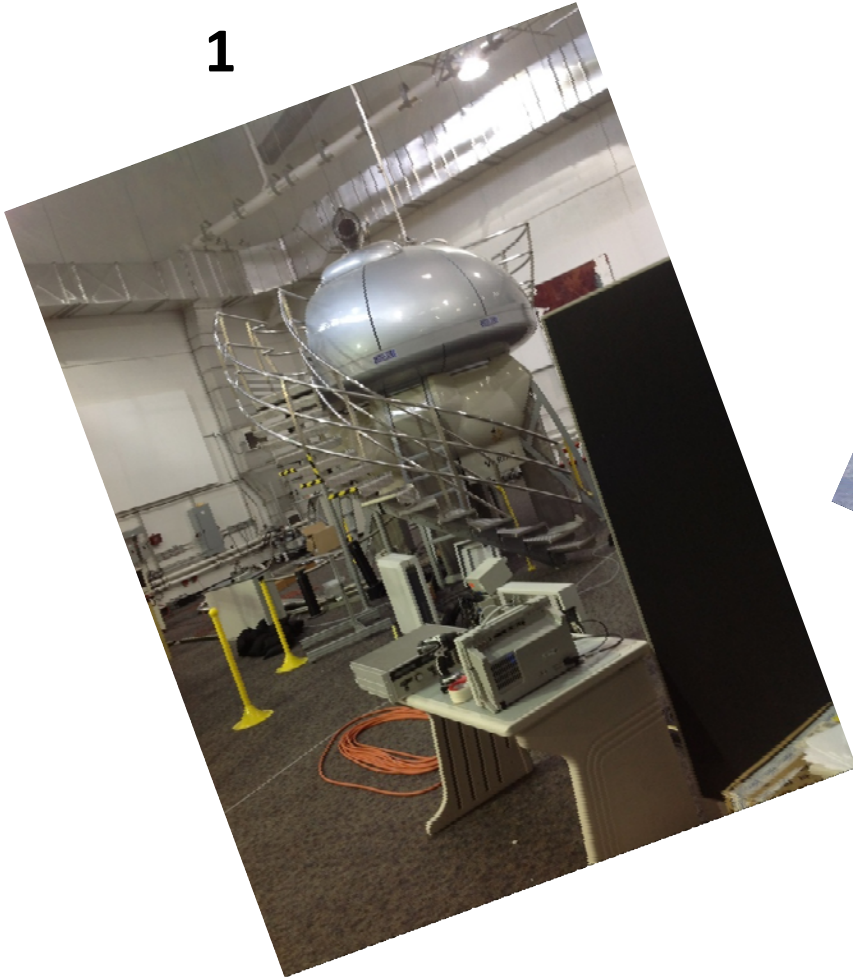
In the Meantime…

FOR ZEBRAS IT'S NOT A PARTY UNTIL SOMEONE BRINGS THE BAR-CODE SCANNER.

… the Property Control unit conducted a limited scope inventory in FY15 prior to the annual LAB audit.

1

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physicsworld

BREAKTHROUGH OF THE YEAR 2013

IceCube NSF

3

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FY15 Inventory Approach

- Property Control requested Department Property Administrators (DPAs) to complete a capital equipment physical inventory.

- DPAs were provided with scanners, inventory lists, training, and technical support.

  – Phase 1: Property Control gives DPA barcode scanners and requests that they scan items.

  – Phase 2: Property Control sends DPA a paper list of un-scanned items for a final search. If DPA cannot find items, Property Control removes them from inventory as lost. If items are found later, Property Control will restore them to inventory.

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FY15 Inventory Approach (continued)

Conducted inventories at 6 departments with concentration of federal-funded items

#	Department	# of Items	NBV	NBV Federal Funded	% of NBV Federal Funded
1	L&S- Physics	13,498	$29M	$27M	33%
2	Grad School- Space Sci & Engr	1,297	$7M	$6M	8%
3	CALS- Biochemistry	966	$8M	$4M	5%
4	L&S- Chemistry	2,106	$7M	$3M	4%
5	COE- Engineering Physics	857	$3M	$3M	4%
6	Pharmacy (PILOT TEST)	376	$4M	$2M	2%
	TOTAL	**19,100**	**$58M**	**$45M**	**56%**
	ALL OTHERS	27,553	$140M	$35M	44%
	GRAND TOTAL	**46,653**	**$198M**	**$80M**	**100%**

FY15 Inventory Results

#	Department	# of items	# found in same location	# found in new location	# not found	# remain to find
1	L&S- Physics	13,498	11,191	2,290	17	-
2	Grad School- Space Sci & Engr	1,297	1,208	75	14	-
3	CALS- Biochemistry	966	815	141	10	-
4	L&S- Chemistry	2,106	1,994	105	7	-
5	COE- Engineering Physics	857	594	260	3	-
6	Pharmacy (PILOT TEST)	376	333	40	3	-
	TOTAL	**19,100**	**16,135**	**2,911**	**54**	**-**
	% OF TOTAL	**100%**	**85%**	**15%**	**<1%**	**0%**

Audit Results
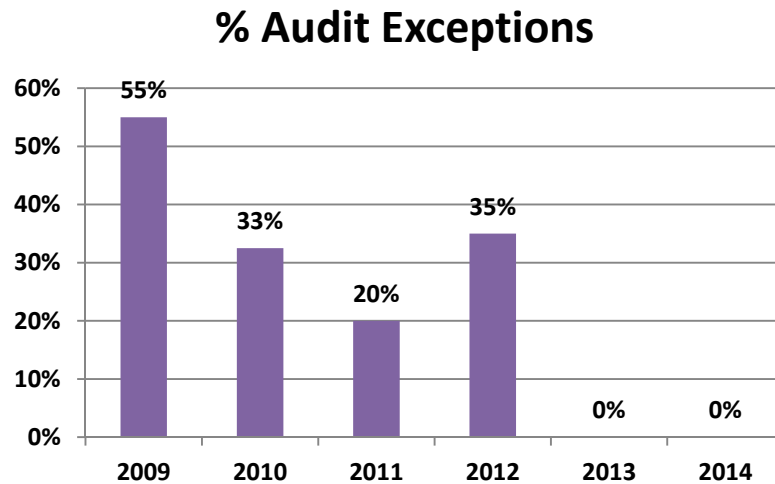
% Audit Exceptions

Fiscal Year	Equipment Sample Size	# of Audit Exceptions	% Audit Exceptions
2009	20	11	55%
2010	40	13	33%
2011	40	8	20%
2012	40	14	35%
2013	40	0	0%
2014	40	0	0%

- Legislative Audit Bureau (LAB) performs the annual OMB Circular A-133 audit and randomly selects a sample of federally funded capital equipment.
  - Assessing whether equipment is properly tagged, tracked and reported.
  - Improvements are measured by comparing the proportion of audit findings to the sample size.

Thank You