

University Inventory Audit Part 1

What makes up an audit?

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Introduction

All universities, whether public or private, periodically undergo a variety of audits. An audit may be focused only on property management issues or it may include related business processes that inter-relate with one or more facets of the asset life cycle (e.g. purchasing).

The primary intent of a property audit is to review and evaluate the effectiveness of the property control system, including the procedures and the application, implementation, and compliance with established procedures. Requirements may be based on the Office of Management and Budgets (OMB) Circulars, Federal Acquisition Regulation (FAR), numerous state regulations, and/or contract terms and conditions. Universities (state) can be audited by both legislative and executive agencies.

Types of Audits: Standard and Limited

A university may undergo two different types of audits during the course of a fiscal year. Those audits are known as a standard audit and a limited audit. It is very rare for an institution of higher learning to undergo both of these types of audits at the same time or even during the same fiscal year.

Standard audits are a systemic review of the contractor's PCS (property control system) where all applicable functions, functional segments and criteria are reviewed. This type of audit may take place through an onsite visit.

Limited audits are systemic review of the contractor's PCS, generally done without a site visit. This type of audit is also commonly known as a desk audit in most university inventory arenas. Such a limited audit can be accomplished if the university has less than \$500K in total property and no sensitive property.

However, it is required that a government property administrator conducts an audit on site at least every third year. This way even a university with a small volume of property is visited periodically.



Who performs Audits?

Internal or external auditors may perform audits. University employees to answer concerns specific to various entities within the university conduct internal audits. The university's Department of Property Management usually works very closely with a member of the Comptroller's office of the university in an effort to perform internal audits. External audits are conducted by independent sources for the purpose of issuing a state-

ment of compliance regarding existence, accountability, control, and adherence to laws, regulations, policies and procedures. Some of the organizations performing external audits are the Defense Contracts Auditing Agency, the Office of Naval Research (ONR), the Department of Health and Human Services, the State Auditors Office of Public Accounts, and many others with an interest in university property management.

Frequency of Audits

Independent asset assessments of public (state) universities are generally on a two to three year cycle. This is usually determined by the staff size and the availability of the auditors. Annual financial audits will still review compliance issues regarding assets for current year purchases.

FAR 45.511 states that government audits may be conducted, "as frequently as conditions warrant." DOD 4161.2-M states, "A system analysis shall be conducted at least once each fiscal year." Due to increasingly limited budgets, many agencies now allow for the PCSA (property control system analysis) to be performed over a two-year period, providing the university has demonstrated satisfactory property control system performance for three consecutive years. However, in no instance shall any applicable function or function segment be reviewed any less frequently than once every two years.

General Accounting Standards Board sections 34 & 35 (GASB 34&35), the Basic Financial Statements and Management Discussion and Analysis for Public Colleges and

Universities, provides requirements for an annual financial audit in addition to the requirements for the audit of the business process or property system audit.

Reports/Forms

Required reports are the vehicles for the university property management to address any exceptions found in the audit process. The final stage in performing an audit is the report. It is standard protocol to provide a report of the audit and its findings. There are many different formats and each university or institution may provide a slightly different form or flow in order to present its report to the auditing agency. Audit results should be provided verbally at the exit interview. The written report should follow within 30-45 days. If there are findings, there will be a time frame in which a written response and corrective plan must be submitted.

Corrective Action Plan

The components of a corrective action plan should include the following:

1. Identification of discrepancies (e.g. you must first find out where the problem is and who is the responsible party);
2. A time line showing when the corrective action will begin and be completed;
3. Documentation of what action is planned;
4. Identify any responsible individuals and organizations within the institution or university and points of contact;
5. Actions to take in case of any slippage of any of the due dates (e.g. who do you call if you are going to miss the deadline for submitting the corrective action plan for any reason that is within or beyond your control);
6. Notification requirements to all interested parties as to when the corrective action plan is completed.

Finally it is the responsibility of the university's property manager to ensure that all actions are timely and that they are complete. Any failure to do so on his part could result in the university being cited for an unsatisfactory property control system. Which in turn could result in the withdrawal of the property control system making the university liable for any loss, damage, and/or destruction of all property that is in its possession at the time of the property system withdrawal.

Stayed tuned for part two of the university inventory audit process coming to *The Property Professional Magazine* near you! ♦