August 28, 2018

Subject: Updating Inventory Control Approval Procedures of Requisitions

Purpose:

The Office of Controller Inventory Control (Inventory Control) reviews and approves requisitions to ensure the accuracy and completeness of the asset data captured at the initiation of the purchases. The purpose of this memo is to update our practice in our review of the acquisitions based on a data-driven approach.

Background:

Historically, Inventory Control has reviewed all requisitions that contain a capital and non-capital sensitive object code and any requisition, regardless of the object code used, that totals $5,000 or more, to prevent an understatement of assets in KFS. An understatement of assets can lead to an understatement of depreciation, which could have a negative effect on the Facilities and Administration (F&A) recovery rate.

Approach:

To assess the impact of the asset value to depreciation and F&A recovery rate, we performed a sensitivity analysis (see Appendix B). Appendix B displays the sensitivity of how additions to capital assets effects the annual F&A revenue, based on the different colors, representing the different depreciable life that is capitalized. Based on the sensitivity, we determined the tolerable threshold for the risk of understatement of assets.

Conclusion:

Based on our analysis, the threshold of reviewing all requisitions $5,000 or more that do not contain an asset expense object code will be increased to $25,000 in order to maximize the efficiency and value provided to the University.

Based on our projection using one month data in FY18, Appendix A demonstrates that by changing the threshold from $5,000 to $25,000, there will be a reduction of 58% of requisitions that do not contain a capital or a non-capital object code to be routed to Inventory Control for approval, which will have a minimal effect on the F & A revenues.
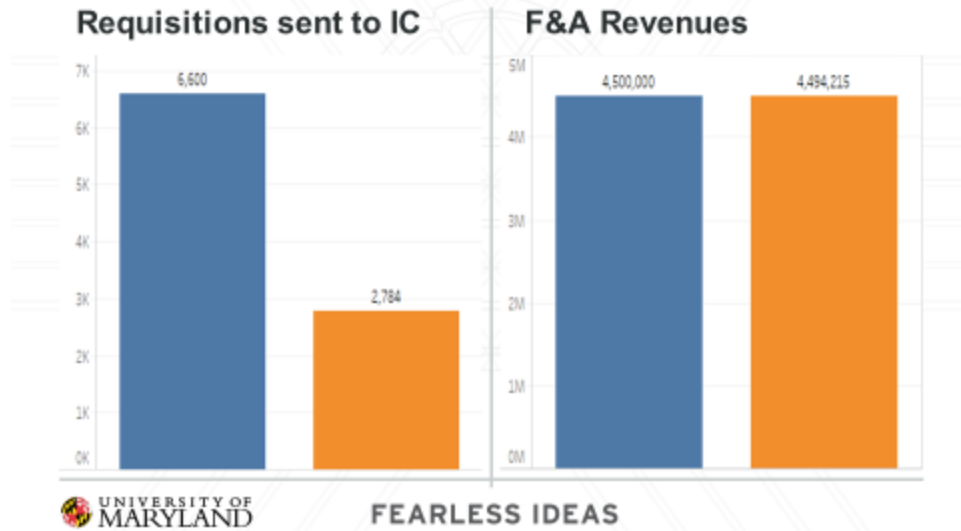
Furthermore, changing the threshold from $5,000 to $25,000 will be beneficial to the campus, by expediting the routing process of requisition purchases and eliminating a significant portion of

requisitions routed to Inventory Control to approve that do not contain any asset expense object code.

**Effective Date**: November 01, 2018

If you have any further questions, please contact Emma Thomas, Manager Property Accounting and Inventory Control, nelfay2@umd.edu, Ext. 52623.

Appendix A

FY18 Projections
$5,000 vs $25,000 thresholds

Requisitions sent to IC

| | 6,600 | 2,784 |

F&A Revenues

| | 4,500,000 | 4,494,215 |

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Value of Requisitions

This is a 12 month projection of a one-month sample taken from requisitions sent to Inventory Control in FY18. The blue columns represent the requisitions sent to Inventory Control and the F&A revenues under the current $5,000 threshold in FY18, while the orange columns representing the same metrics but under the proposed $25,000 threshold.

Appendix B
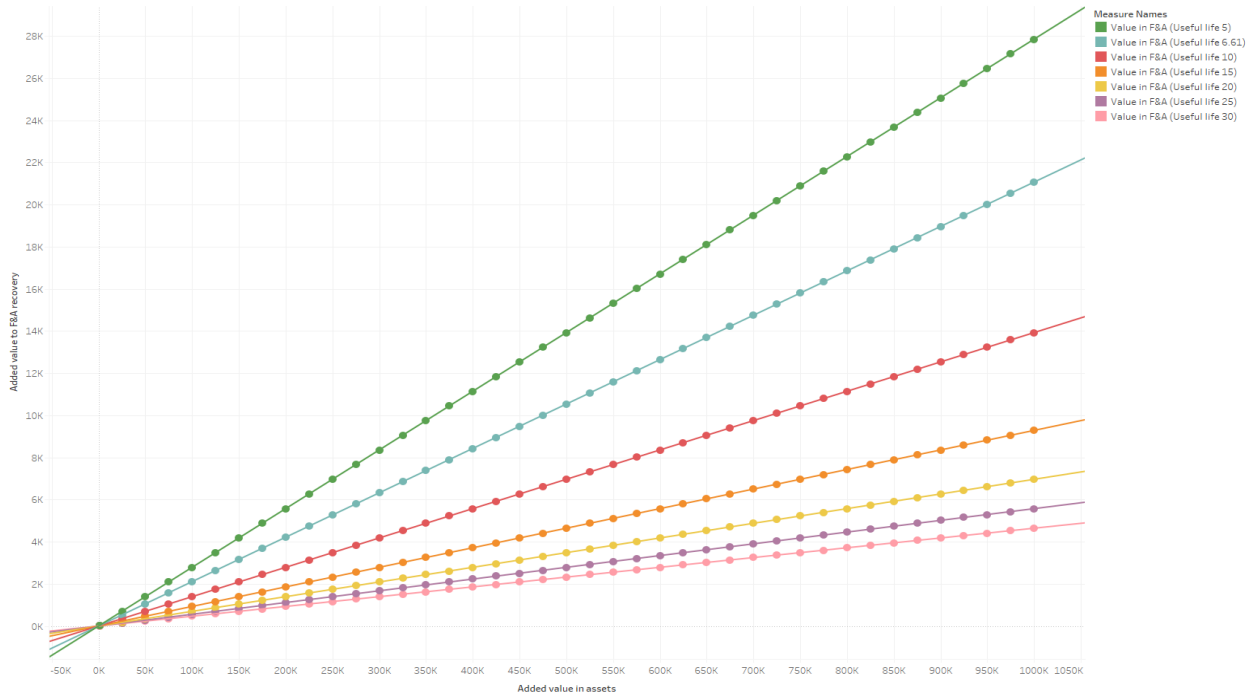
Added value in assets vs. Value in F&A (Useful life 5), Value in F&A (Useful life 6.61), Value in F&A (Useful life 10), Value in F&A (Useful life 15), Value in F&A (Useful life 20), Value in F&A (Useful life 25) and Value in F&A (Useful life 30). Color shows details about Value in F&A (Useful life 5), Value in F&A (Useful life 6.61), Value in F&A (Useful life 10), Value in F&A (Useful life 15), Value in F&A (Useful life 20), Value in F&A (Useful life 25) and Value in F&A (Useful life 30).

Amount of assets added (in thousands of dollars) in relation to annual F&A revenues added (in thousands of dollars) with each color representing different useful lives. For context, $1,000,000 worth of assets added at lowest useful life adds less than $28,000 to annual F&A revenues.