

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

December 20, 2022

Dr. Vanya Quiñones, President
California State University, Monterey Bay
100 Campus Center, Administration Building
Seaside, CA 93955

Dear Dr. Quiñones:

**Subject: Audit Report 22-32, Procurement and Vendor Administration,
California State University, Monterey Bay**

We have completed an audit of *Procurement and Vendor Administration* as part of our 2022-2023 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor
Lateefah Simon, Chair, Committee on Audit
Yammilette Rodriguez, Vice Chair, Committee on Audit

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PROCUREMENT AND VENDOR ADMINISTRATION

**California State University,
Monterey Bay**

Audit Report 22-32
December 20, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to procurement and vendor administration, and to ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for procurement and vendor administration as of September 16, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the campus had an appropriate framework for the administration of the procurement function and the vendor master file (VMF); however, we identified several areas that needed improvement. We found that the campus did not always comply with systemwide procurement requirements and did not have complete policies and procedures related to contracts and procurement. Additionally, we found that the campus did not have a process to track and monitor contracts and did not always issue purchase orders when needed. We also found that procedures and documentation for user access could be improved for systems storing vendor information.

Certain observations, recommendations, and management responses relating to vendor administration are detailed separately in Appendix A, which is redacted from public release as they may be exempt from disclosure under the California Public Records Act (PRA), Cal. Govt. Code §6255. To make a PRA request, please contact auditreports@calstate.edu.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PROCUREMENT AND CONTRACTING ACTIVITIES

OBSERVATION

The campus did not have comprehensive policies and procedures related to contracts and procurement, did not have a process to track and monitor contracts, and did not always comply with systemwide requirements.

We found that campus policies and procedures did not address sole-source/brand procurements and approvals, exceptions to competitive solicitation requirements, and protests of contract awards for formal solicitations.

We also found that the campus did not track and monitor its contracts. Because the campus did not have a comprehensive list of contracts, we selected contracts for review from a population of general ledger expenditures and purchase orders. We reviewed 32 purchases of goods and services, and we found that:

- In seven instances, a buyer/contract analyst approved transactions for amounts above their authorization limit. Three of these transactions were for initial purchase orders and four were related to change orders.
- Solicitation requirements were not always followed. In six instances, the campus did not obtain three quotes for acquisitions equal to or greater than \$50,000 and equal to or less than \$100,000. In an additional six instances, the campus did not perform a formal solicitation process for acquisitions greater than \$100,000. Also, for one sole-source purchase, the campus did not include a written justification or have proper approval.
- Service agreements were not always completed or adequate. In three instances, the campus did not have a service agreement with the vendor, and in one instance, the service agreement was not signed by the appropriate delegated authority. Additionally, in three instances, the service agreement did not list the rate of compensation to be paid for all consideration and other expenses.
- In 15 instances, the campus could not locate the vendor data record (204 form) for vendors not registered in Payment Works and still being paid using information in CFS.
- In two instances, the campus did not obtain Voluntary Product Accessibility Template (VPAT) forms for Information Technology Resources (ITR) purchases.
- In two instances, emergency transactions did not meet systemwide requirements. One emergency transaction for locksmith services did not include a statement regarding the nature of the emergency and was not signed by the director of procurement. The other emergency transaction for field protection for commencement ceremonies did not include a statement regarding the nature of the emergency.

Written policies and procedures and proper administration and processing of procurement transactions can help to ensure compliance with procurement requirements and decrease the potential for fraud, waste, and abuse.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement policies and procedures for the administration of procurement transactions and compliance with procurement requirements to address sole-source/brand justification and approvals, exceptions to competitive requirements, and protests of contract awards for formal solicitations.
- b. Develop and implement a process to track and monitor contracts.
- c. Provide training on the new procedures and reiterate systemwide procurement requirements to relevant personnel, emphasizing the issues noted above.

MANAGEMENT RESPONSE

We concur and will develop and implement procedures for procurement transactions to include requirements for sole source, exceptions to policy, and protest of awards. Additionally, the campus will develop and deploy a contracts monitoring tool and provide training to the campus stakeholders for the changes.

Expected completion date: May 30, 2023

2. PURCHASE ORDERS

OBSERVATION

The campus did not always issue purchase orders for large purchases.

We reviewed 10 large payments between \$25,763 and \$177,036 and found that they were processed as direct payments without a purchase order or written justification explaining why a purchase order was not used. These included payments for shuttle services, webhosting services, software and hardware maintenance, online MBA services, and other goods and services.

In addition, two of the 32 purchases of goods and services described in the procurement and contracting activities observation above were also processed as direct payments. The payment amounts were for \$258,309 and \$320,587.

Through discussions with accounts payable and procurement management, we also found that in situations where a purchase order was required, but the transaction was processed through a direct payment, a Purchase Order Exception Notice form was supposed to be completed by the department and approved by procurement to document why a purchase order was not used and how the department would prevent this from happening in the future. However, these forms had not been completed for the transactions listed above.

Using purchase orders in advance of ordering goods or services helps protect the campus and helps to ensure that risk is mitigated through indemnification and proper insurance endorsements. It also helps to ensure that the campus receives the best price for products and services; uses California State University (CSU) and state master contracts; meets state-mandated goals for Disabled Veteran Business Enterprise, small business, and recycled products requirements; encumbers funds; and tracks spending for spend analysis.

RECOMMENDATION

We recommend that the campus remind appropriate campus personnel of campus purchase order and direct payment procedures and reiterate the need for them to complete the campus Purchase Order Exception Notice form when required.

MANAGEMENT RESPONSE

We concur and will conduct refresher training to the campus stakeholders on the proper use of the direct payment process to ensure the exception notice is completed when required.

Expected completion date: March 30, 2023

3. USER ACCESS

OBSERVATION

The campus did not have a process for authorizing system access to Payment Works, did not perform user-access reviews of the Payment Works system, and did not fully document user-access reviews of CFS.

We found that the campus did not have a process for documenting appropriate approvals before access or privileges were granted, or for tracking and logging modifications to user-access privileges when users experienced a change in employment status such as termination or position change for the Payment Works system.

We also found that the campus did not perform annual user-access reviews of Payment Works. We reviewed 20 of 234 Payment Works users as of July 2022 and found that 12 were separated employees. Separated employees do not have access to Payment Works because their single sign-on access is removed when inactivated in PeopleSoft; however, they should still be removed from the Payment Works system.

Further, we found that user-access reviews of CFS were not fully documented. The system administrator sent a CFS user list to campus directors for review twice a year; however, directors were not always required to provide confirmation that the review was completed. Instead, confirmation was only provided when changes to user access were made. We sampled 10 CFS users as of July 2022 and confirmed that all were active employees with positions that appeared to have appropriate access to perform their job functions.

Documented system access approvals and periodic review of user-access privileges for systems containing protected data and removal of separated employees from systems

reduces the risk of unauthorized access and helps to ensure compliance with government regulations and CSU information security requirements.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement written procedures for system access and documented annual user-access reviews for the Payment Works system, and communicate these procedures to key campus personnel.
- b. Document semi-annual user-access reviews of the CFS system and maintain evidence of these reviews, including confirmation when no changes to access are required.

MANAGEMENT RESPONSE

We concur and will develop and implement procedures for access and annual review to the Payment Works system and communicate this to key campus personnel. Additionally, the campus will ensure all access reviews are properly communicated and documented during the semi-annual access review procedure.

Expected completion date: February 28, 2023

GENERAL INFORMATION

BACKGROUND

Each fiscal year, the California State University (CSU) spends approximately \$2.7 billion on the purchase of goods and services throughout the CSU system. The procurement process is a critical institutional support function that ensures that students and professors have the resources they need to complete their work. In recent years, many sectors, including higher education, have seen an increase in vendor and procurement fraud, most notably, supplier imposter fraud.

The VMF is one of the primary elements of procurement and accounts payable operations and is a central repository of vendor information that is used to issue purchase orders and make payments. As a result of reviews performed in the procurement and vendor administration areas, Audit and Advisory Services (A&AS) recognized an opportunity to strengthen campus controls by providing campuses with information on best practices relating to vendor management. In September 2021, A&AS issued the *Vendor Master File – Best Practices and Audit Issues* guide. Additionally, in 2022, CO management implemented guidance on additional tools within the CFS that campuses could use to inactivate dormant vendors and capture and review changes made to the VMF.

Contract Services and Procurement (CSP) in the CO serves as the chief procurement office in support of CO and systemwide procurement, strategic sourcing, and contracting requirements. In June 2020, CSP launched a multiyear initiative in three phases to transition the CO and campuses to a Purchase-to-Pay (P2P) model. The P2P project, known as CSUBuy, when completed, will integrate all aspects of purchasing, from sourcing to payment, into one centralized technology that integrates with PeopleSoft and Oracle. CSUBuy will capture a suite of capabilities such as spending analytics, strategic sourcing, supplier management and purchasing and accounts payable functions. Contract and procurement management services at California State University, Monterey Bay (CSUMB) is within the division of Administration and Finance, under Business and Support Services. The group is responsible for awarding all contracts and purchases made by the university through POs and contracts.

CSUMB processed a total of \$135 million in disbursements in the 2021/22 fiscal year. Seventy-one percent of the disbursements were checks, and 28 percent were disbursed by ACH. The campus distributed less than 2 percent by electronic wire transfer. The campus was one of the first to adopt Payment Works and is in the process of integrating it with CFS to ensure a seamless and accurate transfer of fully vetted vendors into the system of record.

SCOPE

We performed fieldwork from July 11, 2022, through September 16, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2020, to September 16, 2022.

Specifically, we reviewed and tested:

- Organizational roles and responsibilities for oversight of vendor maintenance, procurement, and contracting activities.
- Policies and procedures for vendor administration, and vendor maintenance best practices, including review of vendor additions and revisions and processes in place to identify and resolve duplicate and dormant vendors.
- Systems or processes in place to detect suspicious or unusual vendor activity.
- Compliance with competitive bidding requirements and procedures for justifying and approving sole-source vendor purchases.
- Compliance and participation in socio-economic procurement programs, including those that identify and focus on disabled veterans, small businesses, and underserved areas.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the vendor administration and procurement programs. Our review was limited to gaining reasonable assurance that essential elements of vendor administration and procurement processes were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Government Code §13402 and §13403, *Internal Controls*
- *CSU Contracts and Procurement Policy*
- *CSU Information Security Policy and Standards*
- Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*
- *Vendor Master File – Best Practices and Audit Issues*
- *CSUMB Accounts Payable Checklist for End Users*

AUDIT TEAM

Audit Manager: Christina Chen
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