CSU **The California State University**
OFFICE OF THE CHANCELLOR

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Audit and Advisory Services
401 Golden Shore
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October 21, 2022

Dr. Stephen Perez, Interim President
San José State University
One Washington Square
San José, CA 95192

Dear Dr. Perez:

Subject: Audit Report 22-02, *Vendor Administration and Payments*, San José State University

We have completed an audit of *Vendor Administration and Payments* 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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VENDOR ADMINISTRATION AND PAYMENTS

San José State University

Audit Report 22-02
October 21, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to vendor administration and payments (VAP) 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, the operational, administrative, and financial controls for VAP as of August 29, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met. The San José State University (SJSU) campus was one of the first to fully implement Payment Works, a third-party vendor management platform that significantly enhances vendor controls, and has adopted new procedural enhancements to the Common Financial System (CFS) offered at the systemwide level.

In general, we noted that the campus had an appropriate framework for the administration of VAP. However, the review did find that improvement was needed in the administration of duplicate and dormant vendors in the Vendor Master File (VMF).

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. VMF ADMINISTRATION

OBSERVATION

Administration of VMF maintenance regarding duplicate and dormant vendors needed improvement.

Although Payment Works, which the campus recently adopted, included some capabilities to prevent the onboarding of vendors already in the VMF, and the campus had implemented preventive and detective controls available in the Common Financial System (CFS), the VMF in CFS still reflected multiple records for single vendors. These were mostly records that pre-dated the implementation of the Payment Works and CFS features.

We reviewed a listing of the campus vendor population and identified 113 vendors with potential duplicate records. From the list, we selected 20 vendors for review, and the campus confirmed that for each of the vendors selected, there were multiple records for the same vendor. The campus deactivated the duplicate records for these 20 vendors during fieldwork.

Additionally, the campus had not implemented a newly launched CFS tool that inactivates all vendors without activity after a defined period. The use of this tool could potentially fix the issue of legacy vendor duplications.

We also reviewed the campus VMF and identified more than 16,000 vendors that did not have a record of payment in more than three years. From the identified dormant vendors, we selected 20 vendor records for review, and the campus confirmed that all were dormant and should be deactivated in the VMF.

Proper administration of the VMF, including maintenance of duplicate and dormant vendors, provides greater assurance of data integrity and provides additional defense against potential fraud.

RECOMMENDATION

We recommend that the campus:

a. Evaluate and update the current process used to identify and deactivate duplicate vendors in the VMF, and communicate the updates to appropriate personnel, providing training if necessary.

b. Implement a process to identify dormant vendors in the VMF that have no activity beyond a campus-defined period; communicate the process to appropriate personnel, providing training as necessary; and run the process to deactivate dormant vendors.

MANAGEMENT RESPONSE

We concur. SJSU will:

a. Evaluate and update the current process. We will identify and deactivate duplicate vendors in the VMF and communicate the updates to appropriate personnel, providing training as necessary.

b. Implement a process to identify dormant vendors in the VMF; communicate the process to appropriate personnel, providing training as necessary; and run the process to deactivate dormant vendors.

This will be completed by November 30, 2022.

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 (AP) 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. Several campuses have also adopted and implemented Payment Works, a third-party vendor management platform outside of CFS that provides a portal to allow vendors to update their own information and validates this information, allowing for greater assurance that vendor information is correct and authorized.

Campuses can use several different payment methods, including checks and electronic methods such as Automated Clearing House (ACH), procurement cards, and electronic wire transfers. Integrated California State University Administrative Manual (ICSUAM) §3103.02 provides requirements for each disbursement type, including the requirement that payments equal to or greater than $50,000 require a second level of review and approval.

San José State University (SJSU) processed a total of $175.2 million in disbursements in the 2021/22 fiscal year. More than half (55 percent) of the disbursements were checks, and 42 percent were disbursed by ACH. The campus distributed less than 3 percent by electronic wire transfer. The campus was one of the first to adopt Payment Works and integrate it into the 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 August 19, 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 January 1, 2021, to August 19, 2022.

Specifically, we reviewed and tested:

- Organizational roles and responsibilities for oversight of vendor maintenance and payment systems and methods.

- Policies and procedures for vendor administration and payment processes.

- Vendor administration and 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.

- Pay cycle and payment approval practices and transactions.

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 payments programs. Our review was limited to gaining reasonable assurance that essential elements of vendor administration and payment 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 Manual*
- *CSU CFS 9.2 User Guide: AP Reports & Enhancements*
- Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*
- ICSUAM §1301.02, *Outgoing Payments – Electronic and Paper*
- ICSUAM §3103.02, *Disbursements – General*
- ICSUAM §6100.00, *Centralized Management of Cash and Investments*
- ICSUAM §8060.00, *Access Controls*
- ICSUAM §8100.00, *Electronic and Digital Signatures*
- SJSU *Supplier Maintenance Process Guide for Payment Works, CFS & Daily Tasks*

- *Vendor Master File – Best Practices and Audit Issues*

AUDIT TEAM

Senior Audit Manager: Ann Hough
Senior Auditor: Marcos Chagollan