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April 11, 2016

Dr. Leroy M. Morishita, President
California State University, East Bay
25800 Carlos Bee Boulevard
Hayward, CA 94542

Dear Dr. Morishita:

**Subject: Audit Report 15-40, Information Technology Procurement,
California State University, East Bay**

We have completed an audit of *Information Technology Procurement* as part of our 2015 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 has been posted to the Office of 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,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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INFORMATION TECHNOLOGY PROCUREMENT

**California State University,
East Bay**

Audit Report 15-40
February 26, 2016

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to provide assurance that the management control framework that supported information technology (IT) procurement and contracting were appropriate, complete and effective; that procurement and contracting activities complied with applicable policies, procedures, trade agreements, laws, and regulations; and that IT project oversight included appropriate budget management and reporting.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, operational and administrative controls as of December 4, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

Some issues were identified that reflect an opportunity for improvement of the purchasing review process, specifically around sole-source purchases.

California State University, East Bay (CSUEB) did not have any major IT projects under way that would require compliance with the California State University (CSU) project management and reporting guidelines for the period under review.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. DELEGATION OF AUTHORITY

OBSERVATION

Campus letters specifying delegation of purchasing authority were approximately five months out-of-date and included individuals who were no longer part of the CSUEB purchasing organization. In addition, the campus did not have a documented process to periodically review and update the delegation of authority letters to ensure that they reflected the current purchasing organization.

RECOMMENDATION

We recommend that the campus create and document a process to periodically review and update the letters specifying delegation of purchasing authority to reflect the current organizational structure.

MANAGEMENT RESPONSE

We concur. A business process for the quarterly review and update of letters specifying delegation of purchasing authority, which reflect the current organizational structure, is effective as of April 1, 2016. A copy of the business process guide will be provided to the chancellor's office by April 15, 2016.

2. PURCHASE ORDER APPROVAL AND REVIEW

OBSERVATION

The process for approving and reviewing IT purchase orders required improvement.

Specifically, we found that the campus could not provide evidence that two purchase orders were made with the appropriate level of authorization. In addition, the campus did not provide a signed sole-source justification for three purchase orders.

RECOMMENDATION

We recommend that the campus include a checklist in the purchasing review and approval process to help the buyer and reviewer determine whether all applicable documents have been included and were signed by individuals with the appropriate level of authorization.

MANAGEMENT RESPONSE

We concur. A checklist has been created for all buyers to complete and include in the purchase order/contract file to assist the buyer and the reviewer in determining that all applicable documents were included and signed by individuals with the appropriate

level(s) of authorization. A copy of the checklist, which is effective April 1, 2016, will be provided to the chancellor's office by April 15, 2016.

3. CONTRACT REPORTING

OBSERVATION

The campus did not have a process in place to ensure that all contracts greater than \$5,000 were reported to the Department of Fair and Equal Housing (DFEH). Integrated California State University Administrative Manual (ICSUAM) §5404 requires campuses to report all contracts greater than \$5,000 to the DFEH on at least a quarterly basis.

RECOMMENDATION

We recommend that the campus develop and implement a process to ensure that all contracts greater than \$5,000 are reported to the DFEH.

MANAGEMENT RESPONSE

We concur. Effective March 1, 2016, the campus began notifying DFEH, on a quarterly basis, of contracts greater than \$5,000. The Contract Award Quarterly Report is generated by PeopleSoft, run by the purchasing team lead, and sent via e-mail to DFEH. A copy of the quarterly report to DFEH will be provided to the chancellor's office by April 15, 2016.

GENERAL INFORMATION

BACKGROUND

Public Contract Code Sections 10295 and 12120 require the CSU to maintain an independent procurement authority separate from the state departments of General Services and Finance.

Public Contract Code Section 12100.5 requires the Trustees to develop and maintain policies that further the legislative policies for information technology resources (ITR) procurement as expressed in sections 12100 et seq. of the Public Contract Code.

In accordance with the Public Contract Codes listed above, the CSU has developed specific policies in the ICSUAM related to purchasing and has issued an Executive Order (EO) related to procurement of IT equipment and services. The CSU-specific purchasing criteria are listed below.

CSU guidance states that ITR are defined to include, but are not limited to: all electronic technology systems and services; automated information handling; system design and analysis; conversion of data; computer programming; information storage and retrieval; telecommunications that include voice, video, and data communications; requisite system controls; simulation; electronic commerce; and all related interactions between people and machines.

The campus is responsible for assuring that all applicable state procurement laws and regulations are followed, in addition to the policies contained herein. In addition, each campus shall employ sound and appropriate business practices to guide and control the planning, acquisition, development, operation, maintenance, and evaluation of all ITR-related applications.

It is the policy of the CSU that campuses be given the choice of vendors that best meet individual or unique campus hardware, service, and application requirements. Long-term contracts with annual cancellation and funding-out clauses are encouraged, as they help protect the CSU's investment, as well as provide multiyear renewal options that encourage vendors to develop higher levels of service and support (Ref. Public Contract Code 12101.5(a)).

At CSUEB, the contracts and procurement department has primary responsibility for managing contracts and purchases of goods and services and ensuring that all contracts and purchases are properly initiated, completed, and executed in accordance with ICSUAM §5000 and other applicable regulations.

SCOPE

We visited CSUEB from November 4, 2015, through December 4, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. The audit focused on procedures in effect from January 1, 2014, through October 2015.

Specifically, we reviewed and tested:

- Authorization and administrative processing controls over IT procurement and contracting activities.
- Processes to ensure competitive bidding requirements were satisfied, when applicable, for all purchases of IT equipment or services.
- IT purchase transactions to ensure compliance with applicable campus and CSU policies and state and federal laws and regulations.
- IT procurement card purchase transactions to ensure compliance with campus and CSU policies.
- Methods for classifying significant IT projects to ensure compliance with the project management guidelines and periodic reporting requirements.
- Project management and administration of significant IT projects, including project authorization, feasibility studies, budget management, cost reporting, and project status reporting.

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 was designed to provide a managerial-level review of IT procurement practices, which included detailed testing of a sample of IT-related purchases and testing of large IT projects that surpassed the established CSU dollar threshold requiring additional executive management oversight. Our testing approach was designed to provide a broad view of controls surrounding information technology purchases.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus policies and procedures; and other sound administrative practices. 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:

- EO 862, *Information Technology Project Management*
- ICSUAM §5500, *ITR Procurement Policy*
- ICSUAM §5501, *Solicitation Thresholds for ITR Goods and Services*
- ICSUAM §5502, *Formal Solicitations for ITR Goods and Services*
- ICSUAM §5503, *ITR Project Solicitation Plans*
- ICSUAM §5505, *Competitive Solicitation*
- Contracting Resource Library 055, *Model Information Technology Project and Procurement Planning Guidelines*

AUDIT TEAM

Senior Director: Mike Caldera
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