

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

November 3, 2021

Dr. Adela de la Torre, President
San Diego State University
5500 Campanile Drive
San Diego, CA 92182

Dear Dr. de la Torre:

Subject: Audit Report 20-11, Procurement, San Diego State University

We have completed an audit of *Procurement* as part of our 2020-2021 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: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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PROCUREMENT

San Diego State University

Audit Report 20-11
November 3, 2021

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational and administrative controls for procurement and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor (CO) directives, and related 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 and administrative controls for procurement as of July 8, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the campus had an effective framework for procurement administration. However, we found that the campus did not have written policies and procedures for maintenance of the vendor master file (VMF) and was unable to confirm certain controls as described during the review. We also found that administration of property and equipment needed improvement, as assets were not consistently tagged and recorded in inventory; documentation was missing; and disposals were not consistently recorded in inventory.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. VENDOR MASTER FILE

OBSERVATION

The campus did not have written policies and procedures outlining the process and controls for maintenance of vendor files and was unable to confirm certain controls as described during the review.

The vendor master file (VMF) is a critical feature in any organization's defense against fraud and erroneous payments. The VMF contains vital information about vendors that the campus does business with, including the vendor's name, address, contact information, tax identification number (TIN), and banking information. This information is used to facilitate payments to vendors in the procurement of goods and services.

The campus identified certain procedures for vendor master file creation and maintenance, including use of the standard Payee Data Record form 204 (PDR) to establish vendors, and independent verification and segregation of duties for certain data fields in the vendor records. However, we noted concerns related to the processes and controls for VMF administration. Specifically:

- The campus did not have written policies and procedures regarding the set-up and maintenance of vendor records, which required us to rely on verbal descriptions of the process for our review.
- We had difficulty confirming the adequacy of certain described processes because we could not obtain requested verification of certain controls. For example, we could not independently verify that access to vendor and banking information was limited or otherwise segregated.
- We noted instances in which it appeared that the system in place, Oracle, did not have capabilities that allowed for efficient management of the VMF, or the campus staff was not aware of these features in Oracle.

Proper administration of the VMF, including both origination and subsequent revisions, provides greater assurance of data integrity and provides additional defense against fraud. Developing a formal policy and procedures helps to ensure roles, responsibilities, and requirements for AP staff are clearly defined and ensures a consistent process for the establishment of vendor records and proper monitoring to ensure changes are valid.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement comprehensive written policies and procedures for the VMF maintenance process, communicate these policies and procedures to appropriate campus personnel, and provide training as needed.

- b. Explore Oracle capabilities to identify system control and management reporting features and use relevant automated controls and system reports, if available, in the administration of the VMF.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Develop and implement comprehensive written policies and procedures for the VMF maintenance process, communicate these policies and procedures to appropriate campus personnel, and provide training as needed.
- b. Explore Oracle capabilities to identify system control and management reporting features and use relevant automated controls and system reports, if available, in the administration of the VMF.

Estimated completion date: May 31, 2022

2. PROPERTY AND EQUIPMENT**OBSERVATION**

Administration of property and equipment records needed improvement to ensure proper recording of purchases and disposal of assets.

The property management office was responsible for tagging all equipment owned by the university with a value of \$5,000 or more and for ensuring that asset records were accurately maintained from receipt to eventual disposal in iAssets, the Oracle asset management system. The property management office recorded eligible assets into iAssets when notified by either central receiving or a receiving department when the asset was delivered directly to the requestor. Similarly, the property management office had procedures in place for custodial departments to report on assets that were no longer useful and to record in iAssets the removal via transfer, sale, or disposal. Asset sales and disposals were subject to review and approval by a property survey committee, and triennial physical inventories captured instances of non-recording of asset additions or removals, as well as instances of loss or theft.

We reviewed both asset acquisition and removal transactions and found the following:

- Of the 25 purchase orders for goods that we selected for review, 12 represented tangible assets valued at more than the \$5,000 threshold. Of these, eight had not been tagged and recorded in iAssets. These items included grounds equipment valued at \$26,350; sports equipment valued at \$17,500; a remote locker valued at \$8,404; art equipment valued at \$6,786; and four lab equipment items ranging in value between \$82,302 and \$366,303.
- We had difficulty confirming that 20 assets had been properly disposed. The campus was unable to locate the Moving Service Request form, the approved request from

the custodial department for asset disposal, for any of the 20 items we selected from a campus-provided list of disposed assets. Although the campus subsequently provided the Property Survey Committee forms for review, this form did not include the asset tag number to compare to iAssets inventory records for validation of proper disposition. The campus later provided auction reports that appeared to match to the items we selected. Further, we requested that the campus provide all records of sales transactions on the Public Surplus Sales website, as required by the *University Property – Equipment Procedures SDSU* policy, and we did not receive this documentation for the 16 items that were deemed to have been part of auction sales.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in the financial statements.

RECOMMENDATION

We recommend that the campus, in conjunction with the property office:

- a. Review and revise policies and procedures to ensure that all assets valued above the \$5,000 threshold are routed to and recorded into inventory by the property management office.
- b. Review and revise policies and procedures to ensure that all disposals are tracked in iAssets and documentation is maintained.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Review and revise policies and procedures to ensure that all assets valued above the \$5,000 threshold are routed to and recorded into inventory by the property management office.
- b. Review and revise policies and procedures to ensure that all disposals are tracked in iAssets and appropriate documentation is maintained.

Estimated completion date: May 31, 2022

GENERAL INFORMATION

BACKGROUND

Each fiscal year, the CSU spends approximately \$2.7 billion on the purchase of goods and services throughout the CSU system. Procurement professionals spread across the 23 campuses and the Office of the Chancellor (CO) strategically work, research, negotiate, and partner in efforts to purposefully spend funds to support the mission of the CSU.

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 upstream capabilities such as spending analytics, strategic sourcing, and the establishment of systemwide contracts, as well as downstream functions of requisitioning, purchasing, and accounts payable. To date, CSP has completed most of the first two phases of CSUBuy, including a transition to Jaegger, a comprehensive spend management platform, and implementation of sourcing and contracting and spend analytics. Phase three includes implementation of supplier management, requisitioning, purchase order management, invoicing, and receiving.

In 2018, CSP also launched a three-year strategic plan for campus chief procurement officers called 23c. Among the goals was to identify and implement cost savings opportunities, with an initial goal of saving \$65 million over a three-year period. CSP provided a reporting platform, Benefit Tracker, for the campuses to report on their progress toward the goal. The campuses exceeded the first- and second-year goals of \$15 million and \$20 million, respectively, reporting savings of \$30 million in the first year and \$65 million in the second year.

Contract and procurement management services at San Diego State University is within the Business and Financial Affairs division, under the financial operations department. The group is responsible for contracts and procurement, includes a staff of eleven. Accounts Payable, under the University Controller's Office, is responsible for administering payments and procurement cards, and includes a staff of eight. The campus spend for fiscal year 2019/20 was \$337 million, of which \$7 million was transacted using procurement cards.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from April 12, 2021, through July 8, 2021. 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 July 1, 2019, to July 8, 2021.

Specifically, we reviewed and tested:

- Organizational roles and responsibilities for oversight of procurement activities, including written delegations of authority for purchasing and contracting.
- Compliance with competitive bidding requirements and procedures for justifying and approving sole-source vendor purchases.
- Justification and documentation of any procedural exceptions for emergency purchases during the COVID-19 public health emergency.
- Compliance and participation in socio-economic procurement programs, including those that identify and focus on disabled veterans, small businesses, and underserved areas.
- Compliance with sustainable procurement policies and initiatives.
- Vendor management practices, including processes to add, revise, and delete vendors to the master file.
- Proper recording and tracking of purchased assets.

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 and administrative controls, included interviews, walkthroughs, and detailed testing on certain aspects of procurement. Our review was limited to gaining reasonable assurance that essential elements of the procurement function 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:

- *CSU Contracts and Procurement Policy*
- *California State University Sustainability Policy*
- Executive Order (EO) 775, *Delegation of Authority; Acquisition of Personal Property and Services*
- EO 842, *Competitive Bidding of Goods and Services*
- EO 862, *Information Technology Project Management*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*

- Integrated California State University Administrative Manual (ICSUAM) §1401.00, *Administration of University Property*
- *SDSU Accounts Payable Manual*
- *SDSU Credit Card Handbook*
- *University Property — Equipment Procedures SDSU*

AUDIT TEAM

Senior Audit Manager: Ann Hough
Internal Auditor: Cinthia Santamaria