

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

June 10, 2022

Dr. Cathy A. Sandeen, President  
California State University, East Bay  
25800 Carlos Bee Boulevard  
Hayward, CA 94542

Dear Dr. Sandeen:

**Subject: Audit Report 21-20, Procurement, California State University, East Bay**

We have completed an audit of *Procurement* as part of our 2021-2022 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**

**California State University,  
East Bay**

Audit Report 21-20  
June 10, 2022

## 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 government regulations; Trustee policy; Office of the Chancellor (CO) directives; and related campus and auxiliary organizational 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 March 10, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

We noted that administration of property and equipment records needed improvement to ensure proper recording of assets in the Asset Management System (AMS), completion of physical inventory, and disposal of assets. Further, policies and procedures did not reflect current practices related to unauthorized purchases, training was not completed by all procurement card holders, and the campus did not clearly define the requirements of a temporary delegation of authority (DOA).

Specific observations, recommendations, and management responses are detailed in the remainder of this report. Certain observations, recommendations, and management responses 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](mailto:auditreports@calstate.edu).

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. PROPERTY AND EQUIPMENT

#### OBSERVATION

Administration of property and equipment records needed improvement to ensure proper recording of assets in the AMS, completion of physical inventory, and disposal of assets.

Property management is responsible for tagging all capitalized equipment owned by the university with a value of \$5,000 or more, as well as non-capitalized/sensitive equipment such as computers, microscopes, and camera equipment with a value of at least \$500. In addition, property management staff records eligible assets in the AMS when notified by central receiving or other receiving departments/offices and is responsible for maintaining in the AMS a record of assets from receipt to disposal. A physical inventory is completed once every three years on all capitalized and non-capitalized/sensitive equipment, and asset disposals are subject to review and approval by the property survey committee.

We reviewed both asset acquisition and disposal transactions and found that:

- From a sample of 25 purchase orders (PO) for goods, five were for capitalized and non-capitalized/sensitive equipment. Of those five, four were not recorded in the AMS; instead, they were tracked at the department level. These items included projectors valued at \$256,800; fitness equipment valued at \$167,372; water purification systems valued at \$34,170; and cameras valued at \$29,596. In addition, six cameras with a total value of \$8,214 were purchased with a procurement card and were not recorded in the AMS.
- Physical inventories of all capitalized and non-capitalized/sensitive equipment were not consistently performed. We noted that information about some items listed in the current physical inventory was missing, such as the asset tag number and location, and some assets were included more than once. Of the 2,368 assets (excluding IT assets) included in the physical inventory report, 64 assets, or 3 percent, were not inventoried within the last three years. Specifically, these assets were acquired more than three years ago, between 2012 and 2018, and were not inventoried or assigned an asset tag number. We noted that a physical inventory of computer assets was reviewed during the information security audit in September 2021.

We found that the campus used a handheld device to scan asset tags during the inventory validation process; however, the data was uploaded just once a year to the AMS. We noted that during the 2020 inventory process, some information from the handheld device was not successfully transmitted to the AMS, which may have been prevented had the data been uploaded more frequently or in real time.

- Of the 15 disposed assets we reviewed, seven were traded in for new equipment. However, the campus did not complete a Property Survey Report for these items, which must be submitted to the property survey committee for review and approval prior to disposal.

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

**RECOMMENDATION**

We recommend that the campus:

- a. Review and update the current process to improve administration of all capitalized and non-capitalized/sensitive equipment to address the issues noted above, including recording all required assets and information and annual inventory in the AMS and maintaining property survey reports for disposed assets.
- b. Reiterate to all appropriate campus personnel the updated process and the importance of complying with the requirements.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will review and update asset management policies and procedures to improve administration of all capitalized and non-capitalized/sensitive equipment. Policies will be updated to address the audit findings noted in this report.
- b. Relevant staff will be trained on updated asset management policies and procedures, including the importance of complying with policy requirements.

Estimated completion date: November 18, 2022

**2. ADMINISTRATION AND OVERSIGHT**

**OBSERVATION**

Campus policies and procedures did not reflect current practices related to unauthorized purchases, training was not completed by all procurement card holders, and the campus did not clearly define the requirements of a temporary DOA.

We found that:

- The campus uses an Unauthorized Purchase Approval Request (UPAR) form when a direct payment to procure goods or services is made without a PO and/or a contract. However, the campus does not have a written policy for this practice, including when and how to use the form, or that its use should be discouraged and used only in unusual circumstances. We noted that procurement management elected not to reference use of the UPAR in their procurement policies and procedures to deter its use and to help encourage compliance with the direct payment policy.

- Of the 13 procurement card holders we reviewed, eight did not complete training within the last two years. For these eight employees, training was completed between 2010 and 2018, and the campus did not provide the most recent training acknowledgements from 2019 through the present. We noted that the campus is in process of transitioning all procurement card training to an online learning system.
- Temporary approval procedures, which required the campus president to approve all POs, contracts, and change orders greater than \$250,000, did not clearly define whether they applied to each individual PO, contract, and change order exceeding \$250,000, or to the cumulative amount. We found one instance of a PO dated November 2021 for \$71,311 with two subsequent change orders in January 2022 that increased the PO to \$273,191. These were reviewed or approved by multiple members of management, including the director of procurement and support services (PSS), associate vice president (VP) of financial services, and interim VP of administration and finance (AF)/chief financial officer (CFO). However, the campus president did not approve the total PO.

Written policies and procedures, proper training, and clearly defined DOAs 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 written policies to address the issues related above, including use of the UPAR and DOAs, and update the campus DOA when the new VP of AF/CFO is assigned.
- b. Review and update the current process to improve compliance with required training for all procurement card holders.
- c. Reiterate to all appropriate campus personnel the new and updated processes and the importance of complying with the requirements.

#### **MANAGEMENT RESPONSE**

We concur.

- a. We will develop written policies and procedures on unauthorized purchases and will continue to reiterate the importance of proper purchase methods. We will update the campus DOA when the new VP of AF/CFO commences.
- b. We recently migrated our procurement card training through the LMS system, which will greatly enhance compliance with training for all procurement card holders.
- c. We hold regular finance training and town hall sessions with campus constituents. Any new and updated policies will be communicated.

Estimated completion date: November 18, 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. Procurement professionals spread across the 23 campuses and the 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. CSP completed two phases of CSUBuy, including a transition to Jagger, a comprehensive spend management platform, and implementation of sourcing and contracting and spend analytics. Phase three kicked off in September 2021 and 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 (CPO) 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, Procurement 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. In its third year to date, the campuses exceeded the \$30 million target and saved over \$45 million. According to the 2021/21 CPO Association Impact Report, total benefit achieved for the period of 2018 through 2021 is \$144 million, with 14 campuses exceeding their benefit target and more than \$750,000 in total revenue generated.

At California State University, East Bay (CSUEB), PSS involves purchasing, property management, duplicating services, shipping and receiving, and public works. The purchasing office assists staff and faculty with obtaining the goods and services necessary to support teaching and research activities and public service requirements. Purchasing is responsible for awarding all contracts and purchases made by the university through POs and contracts. Procurement cards are also used for low-dollar supply purchases. The director of PSS reports to the associate vice president of FS, who reports to acting vice president of AF.

### SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from January 18, 2022, through March 4, 2022. 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, 2020, to March 4, 2022.

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 pandemic time period.
- 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*
- CSUEB *“How To” Guide Procurement and Support Services*
- CSUEB *Business Process Guide, Documentation for Vendor Setup*
- CSUEB *Business Process Guide, Vendor Setup*
- CSUEB *Buy Recycle Handbook*
- CSUEB *P-Card Policy*
- CSUEB *Property Management Policies and Procedures*
- *Vendor Master File – Best Practices and Audit Issues*

## AUDIT TEAM

Senior Audit Manager: Joanna McDonald  
Senior Auditor: Alexandra Gonzalez  
Internal Auditor: Matthew Shum