

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

January 11, 2023

Mr. Framroze M. Virjee, President  
California State University, Fullerton  
800 N. State College Boulevard  
Fullerton, CA 92834

Dear Mr. Virjee:

**Subject: Audit Report 22-17, Procurement & Inventory, California State University, Fullerton**

We have completed an audit of *Procurement & Inventory* 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

**CSU Campuses**

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# **PROCUREMENT & INVENTORY**

**California State University,  
Fullerton**

Audit Report 22-17  
January 11, 2023

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls for procurement and inventory 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, administrative, and financial controls for procurement and inventory as of September 23, 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 procurement and inventory; however, we identified several areas that needed improvement. For example, we found that campus policies and procedures for the mechanical trade shops and facilities operations trade shops required improvement. We also found that inventory records, including supporting documentation related to variances identified during inventory counts, were not always clearly documented or maintained. Further, the campus did not have written policies and procedures for the maintenance of the vendor master file (VMF), and the campus did not always comply with systemwide procurement requirements.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. FACILITY MANAGEMENT INVENTORY

#### OBSERVATION

Administration of facility management inventory processes required improvement.

Facilities management (FM) provides the campus with services that are delivered through various trade shops and is responsible for maintaining the campus structure, roadways, sidewalk, infrastructure, and fleet vehicles. Building trades consist of the carpenter, custodial, electric, grounds, paint, and plumbing shops, and mechanical trades include the auto, lock, and heating, ventilation, and air conditioning (HVAC) shops. FM also maintains the Materials Control Center (MCC), a warehouse that purchases and stocks the 50 most common materials that are used by the trades.

The campus uses WebTMA as its computerized maintenance management system (CMMS) to track work orders (WO) and the purchase of materials and inventory used by the trade shops and the inventory maintained at the MCC. At the time of the audit, the campus was working with a third-party vendor to develop a viable WebTMA interface to better manage and track materials and inventory items and address WebTMA limitations relating to the tracking and managing of inventory.

Purchases of all materials and inventory require approval from a trade manager and are made with a procurement card, vendor declining balance card, or purchase order. Most of the materials used by the trades are purchased directly by the trade shops for immediate use due to capacity limits in the trade shops and the MCC. In the coming years, the campus plans to open a new corporation yard to replace the existing shops and expand on available space.

#### Mechanical Trades

We found that the mechanical trade shops had not established:

- Written policies and procedures for the request and approval of purchasing and tracking of inventory items, including receiving and distribution, completion of physical inventories, and disposal of damaged, obsolete, or scrap inventory items.
- A process to track and record inventory items purchased for the mechanical trade shops.
- A process to track tools assigned to the mechanical trade shop employees.

#### Building Trades

Furthermore, we found that:

- The periodic physical inventory completed by the custodial shop was not adequately documented, as the documentation retained did not clearly indicate whether the physical inventory was independently validated by someone other than the custodian.

- The periodic physical inventory of tools that trade managers completed for the building trade shops and the individual assignment of tools was not documented.
- Employees were not required to sign individual asset inventory lists, which list tools assigned to an employee, to indicate their receipt of the tools.

### **MCC**

Trade shops obtain items in stock directly from the MCC. MCC staff review and verify the WO in WebTMA before obtaining the inventory from the bins located in the warehouse. Once the item has been obtained, MCC staff update WebTMA to adjust inventory counts and allocate the item to the open WO. A daily physical inventory count of 20 bins located in the MCC is required per campus policy. The physical inventory is documented on a Material Store Physical Count form, which includes a count of items on hand within each bin and the number of items that should be in stock as recorded in WebTMA.

We reviewed 65 daily physical inventory counts and found that:

- For 32 daily physical inventory counts, the Material Store Physical Cycle Count form retained by the campus was not signed by the employee who independently validated the cycle count. Additionally, the WebTMA Inventory Checklist Report was not retained when the daily cycle count was completed by the campus.
- For 11 daily physical inventory counts, the Material Store Physical Cycle Count form noted a variance, but supporting documentation demonstrating that variances were adequately researched and resolved was not maintained. Variances ranged from one to eight inventory items, with a cost ranging between \$0.45 - \$130. Management indicated that research was completed immediately upon each identified variance, and no adjustments to WebTMA were necessary.

Comprehensive policies and procedures for the administration of facility inventory help to ensure that materials and inventory are adequately secured and helps to decrease the potential for fraud, waste, and abuse.

### **RECOMMENDATION**

We recommend that the campus:

- a. Develop and implement comprehensive written policies and procedures for the mechanical trade shops, which, at a minimum, should address the areas noted above.
- b. Develop and implement processes to track and record inventory items purchased for the mechanical trade shops and tools assigned to employees.
- c. Document the physical inventories completed by the building trade shops.
- d. Develop and implement a process that requires employees to sign a form when they receive assigned tools.

- e. Require employees completing the MCC daily physical inventories to sign the Material Store Physical Cycle Count form, document the outcome of variances identified, and retain the WebTMA inventory checklist report.
- f. Communicate the updated policies, procedures, and processes to applicable personnel.

**MANAGEMENT RESPONSE**

We concur. Campus management will:

- a. Develop and implement comprehensive written policies and procedures for the mechanical trade shops that address the areas identified above.
- b. Develop and implement processes to track and record inventory items purchased for the mechanical trade shops and tools assigned to employees.
- c. Document the physical inventories completed by the building trade shops.
- d. Develop and implement a process that requires employees to sign a form when they receive assigned tools.
- e. Require employees completing the MCC daily physical inventories to sign the Material Store Physical Cycle Count form, document the outcome of variances identified, and retain the WebTMA inventory checklist report.
- f. Communicate the updated policies, procedures, and processes to applicable personnel.

The anticipated date of completion is April 30, 2023.

**2. VENDOR MASTER FILE ADMINISTRATION**

**OBSERVATION**

The campus did not have comprehensive written policies and procedures for management of the VMF.

We found that the following were not documented:

- The process to validate vendor information when requesting, creating, and modifying vendor records in Payment Works and the PeopleSoft Common Financial System (CFS).
- The process to annually review the VMF to identify and deactivate dormant vendors.
- The process to periodically review the VMF to identify duplicate vendors.

Written policies and procedures related to the management of the VMF, including the process to validate, create, and modify vendor records, and review of the VMF to deactivate duplicate

and dormant vendors, provides greater assurance of data integrity and provides additional defense against potential fraud.

**RECOMMENDATION**

We recommend that the campus:

- a. Develop and implement comprehensive written policies and procedures for the administration of the VMF to address the issues noted above.
- b. Communicate the procedures to appropriate personnel and provide training if necessary.

**MANAGEMENT RESPONSE**

We concur. Campus management will develop and implement comprehensive documented procedures for the administration of the VMF. Management will communicate the procedures to appropriate personnel and provide training if necessary.

The anticipated completion date is March 31, 2023.

**3. PROCUREMENT ADMINISTRATION**

**OBSERVATION**

Administration of purchase orders and contracts needed improvement.

We reviewed 40 purchase orders and service contracts, and we found that:

- In eight instances, the Contract Award Report (standard 16 form), which is required for all contracts over \$5,000, was not submitted to the Department of Fair Employment and Housing.
- In three instances, a buyer approved a transaction beyond their authorization limit.

Compliance with delegations of authority and completion of required forms can help to ensure compliance with procurement requirements and decrease the potential for fraud, waste and abuse.

**RECOMMENDATION**

We recommend that the campus reiterate to all appropriate campus personnel the importance of complying with procurement requirements, including completing and submitting the Contract Award Report and approving transactions within their authorization limit.

**MANAGEMENT RESPONSE**

We concur. Campus management will reiterate to appropriate contracts and procurement personnel the importance of complying with procurement requirements, including completing and submitting the Contract Award Report and approving transactions within their authorization limit.

The anticipated completion date is 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. 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. Additionally, campuses maintain inventories of materials in order to facilitate the operations of facilities management. Campuses are responsible for providing policies and procedures for effective materials management demonstrating internal controls over the purchase, storage, and use of facilities maintenance department materials.

At California State University, Fullerton (CSUF), contracts and procurement (CP) involves purchasing, asset management, and facilities use. CP 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 purchase orders and contracts. The senior director of CP reports to the vice president of administration and finance. Capital Programs and Facilities Management (CPFM) is responsible for planning, design, construction, maintenance, and operations of campus facilities, and employees include skilled trades, grounds, and custodial staff, as well as administrative support.

### SCOPE

We performed fieldwork from July 25, 2022, through September 23, 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 23, 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.
- Compliance and participation in socio-economic procurement programs, including those that identify and focus on disabled veterans, small businesses, and underserved areas.

- Vendor management practices, including processes to add, revise, and delete vendors to the master file.
- The campus process to ensure proper capturing, tracking, monitoring, and safeguarding of materials and inventory used by the building and mechanical trade shops.

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*
- *Executive Order (EO) 847, Facility Maintenance*
- *EO 862, Information Technology Project Management*
- *EO 1000, Delegation of Fiscal Authority and Responsibility*
- *Vendor Master File – Best Practice and Audit Issues*
- *CSUF Facilities Operations Purchasing Procedures*
- *CSUF Custodial Material Ordering and Inventory*
- *CSUF Facilities Inventory Procedures*
- *CSUF Material Control Center Receiving and Distribution*

## AUDIT TEAM

Senior Manager: Jennifer Rethwisch  
Senior Auditor: Alexandra Gonzalez