

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

January 5, 2023

RADM Thomas A. Cropper, President
California State University Maritime Academy
200 Maritime Academy Drive
Vallejo, CA 94590

Dear Admiral Cropper:

**Subject: Audit Report 22-33, Vendor Administration and Payments,
California State University Maritime Academy**

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

**California State University
Maritime Academy**

Audit Report 22-33
January 5, 2023

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, except for the weaknesses described below, the operational, administrative, and financial controls for vendor administration and payments 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 vendor payment administration. However, we found that the campus did not have written policies and procedures for the maintenance of the vendor master file (VMF), and maintenance of duplicate and dormant vendors needed improvement. In addition, the campus did not always remove separated employees' access to the Wells Fargo system and did not consistently ensure that independent contractors adhered to contract terms.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. VENDOR MASTER FILE ADMINISTRATION

OBSERVATION

The campus did not have comprehensive written policies and procedures for maintenance of the VMF, and maintenance of duplicate and dormant vendors needed improvement.

The VMF is a critical feature in any organization's defense against fraud and erroneous payments. It 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 had some procedures for VMF creation and modification, including use of the standard Form 204 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 a comprehensive written policy for creating and updating vendor records, or for periodic review of duplicate and dormant vendors.
- We reviewed a listing of the campus vendor population and identified potential duplicate records for 105 vendors. We reviewed 53 of these vendors, and the campus confirmed that in 45 cases, there were multiple records for the same vendor.
- We reviewed the campus VMF and identified more than 1,000 vendors that did not have a record of payment for more than three years.

Proper administration of the VMF, including written policies and procedures and maintenance of duplicate and dormant vendors, provides greater assurance of data integrity and provides additional defense against potential fraud. Written policies and procedures also help to ensure that 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. Work with the CO to 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.

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

MANAGEMENT RESPONSE

We concur. The campus will formalize its VMF policies and procedures, work with the CO to deactivate dormant vendors, implement internal procedures to identify duplicate vendors, and communicate to appropriate personnel.

Expected completion date: April 30, 2023

2. WIRE TRANSFER BANK ACCESS

OBSERVATION

The campus did not always remove separated employees' access to the Wells Fargo system used to process wire transfers.

We noted that two former employees who separated in September and November of 2021 still had administrative access to create, modify, and delete wire transfers and templates.

Periodic review of user-access privileges and removal of access from terminated employees reduces the risk of unauthorized access and helps to ensure compliance with CO regulatory security requirements.

RECOMMENDATION

We recommend that the campus:

- a. Periodically review user access to its banking system to remove access for separated employees, and document this review.
- b. Update separation procedures to include system access removal for separated employees.

MANAGEMENT RESPONSE

We concur. The campus will formalize its user-access review and separation procedures to its banking system.

Expected completion date: April 30, 2023

3. EXPENSE REIMBURSEMENTS

OBSERVATION

The campus did not always ensure that contractors adhered to contract terms.

We reviewed 12 expenditures and noted that one did not have receipts to support reimbursable travel expenses billed by the contractor. Specifically, the contractor billed \$6,933 for travel expenses, but provided receipts totaling only \$2,215. Additionally, two meal receipts were not itemized, and one rental car expenditure included a \$250 charge for a vehicle upgrade. Although the vendor contract allowed for expense reimbursement, contractors were expected to adhere to the campus travel expense policy, which requires receipts to support travel costs.

Proper review of expenditures helps to ensure compliance with contract terms and conditions and reduces the risk of inappropriate or unsupported expenses.

RECOMMENDATION

We recommend that the campus provide training to relevant employees regarding the appropriate review and approval process for vendor expense reimbursement and the documentation required to support those expenses.

MANAGEMENT RESPONSE

We concur. The campus will reiterate and provide appropriate training to relevant employees regarding the review, approval, and documentation of expense reimbursements.

Expected completion date: April 30, 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. 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 Common Financial System (CFS) that campuses could use to inactivate dormant vendors and capture and review changes made to the VMF.

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.

California State University Maritime Academy processed a total of approximately \$54.5 million in disbursements in fiscal year 2021/22. More than half (59 percent) of the disbursements were distributed by ACH, and 32 percent were check payments. The campus distributed 9 percent by electronic wire transfer.

SCOPE

We performed fieldwork from August 8, 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 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*
- 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*
- *Vendor Master File – Best Practices and Audit Issues*

AUDIT TEAM

Audit Manager: Christina Chen
 Acting Audit Manager: Kyle Ishii
 Senior Auditor: Brenda Auner