The California State University
OFFICE OF THE CHANCELLOR

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October 20, 2015

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407-2393

Dear Dr. Morales:

Subject: Audit Report 15-39, *Information Technology Procurement*,
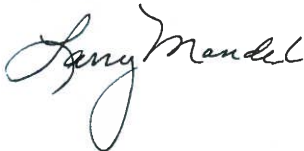**California State University, San Bernardino**

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

INFORMATION TECHNOLOGY PROCUREMENT

California State University,
San Bernardino

Audit Report 15-39
September 10, 2015

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, operational and administrative controls as of June 25, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the controls and processes established over IT procurement at California State University, San Bernardino (CSUSB) provide reasonable assurance that procurement and contracting activities comply with applicable policies, procedures, and regulations.

During the period of our review, CSUSB did not have any major IT projects under way that would require compliance with the California State University (CSU) project management and reporting guidelines.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. SEGREGATION OF DUTIES

OBSERVATION

The process for recording and approving requisitions required improvement.

Specifically, we found that 16 of 20 requisitions we reviewed were recorded by the same individual who approved the requisition. According to the purchasing manager, some individuals had been delegated authority to approve their own requisitions.

The lack of segregation of duties over recording and approving requisitions increases the risk of fraudulent purchases and errors.

RECOMMENDATION

We recommend that the campus segregate the recording and approving function for requisitions.

MANAGEMENT RESPONSE

We concur. Our action plan is to segregate the recording and approving function for requisitions. The anticipated full implementation date for this objective is January 31, 2016.

2. PROCUREMENT CARD PURCHASES

OBSERVATION

The process for approving IT procurement card purchases required improvement.

We reviewed 25 IT purchases valued at $500 or more and found that:

- Fourteen were not pre-approved by the department vice president (VP), or designee, as required by campus policy.

- One was approved by an individual who was not delegated approval authority by the department VP.

RECOMMENDATION

We recommend that the campus ensure:

a. IT purchases valued at $500 or more are pre-approved by the department VP, or designee.

b. A delegation of authority memo is completed for all individuals who are delegated approval authority by the department VP.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that:

a. IT purchases valued at $500 or more are pre-approved by the department VP, or designee.

b. A delegation of authority memo is completed for all individuals who are delegated approval authority by the department VP.

The anticipated implementation date for these objectives is January 31, 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 Integrated California State University Administrative Manual (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 CSUSB, 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.

IT projects are tracked by the responsible department, project management office (PMO), and information technology services (ITS) budget office. The PMO coordinates projects that involve multiple departments on campus or services that have a major impact to enterprise systems. All IT projects are assigned an internal request number regardless of cost or impact in order for the ITS budget office to track expenses and budget. CSUSB has not had any recent large-scale IT projects.

SCOPE

We visited CSUSB from May 26, 2015, through June 25, 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 May 31, 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
Audit Manager: Greg Dove
Senior Auditor: Kim Pham