

**DELEGATIONS OF AUTHORITY**  
**CALIFORNIA STATE UNIVERSITY,**  
**DOMINGUEZ HILLS**

**Report Number 01-13**  
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## ABBREVIATIONS

CCR	California Code of Regulations
CIWMB	California Integrated Waste Management Board
CPDC	Capital Planning, Design and Construction
CS&P	Contract Services and Procurement
CSU	California State University
DFEH	Department of Fair Employment and Housing
DMV	Department of Motor Vehicles
DVBE	Disabled Veteran Business Enterprise(s)
EO	Executive Order
MVI	Motor Vehicle Inspections
OSBCR	Office of Small Business Certification and Resources
PCLASS	Procurement, Contracts, Logistical and Support Services
PMCP	Policy Manual for Contracting and Procurement
PO	Purchase Order
RCP	Recycled Content Product
SABRC	State Agency Buy Recycled Campaign
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## INTRODUCTION

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### PURPOSE

The overall audit objective was to review and analyze activities to assure that the California State University (CSU) has acted responsibly under the *Delegations of Authority* established by Senate Bill 1828 (1986) and expanded by Assembly Bill 1191 (1993) and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of procurement activity provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy.
- ▶ Sourcing options and alternatives are utilized to maximize purchasing leverage, achieve discounts, and reduce administrative costs; bidding requirements are enforced and adequately controlled; and campus policy maximizes advertising in the California State Contracts Register.
- ▶ Methods used to execute low-value purchases are properly delegated and adequately controlled and campus use of service orders is appropriate.
- ▶ Vendor protests, disputes, complaints, and exclusion from bidding are handled in accordance with CSU policy and maintenance of vendor data is adequate.
- ▶ Efforts are made to meet Disabled Veteran Business Enterprise (DVBE) and State Agency Buy Recycled Campaign (SABRC) goals; purchasing preferences are properly granted; and DVBE, small business, and California Integrated Waste Management Board (CIWMB) reporting is timely, accurate, and supportable.
- ▶ Purchase agreements are properly executed and include required conditions, provisions, certifications, and insurance requirements and Department of Fair Employment and Housing contract notifications requirements are met.
- ▶ The campus motor vehicle inspection program and use of CSU-owned vehicles comply with CSU policies and regulations, including the designation of a vehicle inspector.
- ▶ Leasing activities are adequately controlled and comply with CSU policy and state regulations and leases are properly executed.
- ▶ The campus and chancellor's office correctly acquire and grant easements, rights-of-way, and quitclaims and the sale or exchange of personal property complies with CSU policy and the Education Code.



## SCOPE AND METHODOLOGY

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. June 2000 to date was the primary period of review.

Our primary focus involved the internal administrative, compliance, and operational controls over certain delegated purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Specifically, we reviewed and tested:

- ▶ Specific purchasing, contracting, and leasing activities, delegations, and limitations.
- ▶ Sourcing options and alternatives, bidding procedures and exceptions, and contract advertising and reporting practices.
- ▶ Low-value purchase methods and controls.
- ▶ Handling of vendor protests, disputes, and complaints and vendor data maintenance.
- ▶ Preparation of DVBE, small business, and SABRC reports and goal attainment and purchase preferences granted.
- ▶ Execution of purchase agreements and leases.
- ▶ Motor vehicle inspection and use policies and controls.
- ▶ Easements, rights-of-way, and quitclaims and the sale or exchange of personal property.

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## BACKGROUND

The Committee on Audit, at its January 2001 meeting, directed the Office of the University Auditor to review the audit subject *Delegations of Authority*.

In 1986, Senate Bill 1828 extended indefinitely certain CSU delegations of authority concerning purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. The bill's intent was to promote greater economy and efficiency in CSU operations and was expanded by Assembly Bill 1191 in 1993. The bill also added Section 89045(d) to the Education Code:

(d) In addition, the internal audit staff shall perform audits, *at least once every five years*, of the activities of the California State University pursuant to §89031.5, §89046, and §89048 of the Education Code, §11007.7, of the Government Code, and §10295, §10389, and §12100.5 of the Public Contract Code.

The last series of similar audits occurred during 1996. Executive Order (EO) No. 615, *Delegation of Acquisition Authority for Personal Property and Services*, dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1911 to campus presidents. EO No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO No. 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO No. 760, *Procurement Cards*, dated October 16, 2000, delegated authority for the use of procurement cards to campus presidents.

The *CSU PMCP* states that CSU purchasing and contracting policies were adopted to form compliance with a variety of statutory and policy provisions found in the state of California statutory codes (i.e., Education Code, Public Contract Code, Government Code, etc.); Title 5, California Code of Regulations (CCR); the standing Orders and Resolutions of the Board of Trustees; specific Trustee policy issued via chancellor executive orders and administrative policy memoranda. CSU contracting and procurement policies encompass the following fundamental principles:

- ▶ Recognition that the basic mission of the CSU is to support the teaching, research, and public service requirements for higher education for the people of the state of California.
- ▶ Recognition that the continued development and refinement of purchasing policies in accordance with good business judgment and best business practices is paramount to the effective and efficient total operations of the CSU.
- ▶ The firm belief that it is in the best interest of the CSU to limit, as much as possible, prescriptive policies and regulations and to provide maximum flexibility to, and accountability for, the adoption of local campus policies and procedures to insure the cost-effective operation of campus business.
- ▶ Recognition that the policies contained in the *CSU PMCP* are intended to establish a baseline for compliance with state law and Trustee policy. It is the responsibility of the campus to determine the disposition of any issue not specifically addressed in the *CSU PMCP* or otherwise prescribed in law or regulation.

The *CSU PMCP* further states that the CSU is committed to maintaining high standards of performance based upon fair, ethical, and professional business practices. It is expected that each campus president and administrative staff will develop and adopt local campus policies and operational procedures, which further the implementation of Trustee policy presented within the *CSU PMCP*.

EO No. 691, *Motor Vehicle Inspections (MVI)*, dated November 23, 1998, issued in response to our previous review, updated and streamlined prior MVI requirements. The EO directs each campus to implement a Motor Vehicle Inspection Program, specifies eight guidelines that should be included, directs the president to assign the function to an individual, and requires that the chancellor's office be notified of the individual assigned. CSU policy concerning the use of motor vehicles is codified in *CSU Use of University and Private Vehicles Policies and Regulations* booklet, dated October 1995, which was issued via Technical Letter 95-19 from human resources administration.

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## INTRODUCTION

EO No. 669, *Leases*, dated May 1, 1997, delegated the authority to execute leases of real property to campus presidents as either lessor or lessee without approval by the Office of the Chancellor subject to certain limitations and superseded a prior EO issued in 1983. The EO requires the use of standard provisions from model lease agreements, an assessment of risk of liability potential for each lease agreement, a competitive process for leasing to for-profit enterprises, an accounting for leases in the campus financial records, and maintenance of a central repository for all current lease agreements.

EO No. 409, *Purchase, Sale, Lease and License of Personal Property*, dated January 5, 1983, delegated authority to sell or exchange personal property to campus presidents and has been superseded except for Item B. The EO permits the sale or exchange of personal property when the campus president determines it is in the best interests of the CSU, and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9871, *Acquisition and Granting of Easements and Acceptance of Quitclaims*, sets forth the processing guidelines and responsibilities for such property transactions by the campus and the land records staff of the chancellor's office Capital Planning, Design and Construction (CPDC) department.

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## OPINION

We visited the CSU Dominguez Hills campus from April 10, 2001, through May 14, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of the procurement, contracts, logistical and support services department was adequate to meet campus procurement needs, while other areas of the campus required improvement with respect to motor vehicle inspections and the use and leasing of campus facilities to off-campus groups. Additionally, our review disclosed certain conditions that could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: providing vendors with terms and conditions and required reporting for DVBE, small business, and the SABRC. Areas in need of improvement are referenced in the executive summary.

## **EXECUTIVE SUMMARY**

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **SPECIFIC CONTRACT ISSUES [8]**

#### **TERMS AND CONDITIONS [8]**

Required terms and conditions were not being adequately communicated to vendors on purchase documentation. Properly communicated terms and conditions ensure that federal and state requirements are met and produce favorable contractual conditions in compliance with California State University (CSU) policy.

#### **CONTRACT AWARD REPORT [9]**

Controls over completion of the Contract Award Report, which must be filed with the Department of Fair Employment and Housing (DFEH) for all contracts exceeding \$5,000, did not ensure that notification requirements were met. Reporting contract awards permits the DFEH to monitor state purchasing procedures for discriminatory practices.

### **SPECIAL PURCHASING ISSUES [10]**

#### **DISABLED VETERAN BUSINESS ENTERPRISES [10]**

Supporting documentation was not available for the fiscal year 1999/2000 Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report. Maintenance of supporting documentation permits verification of report accuracy, analysis of meeting stated participation requirements, and the addressing of any agency requests for additional detail.

#### **SMALL BUSINESS REPORTING [11]**

Small Business reports had not been filed for the past two years, and supporting documentation could not be provided for the 1998 report that was on file. Submission of properly supported reports ensures compliance with the Small Business Procurement and Contract Act and permits verification of report accuracy and the addressing of agency requests for additional detail.

## **STATE AGENCY BUY RECYCLED CAMPAIGN [12]**

Supporting documentation was not available for the fiscal year 1999/2000 State Agency Buy Recycled Campaign (SABRC) Recycled Content Product (RCP) Procurement Report, and the campus did not meet the prescribed RCP goals for 10 of the 11 product categories. Maintenance of supporting documentation permits verification of report accuracy and ensures that requests for additional detail can be addressed, and meeting prescribed RCP goals ensures compliance with legislative mandates while reducing the amount of materials going to landfills.

## **PROCUREMENT OF SERVICES [13]**

Adequate proof of contractor insurance was not always on file, and verification was not performed for the acceptability of the insurer's rating. Properly monitoring insurance coverage reduces the potential for loss to the campus and the CSU.

## **MOTOR VEHICLE INSPECTIONS AND USE [14]**

### **MOTOR VEHICLE INSPECTION PROGRAM [14]**

The campus motor vehicle inspection program lacked most of the elements required by Executive Order (EO) No. 691, did not include all campus vehicles, and did not ensure that preventive maintenance, vehicle inspections, and repairs were appropriately controlled. A fully implemented vehicle inspection program improves the overall safety, efficiency, and economic well-being of the campus motor vehicle fleet.

### **VEHICLE USE CONTROLS [16]**

A singular point of control had not been established over the use of university-owned vehicles, and procedures did not ensure that driver's licenses were current, Department of Motor Vehicles (DMV) records were checked, and a defensive driving course was completed. Proper controls reduce the risk of inadequately maintained and unsafe vehicles, use by unlicensed drivers with poor driving records, and noncompliance with federal, state, and CSU policy.

## **AGREEMENTS AND LEASES [17]**

Controls over the short-term leasing of state facilities did not ensure that currently approved fees were charged, all expenses were recovered, and required proof of insurance was obtained. Adequate controls reduce the risk of outdated, unapproved rental fees, lost revenue, nonrecovery of personnel charges, and damage to university property.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### SPECIFIC CONTRACT ISSUES

#### TERMS AND CONDITIONS

Required terms and conditions were not being adequately communicated to vendors on purchase documentation.

- ▶ One or more of the required terms and conditions were not always included on purchase documents. Sixteen (23%) of the seventy-one (32 commodity and 39 service) purchase documents reviewed did not include one or more of the required terms and conditions.
- ▶ Forty-nine (69%) of the seventy-one (32 commodity and 39 service) purchase documents reviewed included a reference to terms and conditions on file in the procurement, contracts, logistical and support services (PCLASS) office or to an attached addendum that was not attached. However, this was not an adequate incorporation by reference because the provisions were not accessible to both parties and sufficiently secure so as not to be subject to unilateral change by either party.

*CSU Policy Manual for Contracting and Procurement (PMCP) (Release 2.0)* §409 states that standard CSU contracting forms are available for use by a campus for a variety of functional applications. The standard forms are developed and approved for systemwide use, and campuses are to consult with their CSU-assigned representative from the Office of General Counsel prior to agreeing to any deletions, additions, or significant variations from the format or content.

The director of PCLASS stated that PCLASS had not established consistent procedures for notifying vendors of terms and conditions. He further stated that during the audit fieldwork, PCLASS initiated the following: 1) activated a website that describes terms and conditions for services and commodities as well as for contracts; 2) began placing on all purchase orders a statement that refers vendors to the website and refers vendors to the terms and conditions applicable to the type of purchase; and 3) initiated the incorporation of these procedures into the department procedures handbook.

Not adequately communicating required terms and conditions increases the risk that certain federal and state requirements will not be met and may result in unfavorable contractual conditions and noncompliance with CSU policy.

#### **Recommendation 1**

We recommend that the campus ensure that terms and conditions be adequately communicated to vendors on purchase documentation.

### **Campus Response**

During the audit field work the Procurement, Contracts, Logistical and Support Services Department (PCLASS) initiated two significant steps to ensure that terms and conditions are adequately communicated to vendors on purchase documentation: 1) a website describing terms and conditions for services and commodities as well as for contracts was activated, and 2) a statement began to be placed on all purchase orders that refers vendors to the website and refers vendors to the terms and conditions applicable to the type of purchase. Formal written procedures that incorporate these new procedures will be completed by *November, 2001*.

### **CONTRACT AWARD REPORT**

Controls over completion of the Contract Award Report, which must be filed with the Department of Fair Employment and Housing (DFEH) for all contracts exceeding \$5,000, did not ensure that notification requirements were met.

Procedures had not been established to ensure that the reports were prepared and submitted for all required purchases. In addition, our review of 23 purchase transactions requiring completion of a Contract Award Report (Form 16) disclosed no evidence that such forms were completed for 12 (52%) of the transactions.

*CSU PMCP (Release 2.0)* §404 states that campuses shall give written notice at least quarterly to the DFEH of all contracts (but not purchase orders) over \$5,000.

California Code of Regulations (CCR) Title 2 §8117.5, *Fair Employment and Housing Commission*, states that contract awarding agencies shall give written notice to the administration within 10 working days of all contracts over \$5,000. (A memo from the DFEH, dated December 5, 1996, stated that the CSU could submit written notification on a quarterly basis.)

State Administrative Manual (SAM) §20050 states that a satisfactory system of internal administrative controls shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions.

The director of PCLASS stated that even though buyers had been preparing the required Form 16 for contracts, and the forms were mailed to the DFEH, there were no established procedures to provide evidence that this had occurred. He further stated that a computerized procedure to automatically prepare Form 16 was developed prior to the end of audit fieldwork and that a computerized program had also been developed to generate a quarterly list of the contracts that require a Form 16, which can be used to ensure all forms have been collected.

Failure to report awarded contracts to the DFEH, as required, limits the ability of that agency to monitor state purchasing procedures for discriminatory practices.

## **Recommendation 2**

We recommend that the campus establish written procedures to ensure that all Contract Award Reports are submitted and the supporting documentation is maintained for all submissions.

### **Campus Response**

Two significant steps were taken during the audit field work to ensure that all Contract Award Reports are submitted and that supporting documentation is captured: 1) a computerized procedure to automatically prepare and generate a Form 16 for applicable transactions was developed; and 2) a computerized report was developed to generate a quarterly list of contracts that require a Form 16. The quarterly report will be compared with the individual Form 16's that have been generated to ensure that all Form 16's have been prepared. Written procedures reflecting these new processes will be completed by *November, 2001*.

## **SPECIAL PURCHASING ISSUES**

### **DISABLED VETERAN BUSINESS ENTERPRISES**

Supporting documentation was not available for the fiscal year 1999/2000 Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report.

*CSU PMCP (Release 2.0)* §215 states that an annual activity report shall be prepared and submitted by each campus to the Contract Services and Procurement (CS&P) department of the chancellor's office for systemwide consolidation.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, an effective system of internal review and record-keeping procedures.

The director of PCLASS stated even though the annual report had been submitted, his office had not maintained the supporting documentation used to generate the report data.

The absence of supporting documentation prevents verification of report accuracy and analysis of participation requirements and increases the risk that agency requests for additional detail cannot be addressed.

### **Recommendation 3**

We recommend that the campus establish procedures to maintain supporting documentation for this report.

### **Campus Response**

The campus is developing written procedures to maintain the supporting documentation used to complete the Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report. These procedures will be written by *November, 2001*.

### **SMALL BUSINESS REPORTING**

Small Business reports had not been filed for the past two years, and supporting documentation could not be provided for the 1998 report that was on file.

*CSU PMCP (Release 2.0)* §216 states that each campus must report to the Office of Small Business Certification and Resources (OSBCR) annually on the number and amount of contracts and purchase orders awarded to small business. This report is to be sent by campuses directly to OSBCR, with a copy to the chancellor's office CS&P department by August 1 of each year. However, a memo from CS&P, dated October 5, 1999, notified that reporting should be quarterly, effective July 1, 1999.

CS&P memorandum, *2000/01 Small Business and Disabled Veteran Business Enterprise Reporting*, dated May 14, 2001, notified the campuses that effective immediately, Small Business and DVBE participation reporting is to be done on a semiannual and annual basis.

CCR Title 2 §1896.8, *Department of General Services*, states that to assist the OSBCR and the Department of General Services in preparing reports and compiling information in accordance with the Small Business Procurement and Contract Act, all state agencies shall submit reports at such intervals and upon such formats as requested by the Department of General Services.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, an effective system of internal review and record-keeping procedures.

The director of PCLASS stated that when his office reviewed the many reporting requirement consolidations made in 1999, it had appeared that the Small Business report had been discontinued, and the information had been incorporated into the revised DVBE report. He further stated that even though the 1998 OSBCR annual report had been submitted in 1998, his office had not maintained the supporting documentation used to generate the report data.

Failure to submit Small Business reports as required results in noncompliance with the Small Business Procurement and Contract Act, while the absence of supporting documentation prevents verification of report accuracy and increases the risk that agency requests for additional detail cannot be addressed.

#### **Recommendation 4**

We recommend that the campus reimplement completion of Small Business reports and establish procedures to ensure that reports are prepared per the revised reporting guidelines including retention of supporting documentation.

#### **Campus Response**

The campus will re-implement the submission of the Small Business report. Additionally, the campus will establish written procedures to comply with the May 14, 2001 CS&P memorandum that requires the Small Business and DVBE reports to be prepared and submitted semiannually and annually. Incorporated in these procedures will be the steps to be taken for retention of supporting documentation. Documentation of the submission of the report and related written procedures will be completed by *January, 2002*.

#### **STATE AGENCY BUY RECYCLED CAMPAIGN**

Supporting documentation was not available for the fiscal year 1999/2000 State Agency Buy Recycled Campaign (SABRC) Recycled Content Product (RCP) Procurement Report, and the campus did not meet the prescribed RCP goals for 10 of the 11 product categories.

*CSU PMCP (Release 2.0)* §303.01 states that campus procurement offices, to the maximum extent economically feasible, shall strive to meet or exceed the legislative goals and timetables prescribed by the California legislature for the acquisition of recycled products. Further, a campus SABRC Procurement Report is required to be submitted annually to the California Integrated Waste Management Board (CIWMB). A copy of each report must also be transmitted to the chancellor's office CS&P department. The legislature has established recycled product procurement goals for both state agencies in general and the CSU in particular within §12205 and §10860 of the Public Contract Code. The SABRC Procurement Plan shall be completed with these goals in mind.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, an effective system of internal review and record-keeping procedures.

The director of PCLASS stated that the campus has been submitting its annual reports to the CIWMB, but acknowledged that the campus had not met the goals defined in the SABRC. He further stated that the complexity and criteria set forth in the current SABRC was not structured in such a manner to address a service-oriented and cost-effective procurement operation. He noted that there are currently five buyers in the procurement office and it would require more individuals to perform such functions as identifying vendors and reportable products, tracking line item purchases, and recording the percentage of recycled material content for each individual item.

The absence of supporting documentation prevents verification of report accuracy and increases the risk that agency requests for additional detail cannot be addressed, while not sufficiently striving to

meet mandated goals increases the risk of noncompliance with legislative mandates and negatively impacts efforts to reduce the amount of materials going to landfills.

### **Recommendation 5**

We recommend that the campus maintain supporting documentation for the RCP Procurement Report and develop a plan of action to improve compliance with legislatively prescribed goals.

### **Campus Response**

The campus has begun maintaining supporting documentation for the Recycled Content Product Procurement Report. As a first step toward a greater effort to track use of recycled products, the campus is now receiving reports from Office Depot that provide information related to recycled materials purchased by the campus. The university's plan of action to improve compliance to the *State Agency Buy Recycled Campaign* is expected to be completed by *January, 2002*.

## **PROCUREMENT OF SERVICES**

Adequate proof of contractor insurance was not always on file, and verification was not performed for the acceptability of each insurer's rating.

We noted that:

- ▶ Proof of insurance could not be located for 4 of 22 (18%) purchase transactions reviewed and was not sought for one contractor due to the small dollar value of the purchase order (PO). In addition, of the 17 insurance certificates on file, two showed less than a 30-day cancellation notice.
- ▶ Not all insurance certificates were able to be retrieved at the time of audit fieldwork. Some certificates were in various locations, such as a central file box, attached to the PO, attached to another PO, and as noted above, some could not be located.
- ▶ PCLASS did not follow up to ensure acceptability of each insurer's rating.

Executive Order (EO) No. 743, *CSU Insurance Requirements*, dated May 5, 2000, states that the contractor, consultant, or vendor, must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance including a 30-day cancellation notification requirement; acceptability of the insurer's rating; and the CSU, the Trustees, the campus, and their officers, employees, volunteers, and agents as additional insureds. Further, following risk identification and evaluation in special situations, the campus may permit exceptions to the requirements in this EO.

The director of PCLASS stated that pertinent insurance data related to specific purchase orders was stored and updated in the automated TAMIS system, but the hardcopy and subsequent revisions were not maintained in one location. He further stated that he reviewed all contracts to determine if

insurance would be required and had determined that due to the low-dollar amount, no insurance would be required for the one purchase order noted as not having insurance. However, he had failed to document the reason for the insurance waiver. In addition, the director of PCLASS stated that he accepted less than a 30-day notification if a project was scheduled to be completed in less than 30 days. He also noted that all insurance forms were scrutinized carefully to be certain items such as an indemnification statement, coverage amount, hold harmless statement, additional insured statement, and appropriate endorsements were present and correct on the forms. He added that in the past not all insurer's insurance ratings were checked.

Not properly monitoring insurance coverage increases the potential for loss to the campus and the CSU.

### **Recommendation 6**

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance coverage and establish procedures to review the acceptability of each insurer's rating.

### **Campus Response**

Revised written procedures have been drafted which strengthen procedures over the maintenance of contractor proof of insurance coverage and review of insurer's ratings. The campus has already implemented a procedure, whereby, campus buyers check insurance company ratings on a website established by AM Best Insurance Rating Service. Revised written procedures related to contractor proof of insurance and insurance company ratings will be completed by *November, 2001*.

## **MOTOR VEHICLE INSPECTIONS AND USE**

### **MOTOR VEHICLE INSPECTION PROGRAM**

The campus motor vehicle inspection program lacked most of the elements required by EO No. 691, did not include all campus vehicles, and did not ensure that preventive maintenance, vehicle inspections, and repairs were appropriately controlled.

We found that:

- ▶ The program lacked most of the elements required by EO No. 691, including:
  - Replacement policies.
  - Coordination of equipment needs and reutilization of surplus vehicles.
  - A designated liaison with equipment manufacturers.
  - A policy statement regarding the disposition of automotive equipment.
  - A complete and accurate record of all repair costs.
  - An annual analysis of operating costs.

- Assistance in technical studies and reports, as required.
- ▶ The program did not include all campus vehicles (i.e., public safety and parking maintained their own vehicles).
- ▶ Required preventive maintenance did not take place on a regular basis.
- ▶ Vehicle inspector approval for repairs was obtained when required.
- ▶ Estimates were not obtained for commercially performed repairs, when applicable.
- ▶ Vehicle inspections did not occur as designated in the campus motor vehicle inspection program.

EO No. 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, states that the campus president is responsible for the implementation of a campus Motor Vehicle Inspection Program and shall ensure that all aspects of the vehicle inspection program guidelines are followed.

The CSU Dominguez Hills *Physical Plant Department Motor Vehicle Inspection Program*, dated April 10, 1996, states that daily vehicle operator, weekly department mechanical, and monthly motor pool mechanic inspections are to be performed for each motor vehicle owned by CSU Dominguez Hills. Further, the work control clerk will maintain monthly and preventive maintenance forms on file indefinitely, and pre- and post-repair inspections must be performed.

The director of physical plant acknowledged that the vehicle inspection program needed strengthening. He further stated that the primary reason not all components of an adequate program had been established was due to the fact that the campus employed only one mechanic.

Not assuring that the motor vehicle inspection program is fully implemented increases the risk that the overall safety, efficiency, and economic well-being of the campus motor vehicle fleet will be less than satisfactory.

### **Recommendation 7**

We recommend that the campus:

- a. Revise their motor vehicle inspection program to ensure compliance with EO No. 691.
- b. Fully implement the revised program.
- c. Include all vehicles in the program.
- d. Establish procedures to ensure that all inspections and preventive maintenance occur as required and are fully documented.
- e. Establish procedures to obtain estimates for commercially performed repairs and the approval of the vehicle inspector.

### **Campus Response**

The campus will revise and implement procedures related to its motor vehicle inspection and maintenance program to address compliance with *Executive Order 691*. Included in these procedures will be steps to monitor, track, and perform preventive maintenance and inspections of all campus

vehicles. Additionally, procedures will be established for obtaining and approving commercial repairs of campus owned vehicles. The revised written procedures will be completed and implemented by *March, 2002*.

## VEHICLE USE CONTROLS

A singular point of control had not been established over the use of university-owned vehicles, and procedures did not ensure that driver's licenses were current, Department of Motor Vehicles (DMV) records were checked, and a defensive driving course was completed.

- ▶ A review of the CSU Dominguez Hills *Use of State Vehicles Program* (draft outline) disclosed that the proposed program did not establish a singular point of control in order to fulfill maintenance and safety requirements, control usage in accordance with relevant policies and regulations, verify maintenance of required logs, and issue relevant instructions and guidelines.
- ▶ A comprehensive listing of all university employees authorized to drive university-owned vehicles was not available (i.e., the list provided included only 22 employees). Additionally, the list and/or corresponding records showed expired driver's licenses in six instances, proof could not be provided to show that employee DMV records were being checked at least once every four years, and employees were not being required to complete a CSU-approved defensive driving course.

The CSU *Use of University and Private Vehicles Policies and Regulations*, dated October 1995, states, in part, that it is necessary for the campus to establish one point of control in order to:

- ▶ Fulfill the maintenance, safety, and seat belt requirements.
- ▶ Make drivers aware of usage requirements in accordance with federal, California, CSU, and campus laws, regulations, policies, and procedures.
- ▶ Verify and maintain all required logs.
- ▶ Issue instructions and guidelines and clarify all relevant laws, regulations, policies, and procedures.

Additionally, the campus control office must determine that a person has a valid California driver's license, request and review a person's driving record from the DMV at least once every four years, and ensure that the person has satisfactorily completed a CSU-approved defensive driving course.

The director of physical plant and the acting director of human resources stated that adequate procedures had not been established for the use of state-owned vehicles and that there had not been follow-through for the current procedures.

Failure to properly control the use of university-owned vehicles increases the risk of inadequately maintained and unsafe vehicles, use by unlicensed drivers with poor driving records, and noncompliance with federal, state, campus, and CSU policy.

### **Recommendation 8**

We recommend that the campus:

- a. Modify their *Use of State Vehicles Program* to include a singular point of control as specified in the CSU *Use of University and Private Vehicles Policies and Regulations*.
- b. Develop a comprehensive listing of all employees authorized to drive university vehicles and establish procedures to: (1) ensure their maintenance of a current driver's license, (2) check DMV records at least once every four years, and (3) ensure completion of a CSU-approved defensive driving course.

### **Campus Response**

The University will modify its *Use of State Vehicles Program* and identify single point responsibility for the areas noted in the CSU *Use of University and Private Vehicles Policies and Regulations*. Procedures will be written and areas of responsibility will be assigned for: vehicle maintenance and safety requirements; monitoring of vehicle usage to address relevant policies and regulations; campus owned vehicle log usage; issuance of relevant instructions and guidelines for vehicle usage; identifying, monitoring, and tracking employees who use state vehicles; identifying, monitoring, and tracking the list and corresponding records of employees to ensure currency of driver's licenses and adequate DMV driving records; administering a CSU approved defensive driving course program; and maintaining a list of employees who are required to take and successfully complete the defensive driver program. The University will modify and implement the revised *Use of State Vehicles Program*, and a program will be developed and implemented to address the CSU *Use of University and Private Vehicles Policies and Regulations* by March, 2002.

## **AGREEMENTS AND LEASES**

Controls over the short-term leasing of state facilities did not ensure that currently approved fees were charged, all expenses were recovered, and required proof of insurance was obtained.

We noted that:

- ▶ The campus *Scheduling and Use of Campus Facilities and Space Policy*:
  - Fee schedule was dated fiscal year 1996/97.
  - Showed no evidence that the president or his designee had approved the current fee schedule.
  - Required off-campus groups to pay estimated expenses before the event; however, there were no procedures to go back and charge the groups for actual expenses after the event.

- Was silent as to the basis for personnel charges (i.e., actual labor and overhead for public safety, custodial, and other personnel).
- ▶ Rental fees for 4 of the 20 (20%) events reviewed did not agree with the fee schedule, and required proof of insurance had not been requested in two instances.

EO No. 669, *Leases*, dated May 1, 1997, states, in part, that authority is delegated to the campus president or designee subject to certain exceptions to execute leases of real property as either lessor or lessee. Further, when the university acts as the lessee, provisions of the standard model lease agreements, which address the issue of liability, should be included.

EO No. 743, *CSU Insurance Requirements*, dated May 5, 2000, provides for specific insurance coverage related to the leasing of state facilities and states that insurance requirements should be commensurate with the activities associated with the lease that may cause damage to person or property.

SAM §8752 indicates that state policy requires departments to recover full costs whenever goods or services are provided to others.

SAM §20050 states that a satisfactory system of internal administrative controls shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions. Further, policy and procedural or operational manuals that are not currently maintained are a danger signal of a poorly maintained or vulnerable control system.

The director of PCLASS stated that revisions and updates made to policies and procedures for the leasing of state facilities are currently being reviewed. He further stated that the lease form document and personnel cost fees have recently been updated.

Inadequate controls over the leasing of state facilities increase the risk of outdated, unapproved rental fees, lost fee revenue, nonrecovery of personnel charges, and uninsured damage to university property.

### **Recommendation 9**

We recommend that the campus:

- a. Review the rental fee schedule, update as necessary, and obtain approval from the campus president or his designee.
- b. Revise the campus *Scheduling and Use of Campus Facilities and Space Policy* to define the basis for personnel charges and other related expenses.
- c. Establish procedures to ensure that groups are charged for actual expenses after the event, exceptions to the approved rental fee schedule are properly documented, and proof of insurance is obtained or waived in writing by an authorized individual.

### **Campus Response**

The campus is currently conducting a comprehensive review of its fees, expenses and overall policies and procedures related to the use and leasing of campus facilities. The President's designee to approve rental fees has been identified. Incorporated in the review is a revisit to the rental fee schedule, campus *Scheduling and Use of Campus Facilities and Space Policy*, personnel charges, actual usage expense recovery, documentation of exceptions to policies/procedures, and proof of insurance issues. The revised policies and procedures for use and leasing of campus facilities is anticipated to be completed by *March, 2002*.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
James E. Lyons, Sr.	President
Cheryl Anderson	Parking Supervisor
Mark Cartwright	Parking Administrator
Lyda Cruz	Procurement Administrative Analyst
Michael Gomez	Buyer II
Marco Guardi	Director, Risk Management/Environmental Health and Occupational Safety
Michael Hirsch	Buyer III
Kathleen Hughes	Director, Business Process Management
Peggy James	Secretary, California State University Police
Vernesta Johnson	Scheduling Coordinator
Margaret Love-Nicholson	Asset Management Officer
David McCulloch	Assistant Director, Business Process Management
Michael Old	Supervising Engineer, Physical Plant
George Pardon	Vice President for Administration and Finance
Kathy Ramirez	Director of Payroll and Acting Director of Human Resources
Randy Sharp	Director, Physical Plant
Steve Slimp	Assistant Director/Chief Engineer, Physical Plant
Rowena Tran	Manager, General Accounting
Emmit Williams	Director, Procurement, Contracts, Logistical and Support Services



California State University  
**Dominguez Hills**

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Office of the Vice President of Administration and Finance  
Carson, CA 90747 (310) 243-3750 FAX: (310) 243-3869

September 21, 2001

**RECEIVED**  
University Auditor

SEP 21 2001

The California State  
University

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the Delegations of Authority Audit 01-13. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact me.

Sincerely,

George A. Pardon  
Vice President of Administration and Finance

- c: James E. Lyons, Sr., President  
Emmit Williams, Director, Procurement, Contracts and Logistical Support Services  
Randy Sharp, Director, Physical Plant  
Marco Guardi, Director, Risk Management and Environmental Health and Occupational Safety  
Kathleen Ramirez, Acting Director, Human Resources  
Kathleen Hughes, Director, Business Process Management

**CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**  
**DELEGATIONS OF AUTHORITY AUDIT 01-13**  
**September 21, 2001**

**RECOMMENDATION 1**

We recommend that the campus ensure that terms and conditions be adequately communicated to vendors on purchase documentation.

**Campus Response**

During the audit field work the Procurement, Contracts, Logistical and Support Services Department (PCLASS) initiated two significant steps to ensure that terms and conditions are adequately communicated to vendors on purchase documentation: 1) a website describing terms and conditions for services and commodities as well as for contracts was activated, and 2) a statement began to be placed on all purchase orders that refers vendors to the website and refers vendors to the terms and conditions applicable to the type of purchase. Formal written procedures that incorporate these new procedures will be completed by *November, 2001*.

**RECOMMENDATION 2**

We recommend that the campus establish written procedures to ensure that all Contract Award Reports are submitted and the supporting documentation is maintained for all submissions.

**Campus Response**

Two significant steps were taken during the audit field work to ensure that all Contract Award Reports are submitted and that supporting documentation is captured: 1) a computerized procedure to automatically prepare and generate a Form 16 for applicable transactions was developed; and 2) a computerized report was developed to generate a quarterly list of contracts that require a Form 16. The quarterly report will be compared with the individual Form 16's that have been generated to ensure that all Form 16's have been prepared. Written procedures reflecting these new processes will be completed by *November, 2001*.

**RECOMMENDATION 3**

We recommend that the campus establish procedures to maintain supporting documentation for this report.

**Campus Response**

The campus is developing written procedures to maintain the supporting documentation used to complete the Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report. These procedures will be written by *November, 2001*.

**RECOMMENDATION 4**

We recommend that the campus re-implement completion of the Small Business reports and establish procedures to ensure that reports are prepared per the revised reporting guidelines including retention of supporting documents.

**Campus Response**

The campus will re-implement the submission of the Small Business report. Additionally, the campus will establish written procedures to comply with the May 14, 2001 CS&P memorandum that requires the Small Business and DVBE reports to be prepared and submitted semiannually and annually. Incorporated in these procedures will be the steps to be taken for retention of supporting documentation. Documentation of the submission of the report and related written procedures will be completed by *January, 2002*.

**RECOMMENDATION 5**

We recommend that the campus maintain supporting documentation for the Recycled Content Product Procurement Report and develop a plan of action to improve compliance with legislatively prescribed goals.

**Campus Response**

The campus has begun maintaining supporting documentation for the Recycled Content Product Procurement Report. As a first step toward a greater effort to track use of recycled products, the campus is now receiving reports from Office Depot that provide information related to recycled materials purchased by the campus. The university's plan of action to improve compliance to the *State Agency Buy Recycled Campaign* is expected to be completed by *January, 2002*.

**RECOMMENDATION 6**

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance coverage and establish procedures to review the acceptability of each insurer's rating.

### **Campus Response**

Revised written procedures have been drafted which strengthen procedures over the maintenance of contractor proof of insurance coverage and review of insurer's ratings. The campus has already implemented a procedure, whereby, campus buyers check insurance company ratings on a website established by AM Best Insurance Rating Service. Revised written procedures related to contractor proof of insurance and insurance company ratings will be completed by *November, 2001*.

### **RECOMMENDATION 7**

We recommend that the campus:

- a. Revise their motor vehicle inspection program to ensure compliance with *Executive Order No. 691*.
- b. Fully implement the revised program.
- c. Include all vehicles in the program.
- d. Establish procedures to ensure that all inspections and preventive maintenance occur as required and are fully documented.
- e. Establish procedures to obtain estimates for commercially performed repairs and the approval of the vehicle inspector.

### **Campus Response**

The campus will revise and implement procedures related to its motor vehicle inspection and maintenance program to address compliance with *Executive Order 691*. Included in these procedures will be steps to monitor, track, and perform preventive maintenance and inspections of all campus vehicles. Additionally, procedures will be established for obtaining and approving commercial repairs of campus owned vehicles. The revised written procedures will be completed and implemented by *March, 2002*.

### **RECOMMENDATION 8**

We recommend that the campus:

- a. Modify their *Use of State Vehicles Program* to include a singular point of control as specified in the *CSU Use of University and Private Vehicles Policies and Regulations*.
- b. Develop a comprehensive listing of all employees authorized to drive university vehicles and establish procedures to: (1) ensure their maintenance of a current driver's license, (2) check DMV records at least once every four years, and (3) ensure completion of a CSU approved defensive driving course.

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- b. Revise the campus *Scheduling and Use of Campus Facilities and Space Policy* to define the basis for personnel charges and other related expenses.
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THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 15, 2001

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

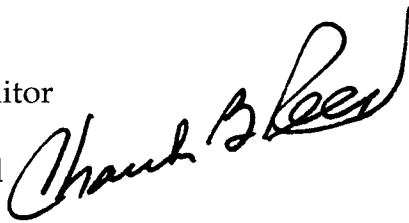
FULLERTON

TO: Larry Mandel  
University Auditor

HAYWARD

HUMBOLDT

FROM: Charles B. Reed  
Chancellor



LONG BEACH

SUBJECT: Draft Final Report Number 01-13 on *Delegations of Authority*,  
California State University, Dominguez Hills

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of October 15, 2001, I accept the  
response as submitted with the draft final report on Delegations of  
Authority, California State University, Dominguez Hills.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/ac

SAN BERNARDINO

SAN DIEGO

Enclosure

SAN FRANCISCO

cc: Dr. James E. Lyons, Sr., President

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS