

DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 06-17
December 1, 2006

Members, Committee on Audit

Raymond W. Holdsworth, Chair
Debra S. Farar, Vice Chair
Herbert L. Carter Carol R. Chandler
George G. Gowgani William Hauck
Glen O. Toney

Staff

University Auditor: Larry Mandel
Audit Manager: Robert Bencangey
Senior Auditor: Ericka Racca

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	3
Background	3
Purpose.....	5
Scope and Methodology	6

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

Procurement Administration.....	7
Policies and Procedures	7
Direct Payments	8
Special Purchasing Issues	9
Disabled Veteran Business Enterprise and Small Business	9
State Agency Buy Recycled Campaign	10
Specific Contract Issues	11
Procurement of Services and Personal Property	12
Authorization of Purchases	12
Service Provider Insurance Requirements	13
Motor Vehicle Inspections and Use	14
Motor Vehicle Inspection Program.....	14
Vehicle Use Controls	15

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Management Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

AB	Assembly Bill
BOT	Board of Trustees
CIWMB	California Integrated Waste Management Board
CMS	Common Management Systems
CSCR	California State Contracts Register
CS&P	Contract Services and Procurement
CSU	California State University
DFEH	Department of Fair Employment and Housing
DGS	Department of General Services
DMV	Department of Motor Vehicles
DVBE	Disabled Veteran Business Enterprise
EO	Executive Order(s)
FY	Fiscal Year
OSBCR	Office of Small Business Certification and Resources
PMCP	Policy Manual for Contracting and Procurement
SAM	State Administrative Manual
SB	Senate Bill
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The Committee on Audit, at its January 2006 meeting, directed the Office of the University Auditor to review the audit subject *Delegations of Authority*. Delegations of Authority was previously audited in 2001.

We visited the California State University Office of the Chancellor from June 26, 2006, through July 21, 2006, and audited the procedures in effect at that time.

In our opinion, the administration and management of contract services and procurement was adequate to meet the chancellor's office procurement needs. However, the lack of written policies and controls over direct payments, Disabled Veteran Business Enterprise (DVBE) and small business purchases of recycled materials, contract notification requirements, execution of purchase documentation, service provider insurance requirements, and university-owned vehicles required management attention.

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

PROCUREMENT ADMINISTRATION [7]

Written policies and procedures were lacking for certain activities not specifically addressed in the *California State University Policy Manual for Contracting and Procurement* and direct payment transactions were not always within the established guidelines for types of transactions authorized for direct payments.

SPECIAL PURCHASING ISSUES [9]

The total dollar value of all contracts awarded to DVBE and small businesses was not accurately reported on the most recent DVBE/small business contracting activity report and supporting documentation was not available for the fiscal year 2004/05 Buy Recycled report filed with the California Integrated Waste Management Board.

SPECIFIC CONTRACT ISSUES [11]

The Department of Fair Employment and Housing contract notification requirements were not met for 15 of the 36 contracts reviewed.

PROCUREMENT OF SERVICES AND PERSONAL PROPERTY [12]

Adequate proof of purchases was not always available, and purchase documentation was not properly approved for 8 of the 76 purchase orders and contracts reviewed. Further, vendors did not always have adequate levels of insurance when performing services on California State University premises. Eleven of 23 vendors reviewed lacked certain insurance requirements.

MOTOR VEHICLE INSPECTIONS AND USE [14]

The motor vehicle inspection program lacked some required elements. There was no formal delegation of authority for the motor vehicle inspection program and there was no evidence that the minimum safety inspection and preventative maintenance services were performed on the chancellor's office vehicles. In addition, all policies for vehicle use were not implemented. Individuals permitted to drive state-owned vehicles had not completed the request for use of state vehicle form, one individual had not completed the defensive driver training, and five individuals did not have a Department of Motor Vehicles check on file.

INTRODUCTION

BACKGROUND

In 1986, Senate Bill (SB) 1828 extended indefinitely certain California State University (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 (AB) 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 CSU pursuant to Sections 89031.5, 89036, 89046, and 89048 of the Education Code and Section 11007.7 of the Government Code.

Executive Order (EO) 615, *Delegation of Acquisition Authority for Personal Property and Services*, dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1191 to campus presidents. EO 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, superseded EO 667 to include delegation of authority to acquire information technology resources. EO 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 are 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; the Standing Orders and Resolutions of the Board of Trustees (BOT); specific Trustee policy issued via chancellor Executive Orders and administrative policy memoranda. CSU contracting and procurement policies encompass the following fundamental principals:

- ▶ 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 ensure 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 Trustees 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 691, *Motor Vehicle Inspections*, dated November 23, 1998, issued in response to our 1996 review, updated and streamlined prior motor vehicle inspection 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 Policy Guidelines* booklet dated March 2002, which was issued via Technical Letter 2002-16 from human resources administration.

EO 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 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 interest of the CSU and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9018, *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 department.

The primary objective in this audit will be to review and analyze activities to assure that the CSU has acted responsibly under the delegations of authority listed in Executive Orders 775, 760, 691, 669, and 409 and applicable *CSU PMCP* and SUAM §9018 requirements. Specific areas to be covered will include, but not be limited to: certain purchasing and contracting issues; commodity, information technology resources and services acquisitions; consultant contracts; service orders; small business and other special purchasing issues; motor vehicle inspections and use; agreements and leases; leases of real property as either lessor or lessee; easements, right-of-way, and quitclaim transactions; and the sale or exchange of real and personal property.

PURPOSE

Our overall audit objective was to review and analyze activities to assure that the CSU has acted responsibly under the *Delegations of Authority* established by SB 1828 (1986) and expanded by AB 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 used 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 Buy Recycled goals; purchasing preferences are properly granted; and DVBE, small business, and Buy Recycled 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 notification requirements are met.
- ▶ The campus motor vehicle inspection program and use of CSU-owned vehicles comply with CSU policies 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 campuses and the chancellor's office correctly acquired and granted 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

The scope of the audit, as presented at the February 1, 2006, meeting of the Committee on Audit, included, but was not limited to, the review of procurement, the use of the California State Contracts Register, recycling efforts, motor vehicle use, leasing activities, and rights of way. *Delegations of Authority* is a mandated audit and is required by the Education Code at least once every five years.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, BOT policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect from January 2005 through June 2006. In instances when it was necessary to review annualized data, fiscal year 2005/06 was the primary period reviewed.

We focused primarily upon the internal administrative, compliance, and operational controls over delegation of authority and contracting activities, motor vehicle inspection, 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.
- ▶ Contract advertising and reporting practices.
- ▶ Low-value purchase methods and controls.
- ▶ Handling of vendor protests, disputes, and complaints.
- ▶ Maintenance of vendor data.
- ▶ Granting of purchase preferences.
- ▶ Preparation of DVBE, small business, and Buy Recycled reports and goal attainment.
- ▶ 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.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

PROCUREMENT ADMINISTRATION

POLICIES AND PROCEDURES

Written policies and procedures were lacking for certain activities not specifically addressed in the *California State University (CSU) Policy Manual for Contracting and Procurement (PMCP)*.

We found that:

- ▶ The payment matrix, which describes the different payment methods at the chancellor's office including direct payments, did not define all categories authorized for direct pay transactions and lacked exception processing procedures.
- ▶ There were no written criteria for use of the California State Contracts Register (CSCR).
- ▶ Written policies and procedures had not been developed to document the leasing of state facilities to outside organizations.

The *CSU PMCP* introduction states that it is the responsibility of the campus to determine the disposition of any issue not specifically addressed herein or otherwise prescribed in law or regulation. Additionally, 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 herein.

The *CSU PMCP* §227 states that campuses are responsible for establishing local policies which identify types and dollar thresholds for transactions authorized for direct payments and associated procedures for exception processing.

The *CSU PMCP* §403 states that each campus procurement officer must establish written criteria for use of the CSCR. Typically, criteria are to include:

- Types of contractual services and the monetary levels for which the CSCR will be used.
- Provisions for approval or any exemption from established criteria, such as emergency contracts, contracts with other public entities, or contracts where it is determined that the state's best interests would be served better by exemption.
- Procedures for documenting justifications for not using the CSCR.

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. Further, policy and procedural or operational

manuals that are not currently maintained are danger signs of a poorly maintained or vulnerable control system.

The contract services and procurement (CS&P) director stated that they were in the process of developing a comprehensive written policies and procedures manual. He further stated that policies and procedures were in place, but not always in a formal, written format.

Failure to maintain comprehensive policies and procedures increases the risk that controls will be compromised and may lead to misunderstanding of the constraints and expectations relating to the performance of duties and functions.

Recommendation 1

We recommend that the chancellor's office develop comprehensive written policies and procedures for procurement activities not specifically addressed in the *CSU PMCP*.

Management Response

We concur. The *Chancellor's Office Purchasing Policies and Procedures Manual* is 60% complete. A current draft copy can be made available as part of this response if necessary. Once complete, the manual and training will be made available online to the employees of the chancellor's office. This will be completed by June 1, 2007.

DIRECT PAYMENTS

Procedures for direct payments needed strengthening.

Our review of 25 direct pay transactions disclosed that six were not within the established guidelines for types of transactions authorized for direct payments.

The *CSU PMCP* §227 states that campuses are responsible for establishing local policies which identify types and dollar thresholds for transactions authorized for direct payments and associated procedures for exception processing.

The accounts payable manager stated that two of the transactions were within the established guidelines for procurement card and therefore were approved for direct payment processing. She further stated that the remaining four were identified by accounts payable as not eligible for direct payment prior to processing and the requesting department was notified.

Failure to comply with the guidelines for types of direct payment purchases increases the risk that excessive or inappropriate purchases could be made without the protection of purchase order standard terms and conditions.

Recommendation 2

We recommend that the chancellor's office strengthen procedures for the review and approval of direct payments to ensure all transactions fall within established guidelines.

Management Response

We concur. Accounts receivable policies regarding direct payments will be created and included in the *Chancellor's Office Purchasing Policies and Procedures Manual*. Please also see the response under "Policies and Procedures." This will be completed by June 1, 2007.

SPECIAL PURCHASING ISSUES

DISABLED VETERAN BUSINESS ENTERPRISE AND SMALL BUSINESS

The total dollar value of all contracts awarded to Disabled Veteran Business Enterprise (DVBE) and small businesses was not accurately reported on the most recent DVBE/small business contracting activity report.

Our review of the fiscal year (FY) 2005/06 DVBE/small business contracting activity report disclosed that procedures for compiling the amounts reported did not ensure that the total dollar value of all contracts awarded was accurate.

We found that:

- ▶ The amount reported for DVBE business included amounts from FY 2004/05 that were not reported in that year.
- ▶ The small business/micro business dollars reported were not adjusted for OfficeMax purchases.
- ▶ The DVBE/small business coordinator did not verify that the small business vendors in PeopleSoft, which were included in the FY 2005/06 DVBE/small business contracting activity report, were certified small businesses with the Department of General Services (DGS) Office of Small Business Certification and Resources (OSBCR). Our review of 15 small business vendors included in the report disclosed that two had expired certificates and one was not found in the DGS OSBCR certified small business list.
- ▶ One small business was noted during other testing; however, it was not included in the report.

CSU PMCP §215 states, in part, that an annual activity report shall be prepared and transmitted to the Governor's Office.

CSU PMCP §216 states, in part, that campuses must report annually on the number and amount of contracts and purchase orders awarded to small businesses to the OSBCR.

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 recordkeeping procedures.

The CS&P director stated that the report discrepancies were an oversight. He further stated that some of the discrepancies were already identified and the report was in the process of being amended.

Inadequate preparation and review procedures increase the risk of non-compliance with DVBE and small business requirements and inaccurate reporting.

Recommendation 3

We recommend that the chancellor's office strengthen controls surrounding the DVBE/small business report preparation and review procedures.

Management Response

We concur. CS&P will strengthen procedures to manually document DVBE/Small Business Enterprise dollars spent for subcontractors, as PeopleSoft does not provide the ability to track subcontract dollars. This will be completed by March 1, 2007.

STATE AGENCY BUY RECYCLED CAMPAIGN

The chancellor's office was unable to provide supporting documentation for the FY 2004/05 Buy Recycled report filed with the California Integrated Waste Management Board (CIWMB). As a result, there was no assurance that the report accurately reflected recycled purchases during the year and that contractor certifications were properly obtained for those purchases.

The *CSU PMCP* §235 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.

Public Contract Code §12205 states that contractors shall be required to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided or used. This certification shall be furnished under penalty of perjury. The certification shall be provided regardless of content, even if the product contains no recycled materials.

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 recordkeeping procedures.

The assistant director of system contracts stated that the Buy Recycled report was generated from PeopleSoft and that the system could not produce detailed support for the report. He further stated that the CIWMB accepted their reports generated from PeopleSoft in prior years.

The absence of supporting documentation prevents verification of report accuracy and increases the risk that incorrect information could be provided to the CIWMB.

Recommendation 4

We recommend that the chancellor's office maintain supporting documentation for the Buy Recycled report.

Management Response

We concur. The recycled report generated from PeopleSoft does not provide detail to support the numbers for dollars spent on recycled products. CS&P will work with Common Management Systems (CMS) to correct the recycled report parameters in PeopleSoft. We will deliver the revised recycled report parameters to CMS by April 30, 2007.

SPECIFIC CONTRACT ISSUES

The Department of Fair Employment and Housing (DFEH) contract notification requirements were not met.

Our review of 36 contracts that required DFEH contract notification disclosed that notification had not been made for 15 of the contracts.

The *CSU PMCP* §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 Title 2 §8117.5, *Fair Employment and Housing Commission*, states, in part, that contract awarding agencies shall give written notice to the administration of all contracts over \$5,000.

The CS&P director stated that eight of the missing contract award reports were contracts from other departments who have delegated authority to enter into contracts while the remaining were an oversight in CS&P.

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 5

We recommend that the chancellor's office follow through with other departments to ensure that all contracts over \$5,000 are being reported to the DFEH at least quarterly.

Management Response

We concur. CS&P will ensure that departments with delegated authority to issue contracts are retrained and understand DFEH compliance requirements. This will be completed by April 30, 2007.

PROCUREMENT OF SERVICES AND PERSONAL PROPERTY

AUTHORIZATION OF PURCHASES

Adequate proof of purchases was not always available, and purchase documentation was not properly approved.

Our review of 76 purchase orders and contracts disclosed that purchase documentation could not be provided for four of the purchases, one was approved by an individual not delegated signature authority, and three had no evidence of approval.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The CS&P director stated that the purchases with no supporting documentation on file and no evidence of approval were handled by a new buyer and the inappropriately approved purchase was an oversight.

Inadequate control over purchase documentation and the approval of purchases increases the risk of inappropriate expenditures.

Recommendation 6

We recommend that the chancellor's office strengthen procedures to ensure that proper authorization of purchases is maintained and that purchase documentation is approved in accordance with chancellor's office policy.

Management Response

We concur. CS&P staff is now using the delegation of authority list to verify that employees submitting requisitions are authorized to do so.

SERVICE PROVIDER INSURANCE REQUIREMENTS

Vendors did not always have adequate levels of insurance when performing services on CSU premises.

Our review of 23 services where the vendor provided the service on CSU premises during FY 2005/06 revealed that 11 did not have the proper level of insurance. Insurance documentation was not obtained for nine vendors and two vendors did not have adequate coverage in accordance with CSU policies.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, requires the vendor to show evidence of adequate insurance coverage by furnishing a certificate of insurance and specifies minimum insurance coverage requirements. Further, the campus may permit exceptions to the requirements in this EO following risk identification and evaluation.

The CS&P director stated that these instances were an oversight by the buyer. He further stated that the department recently added an analyst position to its staff to manage the insurance certificates more closely.

Failure to require adequate levels of vendor insurance can result in increased liability exposure to the chancellor's office.

Recommendation 7

We recommend that the chancellor's office strengthen procedures for the review and retention of required insurance documentation, including documentation of any exceptions following risk identification and evaluation, to ensure that all service providers have adequate insurance coverage in accordance with CSU requirements.

Management Response

We concur. In May 2006, CS&P created a new staff position responsible, in part, for obtaining and verifying insurance documents. Additionally, a formal system was put in place whereby all requests for insurance waivers are submitted for approval in accordance with chancellor's office policy. A separate database was also created to monitor insurance requirements.

MOTOR VEHICLE INSPECTIONS AND USE

MOTOR VEHICLE INSPECTION PROGRAM

The motor vehicle inspection program lacked some required elements.

We found that:

- ▶ Authority and responsibility of the motor vehicle inspection program had not been formally delegated to the facilities manager.
- ▶ There was no evidence that the minimum safety inspection and preventative maintenance services were performed on the three vehicles owned by the chancellor's office.

EO 691, *Motor Vehicle Inspections – Delegation 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 campus president shall assign this function to an individual on campus and notify the chancellor's office of that individual.

The chancellor's office *Vehicle Management Program* states that at a minimum, safety inspection and preventative maintenance services must be performed every 6-months or 6,000 miles and every 12-months or 12,000 miles, whichever comes first, to ensure that vehicles are operationally safe, cost-effective to operate, and comply with warranty requirements.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The facilities manager stated that he did not know a formal delegation of authority was required. He further stated that the preventative maintenance and safety inspections were performed; however, the motor vehicle inspector was unaware that the preventative maintenance schedule/safety inspection worksheet must be completed and retained.

Failure to maintain formal delegation of authority for important motor vehicle inspection duties increases the risk of misunderstandings and unauthorized activities/actions, and failure to retain vehicle inspection and preventative maintenance records increases the risk that vehicles will not be properly maintained.

Recommendation 8

We recommend that the chancellor's office:

- a. Identify the individual responsible for the motor vehicle inspection program and delegate the responsibility to this individual in accordance with EO 691.

- b. Retain records of vehicle inspections and preventative maintenance.

Management Response

- a. We concur. Delegations are being written and will be completed by March 30, 2007.
b. We concur. All records will be maintained in accordance with CSU policies.

VEHICLE USE CONTROLS

The chancellor's office motor vehicle inspection program did not ensure that all policies for vehicle use were implemented.

Our review of the records of 14 individuals authorized to drive state-owned vehicles disclosed that:

- ▶ None had completed the request for use of state vehicle form that represents approval to drive a CSU vehicle, provides evidence of the employee certification of driving status, and verifies the individual's employment status.
- ▶ One individual had not completed the defensive driver training.
- ▶ Five individuals did not have a Department of Motor Vehicles (DMV) check on file.

The *CSU Use of University and Private Vehicles Policy Guidelines*, dated March 2002, states, in part, that the campus control office must determine that:

- Written approval of the use of vehicles has been given.
- Employee certification regarding possession of a valid driver's license and driving record is obtained.
- The person requesting the vehicle is, in fact, a university employee in active, state-funded pay status, or in Job Class Code 0050.
- A person has satisfactorily completed a CSU-approved defensive driving course.
- A person's driving record from the DMV is requested and reviewed at least once every four years to ensure that a person has a good driving record.

The assistant director of administration stated she was unaware the request for use of state vehicle form was required in addition to the STD. Form 261. She further stated that the missing DMV checks and defensive driver training were an oversight.

Failure to properly control the use of university-owned vehicles and fully implement chancellor's office policies and the *CSU Use of University and Private Vehicle Policy Guidelines* increases the risk of use by unqualified drivers and non-compliance with state and CSU policy.

Recommendation 9

We recommend that the chancellor's office strengthen procedures to ensure full compliance with chancellor's office policies and the *CSU Use of University and Private Vehicle Policy Guidelines*.

Management Response

We concur. All procedures are being reviewed and will be revised as necessary to ensure full compliance. If required, a revised set of procedures will be issued by March 30, 2007.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Richard P. West	Executive Vice Chancellor and Chief Financial Officer
Sue Bell-Ramirez	Assistant Director, Administration
Eddie Choy	Assistant Director, System Contracts
Darryl Dearborn	Contract Specialist
Lorraine Fergins	Administrative Analyst, Capital Planning, Design and Construction
Ellyce Gordon	Property Clerk
Terry Hamilton	Accounts Payable Manager
Dennis Hordyk	Assistant Vice Chancellor, Financial Services
Iris Ingram	Assistant Director, Sponsored Projects Administration
Carol Kiliany	Contract Manager, Systemwide Electronic Information Resources
Dawn Locher	Contract Management Specialist
Linda Masterton	Assistant Director, Procurement
Tom Roberts	Director, Contract Services and Procurement
Jerry Wilde	Facilities Manager



Business and Finance
401 Golden Shore, 5th Floor
Long Beach, CA 90802-4210

Richard P. West
Executive Vice Chancellor/CFO

562-951-4600
Fax 562-951-4970
rwest@calstate.edu

**To: Larry Mandel
University Auditor**

Date: January 24, 2007

**From: Richard West
Executive Vice Chancellor & CFO**

Subject: Delegation of Authority – (DOA) Audit 06-17 Response

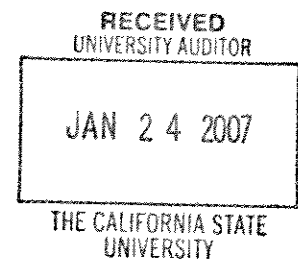
Attached is the Chancellor's Office response to the Chancellor's Office DOA audit recommendations. Our response is based on a review of the controls and policy recommendation identified by your staff as needing improvement. We believe our corrective actions will be sufficient to restore the appropriate controls and comply with the recommendations.

We would like to thank your staff for the professionalism displayed during the course of the audit.

RPW/TR/kg

cc: Dennis Hordyk
Tom Roberts

Attachment



CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

**DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR**

**Audit Report 06-17
December 1, 2006**

PROCUREMENT ADMINISTRATION

POLICIES AND PROCEDURES

Recommendation 1

We recommend that the chancellor's office develop comprehensive written policies and procedures for procurement activities not specifically addressed in the *CSU PMCP*.

Management Response

We concur. The Chancellor's Office Purchasing Policies and Procedures Manual is 60% complete. A current draft copy can be made available as part of this response if necessary. Once complete, the manual and training will be made available on-line to the employees of the Chancellor's Office. This will be completed by June 1, 2007.

DIRECT PAYMENTS

Recommendation 2

We recommend that the chancellor's office strengthen procedures for the review and approval of direct payments to ensure all transactions fall within established guidelines.

Management Response

We concur. Accounts Receivable policies regarding direct payments will be created and included in the Chancellor's Office Purchasing Policies and Procedures Manual. Please also see the response under "Policies and Procedures." This will be completed by June 1, 2007.

SPECIAL PURCHASING ISSUES

DISABLED VETERAN BUSINESS ENTERPRISE AND SMALL BUSINESS

Recommendation 3

We recommend that the chancellor's office strengthen controls surrounding the DVBE/small business report preparation and review procedures.

Management Response

We concur. CS&P will strengthen procedures to manually document DVBE/SBE dollars spent for subcontractors, as PeopleSoft does not provide the ability to track subcontract dollars. This will be completed by March 1, 2007.

STATE AGENCY BUY RECYCLED CAMPAIGN

Recommendation 4

We recommend that the chancellor's office maintain supporting documentation for the Buy Recycled report.

Management Response

We concur. The Recycled Report generated from PeopleSoft does not provide detail to support the numbers for dollars spent on recycled products. CS&P will work with CMS to correct the Recycled Report parameters in PeopleSoft. We will deliver the revised Recycled report parameters to CMS by April 30, 2007.

SPECIFIC CONTRACT ISSUES

Recommendation 5

We recommend that the chancellor's office follow through with other departments to ensure that all contracts over \$5,000 are being reported to the DFEH at least quarterly.

Management Response

We agree. CS&P will ensure that departments with delegated authority to issue contracts are retrained and understand DFEH compliance requirements. This will be completed by April 30, 2007.

PROCUREMENT OF SERVICES AND PERSONAL PROPERTY

AUTHORIZATION OF PURCHASES

Recommendation 6

We recommend that the chancellor's office strengthen procedures to ensure that proper authorization of purchases is maintained and that purchase documentation is approved in accordance with chancellor's office policy.

Management Response

We concur. CS&P staff is now using the Delegation of Authority list to verify that employees submitting requisitions are authorized to do so.

SERVICE PROVIDER INSURANCE REQUIREMENTS

Recommendation 7

We recommend that the chancellor's office strengthen procedures for the review and retention of required insurance documentation, including documentation of any exceptions following risk identification and evaluation, to ensure that all service providers have adequate insurance coverage in accordance with CSU requirements.

Management Response

We concur. In May 2006, CS&P created a new staff position responsible, in-part, for obtaining and verifying insurance documents. Additionally, a formal system was put in place whereby all requests for insurance waivers are submitted for approval in accordance with Chancellor's Office policy. A separate database was also created to monitor insurance requirements.

MOTOR VEHICLE INSPECTIONS AND USE

MOTOR VEHICLE INSPECTION PROGRAM

Recommendation 8

We recommend that the chancellor's office:

- a. Identify the individual responsible for the motor vehicle inspection program and delegate the responsibility to this individual in accordance with EO 691.
- b. Retain records of vehicle inspections and preventative maintenance.

Management Response

- a. We concur. Delegations are being written and will be completed by March 30, 2007.
- b. All records will be maintained in accordance with CSU policies.

VEHICLE USE CONTROLS

Recommendation 9

We recommend that the chancellor's office strengthen procedures to ensure full compliance with chancellor's office policies and the *CSU Use of University and Private Vehicle Policy Guidelines*.

Management Response

We concur. All procedures are being reviewed and will be revised as necessary to insure full compliance. If required, a revised set of procedures will be issued by March 30, 2007.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

February 15, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 06-17 on *Delegations of Authority*,
California State University Office of the Chancellor

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of February 15, 2007, I accept the response as submitted with the draft final report on *Delegations of Authority*, California State University Office of the Chancellor.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS