

DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Audit Report 06-22
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Members, Committee on Audit

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ABBREVIATIONS

| | |
|-------|---|
| AB | Assembly Bill |
| BOT | Board of Trustees |
| CSU | California State University |
| CSUMB | California State University, Monterey Bay |
| DVBE | Disabled Veteran Business Enterprise |
| EO | Executive Order |
| OEM | Original Equipment Manufacturer |
| PCC | Public Contract Code |
| 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, Monterey Bay campus from October 2, 2006, through November 3, 2006, and audited the procedures in effect at that time.

In our opinion, the existing policies and procedures for the administration of the procurement and support services functions were, for the most part, effective. However, controls over delegations of authority, direct payments, records retention, purchases of recycled material, procurement of services, independent contractor agreements, maintenance and use of campus-owned vehicles, leasing of property, and completion of property survey reports 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]

Delegations of authority for procurement were outdated, incorrectly completed, and/or non-existent. For example, the delegations of authority to the vice president of administration and finance and the provost/vice president of academic affairs were from the previous campus president and no evidence of delegation of authority existed for the buyer I. In addition, the campus did not have written policies and procedures for direct payments and direct pay transactions were not always in accordance with California State University (CSU) policy. Of 11 direct pay transactions, 10 were not within established guidelines for the amount or type of transactions authorized for direct payments as described by CSU policy, and one direct payment exceeded the authorization limit. Further, a record retention policy had not been developed at business and support services, and related records had not been disposed of since the inception of the campus.

SPECIAL PURCHASING ISSUES [10]

Required contractor certifications were not consistently obtained for the recycled content of commodity purchases, and the total recycled content of reportable product categories in the fiscal year 2005/06 Buy Recycled report was 45%, not 50% as required.

PROCUREMENT OF SERVICES [11]

Vendors did not always have adequate levels of insurance when performing services on campus, purchase orders were not always on file, and proper authorization was not always obtained. A review of 27 service contracts and 53 purchase orders disclosed that insurance certificates were missing for three vendors, insurance certificates for three vendors did not include automobile insurance, two original purchase orders were missing, and one purchase order exceeded the buyer's authorization limit. In addition, conflict-of-interest statements were not obtained for two of six consultant contracts. Of ten

independent contractor agreements, six met the definition of a consulting services contract; however, two consultants did not complete a conflict-of-interest statement.

MOTOR VEHICLE INSPECTIONS AND USE [13]

The campus motor vehicle inspection program lacked some required elements and did not ensure adequate preventative maintenance for all campus vehicles. Records at the chancellor's office and the campus did not show the same person as the motor vehicle inspector, formalized analyses of operating costs and reutilization of surplus vehicles were not performed, parts and repairs costing \$350 or more were not well controlled, and preventative maintenance was not always performed. In addition, daily operator checklists were not consistently completed for campus-owned vehicles.

AGREEMENTS AND LEASES [16]

Delegation of authority to execute leases was not formalized, facility fees were not properly approved, and the facilities licensing agreement did not provide for adequate insurance. For example, the vice president of administration and finance executed leases without a written delegation of authority from the campus president or designee and there was no evidence that the president or designee had approved the fees charged for the short-term leasing of the World Theatre.

PROPERTY [18]

Retention of property survey reports needed improvement. A review of the donation or disposal of 17 assets during fiscal year 2005/06 disclosed that property survey reports were not available in two instances, and a third property survey report was not properly completed.

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 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 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 September 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 CAMPUS RESPONSES

PROCUREMENT ADMINISTRATION

DELEGATIONS OF AUTHORITY

Delegations of authority for procurement were outdated, incorrectly completed, and/or non-existent.

We found that:

- ▶ The delegations of authority to the vice president of administration and finance and the provost/vice president of academic affairs were from the previous campus president. The current campus president took office in June 2006.
- ▶ The levels of authorization listed on the delegation of authority forms for the vice president of administration and finance and the provost/vice president of academic affairs were incorrectly completed, which led to inconsistent delegations of authority to the associate vice president of finance, director of business and support services, interim provost, and the director of library.
- ▶ No evidence of delegation of authority existed for the buyer I.

Executive Order (EO) 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, states that authority is delegated to each campus president or designee to acquire personal property and services including information technology resources goods and services where applicable provisions of the *California State University (CSU) Policy Manual for Contracting and Procurement (PMCP)* have been followed.

The *CSU PMCP* §102 states, in part, that campus presidents have received delegated authority from the chancellor to purchase, sell, lease, or license personal property in accordance with Trustee policy and law. Should campus presidents choose to further delegate their purchasing authority, campuses must maintain documentation of such delegation.

The director of business and support services stated that the lack of current and complete delegations of authority was an oversight.

Failure to maintain current and complete written delegations of authority increases the risk of unauthorized activities.

Recommendation 1

We recommend that the campus:

- a. Redesign and update its written delegations of authority to include the current president.
- b. Provide clear lines of delegated authority.
- c. Include all individuals with delegated authority.

Campus Response

- a. We concur. We will redesign and update our written delegations of authority to include delegations of authority from the current president.

Estimated completion date: May 2007

- b. We concur. We will clarify the lines of delegated authority.

Estimated completion date: May 2007

- c. We concur. We will include all individuals with delegated authority.

Estimated completion date: May 2007

DIRECT PAYMENTS

The campus did not have written policies and procedures for direct payments and direct pay transactions were not always in accordance with CSU policy.

Our review of 11 direct pay transactions disclosed that:

- ▶ Ten were not within established guidelines for the amount or type of transactions authorized for direct payments as described by CSU policy.
- ▶ One direct payment exceeded the authorization limit. For example, direct payments were made for computer equipment, software, and maintenance; temporary personnel, and airline travel.

The *CSU PMCP* §227 states that direct payments may be made for those types of commitments/obligations for which little or no value can be added by processing the transaction through the standard procurement procedures. Further, 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. Examples of direct payments may include, but are not limited to, public utilities, room rentals, rebates and reimbursements, books, subscriptions, publications, registration fees, and membership dues.

State Administrative Manual (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.

The director of business and support services stated that the direct payment policies and procedures needed to be established and CSU policy needed to be followed.

Failure to comply with CSU policy for amounts and 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 campus establish written policies and procedures for direct payments and strengthen procedures to ensure all transactions fall within established CSU policy.

Campus Response

We concur. We will establish written guidelines and procedures for direct payments and strengthen procedures to ensure all transactions fall within established CSU policy.

Estimated completion date: August 2007

RECORD RETENTION

Business and support services did not have a record retention policy and had not disposed of records since the inception of the campus.

The *CSU PMCP* §207 states, in part, that Education Code §89045 describes the general nature of materials that must be retained and the time frame for retaining them. Further, each campus shall develop policies on records retention to satisfy all audit requirements, including those of the Trustees.

The director of business and support services stated that he was in the preparation stages of writing a retention policy on procurement materials.

Failure to develop and maintain record retention policies could lead to the unavailability of documents to satisfy audit requirements or excessive record storage space requirements and fees.

Recommendation 3

We recommend that the campus develop and maintain record retention policies for business and support services.

Campus Response

We concur. We will develop and maintain record retention guidelines for business and support services.

Estimated completion date: July 2007

SPECIAL PURCHASING ISSUES

Required contractor certifications were not consistently obtained for the recycled content of commodity purchases, and the total recycled content of reportable product categories in the fiscal year 2005/06 Buy Recycled report was 45%, not 50% as required.

Public Contract Code (PCC) §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.

PCC §12203 states that each state agency shall ensure that at least 50% of reportable purchases are recycled products.

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.

The director of business and support services stated that the buyers followed-up with contractors for the certification, but they still did not send it. He further stated that the procurement department did not have the ability to exercise control over the purchase of recycled products as so many purchases were made via procurement cards and other methods.

Failure to consistently obtain contractor certifications for the recycled content of commodity purchases increases the risk of non-compliance with state regulations, while missing mandated goals increases the risk of non-compliance with legislative mandates.

Recommendation 4

We recommend that the campus:

- a. Strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.
- b. Develop a plan of action to improve compliance with prescribed legislative goals.

Campus Response

- a. We concur. We will strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.

Estimated completion date: August 2007

- b. We concur. We will develop a plan of action to improve compliance with prescribed legislative goals.

Estimated completion date: June 2007

PROCUREMENT OF SERVICES

SERVICE PROVIDER INSURANCE AND AUTHORIZATION REQUIREMENTS

Vendors did not always have adequate levels of insurance when performing services on campus, purchase orders were not always on file, and proper authorization was not always obtained.

Our review of 27 service contracts and 53 purchase orders disclosed that:

- ▶ Insurance certificates were missing for three vendors.
- ▶ Two insurance certificates did not show dates of coverage within the dates of the services performed on campus.
- ▶ Insurance certificates for three vendors did not include automobile insurance.
- ▶ Two original purchase orders were missing.
- ▶ One purchase order exceeded the buyer's authorization limit.

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

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 director of business and support services stated that these instances were oversights by the buyers.

Failure to require adequate levels of vendor insurance can result in increased liability exposure to the campus, while inadequate control over purchase documentation and the approval of purchases increases the risk of inappropriate expenditures.

Recommendation 5

We recommend that the campus:

- a. Strengthen procedures to ensure that all service providers have adequate insurance coverage for the duration of the service period.
- b. Strengthen procedures to ensure that all purchase orders are maintained on file and properly approved.

Campus Response

- a. We concur. We will strengthen procedures to ensure that all service providers have adequate insurance coverage for the duration of the service period.

Estimated completion date: May 2007

- b. We concur. We will strengthen procedures to ensure that all purchase orders are maintained on file and properly approved.

Estimated completion date: June 2007

INDEPENDENT CONSULTING AGREEMENTS

Conflict-of-interest statements were not obtained for two of six consultant contracts.

Our review of ten independent contractor agreements disclosed that six met the definition of a consulting services contract; however, two consultants did not complete a conflict-of-interest statement.

CSU PMCP §412.10 states that should a consultant provide services for preparation or development of recommendations for the actions which are required, suggested, or otherwise deemed appropriate, and which include the provision, acquisition, or delivery of products or service; then the consultant must provide full disclosure of any financial interest, including, but not limited to, service agreements, OEM, and/or remarketing agreements that may foreseeably allow the contractor to materially benefit from the adoption of such recommendations.

The director of business and support services stated that not obtaining a conflict-of-interest statement was due to buyer oversight.

Failure to obtain conflict-of-interest statements from consultants increases the risk that consultants are not independent from the university, which could negatively impact public perception.

Recommendation 6

We recommend that the campus obtain a conflict-of-interest statement for all consultant contracts.

Campus Response

We concur. We will obtain a conflict-of-interest statement for all consultant contracts.

Estimated completion date: May 2007

MOTOR VEHICLE INSPECTIONS AND USE

VEHICLE INSPECTION PROGRAM

The campus motor vehicle inspection program lacked some required elements and did not ensure adequate preventative maintenance for all campus vehicles.

We found that:

- ▶ Records at the chancellor's office and California State University, Monterey Bay (CSUMB) did not show the same person as the motor vehicle inspector. CSUMB records showed the individual delegated by the campus president, while the chancellor's office records showed that individual's direct supervisor.
- ▶ An annual analysis of operating costs was not performed.
- ▶ A formal evaluation process for reutilization of surplus vehicles when feasible was not performed.
- ▶ Documentation could not be provided to show that vehicle inspector approval was obtained when parts exceeded \$350. In addition, the CSUMB Motor Vehicle Inspection Program did not include requirements for vehicle inspector approval for parts exceeding \$350 or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.
- ▶ Eight of 13 vehicles reviewed did not receive the required 3,500 miles/6-months and/or 12,000 miles/12-months maintenance.
- ▶ Five of seven electric vehicles reviewed did not receive the required 6-months maintenance inspection.

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.

These guidelines include, in part, an annual analysis of operating costs and an evaluation process for reutilization of surplus vehicles. The campus president shall assign this function to an individual on campus and notify the chancellor's office of that individual.

The *CSU Use of University and Private Vehicles Policy Guidelines*, dated March 2002, states that the campus vehicle inspector's approval is required on any repair where the parts costs exceed \$350 or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.

The CSUMB *Motor Vehicle Inspection Program* states that in order to guarantee the maximum useful life of state-owned vehicles, a maintenance service is required every 3,500 miles or 6-months, whichever comes first, and also at 12,000 miles or annually, whichever comes first.

SAM §20050 states that a satisfactory system of internal administrative control shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions. Further, the non-existence of policy and procedural or operational manuals is a sign of a vulnerable control system.

The work control coordinator stated that the department was unaware of all the EO 691 requirements, and that the missing vehicle inspections were an oversight.

Failure to maintain comprehensive policies and procedures and a fully implemented motor vehicle inspections and use program increases the risk of poorly maintained motor vehicles and negatively impacts driver safety, while failure to complete an annual analysis of operating costs or a formal evaluation process for reutilization of surplus vehicles increases the risk that vehicle costs and repairs will exceed the value of the vehicle.

Recommendation 7

We recommend that the campus:

- a. Clarify who has responsibility for the motor vehicle inspection program and ensure that records at the chancellor's office and the campus show the same individual.
- b. Prepare an annual analysis of operating costs and implement an evaluation process for reutilization of surplus vehicles.
- c. Update the motor vehicle inspection program to incorporate requirements for vehicle inspector approval for parts exceeding \$350 or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.
- d. Strengthen controls over vehicle maintenance.

Campus Response

- a. We concur. We will clarify who has responsibility for the motor vehicle inspection program and ensure that records at the chancellor's office and the campus show the same individual.

Estimated completion date: May 2007

- b. We concur. We will prepare an annual analysis of operating costs and implement a documented evaluation process for reutilization of surplus vehicles.

Estimated completion date: August 2007

- c. We concur. We will update the motor vehicle inspection program to incorporate requirements for the campus vehicle inspector's approval for parts exceeding \$350, or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.

Estimated completion date: July 2007

- d. We concur. We will strengthen controls over vehicle maintenance.

Estimated completion date: August 2007

VEHICLE USE CONTROLS

Daily operator checklists were not consistently completed for campus-owned vehicles.

Our review of seven vehicles disclosed that daily operator checklists were missing for two vehicles for the month of May 2006, and at least two days of trip activity were missing for the same month for all the vehicles reviewed.

The *CSUMB Motor Vehicle Inspection Program* states that a daily operator checklist form must be completed by the vehicle operator and forwarded to the campus vehicle coordinator on a weekly basis. These records are monitored and entered into the monthly inspection log by the vehicle coordinator.

The *CSU Use of University and Private Vehicles Policy Guidelines*, dated March 2002, states, in part, that the campus control office must determine that the operator of a vehicle has an obligation to inspect the vehicle before driving it. Problems noticed by the operator while using the vehicle should be noted on a trip/daily operator checklist, which should be kept in the vehicle.

The work control coordinator stated that the campus made every effort to obtain these documents; however, these specific days appeared to be overlooked by the department.

Failure to complete the daily operator checklist increases the risk of poorly maintained vehicles and negatively impacts driver safety.

Recommendation 8

We recommend that the campus strengthen procedures to ensure that daily operator checklists are completed for all university-owned vehicles.

Campus Response

We concur. We will strengthen procedures to ensure that daily operator checklists are completed for all university-owned vehicles.

Estimated completion date: August 2007

AGREEMENTS AND LEASES

Delegation of authority to execute leases was not formalized, facility fees were not properly approved, and the facilities licensing agreement did not provide for adequate insurance.

We found that:

- ▶ The vice president of administration and finance executed leases without a written delegation of authority from the campus president or designee.
- ▶ There was no evidence that the president or designee had approved the fees charged for the short-term leasing of the World Theatre.
- ▶ The facilities licensing agreement form did not include a provision for business automobile insurance.

EO 669, *Leases*, dated April 21, 1997, delegates authority to the campus president or designee to execute leases of real property. Further, all lease agreements must include, at a minimum, the standard provisions and language included in the model lease agreements maintained by the chancellor's office.

Standing Orders of the CSU Board of Trustees (BOT) §II.i and §VI.f state that the chancellor has the authority to establish and oversee campus fees; establish, adjust, and oversee systemwide fees subject to overall direction of the BOT; and the campus president is authorized to oversee and adjust campus fees. Presidents may delegate their authority to other officials on their campuses.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, specifies minimum levels of required contractor insurance, including business automobile, and states, in part, that all certificates of insurance issued to the university require an Acceptability of Insurers rating, AM Best – AVII or equivalent unless otherwise agreed to by the university.

The associate vice president of finance stated that the lack of a formal delegation of authority for leases and a business automobile insurance provision were oversights, while the unapproved fee changes were due to recent changes in World Theatre staff.

Inadequate control over the leasing of state facilities increases the risk of inappropriate rentals, unapproved rental fees, lost fee revenue, and uninsured damage to university property.

Recommendation 9

We recommend that the campus:

- a. Maintain a current delegation of authority from the campus president for the execution of lease agreements.
- b. Obtain approval from the campus president or designee for the current World Theatre rental fee schedule.
- c. Amend the facilities licensing agreement to include a provision for automobile insurance.

Campus Response

- a. We concur. We will maintain a current delegation of authority from the campus president for the execution of lease agreements.

Estimated completion date: May 2007

- b. We concur. We will obtain approval from the campus president or designee for the current World Theatre rental fee schedule.

Estimated completion date: May 2007

- c. We concur. We will amend the facilities licensing agreement to include a provision for automobile insurance.

Estimated completion date: May 2007

PROPERTY

Retention of property survey reports needed improvement.

Property survey reports evidence the disposition of state property, including the authorization for and method of property disposal. Our review of the donation or disposal of 17 assets during fiscal year 2005/06 disclosed that:

- ▶ Property survey reports were not available in two instances.
- ▶ One property survey report had an asset written in at the bottom of the page that could have been added subsequent to authorization of the report.

SAM §8600 states property accounting procedures are designed to maintain uniform accountability for state property. These procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

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 associate vice president of finance stated that insufficient document control and storage procedures led to the misplacement of two property survey reports and the acceptance of a revised property survey report without documented evidence of the revision also being authorized.

Insufficient control over the disposition of property increases the risk of theft or loss of state property.

Recommendation 10

We recommend that the campus strengthen controls over the retention and completion of property survey reports to ensure that property survey reports are prepared for all property disposals and all disposals are properly authorized.

Campus Response

We concur. We will strengthen controls over the retention and completion of property survey reports to ensure that property survey reports are prepared for all property disposals and all disposals are properly authorized.

Estimated completion date: August 2007

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|--------------------|---|
| Dianne F. Harrison | President |
| Debi Anzini | Administrative Support Coordinator |
| George Ball | Property and Fixed Assets Coordinator |
| Bob Brown | Director of Facilities Services and Operations |
| Reyola Carlisle | Contracts Coordinator |
| Art Evjen | Director of Business and Support Services |
| John Fitzgibbon | Associate Vice President for Finance |
| Carlis Johns | Assistant to Director of Budget/Planning |
| Dan Johnson | Vice President for Administration and Finance (At time of review) |
| Dan Kubiak | Interim Vice President for Administration and Finance |
| Dino Latino | Manager of Risk Services |
| Cathy Rank | Director of Budget and Planning |
| Eva Salas | Buyer II |
| Pete Torrecillas | Work Control Coordinator |



CALIFORNIA STATE UNIVERSITY
Monterey Bay

OFFICE OF THE VICE PRESIDENT
FOR ADMINISTRATION AND FINANCE

APPENDIX B - Page 1 of 6

100 CAMPUS CENTER, BUILDING 84D

SEASIDE, CA 93955-8001

831-582-3398

FAX 831-582-4430

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RECEIVED
UNIVERSITY AUDITOR

MAR 22 2007

THE CALIFORNIA STATE
UNIVERSITY

March 20, 2007

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report 06-22,
Delegations of Authority

Dear Mr. Mandel:

In reply to the recommendations forwarded to President Harrison on February 21, 2007 regarding the subject report, I am attaching the campus response to those recommendations. As requested, an electronic version of the response will be sent via email. Please contact me if you have any questions regarding this submittal.

Sincerely,

Dan Kubiak

Interim Vice President for Administration & Finance

Attachment

cc: President Harrison
AVP Fitzgibbon

DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Audit Report 06-22
February 20, 2007

PROCUREMENT ADMINISTRATION

DELEGATIONS OF AUTHORITY

Recommendation 1

We recommend that the campus:

- a. Redesign and update its written delegations of authority to include the current president.
- b. Provide clear lines of delegated authority.
- c. Include all individuals with delegated authority.

Campus Response

- a. We concur. We will redesign and update our written delegations of authority to include delegations of authority from the current president.
Estimated completion date: May, 2007.
- b. We concur. We will clarify the lines of delegated authority.
Estimated completion date: May, 2007.
- c. We concur. We will include all individuals with delegated authority.
Estimated completion date: May, 2007.

DIRECT PAYMENTS

Recommendation 2

We recommend that the campus establish written policies and procedures for direct payments and strengthen procedures to ensure all transactions fall within established CSU policy.

Campus Response

We concur. We will establish written guidelines and procedures for direct payments and strengthen procedures to ensure all transactions fall within established CSU policy.
Estimated completion date: August, 2007.

RECORD RETENTION

Recommendation 3

We recommend that the campus develop and maintain record retention policies for business and support services.

Campus Response

We concur. We will develop and maintain record retention guidelines for business and support services.

Estimated completion date: July, 2007.

SPECIAL PURCHASING ISSUES

Recommendation 4

We recommend that the campus:

- a. Strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.
- b. Develop a plan of action to improve compliance with prescribed legislative goals.

Campus Response

- a. We concur. We will strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.
Estimated completion date: August, 2007.
- b. We concur. We will develop a plan of action to improve compliance with prescribed legislative goals.
Estimated completion date: June, 2007.

PROCUREMENT OF SERVICES

SERVICE PROVIDER INSURANCE AND AUTHORIZATION REQUIREMENTS

Recommendation 5

We recommend that the campus:

- a. Strengthen procedures to ensure that all service providers have adequate insurance coverage for the duration of the service period.
- b. Strengthen procedures to ensure that all purchase orders are maintained on file and properly approved.

Campus Response

- a. We concur. We will strengthen procedures to ensure that all service providers have adequate insurance coverage for the duration of the service period.
Estimated completion date: May, 2007.
- b. We concur. We will strengthen procedures to ensure that all purchase orders are maintained on file and properly approved.
Estimated completion date: June, 2007.

INDEPENDENT CONSULTING AGREEMENTS

Recommendation 6

We recommend that the campus obtain a conflict-of-interest statement for all consultant contracts.

Campus Response

We concur. We will obtain a conflict-of-interest statement for all consultant contracts.
Estimated completion date: May, 2007.

MOTOR VEHICLE INSPECTIONS AND USE

VEHICLE INSPECTION PROGRAM

Recommendation 7

We recommend that the campus:

- a. Clarify who has responsibility for the motor vehicle inspection program and ensure that records at the chancellor's office and the campus show the same individual.
- b. Prepare an annual analysis of operating costs and implement an evaluation process for reutilization of surplus vehicles.
- c. Update the motor vehicle inspection program to incorporate requirements for vehicle inspector approval for parts exceeding \$350 or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.
- d. Strengthen controls over vehicle maintenance.

Campus Response

- a. We concur. We will clarify who has responsibility for the motor vehicle inspection program and ensure that records at the chancellor's office and the campus show the same individual.
Estimated completion date: May, 2007.

- b. We concur. We will prepare an annual analysis of operating costs and implement a documented evaluation process for reutilization of surplus vehicles.
Estimated completion date: August, 2007.
- c. We concur. We will update the motor vehicle inspection program to incorporate requirements for the campus vehicle inspector's approval for parts exceeding \$350, or when replacement of a vehicle may be a consideration, and three estimates for commercially performed repairs costing \$350 or more.
Estimated completion date: July, 2007.
- d. We concur. We will strengthen controls over vehicle maintenance.
Estimated completion date: August, 2007.

VEHICLE USE CONTROLS

Recommendation 8

We recommend that the campus strengthen procedures to ensure that daily operator checklists are completed for all university-owned vehicles.

Campus Response

We concur. We will strengthen procedures to ensure that daily operator checklists are completed for all university-owned vehicles.

Estimated completion date: August, 2007.

AGREEMENTS AND LEASES

Recommendation 9

We recommend that the campus:

- a. Maintain a current delegation of authority from the campus president for the execution of lease agreements.
- b. Obtain approval from the campus president or designee for the current World Theatre rental fee schedule.
- c. Amend the facilities licensing agreement to include a provision for automobile insurance.

Campus Response

- a. We concur. We will maintain a current delegation of authority from the campus president for the execution of lease agreements.
Estimated completion date: May, 2007.
- b. We concur. We will obtain approval from the campus president or designee for the current World Theatre rental fee schedule.

Estimated completion date: May, 2007.

- c. We concur. We will amend the facilities licensing agreement to include a provision for automobile insurance.

Estimated completion date: May, 2007.

PROPERTY

Recommendation 10

We recommend that the campus strengthen controls over the retention and completion of property survey reports to ensure that property survey reports are prepared for all property disposals and all disposals are properly authorized.

Campus Response

We concur. We will strengthen controls over the retention and completion of property survey reports to ensure that property survey reports are prepared for all property disposals and all disposals are properly authorized.

Estimated completion date: August, 2007.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



- 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

April 5, 2007

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor *Charles B. Reed*

SUBJECT: Draft Final Audit Report 06-22 on *Delegations of Authority*,
California State University, Monterey Bay

In response to your memorandum of April 5, 2007, I accept the response as submitted with the draft final report on *Delegations of Authority*, California State University, Monterey Bay.

CBR/jt

Enclosure

cc: Dr. Dianne F. Harrison, President
Mr. Dan Kubiak, Interim Vice President, Administration and Finance