October 20, 2016

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

Dear Admiral Cropper:

Subject: Audit Report 16-19, Delegations of Authority, California State University Maritime Academy

We have completed an audit of Delegations of Authority as part of our 2016 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services’ website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor
DELEGATIONS OF AUTHORITY

California State University
Maritime Academy

Audit Report 16-19
September 16, 2016
EXECUTIVE SUMMARY

OBJECTIVE

The overall objectives of the audit were to ascertain the effectiveness of delegated activities related to procurement and contracting, motor vehicle inspections, and real and personal property transactions, and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative and financial controls in effect as of July 29, 2016, taken as a whole, were not sufficient to meet the objectives of this audit.

In general, the audit revealed that the campus’s procurement function and motor vehicle inspection program required attention and did not always comply with California State University (CSU) policies. Specifically, we found numerous issues in the procurement process, including a lack of documentation to show that informal solicitations were performed when required, and a lack of policies and procedures to identify and review electronic and information technology purchases to ensure compliance with federal and state accessibility requirements. In addition, the campus did not have a formalized motor vehicle inspection program in place. Also, issues were noted in the execution of campus facility-use agreements and the processing of direct payments. Personnel turnover and limited resources may have contributed to these deficiencies.

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

1. PROCUREMENT AND CONTRACTING ACTIVITIES

OBSERVATION

Administration and processing of procurement transactions needed improvement.

We found that the campus was unable to locate a written delegation of authority for the acquisition of personal property and services for the procurement buyer dated prior to May 2016, although the individual had approved several purchase orders starting in July 2015.

In addition, we reviewed 50 purchases of goods and services, including five transactions that required an informal solicitation process and five transactions that required a formal solicitation process based on the dollar amount of the transaction, and found that:

- For four of the five informal solicitations, the campus could not provide documentation showing that the informal solicitation process was completed, including the development of a written scope of work and documented quotes from at least three vendors.

- Four of the five formal solicitations did not fully comply with systemwide requirements. Specifically, all four solicitations did not include required Disabled Veteran Business Enterprise (DVBE) participation/incentive language; in three instances, conflict-of-interest forms were not obtained from campus personnel involved in the solicitation process; and in two instances, documentation to justify the campus decision not to advertise the solicitations publicly or in the California State Contracts Register was not available.

- For three of 11 transactions involving services performed on campus, the campus was either unable to locate certificates of insurance or the insurance certificates obtained were not adequate per systemwide requirements.

Proper administration and processing of procurement transactions decreases the risk of noncompliance with CSU and other governmental requirements.

RECOMMENDATION

We recommend that the campus provide training to key personnel involved in the procurement process to address the issues noted above, including, but not limited to, approvals of purchases by individuals with appropriate delegated authority; performance and documentation of informal solicitations; requirements for formal solicitations; and requirements regarding certificates of insurance.

MANAGEMENT RESPONSE

We concur. The campus will provide training to key personnel involved in the procurement process, including approvals of purchases by individuals with appropriate delegated authority; performance and documentation of informal solicitations; requirements for formal solicitations; and requirements regarding certificates of insurance.
2. MOTOR VEHICLE INSPECTION PROGRAM

OBSERVATION

Administration of the campus motor vehicle inspection program needed improvement.

We found that:

- There was no written delegation of authority for the administrator responsible for the motor vehicle inspection program.

- The campus did not have written policies and procedures for the motor vehicle inspection program.

- The campus could not provide sufficient documentation to show that regular maintenance and inspection of all campus motor vehicles was being performed.

Proper administration of the motor vehicle inspection program increases compliance with state and CSU requirements and provides assurance of safety and maximization of the useful life of the assets.

RECOMMENDATION

We recommend that the campus:

a. Obtain written delegation of authority from the campus president to the administrator responsible for the motor vehicle inspection program.

b. Develop and document policies and procedures for the motor vehicle inspection program in compliance with systemwide requirements, including a process to document the completion of regular maintenance and inspections of all campus motor vehicles.

c. Communicate motor vehicle inspection policies and procedures to key personnel.

MANAGEMENT RESPONSE

We concur. The campus will:

a. Obtain written delegation of authority from the campus president to the administrator responsible for the motor vehicle inspection program.

b. Develop and document policies and procedures for the motor vehicle inspection program in compliance with systemwide requirements, including a process to document the completion of regular maintenance and inspections of all campus motor vehicles.

c. Communicate motor vehicle inspection policies and procedures to key personnel.
3. FACILITIES-USE AGREEMENTS

**OBSERVATION**

Facilities-use agreements were not always executed properly, and adequate proof of insurance was not always obtained from lessees.

Specifically, we reviewed eight facilities-use agreements and found that:

- There was no written delegation of authority for the administrator authorized to execute facilities-use agreements on behalf of the campus.

- Six facilities-use agreements were not executed by a campus administrator; in these instances, only the lessee’s signature was obtained. An additional agreement was incomplete, and we were unable to verify who executed the agreement.

- For four on-campus hosted events, proof of insurance was not obtained from the lessee.

Proper administration of facilities-use agreements and insurance coverage minimizes the campus’s financial and legal liability and ensures that terms and conditions associated with the use of campus facilities are understood.

**RECOMMENDATION**

We recommend that the campus:

a. Obtain written delegation of authority from the campus president for the administrator authorized to execute facilities-use agreements on behalf of the campus.

b. Remind personnel involved in the administration of facilities-use agreements that agreements must be signed by an appropriate campus administrator with delegated authority and that proof of insurance must be obtained from the lessee.

**MANAGEMENT RESPONSE**

We concur. The campus will:

a. Obtain written delegation of authority for facilities-use agreements.

b. Remind personnel involved in the administration of facilities-use agreements that agreements must be signed by an appropriate campus administrator with delegated authority and proof of insurance must be obtained from the lessee.

Expected completion date: January 2017
4. ELECTRONIC AND INFORMATION TECHNOLOGY PURCHASES

OBSERVATION

The campus had not implemented policies and procedures to identify and review electronic and information technology (E&IT) purchases and obtain voluntary product evaluation templates (VPAT) from vendors to ensure compliance with federal and state accessibility requirements.

Clear and documented E&IT policies and procedures improve compliance with federal and state accessibility standards.

RECOMMENDATION

We recommend that the campus implement policies and procedures to identify and review all E&IT purchases and obtain the required VPAT documentation from vendors and communicate these policies and procedures to the appropriate personnel.

MANAGEMENT RESPONSE

We concur. The campus will implement policies and procedures to identify and review all E&IT purchases and obtain the required VPAT documentation from vendors and communicate these policies and procedures to the appropriate personnel.

Expected completion date: January 2017

5. DIRECT PAYMENTS

OBSERVATION

Campus direct-payment procedures were incomplete, and purchases made through the direct-payment process did not always comply with campus requirements.

We found that campus practice was to issue a confirming order form to the appropriate vice president for approval when there were violations or exceptions to the direct-payment process. However, this practice for handling exceptions was not addressed in the direct-payment procedures, nor was it consistently followed. In addition, there was no process to handle or escalate repeat offenses.

We reviewed 16 direct payment expenditures and found 14 purchases that violated the limits or requirements of allowable direct-payment purchases and should have been processed by procurement. Confirming order forms were only issued for seven of these violations. Additionally, of the 14 violations, we noted that eight related to repeat violations by two individuals.

Proper administration of the direct payment process improves accountability and oversight of state funds and decreases the campus’s exposure to financial risk.
RECOMMENDATION

We recommend that the campus:

a. Update the direct-payment procedures to include the process for handling exceptions or violations to the direct-payment method and escalation required for repeat offenses.

b. Communicate these procedures to key campus personnel, including those who frequently submit direct-payment expenditures and accounts payable personnel who process these expenditures.

MANAGEMENT RESPONSE

We concur. The campus will update its direct-payment procedures, which will include handling exceptions, violations, and escalation for repeated offenses. The procedures will be communicated to the appropriate personnel.

Expected completion date: January 2017

6. PROPERTY POLICIES AND PROCEDURES

OBSERVATION

Campus property policies and procedures were not centralized and were inconsistent and outdated.

We reviewed five different campus policies and procedures addressing the administration of university property and found that information was often repeated or inconsistent, or did not reflect current campus practices. The procedures also did not address physical inventory requirements for equipment funded by federal grants and contracts.

Current and defined property policies and procedures ensure the proper administration of university-owned property and decrease the campus’s exposure to financial loss.

RECOMMENDATION

We recommend that the campus:

a. Review and update the policies and procedures noted above to remove inconsistencies and repetition, reflect current practices, and address physical inventory requirements for equipment funded by federal grants and contracts.

b. Communicate the updated policies and procedures to key campus personnel involved in property administration.
MANAGEMENT RESPONSE

We concur. The campus will review and update its policies and procedures to remove inconsistencies and repetition, reflect current practices, and address physical inventory requirements for equipment funded by federal grants and contracts, and will communicate these policies and procedures to the appropriate personnel.

Expected completion date: January 2017
GENERAL INFORMATION

BACKGROUND

In 1986, Senate Bill (SB) 1828 indefinitely extended CSU delegations of authority concerning certain financial and operational responsibilities as part of an ongoing initiative to decentralize functions from the Department of General Services and promote greater economy and efficiencies in CSU operations. Assembly Bill 1191, passed in 1993, expanded the legislation.

SB 1828 also created Education Code (EC) §89045, which established and outlined expectations for the CSU internal audit function. Under the code, audits must be performed at least every five years for procurement and contracting activities; motor vehicle inspection programs; leases; real property transactions; and the sale and exchange of state-owned personal property.

The EC granted the CSU authority over certain procurement and contracting activities, and these authorities were further delegated to the campus presidents or designees through a series of updated Executive Orders (EO), provided that activities were conducted in accordance with Integrated California State University Administrative Manual (ICSUAM) §5000, Contracts and Procurement. These ICSUAM policies were adopted for compliance with a variety of statutory and policy provisions found in the State of California Codes, including the EC, Public Contract Code, and Government Code.

ICSUAM §5000 addresses fair and open competition, including parameters for competitive practices and for situations where less-formal procurement processes can be used. The policies also address available or required special considerations for vendors identifying as Disabled Veteran Business Enterprises and small or micro businesses, or those vendors located in a Target Area Contract Preference Act region, among others.

ICSUAM §3150.01, Administration of University Property, outlines policy regarding how university property is valued, maintained, and safeguarded, as well as the determination and recording of the final disposition or disposal of property. The State University Administrative Manual (SUAM) remains the source for policy regarding certain real property transactions, such as easements, rights-of-way, and quitclaims.

At California State University Maritime Academy (CSUMA), procurement functions are centralized within the procurement department, a unit within the division of administration and finance. The procurement department is composed of one buyer and one director, and the department’s responsibilities include handling the administration of all purchase and change orders; preparing bids and requests for proposals; ensuring compliance with DVBE and small business vendor participation requirements; developing contracts and long-term leases; vendor relations; and oversight of the procurement card program. The accounting department is responsible for the administration of direct payment purchases, and the facilities management department is responsible for the motor vehicle inspection program. The department of conference and events is responsible for the management of on-campus events, including the execution of facilities-use agreements.
SCOPE

We visited the CSUMA campus from June 20, 2016, through July 29, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2014, through July 29, 2016.

Specifically, we reviewed and tested:

- Delegations of authority for contracting, procurement, leases, motor vehicle inspections, and real and personal property transactions.
- Contracting and procurement activities, including documentation to support vendor selection decisions and proper approval of transactions.
- Processes to ensure that motor vehicles are inspected regularly and that maintenance is conducted in a cost-effective manner.
- Processes in place to ensure proper approval and administration of leases.
- Processes in place to ensure that real and personal property transactions are administered in accordance with system policy.

Our review did not include delegations of authority and other contracting and procurement activities for public works projects governed by Public Contracts Code §10700.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology was designed to provide a review of key operational, financial, and administrative controls, which included detailed testing on a limited number of procurement and other transactions to ensure related processes were conducted in accordance with campus, systemwide, and regulatory policies.

CRITERIA

Our audit was based upon standards as set forth in Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing.*

This review emphasized, but was not limited to, compliance with:

- EC §89045, §89031.5, §89036, §89046 and §89048
- EO 669, *Leases*
- EO 691, *Motor Vehicles Inspections – Delegation of Authority*
- EO 760, Procurement Cards
- EO 775, Acquisition of Personal Property and Services
- EO 1000, Delegation of Fiscal Authority and Responsibility
- ICSUAM §3150.01, Administration of University Property
- ICSUAM §5000, Contracts and Procurement
- SUAM §9018, Acquisitions and Granting of Easements and Acceptance of Quitclaiims
- Government Code §13402 and §13403
- CSUMA Procard Manual
- CSUMA Direct Pay Procedures
- CSUMA Use of University Facilities
- CSUMA Asset Inventory Count
- CSUMA Survey Board Procedures
- CSUMA Capital and Sensitive Equipment Management and Tagging
- CSUMA Equipment Management Guidelines
- CSUMA Capital Asset Guide

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