MEMORANDUM

Date: September 13, 2016

To: Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

From: Larry Mandel
Vice Chancellor and Chief Audit Officer

Subject: Audit Report 16-20, Delegations of Authority, Office of the Chancellor

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 chancellor's office personnel over the course of this review.

C: Timothy P. White, Chancellor
DELEGATIONS OF AUTHORITY

California State University,
Office of the Chancellor

Audit Report 16-20
August 5, 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 (CO) directives, and CO procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the operational, administrative, and financial controls in effect as of June 15, 2016, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the areas under review appeared to be operating in accordance with California State University (CSU) policies and other external requirements. We did note, however, that management should review delegations of authority to ensure they are current and appropriate for existing staff and reflective of the risks and needs of the underlying functions. We also noted opportunities for the CO to improve policies, procedures, and processes to ensure the most effective processing of purchase change orders, direct payments, and sole-source procurements.

Although the objectives of this audit were met, the issues identified indicate that some attention is needed to ensure that the financial, operational, and administrative operations are in conformance with existing policies and to a level necessary to meet management expectations. Most issues listed below represent opportunities to improve the clarification and establishment of policies or procedures.

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

1. DELEGATIONS OF AUTHORITY

<table>
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<td>Administration of delegations of authority (DOA) needed improvement.</td>
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We reviewed transactions in procurement and leasing, and we found that delegations of authority were not always reviewed for sufficiency when the authority was initially delegated or during times of management transition.

Specifically:

- In four instances, individuals approved sole-source procurement transactions that exceeded their delegated authority limit. One instance was due to the signer exceeding the delegated authority, but in three of the cases, the approver was acting as an interim for a management position that included a higher limit.

- An individual with limited authority to sign agreements for conference services approved three short-term leases that exceeded the individual’s delegated authority limit. The DOA for this individual had not been updated since 2007.

Effective administration of DOAs provides assurance that transactions will be processed in accordance with systemwide policy and provides assurance of compliance with intended DOA limits.

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<th>RECOMMENDATION</th>
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<td>We recommend that the CO review DOAs for procurement and leasing and determine whether they are sufficient.</td>
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<th>MANAGEMENT RESPONSE</th>
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<td>We concur. The CO will review existing procurement and leasing DOAs and determine whether they are sufficient. This recommendation will be complete by November 2016.</td>
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2. CHANGE ORDERS

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<td>Procurement policies did not address change orders to existing purchase orders (PO).</td>
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We reviewed 50 procurement transactions and found three instances in which an individual change order within a buyer’s threshold authority resulted in a cumulative total for the PO that exceeded the buyer’s authority. CO policies did not address whether this type of situation would require the transaction to be elevated to an individual with a higher limit.
Clarification of change order policy reduces misunderstandings and errors and provides greater assurance of compliance with intended DOA limits.

**RECOMMENDATION**

We recommend that the CO establish DOA policies that address change orders to existing purchase orders.

**MANAGEMENT RESPONSE**

We concur. The CO will establish DOA policies addressing changes to purchase orders. This recommendation will be completed by October 2016.

3. **DIRECT PAYMENTS**

**OBSERVATION**

Roles and responsibilities for compliance with direct payment policies needed to be clarified and communicated to responsible parties.

We reviewed 20 direct payment transactions and found that nine were not in accordance with policy-approved categories of payments exempted from the procurement oversight process. Of the nine, eight had associated POs, but the department remitting the invoice to accounts payable had not listed the associated PO number for accounting reference to relieve the encumbrance. Absent the PO information, accounts payable processed the invoice as a direct payment. It was not clear whether accounts payable had a role in identifying payments for goods and services that should have gone through procurement oversight and for questioning whether there should have been a PO.

Consistent and coordinated efforts to ensure compliance with CSU procurement policies provide greater assurance that the CSU is receiving the best price, products, and services.

**RECOMMENDATION**

We recommend that the CO clarify and communicate roles and responsibilities for compliance with direct payment policies to responsible parties.

**MANAGEMENT RESPONSE**

We concur. The CO will clarify direct payment processing roles and responsibilities and communicate them to appropriate staff. This recommendation will be completed by November 2016.
4. SOLE-SOURCE PROCUREMENT

OBSERVATION

The CO did not always comply with CSU requirements for sole-source procurement.

We reviewed 15 sole-source purchases and found that in four instances, the written sole-source request did not meet the justification requirements outlined in Integrated California State University Administrative Manual (ICSUAM) §5206.00. Specifically, the sole-source requests were justified on a disallowed basis or did not include all required information, such as what other sources were considered or rejected and why.

Adherence to sole-source justification requirements provides greater assurance that the CSU is procuring goods and services with the best quality and price.

RECOMMENDATION

We recommend that the CO comply with CSU requirements for sole-source procurement.

MANAGEMENT RESPONSE

We concur. The CO will reiterate sole-source procurement policies and procedures to impacted staff. This recommendation will be completed by September 2016.
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 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 (DVBE), 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 the CO, procurement functions are centralized in Contract Services and Procurement (CSP), within the Business and Finance division. The team of buyers and contract specialists provide administration and authorization for all purchase order and contract transactions, including assurance of compliance with specialized purchase programs, such as DVBE and small-business-vendor participation. Direct payments and procurement cards are administered in Accounts Payable and CSP, respectively, and the vehicle fleet is administered in Facilities Management, within the Capital Planning, Design, and Construction (CPDC) department. Long-term leases are administered by CPDC, which coordinates program and legal reviews and provides the signing authority. Short-term leases for conferences and events are administered by Conference Services.

SCOPE
We visited the Office of the Chancellor from May 16, 2016, through June 13, 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 June 13, 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; CO 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 §89031.5, §89036, §89045, §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 Quitclaims
• Government Code §13402 and §13403
• CO Procurement Operations Manual
• CO Procurement Card Handbook
• CO Payment Matrix

AUDIT TEAM

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Audit Manager: Ann Hough  
Internal Auditor: Marcos Chagollan