

DELEGATIONS OF AUTHORITY

SONOMA STATE UNIVERSITY

Report Number 96-06

September 13, 1996

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ABBREVIATIONS

AB	Assembly Bill
CCP	Credit Card Procurement (CCP) Program
CSCR	California State Contracts Register
CSU	California State University
CO	Chancellor's Office
DE	Direct Expenditure Procedures
DFEH	Department of Fair Employment and Housing
EC	Education Code
EDP	Electronic Data Processing
EO	Executive Order
GC	Government Code
IRS	Internal Revenue Service
MVI	Motor Vehicle Inspector
OSMB	Office of Small and Minority Business
PCC	Public Contract Code
PSSO	Procurement and Support Services Officer
SB	Senate Bill
SSU	Sonoma State University
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

Our principle audit objective was to review and analyze activities to assure that the CSU has acted responsibly under the delegations of authority established by Senate Bill 1828 (1986) and the extended delegation to campus presidents under AB 1191 (1993). The extended delegation of AB 1191 was circulated to the campus under Executive Order 615, Delegation of Acquisition Authority for Personal Property and Services, dated March 23, 1994.

SCOPE AND METHODOLOGY

This review emphasized, but was not limited to, compliance with state laws, Board of Trustee policies, and Office of the Chancellor, principally via the State University Administrative Manual (SUAM) and campus policies, letters and directives. Fiscal year 1995-96 was the primary period of review. Our focus involved the records and procedures within the purchasing Office and physical Plant. Specifically, we reviewed and tested the following areas:

- **Specific purchasing and contracting delegations via EO 615;**
- **Insurance;**
- **EDP and telecommunication acquisitions;**
- **Consultant contracts;**
- **Service orders;**
- **Small business procurement and contract policy;**
- **Motor vehicle inspections;**
- **Agreements and leases;**
- **Leasing campus real property;**
- **Contracts for the hiring of space for campus use;**
- **Property transactions and;**
- **Sale or exchange of personal property.**

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding.

BACKGROUND

In 1986, Senate Bill (SB) 1828 was passed. This bill extended indefinitely certain CSU delegations of authority concerning purchasing, contracting and other areas of Business Management. The bill's intent was to promote greater economy or efficiency in CSU operations. The extended delegation involves the following areas:

SB 1828 DELEGATIONS

SUBJECT	CODE CITATION
Motor Vehicle Inspections	EC 89031.5
Lease of Campus Property	EC 89046
Property transactions (real & personal), easements, rights-of-way, quit claims, and sale or exchange of personal property	EC 89048
Leasing non-university property for university use	EC 89048 (e)
Insurance	GC 11007.7
Purchases/Service Agreements under \$100,000	PCC 10295
Purchasing (Federal Surplus Real Property)	PCC 10389
Acquisitions of EDP and Telecommunications Goods and Services under \$100,000	PCC 12100.5

The bill also added section 89045 (d) to the Education Code. This section requires Trustees' Audit to do a complete audit of the aforementioned delegated subjects at least once every five years. The last audits of these delegated issues occurred during 1991. At that time the SB 1828 delegated items were divided into separate audits under the titles of *Purchasing and Contracting* and *Motor Vehicle Inspections and Real Property Transactions*. For 1996, the SB 1828 delegated subjects have been combined into one audit which is titled *Delegations of Authority*.

Executive Order 615, Delegation of Acquisition Authority dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1191 (chapter 1097, Statutes of 1993) to campus presidents. This EO delegates to each campus president the authority to execute and implement the following transactions without regard for dollar limits on behalf of the Board of Trustees:

- A. To purchase, lease or license personal property and incidental services related to the procurement of personal property.
- B. To enter into service contracts and consulting service agreements which are not in connections with a construction contract.
- C. To purchase information technology resource goods and services (previously referred to as electronic data processing and telecommunications) in accordance with the provisions of Public Contract Code 12100 et seq.

OPINION

We visited the Sonoma State University campus between June 3 -14 and July 8-10, 1996, and audited the procedures in effect at that time.

We found that, except for the items noted in the Executive Summary and in the detail of the report, compliance with legislative delegations, CSU and campus policies and procedures was satisfactory. State University Administrative Manual (SUAM) is undergoing a significant revision. It may well be that existing campus procedures will be in even greater compliance once the revisions have been enacted.

EXECUTIVE SUMMARY

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

PURCHASING AND CONTRACTS

PROCUREMENT CARDS [5]

The campus procurement card procedures did not include all of the required purchasing restrictions listed in CSU memo 94-23. Informing the campus community of all specially controlled items reduces the risk of such items being purchased.

DIRECT EXPENDITURES [5]

The campus use of Direct Expenditures (DE) for the purchase of goods and services without the use of a purchase order, service order or contract, may circumvent competitive bidding and reporting requirements. Chancellor's Office review and approval of DE procedures will assure their compliance with existing delegations.

INVITATION FOR BID (IFB) ADVERTISING [6]

The campus was not posting IFBs at a location easily accessible to potential bidders. Posting IFB information will increase the pool of potential bidders for providing goods and services to the campus.

NOTICE OF CONTRACT AWARD [7]

The campus had not established procedures to file a SF 16, Contract Award Reports, with the Department of Fair Employment and Housing (DFEH) for each purchase of goods in excess of \$5,000. Reporting such transactions to DFEH increases the ability of that agency to monitor state purchasing procedures for discriminatory practices.

SMALL BUSINESS PARTICIPATION REPORTS [8]

The annual Small Business Participation reports filed with the Office of Small & Minority Business (OSMB) have been overstated for approximately six years. Reporting accurate data to OSMB increases the ability of that agency to monitor small business participation. Subsequent to our visit, the campus provided us with a memo outlining improved procedures which satisfactorily addressed our concerns.

INSURANCE REQUIREMENTS [8]

Insurance coverage involving contractor's were found to be deficient in several areas. Securing complete certificates of insurance from contractor's at the beginning of the lease period and assuring they remain in effect for the duration of the term reduces potential risk to the campus and CSU.

AGREEMENTS AND LEASES

SPECIAL EVENTS POLICY [9]

The campus was not crediting special events fee revenues generated from direct services to general fund accounts. Crediting all special event fee revenue to the support appropriation of the CSU properly states the balances available for general fund expenditures.

FACILITY USE APPLICATIONS AND LEASE AGREEMENTS [10]

The campus Facility Use Application and Lease Agreement forms were deficient in several areas. Improving the campus facility use forms will reduce the risk of use of campus facilities by off-campus groups unacceptable to the University and assure that related facility use fees are credited to the general fund.

ADMINISTRATION OF FACILITY LEASE AGREEMENTS [11]

The administration of leases with off-campus groups was deficient in several areas. Strengthening administration of the facility lease agreements will assure that the general fund is reimbursed for all related fees and reduce the risk of uninsured off-campus groups using campus facilities.

MOTOR VEHICLE INSPECTIONS [12]

Trip/daily operator checklists and Daily Driver's Logs were not being properly utilized. Use of the Trip/Daily Operator Checklists and Daily Driver's Logs increases the time available to address maintenance problems and reduces the likelihood that such problems will occur at an inopportune time. At the conclusion of our fieldwork, the director of Physical Facilities circulated a memo to all campus operators of state vehicles and dispatchers reminding them of the requirement to complete the campus vehicle performance report (checklist and logs) on a daily basis.

PURCHASING AND CONTRACTS

PROCUREMENT CARDS

The campus procurement card procedures did not include all of the required purchasing restrictions listed in CSU coded memo BF 94-23, Additional and Revised Policies of Goods & Services in the CSU; Reference Executive Order 615, dated December 1, 1994.

BF 94-23 states in part " . . . delegations shall expressly prohibit purchases of items determined inappropriate by the Procurement Officer. Examples are specially controlled items such as ethyl alcohol; . . . precious metals, explosives, and other hazardous materials . . ." . The items listed above were not specifically listed in the restricted purchase section of the SSU Credit Card Procurement document.

The Procurement Officer stated that the above reference was considered to be an example rather than mandatory language and was not included in their written procedures. Discussion with Office of the Chancellor staff indicated that the specially controlled items were intended to be communicated to procurement card users.

Not informing the campus community of all specially controlled items increases the risk of such items being purchased.

Recommendation 1

We recommend that the campus amend its credit card procurement procedures to include a listing of all of the prohibited purchase items.

Campus Response

A letter to the campus community will be issued quoting item 4, page 4 of 12 from coded memorandum BF 94-23.

DIRECT EXPENDITURES

The campus use of Direct Expenditures (DE) for the purchase of goods and services without the use of a purchase order, service order or contract, may circumvent competitive bidding and reporting requirements.

The current campus DE procedures include items such as memberships, books, subscriptions, special lecturers and fees—all of which are not conducive to a competitive bid process. However, the procedures also authorize this process to be used for repairs, services by an individual or company and software upgrades, all of which would normally be subject to a competitive bid process and handled via purchase/service orders or contracts. The procedures contain no maximum expenditure limit for several of the items listed and require director's approval for any confirming service over \$1,000. In addition, the procedures do not address reporting commodity and service purchases of more than \$5,000 to the Department of Fair Employment and Housing (DFEH).

While existing CSU directives, including SUAM, do not specifically address direct expenditure procedures, BF 94-23, Additional and Revised Policies of Goods & Services in the CSU; Reference Executive Order 615, dated December 1, 1994 indirectly touches on this issue in two places:

Page 4 addresses the development of procedures to reduce costs of low-value purchases. However, this section limits low-value transactions to not more than \$1,000 per transaction. Campus records indicated that approximately 117 DE transactions in excess of \$1,000 had been processed between July 1, 1995 and April 30, 1996.

Page 2 addresses purchases of goods and services up to \$10,000.00 and authorizes the Purchasing Officer to determine whether competition is warranted up to \$10,000. Any such orders that are not based on competition are to be supported by documentation that the price is reasonable. The DE procedures did not discuss the issue of documentation and the DE documents did not clearly indicate whether the price was determined to be reasonable.

The goal of the campus DE program was to streamline the processing of selected transactions, thereby improving the economies, efficiencies and effectiveness of the SSU purchasing program. This goal mirrors existing CSU philosophy.

Without specific DE purchasing parameters, this process could result in a lessening of competitive purchasing, a process to which the CSU is committed.

Recommendation 2

We recommend that the campus submit their DE procedures to the CO for review and approval.

Campus Response

We concur and will submit our procedures to the director, Contracts and Procurement, Office of the Chancellor.

INVITATION FOR BID (IFB) ADVERTISING

The campus was not posting IFBs at a location easily accessible to potential bidders.

SUAM Section 2432.01.02 states in part that:

A copy of the Invitation for Bid will be posted at the campus in a location easily accessible to any bidder who may wish to participate . . .

The campus had recently made an effort to remove signage as part of a campus wide beautification project. The SUAM requirement for posting IFB's was overlooked.

Not posting IFB information may reduce the pool of potential bidders for providing goods and services to the campus.

Recommendation 3

We recommend that the campus establish an area on the campus to post IFBs that is readily accessible to potential bidders.

Campus Response

A bulletin board has been acquired and installed as of October 25, 1996 for the recommended purpose outside of the Procurement Office.

NOTICE OF CONTRACT AWARD

The campus had not established procedures to file a SF 16, Contract Award Reports, with the Department of Fair Employment and Housing (DFEH) for each purchase of goods in excess of \$5,000.

SUAM Section 2411.07.02 states in part:

Campuses must give written notice to the Department of Fair Employment and Housing, Office of Compliance Programs, within 10 working days of award of all purchase orders over \$5,000...

The purchasing office was filing these contract award reports to DFEH for purchases of services in excess of \$5,000. However, the Procurement Officer was not aware of the requirement to file these awards for purchases of goods of over \$5,000.

Not reporting purchases of \$5,000 or more to DFEH limits the ability of that agency to monitor state purchasing procedures for discriminatory practices.

At the conclusion of our audit, the campus had filed a request with the CO for exemption from the SUAM 2411.07.02 requirement.

Recommendation 4

We recommend that the campus notify DFEH of the purchase of all goods and services over \$5,000 unless exempted by the CO.

Campus Response

We have implemented the recommendation and are in compliance.

SMALL BUSINESS PARTICIPATION REPORTS

The annual Small Business Participation reports filed with the Department of General Services, Office of Small & Minority Business (OSMB) have been overstated for approximately six years.

The SF 810, Contracting Report, Small Business Participation is required to be filed annually with OSMB. The instructions for completion of this report states that the dollar value of awarded contracts should include small businesses that have been previously certified by OSMB.

Approximately six years ago during the development of the campus automated purchasing system a decision was made to automatically establish all new vendors as a "certified small business"; in part due to a lack of data space for both OSMB certified and non-certified small businesses.

Not reporting accurate data to OSMB limits the ability of that agency to monitor small business participation.

Subsequent to the exit conference, the Procurement Officer provided us with a memo from the campus Office of Information Technology indicating that the small business field on the vendor maintenance screens had been revised to cause that field to be blank by default; and updatable by the buyers upon award to an OSMB certified small business.

INSURANCE REQUIREMENTS

Insurance coverage involving contractor's were found to be deficient in several areas.

Within our audit sample were three contracts which required liability insurance. Insurance coverage is provided to the campus on a certificate of insurance (COI). Our review indicated the following:

- **Additional insured statements were not included on any of the contractor's COI.**
- **The insurance coverage period on two of the COI had expired prior to the end of the term indicated in the contract.**
- **The period of coverage on one of the contracts contained an effective date two months after the start of the term of service indicated in the contract.**

SUAM Section 2520.03.01 requires:

. . . That the State of California, the Trustees of the California State University, the University, and the employees, officers, and agents of each of them, are included as additional insureds.

The Procurement officer indicated the problems of not assuring the additional insured statement was included on the COI and that the COI were in effect for the entire term of the contract was due to oversight.

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

Recommendation 5

We recommend that the campus strengthen existing procedures to assure that contracts/leases involving the need for liability insurance contain appropriate coverage, including additional insureds, through the length of the contract.

Campus Response

We have established and implemented a written policy to ensure that appropriate levels of insurance coverage are in place through the contract/lease periods.

AGREEMENTS AND LEASES

SPECIAL EVENTS POLICY

The campus was not crediting special event fee revenues generated from direct services to general fund accounts.

SUAM section 2710.04.01 states:

Any rental monies received by the Trustees under these or other leasing conditions shall be deposited in the State Treasury and credited to the support appropriation of the California State University current during the period of occupancy.

The campus was not aware of the specific requirement regarding crediting all facility use fees to the general fund. They were aware of the need to assure that the cost of items such as utilities, custodians, etc. were credited to the general fund and were doing so.

Crediting special event revenue to other than the support appropriation of the CSU understates the balance available for general fund expenditures.

Recommendation 6

We recommend that the campus:

- a. **credit all special event revenues to the general fund; and**
- b. **policy documents related to special events be revised to reflect this requirement.**

Campus Response

We concur and are taking appropriate steps to credit special event revenues to the general fund. Related policy documents will be revised to reflect this change.

FACILITY USE APPLICATIONS AND LEASE AGREEMENTS

The campus Facility Use Application and Lease Agreement forms were deficient in several areas.

We found that neither of the forms contained the following three items:

- 1. **A non-discrimination statement/certification from off-campus organizations leasing campus facilities.**
- 2. **A prohibition against sub-leasing.**
- 3. **A statement noting the methodology for payment.**

SUAM 2710.02 notes that leases of state-owned land will only be consummated with organizations who do not engage in discriminatory practices.

SUAM 2711.01.08 requires that leases contain a prohibition against sub-leasing.

Including payment methodology on the application/lease is a matter of good business practice.

The acting special events coordinator indicated that he was not aware of the specific SUAM requirements mentioned above.

Not including a statement/certification regarding non-discrimination is contrary to both CSU and state mandates, and could lead to an adverse court decision. By not requiring a statement prohibiting sub-leasing, the campus may find itself with tenants who do not have proper insurance and/or also practice some form of discrimination. Not including specific requirements for how fees are to be handled could result in the fees not being properly reimbursed to the general fund.

Recommendation 7

We recommend the campus facility use application/lease agreement forms be amended to include a non-discrimination clause, a prohibition against sub-leasing, and a statement on proper method of payment.

Campus Response

We concur and will take steps to make the recommended changes to the application/lease agreements forms.

ADMINISTRATION OF FACILITY LEASE AGREEMENTS

The administration of leases with off-campus groups was deficient in several areas.

A review of ten lease agreements executed during 1995-96 disclosed the following:

1. **Inadequate separation of duties related to the collection and deposit of fees.** One employee was responsible for executing the lease agreements and forwarding them to the business office, collecting the fees, billing (when the fees were not rendered at the time the lease agreement was consummated) and forwarding the fees to the business office.
2. **Untimely fee collection.** The fees for three of the ten facility use lease agreements reviewed had not been fully collected at the time of our review. The lease agreement form indicates that the fees are to be rendered at the time the lease agreement is consummated.
3. **Lack of supporting documentation for fee assessments.** All ten leases had between two - five types of fee assessed for both indirect and direct costs. A reconciliation of all of the fees for the ten leases reviewed to the current SSU fee schedule could not be accomplished. The majority of fee determinations made by a special events committee were not adequately documented as to how their fee assessments were calculated.
4. **Lack of supporting documentation for fee waivers.** Six of the ten leases reviewed had a part or all of the facility use fees waived. Four of the six leases involving waivers were approved by the Vice President, Administration and Finance. However, the campus could provide no record of who approved the fee waiver for the remaining two leases.
5. **Insurance requirements were not followed.**
 - a. There was no COI on file for one of the ten leases.
 - b. The COI for six of the ten leases either did not have an additional insured statement or it was incomplete.
 - c. The additional insured information on the Facility Use Application did not include the CSU Board of Trustees as one of the additional insureds.

SUAM sections 2710, 2711, and 2712 contain the general requirements regarding lease of campus facilities to off-campus groups.

Responsibility for special events coordination had been an added assignment for the Director of Housing. He was aware of the SSU special events policy but not of the specific SUAM requirements mentioned above. At the time of our review we learned that a special events coordinator had just recently been hired.

By not properly administering use of university facilities, the campus increases the risk of loss of fee revenue and insurance liability.

Recommendation 8

We recommend that the campus address each of the issues listed above relating to facility rental fee revenues and insurance liability.

Campus Response

We concur and will initiate corrective action recommended for each of the above conditions.

MOTOR VEHICLE INSPECTIONS

Trip/daily operator checklists and Daily Driver's Logs were not being properly utilized.

SUAM sections 2521.02.05 & 2521.02.06 address the requirements for daily operator inspections of vehicles including vans with a capacity of ten or more passengers.

The Director, Facilities Services indicated that no office or individual had been specifically assigned the responsibility of assuring the daily trip tickets were being completed.

Non-use of the Trip/Daily Operator Checklists and Daily Driver's Logs reduces the time available to address maintenance problems and increases the likelihood that such problems will occur at an inopportune time.

At the conclusion of our fieldwork, the Director of Physical Facilities circulated a memo to all campus operators of state vehicles and dispatchers reminding them of the requirement to complete the campus vehicle performance report (checklist and logs) on a daily basis.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Ruben Armiñana	President
Vilma Arias	Assistant Controller
E. John Bond	Director, Facilities Services
Jean Coakley	Accounting Technician
Mel Caven	Automotive Shop Manager
Laurence Furukawa-Schlereth	Vice President, Administration & Finance
Ruth McDonnell	Procurement Officer
Jerry Norris	Property Manager
Roger Rogge	Internal Auditor
Paul Santini	Accounting Manager
Tim Tiemens	Director, Housing Services & Acting Special Events Coordinator
Steve Wilson	Associate Vice President, Administration & Finance