

DELEGATIONS OF AUTHORITY
SAN FRANCISCO STATE UNIVERSITY

Report Number 01-14
October 12, 2001

Members, Committee on Audit

Shailesh J. Mehta, Chair
Stanley T. Wang, Vice Chair
Daniel N. Cartwright Murray L. Galinson
Harold Goldwhite Ricardo F. Icaza
Frederick W. Pierce, IV

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
Senior Auditor: Ellis Williams
Internal Auditors: Michael Perry and Melanie Roco

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology	2
Background	2
Opinion.....	4
Executive Summary	5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Procurement Administration	8
Specific Contract Issues	8
Terms and Conditions.....	8
Contract Award Report	9
Special Purchasing Issues.....	10
State Agency Buy Recycled Campaign	10
Small Business Reporting	11
Disabled Veteran Business Enterprises.....	13
Personal Property and Services Procurement	13
Competitive Bidding.....	13
Insurance Requirements.....	14
Motor Vehicle Inspections and Use.....	15
Motor Vehicle Inspection Program.....	15
Motor Vehicle Use	17
Agreements and Leases	18

APPENDICES

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

ABBREVIATIONS

BOT	Board of Trustees
CCR	California Code of Regulations
CIWMB	California Integrated Waste Management Board
CPDC	Capital Planning, Design and Construction
CS&P	Contract Services and Procurement
CSU	California State University
DFEH	Department of Fair Employment and Housing
DVBE	Disabled Veteran Business Enterprise(s)
EO	Executive Order
FABS	Fiscal Affairs Business Systems
F&SE	Facilities and Service Enterprises
MVI	Motor Vehicle Inspections
OSBCR	Office of Small Business Certification and Resources
PMCP	Policy Manual for Contracting and Procurement
SABRC	State Agency Buy Recycled Campaign
SFSU	San Francisco State University
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

The overall audit objective was to review and analyze activities to assure that the California State University (CSU) has acted responsibly under the *Delegations of Authority* established by Senate Bill 1828 (1986) and expanded by Assembly Bill 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 utilized 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 State Agency Buy Recycled Campaign (SABRC) goals; purchasing preferences are properly granted; and DVBE, small business, and California Integrated Waste Management Board (CIWMB) 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 campus and chancellor's office correctly acquire and grant 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

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. June 2000 to date was the primary period of review.

Our primary focus involved the internal administrative, compliance, and operational controls over certain delegated purchasing and contracting activities, motor vehicle inspections, 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, and contract advertising and reporting practices.
- ▶ Low-value purchase methods and controls.
- ▶ Handling of vendor protests, disputes, and complaints and vendor data maintenance.
- ▶ Preparation of DVBE, small business, and SABRC reports and goal attainment and purchase preferences granted.
- ▶ 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.

BACKGROUND

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

In 1986, Senate Bill 1828 extended indefinitely certain 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 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 California State University pursuant to §89031.5, §89046, and §89048 of the Education Code, §11007.7 of the Government Code, and §10295, §10389, and §12100.5 of the Public Contract Code.

The last series of similar audits occurred during 1996. Executive Order (EO) No. 615, *Delegation of Acquisition Authority for Personal Property and Services*, dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1911 to campus presidents. EO No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO No. 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO No. 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 were 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 (CCR); the standing Orders and Resolutions of the Board of Trustees; specific Trustee policy issued via chancellor executive orders and administrative policy memoranda. CSU contracting and procurement policies encompass the following fundamental principles:

- ▶ 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 insure 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 Trustee 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 No. 691, *Motor Vehicle Inspections (MVI)*, dated November 23, 1998, issued in response to our previous review, updated and streamlined prior MVI 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 Policies and Regulations* booklet, dated October 1995, which was issued via Technical Letter 95-19 from human resources administration.

EO No. 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 No. 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 interests of the CSU, and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9871, *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 (CPDC) department.

OPINION

We visited San Francisco State University from May 21, 2001, through June 22, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of the procurement department were adequate to meet campus procurement needs, while other areas of the campus required improvement with respect to motor vehicle inspections and the use and leasing of campus facilities to off-campus groups. Additionally, our review disclosed certain conditions that could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: delegations of authority; providing vendors with terms and conditions; and required reporting for recycled material purchases, DVBE, and small business. Areas in need of improvement are referenced in the executive summary.

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.

PROCUREMENT ADMINISTRATION [8]

The head of systems/collection management services approved purchases for the library without a written delegation of authority from the campus president. Maintaining proper delegations of authority prevents the occurrence of unauthorized activities.

SPECIFIC CONTRACT ISSUES [8]

TERMS AND CONDITIONS [8]

Required terms and conditions were not adequately communicated to vendors on purchase documentation. Properly communicated terms and conditions ensure that federal and state requirements are met and produce favorable contractual conditions in compliance with CSU policy.

CONTRACT AWARD REPORT [9]

Controls over completion of the Contract Award Report, which must be filed with the Department of Fair Employment and Housing (DFEH) for all contracts exceeding \$5,000, did not ensure that notification requirements were met. Reporting contract awards permits the DFEH to monitor state purchasing procedures for discriminatory practices.

SPECIAL PURCHASING ISSUES [10]

STATE AGENCY BUY RECYCLED CAMPAIGN [10]

The annual State Agency Buy Recycled Campaign (SABRC) report had not been prepared for the fiscal year 1999/2000; supporting documentation had not been maintained for the previous report; and required contractor certifications were not obtained. Submitting SABRC reports as required, maintaining applicable supporting documentation, and obtaining contractor certifications result in compliance with state regulations, permit verification of report accuracy and analysis of efforts to meet legislative goals, and reduce the risk that agency requests for additional detail cannot be addressed.

SMALL BUSINESS REPORTING [11]

Quarterly small business reports had not been filed since December 2000, while supporting documentation could not be provided for the most recent report on file. Proper submission of reports to the Office of Small Business Certification and Resources (OSBCR) ensures compliance with the Small Business Procurement and Contract Act, permits verification of report accuracy, and decreases the risk that agency requests for additional detail cannot be addressed.

DISABLED VETERAN BUSINESS ENTERPRISES [13]

Supporting documentation was not available for the fiscal year 1999/2000 Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report. Maintenance of supporting documentation permits verification of report accuracy, analysis of meeting stated participation requirements, and the addressing of agency requests for additional detail.

PERSONAL PROPERTY AND SERVICES PROCUREMENT [13]

COMPETITIVE BIDDING [13]

Required competitive bids were not always obtained. Adherence to bidding requirements in the acquisition of goods increases the ability of the campus to promote competition; protects the public from the misuse of public funds; eliminates favoritism, fraud, and corruption; and facilitates obtaining goods at the lowest possible cost.

INSURANCE REQUIREMENTS [14]

Adequate proof of contractor insurance was not always on file, and coverage by insurers with an unacceptable rating was permitted. Properly monitoring insurance coverage decreases the potential for loss to the campus and the CSU.

MOTOR VEHICLE INSPECTIONS AND USE [15]

MOTOR VEHICLE INSPECTION PROGRAM [15]

The campus motor vehicle inspection program lacked campus-wide administrative oversight and some of the elements required by Executive Order (EO) No. 691 and did not ensure that preventive maintenance, vehicle inspections, and repairs were appropriately controlled. Assuring that the motor vehicle inspection program is fully implemented decreases the risk that the overall safety, efficiency, and economic well-being of the campus motor vehicle fleet will be less than satisfactory.

MOTOR VEHICLE USE [17]

The campus had not implemented all the guidelines prescribed in the *CSU Use of University and Private Vehicles Policies and Regulations*. Properly controlling use of university-owned vehicles and fully implementing the *CSU Use of University and Private Vehicles Policies and Regulations* ensure compliance with federal, state, campus, and CSU policy and reduces the risk of use by unlicensed drivers with poor driving records and inadequately maintained vehicles.

AGREEMENTS AND LEASES [18]

Controls over the short-term leasing of state facilities did not ensure that lease documentation was properly approved; currently approved fees were charged; services of a foundation employee were properly documented; and proof of insurance coverage was in compliance with CSU requirements. Adequate controls reduce the risk of inappropriate rentals, unapproved rental fees, lost fee revenue, and uninsured damage to university property.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PROCUREMENT ADMINISTRATION

The head of systems/collection management services approved purchases for the library without a written delegation of authority from the campus president.

Executive Order (EO) No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, delegates the authority to each campus president or designee to acquire personal property and services where applicable provisions of The California State University (CSU) *Policy Manual for Contracting and Procurement* (PMCP) issued and maintained by the Office of the Chancellor have been followed.

The acting head of collection management services stated that the draft document developed in response to the prior audit was not finalized and implemented due to the retirement of three key staff members during 1992.

Not maintaining formalized delegations of authority for all procurement activities increases the risk of unauthorized activities.

Recommendation 1

We recommend that the campus obtain formalized delegations of authority as required from the campus president, and implement procedures to maintain such delegations on a current basis.

Campus Response

We concur. Delegations of authority have been prepared for all Library staff responsible for making and approving procurements of library related educational materials and information access resources. The University Librarian will be responsible to advise Fiscal Affairs of any change, addition, or termination needed regarding delegation of authority granted to Library personnel. *Expected completion date: December 14, 2001.*

SPECIFIC CONTRACT ISSUES

TERMS AND CONDITIONS

Required terms and conditions were not adequately communicated to vendors on purchase documentation.

- ▶ Forty of sixty-seven (60%) purchase documents reviewed (24 commodity and 43 services purchases) did not include one or more of the required terms and conditions.

- ▶ Sixty-five of the sixty-seven (97%) purchase documents reviewed included a reference to terms and conditions on an attached addendum that was not attached.

CSU PMCP (Release 2.1) §409 states that standard CSU contracting forms are available for use by a campus for a variety of functional applications. The standard forms are developed and approved for systemwide use, and campuses are to consult with their CSU-assigned representative from the Office of General Counsel prior to agreeing to any deletions, additions, or significant variations from the format or content.

The director of procurement stated that the current computer system did not capture transaction history for the electronic transmission of terms and conditions.

Not adequately communicating required terms and conditions increases the risk that certain federal and state requirements will not be met and may result in unfavorable contractual conditions and noncompliance with CSU policy.

Recommendation 2

We recommend that the campus establish procedures to ensure that all required terms and conditions are adequately communicated to vendors on purchase documentation.

Campus Response

We concur. The CSU standard terms and conditions will be posted on the Procurement Department web page. The computer generated purchase order template will incorporate the terms and conditions by reference and direct contractors wishing to obtain a copy to the web page or to the issuing buyer for contractors without on-line access.

Expected completion date: December 14, 2001.

CONTRACT AWARD REPORT

Controls over completion of the Contract Award Report, which must be filed with the Department of Fair Employment and Housing (DFEH) for all contracts exceeding \$5,000, did not ensure that notification requirements were met.

Our review of 35 purchase transactions requiring completion of a Contract Award Report disclosed no evidence that the reports had been completed.

CSU PMCP (Release 2.1) §404 states that campuses shall give written notice at least quarterly to the DFEH of all contracts (but not purchase orders) over \$5,000.

California Code of Regulations (CCR) Title 2 §8117.5, *Fair Employment and Housing Commission*, states that contract awarding agencies shall give written notice to the administration within ten working days of all contracts over \$5,000. (A memo from the DFEH, dated December 5, 1996, stated that the CSU could submit written notification on a quarterly basis.)

The director of procurement stated that there had been major turnover in the department, including three directors in 18 months and new staff in each position that had responsibility for tracking and reporting on campus procurement; as a result, the department fell behind in its reporting requirements.

Failure to report awarded contracts to the DFEH, as required, limits the ability of that agency to monitor state purchasing procedures for discriminatory practices.

Recommendation 3

We recommend that the campus formalize procedures to ensure that all required contract award reports are submitted to the DFEH and supporting documentation is maintained for all submissions.

Campus Response

We concur. The Procurement Department has implemented procedures for submitting the required notification to DFEH and ensures that all supporting documentation is maintained.

Expected completion date: December 14, 2001.

SPECIAL PURCHASING ISSUES

STATE AGENCY BUY RECYCLED CAMPAIGN

The annual State Agency Buy Recycled Campaign (SABRC) report had not been prepared for the fiscal year 1999/2000; supporting documentation had not been maintained for the previous report; and required contractor certifications were not obtained.

We found that the annual SABRC report had not been prepared and submitted to the California Integrated Waste Management Board (CIWMB) for 1999-2000; supporting documentation was not maintained for the 1998-99 report on file; and contractors were not 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.

CSU PMCP (Release 2.1) §303.01 states that a campus SABRC Procurement Report is to be submitted annually to the CIWMB. A copy of each report must also be transmitted to the chancellor's office Contract Services and Procurement (CS&P) department. The legislature has established recycled product procurement goals for both state agencies in general and the CSU in particular within §12205 and §10860 of the Public Contract Code.

Public Contract Code §12205(a) 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 director of procurement stated that there had been major turnover in the department, including three directors in 18 months and new staff in each position that had responsibility for tracking and reporting on campus procurement; as a result, the department fell behind in its reporting requirements.

Failure to submit SABRC reports as required, maintain applicable supporting documentation, and require contractor certifications results in noncompliance with state regulations, prevents verification of report accuracy, inhibits analysis of efforts to meet legislative goals, and increases the risk that agency requests for additional detail cannot be addressed.

Recommendation 4

We recommend that the campus establish procedures to:

- a. Prepare and submit the required SABRC report, including retention of supporting documentation.
- b. Require contractors 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.

Campus Response

- a. We concur. The Procurement Department submitted the SABRC report for 2000-2001 to CIWMB on August 29, 2001, in conformance with the September 1 deadline. To increase awareness of program procedures and requirements, Procurement Department staff attended a SABRC workshop in Sacramento in September.
- b. Buyers are obtaining CIWMB #74 Recycled Content Certification Forms from product suppliers. Buyers are also inputting a recycled product code in the description screen of the computerized purchase order program, to facilitate recycled product tracking for future reporting purposes.
Expected completion date: December 14, 2001.

SMALL BUSINESS REPORTING

Quarterly small business reports had not been filed since December 2000, while supporting documentation could not be provided for the most recent report on file.

CSU PMCP (Release 2.1) §216 states that each campus must report to the Office of Small Business Certification and Resources (OSBCR) annually on the number and amount of contracts and purchase orders awarded to small business. This report is to be sent by campuses directly to OSBCR, with a copy to the chancellor's office CS&P department by August 1 of each year. However, a memo from

CS&P, dated October 5, 1999, notified the campuses that reporting should be quarterly, effective July 1, 1999.

CS&P memorandum, *2000/01 Small Business and Disabled Veteran Business Enterprise Reporting*, dated May 14, 2001, notified the campuses that effective immediately, Small Business and Disabled Veteran Business Enterprise participation reporting is to be done on a semiannual and annual basis.

CCR Title 2 §1896.8, *Department of General Services*, states that to assist the Office of Small and Minority Business and the Department of General Services in preparing reports and compiling information in accordance with the Small Business Procurement and Contract Act, all state agencies shall submit reports at such intervals and upon such formats as requested by the Department of General Services.

The director of procurement stated that there had been major turnover in the department, including three directors in 18 months and new staff in each position that had responsibility for tracking and reporting on campus procurement; as a result, the department fell behind in its reporting requirements.

Failure to submit small business reports, as required, results in noncompliance with the Small Business Procurement and Contract Act, while the absence of supporting documentation prevents verification of report accuracy and increases the risk that agency requests for additional detail cannot be addressed.

Recommendation 5

We recommend that the campus complete the missing small business reports and establish procedures to complete the reports per the revised reporting guidelines including retention of supporting documentation.

Campus Response

We concur. The Procurement Department is working with Fiscal Affairs Business Systems (FABS) to develop a report using a Brio query format applied to the FRS procurement database. Based on the data collected, the Procurement Department will report small business activity for Fiscal Year 00-01 and will report activity for Fiscal Year 01-02 in accordance with established state and CSU requirements.

Expected completion date: February 15, 2002.

DISABLED VETERAN BUSINESS ENTERPRISES

Supporting documentation was not available for the fiscal year 1999/2000 Disabled Veteran Business Enterprises (DVBE) Participation Contracting Report.

CSU PMCP (Release 2.1) §215 states that an annual activity report shall be prepared and submitted by each campus to the CS&P department of the chancellor's office for systemwide consolidation.

The contracts coordinator stated that he could not determine how the data was gathered because his predecessor did not inform him how the report was prepared.

The absence of supporting documentation prevents verification of report accuracy and analysis of participation requirements and increases the risk that agency requests for additional detail cannot be addressed.

Recommendation 6

We recommend that the campus establish procedures to maintain supporting documentation for the DVBE Participation Contracting Report.

Campus Response

We concur. The report developed for recommendation #5 will also capture DVBE activity for commodity purchases. The Procurement Department has developed an expanded construction contract log that includes an entry for DVBE participation in the contract. The report and log will allow the report of DVBE participation to be verified against specific orders and contracts.

Expected completion date: February 15, 2002.

PERSONAL PROPERTY AND SERVICES PROCUREMENT

COMPETITIVE BIDDING

Required competitive bids were not always obtained.

Our review of ten purchase transactions that required competitive bidding disclosed two instances where the campus was unable to provide documentation to demonstrate that commodity purchases had been bid. These included two transactions for the purchase of commodities totaling \$67,976 and \$23,287 (purchased prior to January 10, 2001).

CSU PMCP (Release 2.1) §301 states that all contracts for the acquisition of goods in the amount of \$25,000 or more (\$10,000 or more prior to January 10, 2001), subject to certain exclusions, shall be formally bid and awarded to the lowest responsible bidder meeting specifications.

The director of procurement acknowledged that the buyers did not follow campus policy and stated that oversight procedures were not capable of capturing all errors.

Failure to adhere to competitive bidding requirements in the acquisition of goods reduces the ability of the campus to promote competition; protect the public from the misuse of public funds; eliminate favoritism, fraud, and corruption; and obtain goods at the lowest possible costs.

Recommendation 7

We recommend that the campus strengthen procedures to ensure adherence to CSU competitive bidding requirements as stipulated in the *CSU PMCP*.

Campus Response

We concur. The Director of Procurement instituted a policy in October 2001 that requires his review and approval of all purchase orders for commodities in excess of \$25,000 and services in excess of \$50,000 before those orders may be placed.

INSURANCE REQUIREMENTS

Adequate proof of contractor insurance was not always on file, and coverage by insurers with an unacceptable rating was permitted.

Our review of 23 purchase transactions disclosed the following:

- ▶ Proof of insurance could not be located for 7 of the 23 (30%) purchase transactions reviewed, and two of the contracts did not contain specific language requiring insurance.
- ▶ Certificates of insurance submitted by 3 of the 16 (19%) vendors that submitted certificates were not in compliance with EO No. 743 in more than one respect. Two certificates did not include language for additional insured parties; two certificates did not include all required types of insurance; and two certificates were from insurance companies with unacceptable ratings.

CSU PMCP (Release 2.1) §230.03 states that evidence of proper insurance coverage is required for any campus or auxiliary organization contract involving any activities that put the state, the CSU, or the campus at risk.

EO No. 743, *CSU Insurance Requirements*, dated May 5, 2000, states that the contractor, consultant, or vendor, must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance, including a 30-day cancellation notification requirement; acceptability of the insurer's rating; and the CSU, the Trustees, the campus, and their officers, employees, volunteers, and agents as additional insured. Further, following risk identification and evaluation in special situations, the campus may permit exceptions to the requirements in this EO.

The director of procurement stated that he was not aware of these occurrences since he was recently hired at the campus, but he would research them and make the necessary corrections.

Failure to properly monitor insurance coverage increases the potential for loss to the campus and the CSU.

Recommendation 8

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance and develop a policy to handle coverage by insurers with unacceptable ratings.

Campus Response

We concur. The Safety and Risk Management and Procurement Departments have clarified responsibility and procedures for obtaining and monitoring insurance certificates, verifying compliance with CSU requirements, and handling instances where certificates do not demonstrate compliance with all minimum requirements. The revised procedures were documented in a November 20, 2001, memorandum from the Director of Procurement.

MOTOR VEHICLE INSPECTIONS AND USE

MOTOR VEHICLE INSPECTION PROGRAM

The campus motor vehicle inspection program lacked campus wide administrative oversight and some of the elements required by Executive Order (EO) No. 691 and did not ensure that preventive maintenance, vehicle inspections, and repairs were appropriately controlled.

We found that the campus motor vehicle inspection program was decentralized among 20 departments, and the coordination procedures in place did not ensure that all of the elements required by EO No. 691 were included in the program. Our review disclosed that:

- ▶ The program had not been fully implemented or documented and lacked some of the elements required by EO No. 691. Specifically:
 - There were no written campus policies or guidelines for owning departments to use in making replacement decisions.
 - There was no centralized campus coordination of equipment needs and reutilization of surplus vehicles.
 - Due to decentralized ownership, no single individual had been formally designated to serve as liaison with equipment manufacturers.

- There was no formalized annual analysis of operating costs.
 - Due to decentralized ownership, no individual(s) and/or departments(s) had been formally designated to provide assistance in technical studies and reports, as required.
 - The campus had not formally designated a vehicle inspector.
- ▶ Required preventive maintenance was performed on a regular basis by each department but was not properly documented in some campus departments (i.e., public safety and parking and transportation).
- ▶ Vehicle inspector approval was not obtained for vehicle repair parts exceeding \$350.
- ▶ Three estimates were not obtained for commercially performed repairs that cost \$200 or more (except for body work resulting from collisions).

EO No. 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, states that the campus president is responsible for the implementation of a campus Motor Vehicle Inspection Program and shall ensure that all aspects of the vehicle inspection program guidelines are followed. The campus president shall assign this function to an individual on campus and notify the chancellor's office of that individual.

The campus *Fleet Operations Procedures Manual*, dated November 1999, and the *Guidelines for Campus Vehicle Ownership* state that daily vehicle operator, weekly department mechanical, and monthly motor pool mechanic inspections are to be performed for each motor vehicle owned by the campus.

The director of campus grounds, who acted as the motor vehicle inspector for facilities and service enterprises (F&SE), indicated that F&SE did not function as a single point of control for the campus motor vehicle inspection program due to the decentralization of vehicle ownership and budget authority.

Not assuring that the motor vehicle inspection program is fully implemented increases the risk that the overall safety, efficiency, and economic well-being of the campus motor vehicle fleet will be less than satisfactory.

Recommendation 9

We recommend that the campus:

- a. Revise their motor vehicle inspection program to ensure compliance with EO No. 691.
- b. Establish procedures to ensure that all inspections and preventive maintenance are fully documented.

- c. Establish procedures to obtain estimates for commercially performed repairs and the approval of the vehicle inspector.

Campus Response

We concur. The Grounds and Fleet Services department will be assigned responsibility for the campus Motor Vehicle Inspection Program. Procedures will be established to ensure compliance with Executive Order 691.

Expected completion date: February 15, 2002.

MOTOR VEHICLE USE

The campus had not implemented all the guidelines prescribed in the *CSU Use of University and Private Vehicles Policies and Regulations*.

We noted that:

- ▶ The campus had not established one point of control for implementation of certain guidelines in the *CSU Use of University and Private Vehicles Policies and Regulations*.
- ▶ No assurance could be provided that all campus departments were properly identifying employees permitted to drive university vehicles and periodically requesting driving records of employees authorized to drive (at least once every four years) and verifying their acceptability.
- ▶ No individual had been authorized by the president to grant written approval to use university-owned vehicles and written approval was not routinely required before vehicle usage.
- ▶ Individual certifications were not obtained from employees to verify that they have a valid driver's license and maintain a good driving record.
- ▶ Although inspection reports were required to be maintained for fleet vehicles, they were not required for vehicles used by department personnel in the normal course of their duties.

The *CSU Use of University and Private Vehicles Policies and Regulations*, dated October 1995, states, in part, that it is necessary for the campus to establish one point of control in order to:

- ▶ Fulfill the maintenance, safety, and seat belt requirements.
- ▶ Control usage in accordance with federal, California, CSU, and campus laws, regulations, policies, and procedures.
- ▶ Verify and maintain all required logs.
- ▶ Issue instructions and guidelines and clarify all relevant laws, regulations, policies, and procedures.

Additionally, the campus control office must determine that:

- ▶ Written approval of use has been given by an individual authorized by the president to grant such approval.
- ▶ A person has a valid California driver's license.
- ▶ A person's driving record from the Department of Motor Vehicles is requested and reviewed at least once every four years to ensure that a person has a good driving record.
- ▶ Employee certification regarding possession of a valid driver's license and good driving record is obtained.

The director of grounds stated that due to the elimination of the motor pool and decentralization of vehicle ownership, some of the administrative oversight requirements have not been assigned to a single point of control.

Failure to properly control the use of university-owned vehicles and fully implement the *CSU Use of University and Private Vehicles Policies and Regulations* increases the risk of use by unlicensed drivers with poor driving records, inadequately maintained vehicles, and noncompliance with federal, state, campus, and CSU policy.

Recommendation 10

We recommend that the campus establish and implement procedures to ensure full compliance with the *CSU Use of University and Private Vehicles Policies and Regulations*.

Campus Response

We concur. Safety and Risk Management will be responsible for developing a driver safety program; and Grounds and Fleet Services will be responsible for developing a vehicle safety, maintenance, and inspection program.

Expected completion date: February 15, 2002.

AGREEMENTS AND LEASES

Controls over the short-term leasing of state facilities did not ensure that lease documentation was properly approved; currently approved fees were charged; services of foundation employee were properly documented; and proof of insurance coverage was in compliance with CSU requirements.

The office of special events and projects in the university advancement office was responsible for leasing classrooms, theatres, and athletic facilities at the campus, while the office of conference and residential services leased housing and residential services facilities.

We found that:

- ▶ There was no evidence that the president or his designee had approved the current fee schedules.
- ▶ The director of the office of conference and residential services approved lease agreements for off-campus groups and the director of procurement approved lease agreements prepared by the office of special events and projects without a written delegation of authority from the campus president.
- ▶ A written agreement between the campus and the San Francisco State University Foundation had not been established for services provided to the university through the university advancement department by the director of special events and projects, who is a half-time foundation employee.
- ▶ Two of ten leases prepared by the office of special events and projects were not properly approved.
- ▶ The rental fee charged for the use of a campus parking lot did not agree with the office of special events and projects fee schedule.
- ▶ The sponsoring of off-campus organizations and groups by campus departments was not always properly authorized. We found that in 2 of the 14 instances reviewed, a faculty member rather than a senior official, as required by campus internal policy, approved the sponsorship agreement document for conference and residential services events.
- ▶ The lease agreement document used for 14 of the 24 (58%) lease agreements selected for review from the office of special events and projects and conference and residential services did not contain the required 30-day cancellation notification. In addition, 8 of the 24 (33%) leases selected for review from the two departments did not contain the proper language, including the trustees as additional insured.

EO No. 669, *Leases*, dated May 1, 1997, states, in part, that authority is delegated to the campus president or designee subject to certain exceptions to execute leases of real property as either lessor or lessee. Further, when the university acts as the lessee, provisions of the standard model lease agreements, which address the issue of liability, should be included.

Standing Orders of the CSU Board of Trustees (BOT), Chapter III §6, states that the chancellor is to establish all new fees; and subject to overall direction of the BOT and the chancellor, the campus president is authorized to increase, decrease, or abolish campus fees.

CCR Title 5 §42500 and §42501 state that any services required from an auxiliary should be properly documented in a contract.

EO No. 743, *CSU Insurance Requirements*, dated May 5, 2000, states that the contractor, consultant, or vendor must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance, including a 30-day cancellation notification requirement; acceptability of the insurer's rating; and the CSU, the Trustees, the campus, and their officers, employees, volunteers, and agents as additional insured. Further, following risk identification and evaluation in special situations, the campus may permit exceptions to the requirements in this EO.

Campus management stated that current policy requires that school deans, directors, or university cabinet level officers only may authorize sponsorship.

The director of special events and projects and the director of conference and residential services indicated that senior administrative staff established the rental rates. The director of special events and projects stated that another senior staff person established the parking lot rental rate. Neither director was aware of the written delegation requirement. In addition, they stated that the procurement risk management departments review the insurance information. The director of conference and residential services indicated that the faculty authorizations were probably an oversight.

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

Recommendation 11

We recommend that the campus:

- a. Obtain appropriate formalized delegations of authority for the approval of leases from the campus president as well as rental fee schedule approval and implement procedures to maintain such delegations/approvals on a current basis.
- b. Establish a written agreement between the university and the San Francisco State University Foundation for services provided by the director of the office of special events and projects.
- c. Establish procedures to ensure that exceptions to the approved rental fee schedule are properly documented, lease agreements are properly approved, and proof of insurance coverage documents are in compliance with CSU requirements.
- d. Strengthen procedures to ensure that sponsorship of off-campus organizations is authorized in accordance with internal campus policy.

Campus Response

- a. We concur. Formal delegations of authority for the approval of leases and rental fee schedules will be approved by the President. The responsible individuals will be directed to implement procedures to maintain delegations and approvals on a current basis.
Expected completion date: December 14, 2001.

- b. We concur. An agreement between the campus and SFSU Foundation for services provided by the Office of Special Events and Projects has been forwarded to the Procurement Department for final approval.
Expected completion date: December 14, 2001.

- c. & d. We concur. The Vice President of Business and Finance will send a memo to the responsible individuals to ensure that exceptions to the rental fee schedule are properly documented; lease agreements are properly approved; all applicable insurance requirements are met; and that sponsorship of off-campus organizations is properly authorized in accordance with internal campus policy.
Expected completion date: December 14, 2001.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
James Collier	Vice President, University Advancement
Phil Evans	Director, Campus Grounds, Facilities and Service Enterprises
Denise Fox	Director, Human Resources
Lily Gee	Parking Coordinator, Parking and Transportation
Mark Goodrich	Director, Conference and Residential Services
Judith Hopper	Buyer, Procurement Department
Robert Hutson	Associate Vice President, Facilities and Service Enterprises
LaVonne Jacobsen	Acting Head, Collection Management Services, Library
Haro Kagemoto	Contracts Coordinator, Procurement Department
Wayne Kuhaupt	Manager, Accounts Payable and Collections
Franz Lozano	Associate Internal Auditor
James Matheson	Fleet Service Coordinator, Facilities and Service Enterprises
Song Park	Procurement Card Coordinator, Accounts Payable and Collections
Don W. Scoble	Vice President, Business and Finance
Elizabeth Small	Director, Safety and Risk Management
Stephen Smith	Director, Procurement Department
Bernadette Tano	Compliance Specialist, Environmental Health and Occupational Safety
Patricia Tolar	Transportation Coordinator, Parking and Transportation
Norma Urcuyo-Siani	Director, Special Events and Projects
Jim Van Ness	Internal Auditor
Larry Ware	Associate Vice President for Fiscal Affairs/Controller
Patrick Wasley	Sergeant, Public Safety
Kimberly Wible	Chief of Police/Director, Public Safety
Burkland Wong	Manager, Trust and Special Project Accounting, Fiscal Affairs
Corazon Wong	Director, Student Financial Operations and Business Systems, Fiscal Affairs
Sharon Zlatunich	Employment Representative, Human Resources



San Francisco
State University

Office of the President

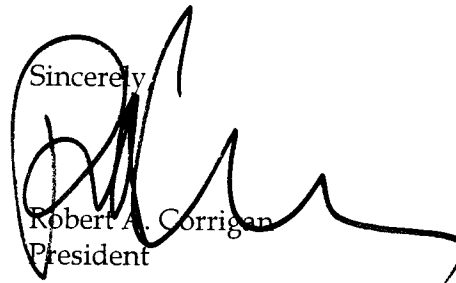
November 30, 2001

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4210

Dear Mr. Mandel:

We have carefully reviewed Office of the University Auditor Report #01-14 on Delegations of Authority at San Francisco State University. The report identified areas where additional efforts are needed, and we are taking actions to implement the recommendations.

Our responses to the recommendations are attached. Questions regarding the responses may be directed to Don Scoble, Vice President for Business and Finance, at 415/338-1323 or Jim Van Ness, Internal Auditor, at 415/338-7183.

Sincerely,

 Robert A. Corrigan
 President

JVN/id

Attachments

cc: Don W. Scoble, Vice President for Business and Finance
 Leroy Morishita, Vice President, Physical Planning and Development
 Jim Collier, Vice President, University Advancement
 Larry Ware, Associate Vice President/Controller, Fiscal Affairs
 Robert Hutson, Associate Vice President, Facilities & Service Enterprises
 Denise Fox, Director, Human Resources
 Steve Smith, Director, Procurement Department
 Michael Martin, Manager, Safety & Risk Management
 Phil Evans, Director, Grounds and Fleet Services
 Jan Andreasen, Interim Executive Director, Housing & Residential Services
 Mark Goodrich, Director, Conference and Residential Services
 Norma Urcuyo-Siani, Director, Special Events & Projects
 Jim Van Ness, Internal Auditor
 Franz Lozano, Associate Internal Auditor

**DELEGATIONS OF AUTHORITY
SAN FRANCISCO STATE UNIVERSITY
Report Number 01-14
November 30, 2001 Campus Response**

Recommendation 1

We recommend that the campus obtain formalized delegations of authority as required from the campus president, and implement procedures to maintain such delegations on a current basis.

November 30, 2001 Campus Response

We concur. Delegations of authority have been prepared for all Library staff responsible for making and approving procurements of library related educational materials and information access resources. The University Librarian will be responsible to advise Fiscal Affairs of any change, addition, or termination needed regarding delegation of authority granted to Library personnel. Expected completion date: December 14, 2001.

Recommendation 2

We recommend that the campus establish procedures to ensure that all required terms and conditions are adequately communicated to vendors on purchase documentation.

November 30, 2001 Campus Response

We concur. The CSU standard terms and conditions will be posted on the Procurement Department web page. The computer generated purchase order template will incorporate the terms and conditions by reference and direct contractors wishing to obtain a copy to the web page or to the issuing buyer for contractors without on-line access. Expected completion date: December 14, 2001.

Recommendation 3

We recommend that the campus formalize procedures to ensure that all required contract award reports are submitted to the DFEH and supporting documentation is maintained for all submissions.

November 30, 2001 Campus Response

We concur. The Procurement Department has implemented procedures for submitting the required notification to DFEH and ensures that all supporting documentation is maintained. Expected completion date: December 14, 2001.

Recommendation 4

We recommend that the campus establish procedures to:

- a. Prepare and submit the required SABRC report, including retention of supporting documentation.
- b. Require contractors 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.

November 30, 2001 Campus Response

a. We concur. The Procurement Department submitted the SABRC report for 2000-2001 to CIWMB on August 29, 2001, in conformance with the Sept. 1 deadline. To increase awareness of program procedures and requirements, Procurement Department staff attended a SABRC workshop in Sacramento in September.

b. Buyers are obtaining CIWMB #74 Recycled Content Certification Forms from product suppliers. Buyers are also inputting a recycled product code in the description screen of the computerized purchase order program, to facilitate recycled product tracking for future reporting purposes. Expected completion date: December 14, 2001.

Recommendation 5

We recommend that the campus complete the missing small business reports and establish procedures to complete the reports per the revised reporting guidelines including retention of supporting documentation.

November 30, 2001 Campus Response

We concur. The Procurement Department is working with Fiscal Affairs Business Systems (FABS) to develop a report using a Brio query format applied to the FRS procurement database. Based on the data collected, the Procurement Department will report small business activity for Fiscal Year 00-01 and will report activity for Fiscal Year 01-02 in accordance with established state and CSU requirements. Expected completion date: February 15, 2002.

Recommendation 6

We recommend that the campus establish procedures to maintain supporting documentation for the DVBE Participation Contracting Report.

November 30, 2001 Campus Response

We concur. The report developed for recommendation #5 will also capture DVBE activity for commodity purchases. The Procurement department has developed an expanded construction contract log that includes an entry for DVBE participation in the contract. The report and log will allow the report of DVBE participation to be verified against specific orders and contracts. Expected completion date: February 15, 2002.

Recommendation 7

We recommend that the campus strengthen procedures to ensure adherence to CSU competitive bidding requirements as stipulated in the *CSU PMCP*.

November 30, 2001 Campus Response

We concur. The Director of Procurement instituted a policy in October 2001 that requires his review and approval of all purchase orders for commodities in excess of \$25,000.00 and services in excess of \$50,000.00 before those orders may be placed.

Recommendation 8

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance and develop a policy to handle coverage by insurers with unacceptable ratings.

November 30, 2001 Campus Response

We concur. The Safety & Risk Management and Procurement Departments have clarified responsibility and procedures for obtaining and monitoring insurance certificates, verifying compliance with CSU requirements, and handling instances where certificates do not demonstrate compliance with all minimum requirements. The revised procedures were documented in a November 20, 2001 memoranda from the Director of Procurement.

Recommendation 9

We recommend that the campus:

- a. Revise their motor vehicle inspection program to ensure compliance with EO No. 691.
- b. Establish procedures to ensure that all inspections and preventive maintenance are fully documented.
- c. Establish procedures to obtain estimates for commercially performed repairs and the approval of the vehicle inspector.

November 30, 2001 Campus Response

We concur. The Grounds and Fleet Services department will be assigned responsibility for the campus Motor Vehicle Inspection Program. Procedures will be established to ensure compliance with Executive Order 691. Expected completion date: February 15, 2002.

Recommendation 10

We recommend that the campus establish and implement procedures to ensure full compliance with the CSU *Use of University and Private Vehicles Policies and Regulations*.

November 30, 2001 Campus Response

We concur. Safety & Risk Management will be responsible for developing a driver safety program and Grounds and Fleet Services will be responsible for developing a vehicle safety, maintenance and inspection program. Expected completion date: February 15, 2002.

Recommendation 11

We recommend that the campus:

- a. Obtain appropriate formalized delegations of authority for the approval of leases from the campus president as well as rental fee schedule approval and implement procedures to maintain such delegations/approvals on a current basis.
- b. Establish a written agreement between the university and the San Francisco State University Foundation for services provided by the director of the office of special events and projects.
- c. Establish procedures to ensure that exceptions to the approved rental fee schedule are properly documented, lease agreements are properly approved, and proof of insurance coverage documents are in compliance with CSU requirements.

- d. Strengthen procedures to ensure that sponsorship of off-campus organizations is authorized in accordance with internal campus policy.

November 30, 2001 Campus Response

a. We concur. Formal delegations of authority for the approval of leases and rental fee schedules will be approved by the President. The responsible individuals will be directed to implement procedures to maintain delegations and approvals on a current basis. Expected completion date: December 14, 2001.

b. We concur. An agreement between the campus and SFSU Foundation for services provided by the Office of Special Events and Projects has been forwarded to the Procurement Department for final approval. Expected completion date: December 14, 2001.

c & d. We concur. The Vice President of Business and Finance will send a memo to the responsible individuals to ensure that exceptions to the rental fee schedule are properly documented; lease agreements are properly approved; all applicable insurance requirements are met; and that sponsorship of off-campus organizations is properly authorized in accordance with internal campus policy. Expected completion date: December 14, 2001.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

December 20, 2001

CHICO

DOMINGUEZ HILLS

MEMORANDUM

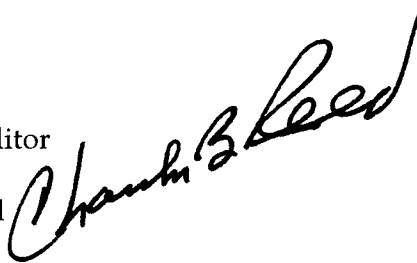
FRESNO

FULLERTON

TO: Larry Mandel
University Auditor

HAYWARD

HUMBOLDT

FROM: Charles B. Reed
Chancellor


LONG BEACH

SUBJECT: Draft Final Report Number 01-14 on *Delegations of Authority*,
San Francisco State University

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of December 20, 2001, I accept the response
as submitted with the draft final report on *Delegations of Authority*,
San Francisco State University.

NORTHRIDGE

POMONA

SACRAMENTO

CBR:amd

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Robert A. Corrigan, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS