

**DELEGATIONS OF AUTHORITY**  
**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 06-19**  
**December 11, 2006**

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## **ABBREVIATIONS**

AB	Assembly Bill
BOT	Board of Trustees
CSU	California State University
DFEH	Department of Fair Employment and Housing
DVBE	Disabled Veteran Business Enterprise
EO	Executive Order
PMCP	Policy Manual for Contracting and Procurement
SAM	State Administrative Manual
SB	Senate Bill
SFSU	San Francisco State University
SUAM	State University Administrative Manual

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## **EXECUTIVE SUMMARY**

The Committee on Audit, at its January 2006 meeting, directed the Office of the University Auditor to review the audit subject *Delegations of Authority*. Delegations of Authority was previously audited in 2001.

We visited the San Francisco State University campus from July 17, 2006, through September 8, 2006, and audited the procedures in effect at that time.

In our opinion, the existing policies and procedures for the administration of the procurement and support services function were, for the most part, effective. However, controls over required contractor certifications, contract notification requirements, campus leasing of university facilities, and disposal of personal property required management attention.

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

### **SPECIAL PURCHASING ISSUES [6]**

Required contractor certifications were not consistently obtained and the most recent annual Buy Recycled procurement report was overstated by \$644,186.

### **SPECIFIC CONTRACT ISSUES [7]**

The Department of Fair Employment and Housing contract notification requirements were not met for four of the six contracts reviewed. This is a repeat finding from the last Delegations of Authority audit.

### **AGREEMENTS AND LEASES [8]**

Administration over the short-term leasing of state facilities did not ensure that the required insurance coverage consistently complied with California State University (CSU) requirements. This is a repeat finding from the last Delegations of Authority audit.

### **PROPERTY [8]**

Administration over the sale/disposal of personal property did not ensure compliance with CSU policy and state law.

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## INTRODUCTION

### **BACKGROUND**

In 1986, Senate Bill (SB) 1828 extended indefinitely certain California State University (CSU) delegations of authority concerning purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. The bill's intent was to promote greater economy and efficiency in CSU operations and was expanded by Assembly Bill (AB) 1191 in 1993. The bill also added section 89045(d) to the Education Code:

(d) In addition, the internal audit staff shall perform audits, at least once every five years, of the activities of the CSU pursuant to Sections 89031.5, 89036, 89046, and 89048 of the Education Code and Section 11007.7 of the Government Code.

Executive Order (EO) 615, *Delegation of Acquisition Authority for Personal Property and Services*, dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1191 to campus presidents. EO 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, superseded EO 667 to include delegation of authority to acquire information technology resources. EO 760, *Procurement Cards*, dated October 16, 2000, delegated authority for the use of procurement cards to campus presidents.

The *CSU PMCP* states that CSU purchasing and contracting policies are adopted to form compliance with a variety of statutory and policy provisions found in the State of California statutory codes (i.e., Education Code, Public Contract Code, Government Code, etc.); Title 5, California Code of Regulations; the Standing Orders and Resolutions of the Board of Trustees (BOT); specific Trustee policy issued via chancellor Executive Orders and administrative policy memoranda. CSU contracting and procurement policies encompass the following fundamental principals:

- ▶ Recognition that the basic mission of the CSU is to support the teaching, research, and public service requirements for higher education for the people of the State of California.
- ▶ Recognition that the continued development and refinement of purchasing policies in accordance with good business judgment and best business practices is paramount to the effective and efficient total operations of the CSU.
- ▶ The firm belief that it is in the best interest of the CSU to limit, as much as possible, prescriptive policies and regulations and to provide maximum flexibility to, and accountability for, the adoption of local campus policies and procedures to ensure the cost effective operation of campus business.
- ▶ Recognition that the policies contained in the *CSU PMCP* are intended to establish a baseline for compliance with state law and Trustees policy. It is the responsibility of the campus to determine the disposition of any issue not specifically addressed in the *CSU PMCP* or otherwise prescribed in law or regulation.

The *CSU PMCP* further states that the CSU is committed to maintaining high standards of performance based upon fair, ethical, and professional business practices. It is expected that each campus president and administrative staff will develop and adopt local campus policies and operational procedures, which further the implementation of Trustee policy presented within the *CSU PMCP*.

EO 691, *Motor Vehicle Inspections*, dated November 23, 1998, issued in response to our 1996 review, updated and streamlined prior motor vehicle inspection requirements. The EO directs each campus to implement a motor vehicle inspection program, specifies eight guidelines that should be included, directs the president to assign the function to an individual, and requires that the chancellor's office be notified of the individual assigned. CSU policy concerning the use of motor vehicles is codified in *CSU Use of University and Private Vehicles Policy Guidelines* booklet dated March 2002, which was issued via Technical Letter 2002-16 from human resources administration.

EO 669, *Leases*, dated May 1, 1997, delegated the authority to execute leases of real property to campus presidents as either lessor or lessee without approval by the Office of the Chancellor subject to certain limitations and superseded a prior EO issued in 1983. The EO requires the use of standard provisions from model lease agreements, an assessment of risk of liability potential for each lease agreement, a competitive process for leasing to for-profit enterprises, an accounting for leases in the campus financial records, and maintenance of a central repository for all current lease agreements.

EO 409, *Purchase, Sale, Lease, and License of Personal Property*, dated January 5, 1983, delegated authority to sell or exchange personal property to campus presidents and has been superseded except for Item B. The EO permits the sale or exchange of personal property when the campus president determines it is in the best interest of the CSU and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9018, *Acquisition and Granting of Easements and Acceptance of Quitclaims*, sets forth the processing guidelines and responsibilities for such property transactions by the campus and the land records staff of the chancellor's office Capital Planning, Design and Construction department.

The primary objective in this audit will be to review and analyze activities to assure that the CSU has acted responsibly under the delegations of authority listed in Executive Orders 775, 760, 691, 669, and 409 and applicable *CSU PMCP* and SUAM §9018 requirements. Specific areas to be covered will include, but not be limited to: certain purchasing and contracting issues; commodity, information technology resources and services acquisitions; consultant contracts; service orders; small business and other special purchasing issues; motor vehicle inspections and use; agreements and leases; leases of real property as either lessor or lessee; easements, right-of-way, and quitclaim transactions; and the sale or exchange of real and personal property.

## **PURPOSE**

Our overall audit objective was to review and analyze activities to assure that the CSU has acted responsibly under the *Delegations of Authority* established by SB 1828 (1986) and expanded by AB 1191 (1993) and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of procurement activity provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy.
- ▶ Sourcing options and alternatives are used to maximize purchasing leverage, achieve discounts, and reduce administrative costs; bidding requirements are enforced and adequately controlled; and campus policy maximizes advertising in the California State Contracts Register.
- ▶ Methods used to execute low-value purchases are properly delegated and adequately controlled and campus use of service orders is appropriate.
- ▶ Vendor protests, disputes, complaints, and exclusion from bidding are handled in accordance with CSU policy and maintenance of vendor data is adequate.
- ▶ Efforts are made to meet Disabled Veteran Business Enterprise (DVBE) and Buy Recycled goals; purchasing preferences are properly granted; and DVBE, small business, and Buy Recycled reporting is timely, accurate, and supportable.
- ▶ Purchase agreements are properly executed and include required conditions, provisions, certifications, and insurance requirements, and Department of Fair Employment and Housing contract notification requirements are met.
- ▶ The campus motor vehicle inspection program and use of CSU-owned vehicles comply with CSU policies and regulations, including the designation of a vehicle inspector.
- ▶ Leasing activities are adequately controlled and comply with CSU policy and state regulations, and leases are properly executed.
- ▶ The campuses and the chancellor's office correctly acquired and granted easements, rights-of-way and quitclaims, and the sale or exchange of personal property complies with CSU policy and the Education Code.

## **SCOPE AND METHODOLOGY**

The scope of the audit, as presented at the February 1, 2006, meeting of the Committee on Audit, included, but was not limited to, the review of procurement, the use of the California State Contracts Register, recycling efforts, motor vehicle use, leasing activities, and rights of way. *Delegations of Authority* is a mandated audit and is required by the Education Code at least once every five years.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, BOT policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect from January 2005 through June 2006. In instances when it was necessary to review annualized data, fiscal year 2005/06 was the primary period reviewed.

We focused primarily upon the internal administrative, compliance, and operational controls over delegation of authority and contracting activities, motor vehicle inspection, and real and personal property transactions. Specifically, we reviewed and tested:

- ▶ Specific purchasing, contracting, and leasing activities, delegations, and limitations.
- ▶ Sourcing options and alternatives.
- ▶ Bidding procedures and exceptions.
- ▶ Contract advertising and reporting practices.
- ▶ Low-value purchase methods and controls.
- ▶ Handling of vendor protests, disputes, and complaints.
- ▶ Maintenance of vendor data.
- ▶ Granting of purchase preferences.
- ▶ Preparation of DVBE, small business, and Buy Recycled reports and goal attainment.
- ▶ Execution of purchase agreements and leases.
- ▶ Motor vehicle inspection and use policies and controls.
- ▶ Easements, rights-of-way, and quitclaims and the sale or exchange of personal property.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **SPECIAL PURCHASING ISSUES**

Required contractor certifications were not consistently obtained for the recycled content of commodity purchases, and supporting documentation for the fiscal year 2004/05 Buy Recycled report submitted to the chancellor's office disclosed that the recycled purchases were overstated by \$644,186.

Public Contract Code §12205 states that contractors shall be required to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided or used. This certification shall be furnished under penalty of perjury. The certification shall be provided regardless of content, even if the product contains no recycled materials.

State Administrative Manual (SAM) §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, an effective system of internal review and recordkeeping procedures.

The director of procurement stated that a business process in the campus' legacy system for automatically requesting certification statement for recycled content was not replicated in the Financial Management System and a new procedure was not yet implemented. He further stated that the Buy Recycled report was not sufficiently reviewed for computational errors before submittal.

Failure to consistently obtain contractor certifications for the recycled content of commodity purchases and inadequate review procedures of reporting requirements increases the risk of non-compliance with state regulations and inaccurate reporting.

#### **Recommendation 1**

We recommend that the campus:

- a. Strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.
- b. Strengthen controls surrounding report review procedures.

#### **Campus Response**

We concur. The procurement department has implemented a procedure for documenting its utilization of recycled content products, including verification of the recycled content percentage.

## **SPECIFIC CONTRACT ISSUES**

The Department of Fair Employment and Housing (DFEH) contract notification requirements were not consistently met. This is a repeat finding from our last Delegation of Authority audit dated October 2001.

Although a system for filing the required notifications had been implemented, our review of six contracts that required DFEH contract notification disclosed that notification had not been made for four of the contracts.

The *California State University (CSU) Policy Manual for Contracting and Procurement (PMCP)* §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 Title 2 §8117.5, *Fair Employment and Housing Commission*, states, in part, that contract awarding agencies shall give written notice to the administration of all contracts over \$5,000.

The director of procurement stated that it was an oversight that no notification had been made for the four contracts and that a business process existed for sending notification to DFEH as part of distributing executed contracts.

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 2**

We recommend that the campus strengthen procedures to ensure that all service contracts over \$5,000 are reported to the DFEH.

### **Campus Response**

We concur. The director of procurement issued a memorandum reminding contracts staff of the requirement to submit the DFEH notification. In addition, staff will put a required notifications checklist in the file as contracts are finalized to ensure notification compliance.

## **AGREEMENTS AND LEASES**

Administration over the short-term leasing of state facilities did not ensure that the required insurance coverage consistently complied with CSU requirements. This is a repeat finding from our last Delegation of Authority audit dated October 2001.

Our review of 20 leases of state facilities to off-campus groups in fiscal year 2005/06 disclosed that two did not have insurance coverage in accordance with the requirements of Executive Order (EO) 849.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, provides for specific insurance coverage related to the leasing of state facilities and states that insurance requirements should be commensurate with the activities associated with the lease that may cause damage to person or property.

The director of special events stated that it was an oversight for not noticing that two contracts did not meet insurance coverage requirements.

Inadequate controls over the leasing of state facilities increases the risk of uninsured damage to university property.

### **Recommendation 3**

We recommend that the campus strengthen procedures to ensure that proof of insurance coverage documents are in compliance with CSU requirements.

### **Campus Response**

We concur. The vice president of administration and finance has sent a memo to the director of special events (and to other responsible individuals) to reiterate the importance of following established campus policies and procedures to meet and document the required CSU and/or San Francisco State University (SFSU) insurance requirements.

## **PROPERTY**

Administration over the sale/disposal of personal property did not ensure compliance with CSU policy and state law.

Our review of nine personal property disposals disclosed that seven did not have a Property Survey Report, STD. Form 152. Campus policy did not require the completion of STD. Form 152. Instead, a property survey request was completed and submitted to the property clerk, who removed the assets from the campus files. In addition, the campus property survey board did not appropriately survey the disposals, as an active survey board was not in place for the past 18 months.

*CSU PMCP* §601 states that CSU-owned tangible goods, supplies, equipment, or materials that have been determined to be surplus to CSU's needs may be sold or released in a manner that will best serve the interest of the CSU. Such sales must be for a fair market price. Sale methods include, but are not limited to, auction or other competitive bidding or transfer to other governmental entities. Such property may, however, be scrapped or otherwise disposed of and surveyed from CSU property records whenever the property is documented to have no remaining market value or practical use to the CSU.

SAM §3520.2 states that each agency will have a duly appointed property survey board that is responsible for determining that, when disposing of surplus property, the decision to do so serves the best interest of the state. To the extent possible, there will be a sufficient number of members on the board to insure representation by both business management and program responsibilities. At least two board members must approve all Property Survey Report (STD. 152) and all Transfer of Location of Equipment (STD. 158).

SAM §3520.3 states that when an agency proposes to dispose of state-owned, non-expendable surplus property by sale, by trade-in, or by discarding the property, the agency prepares a Property Survey Report (STD. 152).

The director of procurement stated his belief that the STD. 152 state form is not mandated for use by campuses, and a locally developed survey form is used by SFSU. He further stated that the university property board had not convened in over a year due to additional workload and focus of attention related to the implementation of the new asset management system.

Failure to complete property survey reports and obtain property survey board approval for personal property dispositions reduces accountability over the disposal of state property and increases the risk of theft or loss of state property.

#### **Recommendation 4**

We recommend that the campus:

- a. Strengthen property survey controls to ensure completion of Property Survey Report, STD. Form 152.
- b. Ensure that the property survey board be responsible for the disposition of campus property by convening on a regular basis.

#### **Campus Response**

We concur. The campus will undertake the following steps:

- a. The first order of business for the property board will be to establish procedures for incorporating the STD. 152 into the SFSU process for property surveys and to develop the necessary revisions to the *SFSU Property Manual*.

- b. The property survey board will commence quarterly meetings with the first meeting scheduled no later than February 28, 2007.

Expected completion date: February 2007

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
Rose Balancio	Contracts Coordinator, Procurement
Adalina Carranza	Administrative Coordinator, Environmental Health and Occupational Safety
Elaine Collins	Buyer III
Corinne da Cunha	Risk Initiatives Manager
Phil Evans	Director, Campus Grounds, Facilities and Service Enterprises
Denise Fox-Needleman	Associate Vice President, Human Resources
Robert Hutson	Associate Vice President, Facilities and Service Enterprises
Jason Huynh	Procurement Card Coordinator
Haro Kagemoto	Assistant Procurement Officer
Wayne Kuhaupt	Manager, Accounts Payable and Fiscal Services
Simon Lam	Associate Vice President, Capital Planning, Design and Construction
Franz Lozano	Internal Auditor
Michael Martin	Director, Risk Management
Jimmie Matheson	Fleet Service Coordinator, Facilities and Service Enterprises
Leroy Morishita	Vice President, Administration and Finance
Stanley Pearse	Supervisor, Property and Distribution Systems
Robert Shearer	Director, Environmental Health and Occupational Safety
Stephen Smith	Director of Procurement
Deanna Tam	Procurement Systems Analyst
Norma Urcuyo-Siani	Director, Special Events
Jim Van Ness	Senior Audit Consultant
Larry Ware	Associate Vice President, Fiscal Affairs



San Francisco  
State University

Office of the President

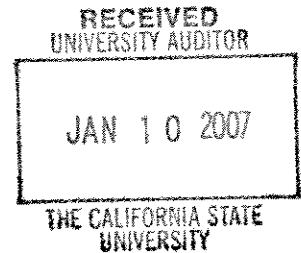
1600 Holloway Avenue  
San Francisco, California 94132

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January 9, 2007

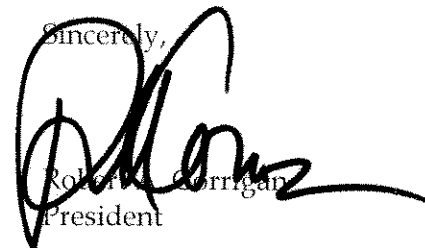
Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, California 90802-4210



Dear Mr. Mandel:

We have reviewed Office of the University Auditor Report #06-19 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. Documentation demonstrating implementation of recommendations already completed will be forwarded to you separately.

Our responses to the recommendations are attached. The campus Internal Auditor will also forward the responses to you electronically to facilitate the response process. Questions regarding the responses may be directed to Leroy M. Morishita, Vice President for Administration and Finance, at 415/338-1323 or Franz Lozano, Internal Auditor, at 415/405-3736.

Sincerely,  
  
Robert W. Corrigan  
President

FL/id

Attachments

cc: Leroy M. Morishita, Vice President, Administration and Finance  
Larry Ware, Associate Vice President, Fiscal Affairs  
Michael Martin, Director, Interim AVP, Human Resources, Safety & Risk Management  
Steve Smith, Director, Procurement Department  
Norma Siani, Director, Office of Special Events  
Franz Lozano, Internal Auditor

**DELEGATIONS OF AUTHORITY  
SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 06-19  
December 11, 2006**

**SPECIAL PURCHASING ISSUES**

**Recommendation 1**

We recommend that the campus:

- a. Strengthen enforcement efforts to obtain required contractor certifications for the recycled content of commodity purchases.
- b. Strengthen controls surrounding report review procedures.

**Campus Response**

We concur. The procurement department has implemented a procedure for documenting its utilization of recycled content products, including verification of the recycled content percentage.

**SPECIFIC CONTRACT ISSUES**

**Recommendation 2**

We recommend that the campus strengthen procedures to ensure that all service contracts over \$5,000 are reported to the DFEH.

**Campus Response**

We concur. The Director of Procurement issued a memorandum reminding contracts staff of the requirement to submit the DFEH notification. In addition staff will put a Required Notifications Checklist in the file as contracts are finalized to ensure notification compliance.

## AGREEMENTS AND LEASES

### Recommendation 3

We recommend that the campus strengthen procedures to ensure that proof of insurance coverage documents are in compliance with CSU requirements.

### Campus Response

We concur. The Vice President for Administration and Finance has sent a memo to the Director for the Office of Special Events & Projects (and to other responsible individuals) to reiterate the importance of following established campus policies and procedures to meet and document the required CSU and/or SFSU insurance requirements.

## PROPERTY

### Recommendation 4

We recommend that the campus:

- a. Strengthen property survey controls to ensure completion of Property Survey Report, STD. Form 152.
- b. Ensure that the property survey board be responsible for the disposition of campus property by convening on a regular basis.

### Campus Response

We concur. The campus will undertake the following steps.

The property survey board will commence quarterly meetings with the first meeting scheduled no later than February 28, 2007 (subpart b, above).

The first order of business for the Property Board will be to establish procedures for incorporating the STD 152 into the SF State process for property surveys and to develop the necessary revisions to the SF State Property Manual (subpart a, above).

Expected completion date: February 2007



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 29, 2007

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 06-19 on *Delegations of Authority*,  
San Francisco State University

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of January 29, 2007, I accept the response as submitted with the draft final report on *Delegations of Authority*, San Francisco State University.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Robert A. Corrigan, President  
Mr. Franz Lozano, Internal Auditor

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS