

DELEGATIONS OF AUTHORITY

SYSTEMWIDE

**Audit Report 11-18
November 4, 2011**

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ABBREVIATIONS

AB	Assembly Bill
CO	Office of the Chancellor
CPDC	Capital Planning, Design and Construction
CSU	California State University
DMV	Department of Motor Vehicles
DVBE	Disabled Veteran Business Enterprise
EC	Education Code
EO	Executive Order
GC	Government Code
ICSUAM	Integrated California State University Administrative Manual
PCC	Public Contract Code
PMCP	Policy Manual for Contracting and Procurement
SB	Senate Bill

EXECUTIVE SUMMARY

The Board of Trustees, at its January 2011 meeting, directed that Delegations of Authority be reviewed. The Office of the University Auditor had previously reviewed Delegations of Authority in 2006.

We visited nine campuses from January 18, 2011, to April 22, 2011, and audited the procedures in effect at that time. Campus-specific findings and recommendations have been discussed and reported individually.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, we found that systemwide policies in the area of procurement and contracting activities were sometimes unclear or conflicting, systemwide policies over motor vehicle inspections and use were outdated, and programmatic responsibilities for motor vehicle inspections and use were not clearly defined. Additionally, repeat findings were found in the areas of preventive maintenance for campus-owned vehicles and campus leasing of university facilities, and controls over motor vehicle usage needed improvement. These conditions, along with other weaknesses, are described in the executive summary and body of this report. In our opinion, except for the effect of the weaknesses described above, the operational and administrative controls for delegated activities related to procurement and contracting, motor vehicle inspections, and personal property transactions in effect as of April 22, 2011, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

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

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.

PROCUREMENT AND CONTRACTING ACTIVITIES [7]

Systemwide policy for Disabled Veteran Business Enterprise (DVBE) solicitations was unclear. Specifically, campuses had different interpretations of systemwide policy for DVBE-participation goals. Additionally, administration of the State Agency Buy Recycled Campaign needed improvement. For example, required contractor certifications were not consistently obtained for the recycled content of commodity purchases at four of the nine campuses visited, a repeat finding from the prior Delegations of Authority audit. Also, systemwide policies relating to insurance requirements for contracts were unclear, as some campuses believed that evidence of insurance coverage was only required for service contracts where services were being performed on campus, rather than for all service contracts, and some campuses did not always obtain evidence of required insurance coverage for service vendors and lease agreements, a repeat finding from the prior two Delegations of Authority audits.

MOTOR VEHICLE INSPECTIONS AND USE [11]

Certain systemwide policies for the motor vehicle inspection program and motor vehicle use were outdated. In addition, programmatic responsibilities and systemwide ownership for motor vehicle inspections and use had not been clearly defined or documented in systemwide policy. Finally, compliance with systemwide motor vehicle inspection and use policies was not always maintained at all nine campuses visited.

LEASE ADMINISTRATION [15]

Systemwide policies for leases were outdated. Also, at some campuses visited, the president or designee had not always approved the fees charged for facility use, leases were not always executed in a timely manner, and formal delegations of authority were not always in place to address the execution of the lease agreements, a repeat finding from the prior two Delegations of Authority audits.

INTRODUCTION

BACKGROUND

In 1986, Senate Bill (SB) 1828 indefinitely extended California State University (CSU) delegations of authority concerning certain procurement 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. SB 1828 also added section 89045(d) to the Education Code (EC):

(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 EC and Section 11007.7 of the Government Code (GC).

EC §89031.5 requires the inspection of all motor vehicles owned by the CSU. Executive Order (EO) 691, *Motor Vehicle Inspections*, dated November 23, 1998, 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 the campuses to notify the Office of the Chancellor (CO) of the individual assigned to the function. CSU policy concerning the use of motor vehicles is codified in *CSU Use of University and Private Vehicles Policy Guidelines*, dated March 2002, issued via Technical Letter 2002-16 from the CO Human Resources department.

EC §89036 grants the CSU authority over certain procurement and contracting activities. EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, updates and supersedes prior EOs dating back to 1994 and delegates the procurement authority granted to the CSU under AB 1191 to campus presidents, within the provisions of the *CSU Policy Manual for Contracting and Procurement* (PMCP). EO 760, *Procurement Cards*, dated October 16, 2000, delegates authority for the use of procurement cards to campus presidents.

PMCP, last updated on April 28, 2008, was recently codified in the *Integrated California State University Administrative Manual* (ICSUAM), Section 5000, *Contracts and Procurement*. The ICSUAM establishes systemwide contracting and procurement policy and provides guidance on general procurement practices, along with specific requirements relating to the procurement of goods, services, and information technology resources. Any future updates to contracting policy will be incorporated into the ICSUAM.

EC §89046 granted the CSU the authority to lease state university property for purposes consistent with the functions of the CSU. EO 669, *Leases*, dated May 1, 1997, supersedes an EO issued in 1983. It delegates to campus presidents the authority to execute leases of real property as either lessor or lessee without approval by the CO, subject to certain limitations. The EO requires the use of standard provisions from model lease agreements, an assessment of liability risk for each lease agreement, a competitive process for leasing state university property to for-profit enterprises, an accounting of leases in the campus financial records, and maintenance of a central repository for all current lease agreements.

INTRODUCTION

EC §89048 addresses a number of areas, including certain real property transactions and the sale or exchange of personal property. State University Administrative Manual §9018, *Acquisition and Granting of Easements and Acceptance of Quitclaims*, sets forth processing guidelines and responsibilities for such real property transactions by the campuses and by the land records staff in the CO Capital Planning, Design and Construction department.

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

GC §11007.7 addresses the procurement of insurance or official bonds. However, this section is not applicable to insurance procured by the CSU. CSU policy for insurance is codified by EO 849, *CSU Insurance Requirements*, dated February 5, 2003. It sets forth minimum insurance limits and holds harmless provisions for agreements, contracts, and purchases.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of delegated activities related to procurement and contracting, motor vehicle inspections, and real and personal property transactions and to determine the adequacy of controls over 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 of procurement activities incorporates effective internal controls, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy.
- ▶ CSU competitive bidding requirements are adhered to in the procurement of goods and services, and CO approval is received prior to the purchase of restricted items.
- ▶ The responsibility for the execution of low-value purchases is properly delegated and methods for such execution are adequately controlled, and campus use of procurement cards is appropriate.
- ▶ Efforts are made to meet Small Business, Disabled Veteran Business Enterprise (DVBE), and Buy Recycled goals; purchasing preferences are properly granted; and Small Business, DVBE, 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 the use of CSU-owned vehicles comply with CSU policies, and a vehicle inspector has been designated.
- ▶ Leasing activities are adequately controlled and comply with CSU policy and state regulations, and leases are properly executed.
- ▶ Easements, rights-of-way, and quitclaims have been correctly acquired, and the sale or exchange of personal property complies with CSU policy and the EC.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Action Item, Agenda Item 2 of the January 25 and 26, 2011, meeting of the Committee on Audit stated that a review of Delegations of Authority would include, but was not limited to, a review of certain purchasing and contracting activities; motor vehicle inspections and use; agreements and leases; easements, rights-of-way, and quitclaim transactions; and the sale and exchange of personal property. Delegations of Authority is a mandated audit and is required by the EC 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 whether operational and administrative controls are in place and operative. 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. The audit focused on procedures in effect from July 1, 2009, through December 31, 2010.

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 and contracting activities, delegations, and limitations.
- ▶ Bidding procedures and exceptions.
- ▶ Low-value purchase methods and controls.
- ▶ Granting of purchase preferences.
- ▶ Preparation of Small Business, DVBE, and Buy Recycled reports and goal attainment.
- ▶ Execution of lease agreements.
- ▶ Motor vehicle inspection and use policies and controls.
- ▶ Easements, rights-of-way, and quitclaims and the sale or exchange of personal property.

During the course of the audit, we visited nine campuses: Chico, Fullerton, Long Beach, Monterey Bay, Northridge, Pomona, San Bernardino, San Diego, and San Luis Obispo. We interviewed campus personnel and audited procedures in effect at the time of the audit.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

PROCUREMENT AND CONTRACTING ACTIVITIES

DISABLED VETERAN BUSINESS ENTERPRISE POLICY

Systemwide policy for Disabled Veteran Business Enterprise (DVBE) solicitations was unclear.

We noted that campuses had different interpretations of systemwide policy for DVBE-participation goals. Specifically:

- ▶ The policy stated that the DVBE incentive was part of the standard DVBE solicitation language. However, it further stated that campuses may determine the level of DVBE incentive that they would offer for corresponding levels of participation. Some campuses interpreted this to mean that the DVBE incentive level could be set to zero percent.
- ▶ The policy stated that the DVBE contracting participation goal was three percent, but that campuses may specify any amount of DVBE participation for an individual solicitation. It further stated that campus DVBE coordinators should specify the amount of required DVBE participation for individual solicitations. Although the intent of this language was to require the DVBE coordinator to document any decision to specify an amount of DVBE participation different from three percent, we found that five of the nine campuses we reviewed did not have documentation of DVBE participation by the qualified vendor or documentation of the campus' determination that DVBE participation was not required.
- ▶ The policy stated that DVBE participation requirements applied to all competitive solicitations. However, in our visits to the campuses, there were varying interpretations of the types of informal solicitations that qualified as competitive solicitations for DVBE participation purposes.
- ▶ The policy did not provide guidance on campus pursuit of DVBE participation in cases where systemwide-negotiated agreements, such as master agreements, were in place.

Integrated California State University Administrative Manual (ICSUAM) §5215.0, *DVBE Participation Goals*, dated October 22, 2009, is the systemwide policy detailing DVBE participation and reporting requirements.

Government Codes (GC) §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The Office of the Chancellor (CO) director of contracts and procurement stated that his department had been unaware of the conflicts between systemwide policy and campus practices until recently, and that policies would be rewritten or expanded to eliminate the conflicts and to provide further clarification as necessary. Management at three campuses stated that they were unaware of the requirement to document DVBE waivers in writing, and other campus management stated that the waivers were not documented due to management and staff turnover and management oversight.

Failure to update and clarify systemwide policy for DVBE solicitation increases the risk of misunderstandings and inconsistencies in compliance with California State University (CSU) and state DVBE requirements.

Recommendation 1

We recommend that the CO review and update existing systemwide policy related to DVBE participation and communicate these updates with the campuses.

Management Response

We concur. The CSU policy related to DVBE participation in solicitations will be reviewed, updated, and communicated to campuses to clarify the policy related to the findings in the audit.

This will be completed by January 10, 2012.

BUY RECYCLED CAMPAIGN ADMINISTRATION

Administration of the State Agency Buy Recycled Campaign needed improvement.

We found that:

- ▶ The CSU *Buy Recycled Handbook*, dated July 22, 2010, stated that the required percentage of dollars to be spent on recycled printing and writing paper was 25 percent. However, this was inconsistent with state law, which set a required percentage for this category at 50 percent.
- ▶ Required contractor certifications were not consistently obtained for the recycled content of commodity purchases at four of the nine campuses we visited. This is a repeat finding from the prior Delegations of Authority audit.

The CSU *Buy Recycled Handbook*, dated July 22, 2010, is the systemwide policy detailing CSU recycled product goals and requirements. It states that recycled products must make up at least 25 percent of printing and writing paper purchases.

Public Contract Codes (PCC) §12203 and §12207 state that each state agency shall ensure that at least 50 percent of reportable purchases are recycled products. Reportable purchases are defined as purchases of goods and materials in eleven product categories, including printing and writing paper.

PCC §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 CO director of contracts and procurement stated that the Buy Recycled Handbook conflicted with state law because the handbook had not been updated when state policy changed. Management at one campus stated the belief that addressing contractor certifications in the general provisions included in campus contracts provided adequate assurance of recycled content and that no separate certification was necessary. Management at other campuses stated that the failure to obtain contractor certifications was due to management oversight and conflicting priorities.

Inconsistencies between CSU policy and state law and the failure to consistently obtain contractor certifications for the recycled content of commodity purchases increase the risk of non-compliance with state regulations.

Recommendation 2

We recommend that the CO:

- a. Review and update existing systemwide policies as applicable to ensure that CSU recycled product goals are consistent with state law, and communicate these updates with the campuses.
- b. Remind the campuses of the importance of obtaining contractor certifications for the recycled content of commodity purchases.

Management Response

We concur. The existing systemwide policies will be reviewed and, as necessary, updated to be consistent with state law. Once the policies are reviewed and any update actions are complete, the CO will communicate the policy changes to the campuses. The CO also will remind campuses of the importance of maintaining the contractor certifications for recycled content of commodity purchases.

This will be completed by January 10, 2012.

INSURANCE REQUIREMENTS

Systemwide policies relating to insurance requirements for contracts were unclear, and campuses did not always obtain evidence of required insurance coverage.

We noted that:

- ▶ Due to a discrepancy between Executive Order (EO) 849, *CSU Insurance Requirements*, and ICSUAM §5230.0, *Insurance Requirements*, some campuses believed that evidence of insurance coverage was only required for service contracts where services were being performed on campus, rather than for all service contracts.

- ▶ Four of the nine campuses we visited did not always obtain evidence of required insurance coverage for service vendors and lease agreements. This is a repeat finding from the prior two Delegations of Authority audits.

EO 849, *CSU Insurance Requirements*, dated February 5, 2003, states that evidence of insurance coverage is required under the terms and conditions of a contract or agreement for services.

ICSUAM §5230.0, *Insurance Requirements*, dated January 1, 2006, states that evidence of insurance coverage is required for any service contract involving activities that put the state, CSU, or campus at risk, such as those for custodial services, landscaping, refuse collection, and any other contracts where the services are being performed on campus by independent contractors.

The CO director of contracts and procurement stated that ICSUAM §5230.0 was intended to incorporate EO 849 requirements, and he was unaware that some campuses were misinterpreting the wording of ICSUAM §5230.0. Management at the campuses stated several reasons for not always obtaining proof of insurance coverage, including the belief that proof of insurance was only required for services performed on campus, time limitations, staffing constraints, and oversight.

Unclear policies for CSU insurance requirements increase the risk of misunderstandings and noncompliance, and failure to properly monitor and obtain evidence of insurance coverage increases the campuses' and the CSU's exposure to liability.

Recommendation 3

We recommend that the CO:

- a. Review and update existing systemwide policies related to insurance requirements to remove any discrepancies regarding evidence of insurance coverage for service contracts, and communicate these updates with the campuses.
- b. Remind campuses of the importance of obtaining evidence of insurance coverage for service vendors and lease agreements.

Management Response

We concur. Risk Management will be issuing an update to EO 715 (Risk Management Policy), which will be supplemented by an insurance requirements technical letter that will be consistent with ICSUAM. When distributing the updated EO and the insurance requirements technical letter, a reminder will be provided to campuses regarding the importance of obtaining evidence of insurance coverage for service vendors and lease agreements.

This will be completed by May 2012.

MOTOR VEHICLE INSPECTIONS AND USE

SYSTEMWIDE POLICIES

Certain systemwide policies for the motor vehicle inspection program and motor vehicle use were outdated.

Specifically, we noted that:

- ▶ EO 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, needed updating. For example, the policy required campuses to notify the chancellor's office of the individual with delegated authority for the motor vehicle inspection program, but the CO was not using or recording this information.
- ▶ The CSU *Use of University and Private Vehicles Policy Guidelines*, dated March 2002, had not been updated since its inception. Specific areas that needed updating included, but were not limited to:
 - The \$350 threshold for vehicle inspector approval for parts and for estimates for commercially performed repairs. This threshold was low compared to current prices, and at two of the campuses visited, the campuses had set higher thresholds, causing them to be out of compliance with the systemwide policy for repairs. Also, some campuses were using blanket purchase orders for minor repairs, which was not addressed in the systemwide policy.
 - Requirements regarding vehicle logs or other documented methods to control vehicle usage. At all nine campuses we visited, campus policies either did not require departments with custody of university-owned vehicles to develop and implement a documented method to control and monitor the use of the vehicles, or daily operator checklists and/or monthly travel logs were not completed.
 - Requirements regarding different types of vehicles (electric carts, riding mowers, etc.), different types of vehicle use (on-campus vs. off-campus), and different frequencies of vehicle use (once a year, once a month, etc.).

EO 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, is the systemwide policy detailing requirements for campus motor vehicle inspection programs.

CSU *Use of University and Private Vehicles Policy Guidelines*, dated March 2002, is the systemwide policy detailing requirements for driving university-owned vehicles on state business. The guidelines contain certain requirements for inspections and repairs to university-owned vehicles. The guidelines also state, in part, that the campus must establish one point of control in order to control usage of university vehicles and to verify and maintain all required logs. These guidelines further state that the operator of a vehicle has an obligation to inspect the vehicle before driving it. Problems

noticed by the operator while using the vehicle should be noted on a trip/daily operator checklist, which should be kept in the vehicle. University vehicles are broadly defined as any motorized device for land transportation owned, leased, or rented by the university, state, or any state agency.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The assistant systemwide risk manager stated that although the two systemwide policies cited had been contemplated and worked on, the review and update process had not yet been completed due to departmental priorities.

Outdated policies for motor vehicle inspections and use increase the risk of misunderstandings related to the performance of duties and functions, inconsistent treatment and handling of issues related to motor vehicles, and the risk of poorly maintained vehicles or use by unqualified drivers.

Recommendation 4

We recommend that the CO review and update existing systemwide policies related to the motor vehicle inspection program and motor vehicle use, and communicate these updates to the campuses.

Management Response

We concur. Systemwide Risk Management will issue an update to the “Use of University and Private Vehicles Policy Guidelines,” which will include the motor vehicle inspection program and motor vehicle use. Once completed, the document will be shared systemwide.

This will be completed by May 2012.

PROGRAMMATIC RESPONSIBILITIES

Programmatic responsibilities and systemwide ownership for motor vehicle inspections and use had not been clearly defined or documented in systemwide policy.

We found that there was no one department or individual at the CO with responsibility for ensuring compliance with motor vehicle inspection and use policies, communicating and disseminating updated information, or acting as a contact for campus questions or suggestions. For example:

- ▶ At most campuses we visited, responsibility for the motor vehicle inspection program had been delegated to facilities management, and many campuses were looking to the plant, energy, and utilities department at the CO for policy guidance.

- ▶ Systemwide Risk Management and Public Safety was responsible for the two systemwide policies pertaining to motor vehicle inspections and use.
- ▶ Contracts and Procurement was responsible for reporting new vehicle purchases and for collecting and reporting CSU fleet information to the Department of General Services.

EO 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, is the systemwide policy detailing requirements for campus motor vehicle inspection programs.

CSU Use of University and Private Vehicles Policy Guidelines, dated March 2002, is the systemwide policy detailing requirements for driving university-owned vehicles on state business. It also contains certain requirements for inspections and repairs to university-owned vehicles.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The CO chief of staff, business and finance, stated that a formal identification of programmatic responsibility had not been made for the motor vehicle program because of the many aspects of the program and because responsibilities have shifted from department to department as a result of organizational changes.

Failure to assign programmatic responsibility for systemwide oversight of motor vehicle inspection and use increases the risk of misunderstandings related to the performance of duties and functions, inconsistencies in complying with CSU requirements, and inconsistent treatment and handling of issues.

Recommendation 5

We recommend that the CO define and document programmatic responsibilities and systemwide ownership for motor vehicle inspections and use, including responsibility for communicating and disseminating updated policy information and the assignment of a CO contact for campus motor vehicle inspectors.

Management Response

We concur. The executive vice chancellor and chief financial officer issued a memo dated August 4, 2011, to the assistant vice chancellor, Risk Management and Public Safety, directing that Risk Management “assume responsibility for all aspects of the systemwide motor vehicle program, including inspection and use compliance...” Risk Management will disseminate updated policy information by issuance of the updated “Use of University and Private Vehicles Policy Guidelines,” as well as providing for a CO contact for campus motor vehicle inspectors by May 2012.

MOTOR VEHICLE INSPECTION PROGRAM AND USE COMPLIANCE

Compliance with systemwide motor vehicle inspection and use policies was not always maintained at all nine campuses visited.

We found that:

- ▶ Campus delegations of authority for implementation of the motor vehicle inspection program were not in place or were not current at five of the nine campuses we visited.
- ▶ Preventive maintenance inspections on university-owned vehicles were not documented and/or not always completed in accordance with campus maintenance schedules at seven of the nine campuses we visited. This is a repeat finding from the prior two Delegations of Authority audits.
- ▶ Campus motor vehicle inspection policies did not address all elements required by the CSU systemwide policy at four of the nine campuses we visited.
- ▶ Driver certification statements regarding the possession of a valid California driver's license and the number of moving violations and accidents the driver had were not on file at seven of the nine campuses we visited.
- ▶ Defensive driving classes were not consistently completed at four of the nine campuses we visited.
- ▶ Written approval from a delegated official for the use of university-owned vehicles was not always obtained before the vehicles were released to employees at four of the nine campuses we visited.
- ▶ Department of Motor Vehicles (DMV) records were not always checked by three of the nine campuses we visited.

EO 691, *Motor Vehicle Inspections – Delegation 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. It further states that the campus president shall assign this function to an individual on campus and notify the CO of that individual.

CSU *Use of University and Private Vehicles Policy Guidelines*, dated March 2002, states certain requirements concerning vehicle inspections and repairs to university-owned vehicles. It also states, in part, that the campus must establish one point of control in order to control usage of university vehicles and to verify and maintain all required logs. These guidelines further state that the campus control office must determine that the following criteria are met before releasing a university vehicle to an employee: Written approval of the use has been given by an individual authorized by the president to grant such approval; employee certification regarding possession of a valid driver's license and driving record is obtained; the campus has requested a copy of the person's driving

record from the DMV at least once every four years; and the person has satisfactorily completed a CSU-approved defensive-driving course and maintains a good driving record.

Management at the campuses stated several reasons for these issues, including being unaware of all systemwide requirements related to motor vehicle inspections and use, belief that some systemwide policies were outdated, difficulty of enforcing motor vehicle requirements within campus departments, resource constraints, and oversight.

Failure to ensure performance of prescribed preventive maintenance, properly control use of university-owned vehicles, and ensure full implementation of motor vehicle inspection and use requirements increases the risk of poorly maintained vehicles, use of university-owned vehicles by unqualified drivers, and noncompliance with CSU policies.

Recommendation 6

We recommend that the CO remind the campuses of the importance of complying with systemwide motor vehicle inspection and use policies.

Management Response

We concur. Risk Management will issue an update to the “Use of University and Private Vehicles Policy Guidelines,” which will include the motor vehicle inspection program and motor vehicle use. Once completed, the document will be shared systemwide.

This will be completed by May 2012.

LEASE ADMINISTRATION

Systemwide policies for leases were outdated, and campus lease administration needed improvement at six of the nine campuses visited.

We noted that EO 669, *Leases*, had not been updated since 1997. In addition, we found that:

- ▶ The president or designee had not approved the fees charged for facility use at five of the nine campuses we visited. This is a repeat finding from the prior two Delegations of Authority audits.
- ▶ Leases were not executed in a timely manner for four of the nine campuses we visited. Specifically, three campuses signed leases subsequent to the start of the lease period, and one campus was operating with expired lease agreements.
- ▶ Three of the nine campuses we visited did not have a formal delegation of authority in place to address the execution of lease agreements. This is a repeat finding from the prior two Delegations of Authority audits.

Standing Orders of the CSU Board of Trustees §II.i and §VI.f state that the chancellor has the authority to establish and oversee campus fees; establish, adjust, and oversee systemwide fees subject to overall direction of the Board of Trustees; and the campus president is authorized to oversee and adjust campus fees. Presidents may delegate their authority to other officials on their campuses.

EO 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. All agreements executed by the campus president must include, at a minimum, the standard provisions and language included in the model lease agreements maintained by the Office of the Chancellor. These leases have been approved as to form by the Office of General Counsel.

The CO director of contracts and procurement stated his belief that the requirements in EO 669 are still current, and that no major changes have been made in the area of leases since the policy's inception. Management at the campuses stated several reasons for these issues, including being unaware of the requirement for approval of short-term facility fee schedules, policies and procedures that had not been finalized, management and staff turnover, and oversight.

Outdated leasing policies and inadequate controls over the leasing of state facilities increase the risk of unapproved rental fees, lost fee revenue, and inappropriate and inconsistent processing of lease contracts.

Recommendation 7

We recommend that the CO:

- a. Review existing lease policies and make any necessary updates, and communicate these updates to the campuses.
- b. Remind the campuses of the importance of maintaining strong internal controls over lease administration, including approval of fee schedules for facility use, proper lease execution, and delegation of authority to sign lease agreements.

Management Response

We concur. The existing policies related to real property management will be reviewed and updated, as necessary. The CO also will remind campuses of the importance of maintaining strong internal controls over lease administration, including approval of fee schedules for facility use, proper lease execution, and delegation of authority to sign lease agreements.

This will be completed by January 10, 2012.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
<u>Office of the Chancellor</u>	
Benjamin F. Quillian	Executive Vice Chancellor and Chief Financial Officer
George Ashkar	Assistant Vice Chancellor/Controller, Financial Services
Darryl Dearborn	Manager, Systemwide Contracts and Special Programs
Lori Erdman	Chief of Staff, Business and Finance
Nancy Freeland-Paice	Executive Program and Fiscal Manager, Capital Planning, Design and Construction (CPDC)
Zachary Gifford	Associate Director, Systemwide Risk Management and Public Safety
Charlene Minnick	Assistant Vice Chancellor, Systemwide Risk Management and Public Safety
Ben Morales	Land Title Program Manager, Land Use Planning and Environmental Review
Tom Roberts	Director, Contracts and Procurement
Elvyra San Juan	Assistant Vice Chancellor, CPDC
<u>California State University, Chico</u>	
Paul J. Zingg	President
Carol Buckmann	Instructional Support Technician, Chemistry and Biochemistry Department
Jan Burnham	Director, Student Financial Services and Special Assistant to the Vice President
Trudy Dahlmeier	Buyer I, Procurement and Contract Services
David Foreman	Assistant Vice President, Financial Services
Denise Gavello	Accounting Technician II, Accounting Operations
Sean Greenwald	Manager of Maintenance and Construction Services, Facilities Management and Services
Lorraine Hoffman	Vice President, Business and Finance
Cindy Kelly	Buyer II, Procurement and Contract Services
Sue Maligie	Director, Accounting Operations
Duane McCune	Buyer, Procurement and Contract Services
Warren Moser	Lead Automotive Mechanic, Facilities Management and Services
Marvin Pratt	Interim Assistant Director, Environmental Health and Safety
Sara Rumiano	Director of Procurement and Contract Services, Risk Management, and Real Estate
Sondra Sample	Supervisor, Accounts Payable
Jason Smock	Property Clerk II, Property Management
<u>California State University, Fullerton</u>	
Milton A. Gordon	President
Jim Corbett	Associate Director of Physical Plant
Naomi Goodwin	Associate Vice President of Administration and Finance
Donald Green	Director of Contracts and Procurement

APPENDIX A: PERSONNEL CONTACTED

California State University, Fullerton (cont.)

Willie Hagan	Vice President for Administration and Finance and Chief Financial Officer
Bahram Hatefi	Director of Internal Audit
Brian Jenkins	Associate Vice President of Finance
Greg Keil	Building Trades Manager
Ut Le	Lead Automotive Mechanic
Margaret Titular	Assistant to the Director of Physical Plant
Willem van der Pol	Director of Physical Plant
May Wong	Executive Assistant to the Associate Vice President of Finance
Sally Yassine	Associate Director of Contracts and Procurement

California State University, Long Beach

F. King Alexander	President
Susan Brown	Director, Physical Planning and Construction Management
Ellie Christov	Director, Support Services
Laurinda Fuller	Director, Purchasing and Financial Services
Lawrence Klumas	Director, Facilities Operations
Paul Johnson	Superintendent of Building Trades, Facilities Management
Mishelle Laws	Associate Vice President, Administrative Services
Gregory Pascal	Communication Supervisor, University Police
David Salazar	Associate Vice President, Physical Planning and Facilities Management
Fernando Solorzano	Field Services Division Captain
Aysu Spruill	Director of Internal Auditing/Information Security Officer
Mary Stephens	Vice President, Administration and Finance
Sharon Taylor	Associate Vice President, Financial Management

California State University, Monterey Bay

Dianne F. Harrison	President
George Ball	Property and Fixed Assets Coordinator
Bob Brown	Director of Facilities Services and Operations
Ruben Camacho	Automotive Equipment Mechanic
Reyola Carlisle	Contracts Coordinator
Joe DeCarlo	Assistant Director of Maintenance
Art Evjen	Director of Business and Support Services
John Fitzgibbon	Associate Vice President for Finance
Suzie Hernandez	Work Control Coordinator
John Marker	Associate Vice President for Facilities
Stacie Russo	Sergeant, University Police
Eva Salas	Buyer III
Kevin Saunders	Interim Vice President for Administration and
Linda Smith	Event Services Coordinator, World Theatre

California State University, Northridge

Jolene Koester	President
Jessica Ash	Business Analyst

APPENDIX A: PERSONNEL CONTACTED

California State University, Northridge (cont.)

Robert Barker	University Controller and Associate Vice President of Financial and Accounting Services
Joey Blanco	Buyer I
Heather Cairns	Administrative Services Manager, The University Corporation
Eliza Cholakian	Buyer I
Annie Dang	Accounts Payable Manager
Colin Donahue	Associate Vice President of Facilities Development and Operations
Kit Espinosa	Emergency Preparedness and Management Coordinator
William Fairchild	Capital Program Manager, Facilities Planning, Design and Construction
Alfredo Fernandez	Captain, Department of Police Services
Deborah Flugum	Purchasing and Contract Administration Manager
Sylvia Freiberg	Assistant to the Director, Medical Withdrawal Coordinator, Klotz Student Health Center
Chet Galland	Associate Director for Engineering Services
Anne Glavin	Chief of Police, Director of Police Services
John Griffin	Chief Financial Officer, The University Corporation
Charles Hughes	Acting Manager of Purchasing and Contract Administration
Anita Kaiserman	Buyer III
Reka Kiss	Assistant to the Director, Administrative Services Coordinator, Student Housing and Conference Services
William Krohmer	Manager of Technical Services and Safety
David Liggett	Instructional Support Technician III
Howard Lutwak	Director of Internal Audit
Tom McCarron	Vice President, Administration and Finance
Christine Plasting	Buyer II
Ellen Steinberg	Administrative Support Coordinator II
Annie Tan	Buyer III
Scott VanScoy	Captain, Police Operations
Bruce Weinstein	Director of Logistical Service
Lynn Wiegers	Interim Executive Director of Facilities Management

California State Polytechnic University, Pomona

J. Michael Ortiz	President
Anita Aguirre	Administrative Analyst/Specialist, Procurement and Support Services
Edwin Barnes	Vice President, Administrative Affairs and Chief Financial Officer
Sonia Campos	Assistant to the Director, Intercollegiate Athletics
Ruth Carrington	Finance System Analyst, Administrative Affairs, Information Systems
Valerie Eberle	Manager, Risk Programs, Human Resources Services
Kathy Harper	Assistant to the Associate Vice President, Finance and Administrative Services
Joan Horn	Buyer, Procurement and Support Services
Bob Hutchinson	Coordinator, Licensing of Facilities
Darwin Labordo	Associate Vice President, Finance and Administrative Services

APPENDIX A: PERSONNEL CONTACTED

California State Polytechnic University, Pomona (cont.)

Walter Marquez	Director, Facilities Administrative and Energy Services
Mark Miller	Director, Facilities Management
Janet Mundy	Administrative Analyst/Specialist, College of Agriculture
Ngoc Nguyen	Coordinator, Conference Services
Becky Pepping	Buyer III, Procurement and Support Services
David Prenovost	Chief Financial Officer, Foundation Financial Services
Kathleen Prunty	Director, Procurement and Support Services
Lorraine Rodriguez	Buyer III Lead, Procurement and Support Services
Al Viteri	Director, University Accounting Services
Joice Xiong	Director of Internal Audits, Administrative Affairs

California State University, San Bernardino

Albert K. Karnig	President
Del Anderson	Director, Accounting
Hamid Azhand	Director, CPDC
Lovellie Cimenski-Almogela	Director, Housing and Residential Life
Mark Day	Executive Director, Santos Manuel Student Union
Robert Gardner	Vice President, Administration and Finance
Kathy Hansen	Director, Procurement and Support Services
Misty Levingston	Scheduling Coordinator, Santos Manuel Student Union
Davina Lindsey	General Accounting Manager, Accounting
Maria Lootens	Capital Analyst, CPDC
Ruben Nunez	Manager, Grounds and Automotive
Ron Profeta	Interim Director, Parking Services
Melissa Spagnuolo	Confidential Administrative Support, Administration and Finance
Beth Stanton	Purchasing Manager, Procurement and Support Services
Tricia Walde	Supervisor, Event Scheduling
Bob Wilson	Associate Vice President, Financial Operations

San Diego State University

Elliot Hirshman	President
Stephen L. Weber	President (at time of review)
Cathleen Austin	Accounts Payable Manager
Chris Bronsdon	Financial Reporting Director
Scott Burns	Associate Vice President, Financial Operations
Valerie Carter	Audit and Tax Director
Lauren Cooper	Facilities Planning, Design and Construction Director
David del Rio	Assistant Director, Business Services
Johnny Eaddy	Physical Plant Associate Director
John Ferris	Physical Plant Director
Cathy Garcia	Contract and Procurement Manager
Kathi Glenn	Administrative Support Coordinator, Business Services
Lorretta Leavitt	University Controller and Interim Director, Budget and Finance
Debbie Richeson	Director of Auxiliary Services, Public Safety
Sally Roush	Vice President, Business and Financial Affairs

APPENDIX A: PERSONNEL CONTACTED

California Polytechnic State University, San Luis Obispo

Jeffrey D. Armstrong	President
Robert Glidden	Interim President (at time of review)
Elizabeth Ball	Administrative Support Coordinator
Louis Bayer	Farm Maintenance Mechanic
Michael Beaubien	Equipment Technician II
Marc Benadiba	Assistant Director, Payroll and Payment Management
Cindy Campbell	Associate Director, University Police Department
Ken Delmese	Property Clerk II
Mark Hunter	Executive Director, Facility Services
Larry Kelley	Vice President, Administration and Finance
Leah Kirklin	Buyer III
Lorlie Leetham	Director, Fiscal Services
Scott Loosley	Assistant Director, Operations, Facility Services
Greg Melnyk	Procurement Manager
Jeanette Paolucci	Administrative Support Coordinator
Kimberly Perez	Assistant Director, General Accounting & Financial Reporting
Kevin Piper	Director of Agricultural Operations
David Ragsdale	Director, Environmental Health and Safety
Rick Ramirez	Associate Vice President, Finance
Brenda Tesch	Lead Buyer
Georgia Wells	Buyer II
Elizabeth Williams	Accounts Payable Lead
Dru Zachmeyer	Interim Director, Contracts, Procurement and Risk Management



www.calstate.edu

MEMORANDUM

DATE: November 16, 2011

TO: Larry Mandel
University Auditor

FROM: Benjamin F. Quillian *BFW*
Executive Vice Chancellor and
Chief Financial Officer

SUBJECT: **Management Response to Recommendations of Audit Report #11-18,
Delegations of Authority, Systemwide**

RECEIVED
UNIVERSITY AUDITOR

NOV 17 2011

THE CALIFORNIA STATE
UNIVERSITY

In response to the "Incomplete Draft" report dated November 4, 2011, we are providing the enclosed management responses.

Should you have any questions, please feel free to contact me.

BFQ:lje

Attachment

c: Charlene Minnick, Assistant Vice Chancellor, Risk Management & Public Safety
George Ashkar, Assistant Vice Chancellor/Controller, Financial Services

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

DELEGATIONS OF AUTHORITY

SYSTEMWIDE

Audit Report 11-18

PROCUREMENT AND CONTRACTING ACTIVITIES

DISABLED VETERAN BUSINESS ENTERPRISE POLICY

Recommendation 1

We recommend that the CO review and update existing systemwide policy related to DVBE participation and communicate these updates with the campuses.

Management Response

We concur. The CSU policy related to DVBE participation in solicitations will be reviewed, updated and communicated to campuses to clarify the policy related to the findings in the audit.

This will be completed by January 10, 2012.

BUY RECYCLED CAMPAIGN ADMINISTRATION

Recommendation 2

We recommend that the CO:

- a. Review and update existing systemwide policies as applicable to ensure that CSU recycled product goals are consistent with state law, and communicate these updates with the campuses.
- b. Remind the campuses of the importance of obtaining contractor certifications for the recycled content of commodity purchases.

Management Response

We concur. The existing systemwide policies will be reviewed and, as necessary, updated to be consistent with state law. Once the policies are reviewed and any update actions are complete the chancellor's office will communicate the policy changes to the campuses. The chancellor's office also will remind campuses of the importance of maintaining the contractor certifications for recycled content of commodity purchases.

This will be completed by January 10, 2012.

INSURANCE REQUIREMENTS

Recommendation 3

We recommend that the CO:

- a. Review and update existing systemwide policies related to insurance requirements to remove any discrepancies regarding evidence of insurance coverage for service contracts, and communicate these updates with the campuses.
- b. Remind campuses of the importance of obtaining evidence of insurance coverage for service vendors and lease agreements.

Management Response

We concur. Risk Management will be issuing an update to EO 715 (Risk Management Policy), which will be supplemented by an insurance requirements technical letter that will be consistent with ICSUAM. When distributing the updated EO and the insurance requirements technical letter, a reminder will be provided to campuses regarding the importance of obtaining evidence of insurance coverage for service vendors and lease agreements. This will be completed by May 2012.

MOTOR VEHICLE INSPECTIONS AND USE

SYSTEMWIDE POLICIES

Recommendation 4

We recommend that the CO review and update existing systemwide policies related to the motor vehicle inspection program and motor vehicle use, and communicate these updates to the campuses.

Management Response

We concur. Systemwide Risk Management will issue an update to the "Use of University and Private Vehicles Policy Guidelines" which will include the motor vehicle inspection program and motor vehicle use. Once completed, the document will be shared systemwide. This will be completed by May 2012.

PROGRAMMATIC RESPONSIBILITIES

Recommendation 5

We recommend that the CO define and document programmatic responsibilities and systemwide ownership for motor vehicle inspections and use, including responsibility for communicating and disseminating updated policy information and the assignment of a CO contact for campus motor vehicle inspectors.

Management Response

We concur. The executive vice chancellor and chief financial officer issued a memo dated August 4, 2011, to the assistant vice chancellor, Risk Management & Public Safety directing that Risk Management “assume responsibility for all aspects of the systemwide motor vehicle program, including inspection and use compliance...” Risk Management will disseminate updated policy information by issuance of the updated “Use of University and Private Vehicles Policy Guidelines” as well as providing for a CO contact for campus motor vehicle inspectors by May 2012.

MOTOR VEHICLE INSPECTION PROGRAM AND USE COMPLIANCE**Recommendation 6**

We recommend that the CO remind the campuses of the importance of complying with systemwide motor vehicle inspection and use policies.

Management Response

We concur. Risk Management will issue an update to the “Use of University and Private Vehicles Policy Guidelines,” which will include the motor vehicle inspection program and motor vehicle use. Once completed, the document will be shared systemwide. This will be completed by May 2012.

LEASE ADMINISTRATION**Recommendation 7**

We recommend that the CO:

- a. Review existing lease policies and make any necessary updates, and communicate these updates to the campuses.
- b. Remind the campuses of the importance of maintaining strong internal controls over lease administration, including approval of fee schedules for facility use, proper lease execution, and delegation of authority to sign lease agreements.

Management Response

We concur. The existing policies related to real property management will be reviewed and updated, as necessary. The chancellor’s office also will remind campuses of the importance of maintaining strong internal controls over lease administration, including approval of fee schedules for facility use, proper lease execution, and delegation of authority to sign lease agreements.

This will be completed by January 10, 2012.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 30, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

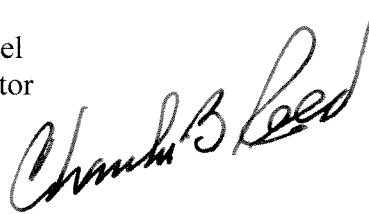
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 11-18 on
Delegations of Authority, Systemwide

LONG BEACH

LOS ANGELES

In response to your memorandum of November 30, 2011, I accept the response as submitted with the draft final report on *Delegations of Authority, Systemwide*.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS