June 28, 2016

Dr. Leslie E. Wong, President
San Francisco State University
1600 Holloway Avenue
San Francisco, CA 94132

Dear Dr. Wong:

Subject: Audit Report 16-17, Delegations of Authority, San Francisco State University

We have completed an audit of Delegations of Authority as part of our 2016 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services’ website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor
DELEGATIONS OF AUTHORITY

San Francisco State University

Audit Report 16-17
May 16, 2016
EXECUTIVE SUMMARY

OBJECTIVE

The overall objectives of the audit were to ascertain the effectiveness of delegated activities related to procurement and contracting, motor vehicle inspections, and real and personal property transactions, and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the operational, administrative, and financial controls in effect as of April 14, 2016, taken as a whole, were sufficient to meet the objectives of this audit.

Delegations of authority were generally in order; however we found that the delegation for the motor vehicle inspection program needed to be established, and that procurement needed to identify an appropriate process for granting authority to temporary employees issuing purchase orders. We also noted that the vehicle fleet management policy was inconsistent with campus practices and outdated in terms of defining responsibilities. In addition, we noted opportunities to improve policies regarding the administration of procurement cards and short-term leasing of campus facilities.

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

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

1. DELEGATIONS OF AUTHORITY

OBSERVATION

Delegations of authority were not always updated or appropriately granted.

We found that:

- There was no current delegation of authority for the motor vehicle inspection program. The last delegation was issued in 2002 to an individual who had since separated from the campus.

- Procurement had not identified an appropriate process for granting authority to temporary employees issuing purchase orders. The practice of issuing a memo sub-delegating limited authority to these individuals was prohibited by the original delegation issued by the campus president.

Proper delegations of authority provide assurance that significant transactions affecting California State University (CSU) assets are administered in accordance with policy and best practices.

RECOMMENDATION

We recommend that the campus:

a. Obtain a delegation of authority from the president for the individual responsible for the motor vehicle inspection program.

b. Develop and implement a process that allows appropriate transaction authority for temporary employees in procurement within the expectations of the authority residing with the president.

MANAGEMENT RESPONSE

a. A documented delegation of authority from the campus president for the individual responsible for the motor vehicle inspection program has been obtained. This was completed on April 21, 2016.

b. The campus president has provided the director of procurement with a revised delegation of authority that gives him authority to authorize temporary employees in the procurement department to dispatch purchase orders to vendors, thereby creating an obligation of university funds, provided that the temporary employees are operating under the supervision of staff. This was completed on May 14, 2016.

2. MOTOR VEHICLE INSPECTION AND FLEET POLICY
OBSERVATION

Administration of the campus motor vehicle inspection program and overall fleet management needed improvement.

We noted that:

- The *Fleet Procedures Guidelines*, the campus policy outlining the motor vehicle inspection program and fleet administration, needed updating, as it did not reflect current motor vehicle inspectors and included conflicting or outdated requirements regarding proper bidding and administration of maintenance work.

- The campus policy for decentralizing the administration of vehicles was not operating as outlined. The list of individuals designated as responsible managing employees (RME), or those outside of the fleet services area responsible for vehicle maintenance administration, was incomplete.

- Our review indicated that RMEs were not performing all required duties, including vehicle maintenance, repair record retention, and preparation of an annual report on vehicle operating costs.

- An online application meant to capture vehicle maintenance data from the RMEs was inoperable.

- The policy regarding disposal of motor vehicles did not reference the applicable personal property management policy.

Proper administration and maintenance of the vehicle fleet provides assurance of safety and maximization of the useful life of the assets.

RECOMMENDATION

We recommend that the campus review and update campus fleet policies and procedures to clarify responsibilities and reflect intended operational practices.

MANAGEMENT RESPONSE

As the fleet program converts to centralized management, the policies will be updated.

Expected completion date: September 30, 2016

3. FACILITY LEASE GUIDELINES

OBSERVATION

The campus policy for short-term leasing of campus facilities was outdated.

We found that the policy for authorizing lease agreements with for-profit entities did not align
with current practices and contained conflicting information regarding insurance requirements.

A current and defined short-term lease policy ensures the proper authorization of agreements with all entities, establishes a clear understanding of insurance requirements, and decreases the risk of noncompliance with systemwide policies.

RECOMMENDATION

We recommend that the campus review and revise policies for short-term leasing of facilities to clarify responsibilities and reflect intended practices.

MANAGEMENT RESPONSE

University property management will coordinate with procurement to review policies for short-term leasing by June 30, 2016, and recommend the revision be implemented no later than November 30, 2016.

Expected completion date: November 30, 2016

4. PROCUREMENT AND TRAVEL CARD POLICIES

OBSERVATION

The campus procurement card and travel card policies needed to be updated.

We found that:

- The policies did not clearly state accountability for the return of the cards when accounts were cancelled or the cardholder separated from the university. Specifically, the policies did not address responsibilities of the various campus entities, including the card approver, in ensuring that cards were returned and final reconciliations were performed.

- The procurement card policy stated that cardholders were responsible for indicating whether vendors used for procurement card purchases were small, minority- or women-owned, or Disabled Veteran Business Enterprise (DVBE)-eligible. However, the process for reconciling procurement card statements did not provide for capture of this information and was not being enforced.

Current and defined procurement and travel card policies ensure that inactive accounts are properly closed and the associated cards are accounted for, clarify responsibilities for any special reporting requirements, and decrease the risk of noncompliance with systemwide policies. In addition, they provide all parties with standardized expectations for compliance.

RECOMMENDATION

We recommend that the campus review and revise procurement card and travel card policies to clarify responsibility for account closures and any special reporting requirements.
MANAGEMENT RESPONSE

The campus procurement card and travel card policies will be updated to clearly state the accountability for the return of the cards when accounts are cancelled or the cardholder separates from the university.

Since the procurement card statements cannot provide the information on whether vendors used for purchases were small, minority- or women-owned, or DVBE-eligible, this reporting requirement will be removed from the policy.

Expected completion date: May 27, 2016
GENERAL INFORMATION

BACKGROUND

In 1986, Senate Bill (SB) 1828 indefinitely extended CSU delegations of authority concerning certain financial and operational responsibilities as part of an ongoing initiative to decentralize functions from the Department of General Services and promote greater economy and efficiencies in CSU operations. Assembly Bill 1191, passed in 1993, expanded the legislation.

SB 1828 also created Education Code (EC) §89045, which established and outlined expectations for the CSU internal audit function. Under the code, audits must be performed at least every five years for procurement and contracting activities; motor vehicle inspection programs; leases; real property transactions; and the sale and exchange of state-owned personal property.

The EC granted the CSU authority over certain procurement and contracting activities, and these authorities were further delegated to the campus presidents or designees through a series of updated Executive Orders (EO), provided that activities were conducted in accordance with Integrated California State University Administrative Manual (ICSUAM) §5000, Contracts and Procurement. These ICSUAM policies were adopted for compliance with a variety of statutory and policy provisions found in the State of California Codes, including the EC, Public Contract Code, and Government Code.

ICSUAM §5000 addresses fair and open competition, including parameters for competitive practices and for situations where less-formal procurement processes can be used. The policies also address available or required special considerations for vendors identifying as DVBE and small or micro businesses, or those vendors located in a Target Area Contract Preference Act region, among others.

ICSUAM §3150.01, Administration of University Property, outlines policy regarding how university property is valued, maintained, and safeguarded, as well as the determination and recording of the final disposition or disposal of property. The State University Administrative Manual (SUAM) remains the source for policy regarding certain real property transactions, such as easements, rights-of-way, and quitclaims.

At San Francisco State University (SFSU), procurement functions are centralized in procurement and support services (PSS), within the business operations department in fiscal affairs. The team of buyers and contract specialists provide administration and authorization for all purchase order and contract transactions, including assurance of compliance with specialized purchase programs, such as DVBE and small-business-vendor participation. Direct payments and procurement cards are administered in accounts payable, and the vehicle fleet is administered in facilities and service enterprises, within the physical planning and development (PP&D) department. Long-term leases are administered through a collaboration between PP&D, which determines the relationships and initial terms, and PSS, which reviews and provides the signing authority. Short-term leases are also administered within PP&D, and individuals within that department are given limited authority to sign pre-approved template agreements.
SCOPE

We visited the SFSU campus from February 29, 2016, through April 14, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2014, through April 14, 2016.

Specifically, we reviewed and tested:

- Delegations of authority for contracting, procurement, leases, motor vehicle inspections, and real and personal property transactions.
- Contracting and procurement activities, including documentation to support vendor selection decisions and proper approval of transactions.
- Processes to ensure that motor vehicles are inspected regularly and that maintenance is conducted in a cost-effective manner.
- Processes in place to ensure proper approval and administration of leases.
- Processes in place to ensure that real and personal property transactions are administered in accordance with system policy.

Our review did not include delegations of authority and other contracting and procurement activities for public works projects governed by Public Contracts Code §10700.

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

Our testing and methodology was designed to provide a review of key operational, financial, and administrative controls, which included detailed testing on a limited number of procurement and other transactions to ensure related processes were conducted in accordance with campus, systemwide, and regulatory policies.

CRITERIA

Our audit was based upon standards as set forth in Board of Trustee policies; CO policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

This review emphasized, but was not limited to, compliance with:

- EC §89045, §89031.5, §89036, §89046 and §89048
- EO 669, Leases
- EO 691, Motor Vehicles Inspections – Delegation of Authority
- EO 760, Procurement Cards
- EO 775, Acquisition of Personal Property and Services
- EO 1000, Delegation of Fiscal Authority and Responsibility
- ICSUAM §3150.01, Administration of University Property
- ICSUAM §5000, Contracts and Procurement
- SUAM §9018, Acquisitions and Granting of Easements and Acceptance of Quitclaims
- Government Code §13402 and §13403
- SFSU Procurement Card Policy
- SFSU U.S. Bank Departmental Travel Card Policy
- SFSU Fleet Procedures Guidelines
- SFSU Direct Payment/Low Value Payment Policy

AUDIT TEAM

Senior Director: Michelle Schlack
Audit Manager: Ann Hough