DELEGATIONS OF AUTHORITY

SAN JOSE STATE UNIVERSITY

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Members, Committee on Audit

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

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University Auditor: Larry Mandel
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ABBREVIATIONS

AB    Assembly Bill
BOT   Board of Trustees
CCR   California Code of Regulations
CIWMB California Integrated Waste Management Board
CPDC  Capital Planning, Design and Construction
CRL   Contract Resource Library
CS&P  Contract Services and Procurement
CSU   California State University
DFEH  Department of Fair Employment and Housing
DMV   Department of Motor Vehicles
DVBE  Disabled Veteran Business Enterprise(s)
EO    Executive Order
MVI   Motor Vehicle Inspections
MVIP  Motor Vehicle Inspection Program
PMCP  Policy Manual for Contracting and Procurement
SABRC State Agency Buy Recycled Campaign
SAM   State Administrative Manual
SUAM  State University Administrative Manual
INTRODUCTION

PURPOSE

The overall audit objective was to review and analyze activities to assure that the California State University (CSU) has acted responsibly under the Delegations of Authority established by Senate Bill 1828 (1986) and expanded by Assembly Bill (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 utilized to maximize purchasing leverage, achieve discounts, and reduce administrative costs; bidding requirements are enforced and adequately controlled; and campus policy maximizes advertising in the California State Contracts Register.

- Methods used to execute low-value purchases are properly delegated and adequately controlled and campus use of service orders is appropriate.

- Vendor protests, disputes, complaints, and exclusion from bidding are handled in accordance with CSU policy and maintenance of vendor data is adequate.

- Efforts are made to meet Disabled Veteran Business Enterprise (DVBE) and State Agency Buy Recycled Campaign (SABRC) goals; purchasing preferences are properly granted; and DVBE, small business, and California Integrated Waste Management Board (CIWMB) reporting is timely, accurate, and supportable.

- Purchase agreements are properly executed and include required conditions, provisions, certifications, and insurance requirements and Department of Fair Employment and Housing contract notification requirements are met.

- The campus motor vehicle inspection program and use of CSU-owned vehicles comply with CSU policies and regulations, including the designation of a vehicle inspector.

- Leasing activities are adequately controlled and comply with CSU policy and state regulations and leases are properly executed.

- The campus and chancellor’s office correctly acquire and grant easements, rights-of-way, and quitclaims and the sale or exchange of personal property complies with CSU policy and the Education Code.
SCOPE AND METHODOLOGY

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

Our primary focus involved the internal administrative, compliance, and operational controls over certain delegated purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Specifically, we reviewed and tested:

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

BACKGROUND

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

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

(d) In addition, the internal audit staff shall perform audits, at least once every five years, of the activities of the California State University pursuant to §89031.5, §89046, and §89048 of the Education Code, §11007.7 of the Government Code, and §10295, §10389, and §12100.5 of the Public Contract Code.

The last series of similar audits occurred during 1996. Executive Order (EO) No. 615, Delegation of Acquisition Authority for Personal Property and Services, dated March 23, 1994, delegated the
procurement authority granted to the CSU under AB 1911 to campus presidents. EO No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO No. 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO No. 760, *Procurement Cards*, dated October 16, 2000, delegated authority for the use of procurement cards to campus presidents.

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

- Recognition that the basic mission of the CSU is to support the teaching, research, and public service requirements for higher education for the people of the state of California.

- Recognition that the continued development and refinement of purchasing policies in accordance with good business judgment and best business practices is paramount to the effective and efficient total operations of the CSU.

- The firm belief that it is in the best interest of the CSU to limit, as much as possible, prescriptive policies and regulations and to provide maximum flexibility to, and accountability for, the adoption of local campus policies and procedures to 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 Trustee policy. It is the responsibility of the campus to determine the disposition of any issue not specifically addressed in the *CSU PMCP* or otherwise prescribed in law or regulation.

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

EO No. 691, *Motor Vehicle Inspections (MVI)*, dated November 23, 1998, issued in response to our previous review, updated and streamlined prior MVI requirements. The EO directs each campus to implement a motor vehicle inspection program, specifies eight guidelines that should be included, directs the president to assign the function to an individual, and requires that the chancellor’s office be notified of the individual assigned. CSU policy concerning the use of motor vehicles is codified in *CSU Use of University and Private Vehicles Policies and Regulations* booklet, dated October 1995, which was issued via Technical Letter 95-19 from human resources administration.

EO No. 669, *Leases*, dated May 1, 1997, delegated the authority to execute leases of real property to campus presidents as either lessor or lessee without approval by the Office of the Chancellor subject to certain limitations and superseded a prior EO issued in 1983. The EO requires the use of standard provisions from model lease agreements, an assessment of risk of liability potential for each lease.
agreement, a competitive process for leasing to for-profit enterprises, an accounting for leases in the campus financial records, and maintenance of a central repository for all current lease agreements.

EO No. 409, *Purchase, Sale, Lease and License of Personal Property*, dated January 5, 1983, delegated authority to sell or exchange personal property to campus presidents and has been superseded except for Item B. The EO permits the sale or exchange of personal property when the campus president determines it is in the best interest of the CSU, and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9871, *Acquisition and Granting of Easements and Acceptance of Quitclai ms*, sets forth the processing guidelines and responsibilities for such property transactions by the campus and the land records staff of the chancellor’s office Capital Planning, Design and Construction (CPDC) department.

**OPINION**

We visited the San José State University campus from September 24, 2001, through October 25, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of procurement support services was adequate to meet campus procurement needs, while other areas of the campus required improvement with respect to motor vehicle inspections and use and leasing of campus facilities to off-campus groups. Additionally, our review disclosed certain conditions that could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following areas: delegations of purchasing authority, providing vendors with terms and conditions, contractor insurance coverage, and required reporting for contract awards and the SABRC. Areas in need of improvement are referenced in the executive summary.
EXECUTIVE SUMMARY

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

PROCUREMENT ADMINISTRATION [8]

DELEGATIONS OF PURCHASING AUTHORITY [8]

Library staff purchased books and periodicals without a written delegation of authority from the campus president. Maintaining proper delegations of authority prevents the occurrence of unauthorized activities.

CAMPUS POLICIES AND PROCEDURES [8]

Written policies and procedures were lacking for activities not specifically addressed in the California State University (CSU) Policy Manual for Contracting and Procurement (PMCP). Effective written policies and procedures provide important training and support tools to the procurement function and essential elements for a strong control system.

SPECIFIC CONTRACT ISSUES [9]

TERMS AND CONDITIONS [9]

Required terms and conditions were not adequately communicated to vendors on purchase documentation. Properly communicated terms and conditions meet federal and state requirements, reduce the risk of entering into unfavorable contractual conditions, and comply with CSU policy.

CONTRACT AWARD REPORT [10]

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

PROCUREMENT OF SERVICES [11]

Verification was not performed for the acceptability of each insurer’s rating; insurance coverage requirements were not always specified; and one contractor did not provide adequate proof of insurance. Complying with CSU insurance requirements and properly monitoring insurance coverage reduces the potential for loss to the campus and the CSU.
SPECIAL PURCHASING ISSUES [12]

Required contractor certifications were not obtained for the recycled content of commodity purchases; all reportable purchases were not included in the fiscal year 2000/2001 State Agency Buy Recycled Campaign (SABRC) Procurement Report; and a copy of the corresponding SABRC Procurement Plan was not submitted to the Office of the Chancellor. Requesting contractor certifications and adherence to SABRC reporting requirements ensure compliance with state regulations and CSU policy.

MOTOR VEHICLE INSPECTIONS AND USE [14]

MOTOR VEHICLE INSPECTION PROGRAM [14]

The campus motor vehicle inspection program lacked some of the elements required by Executive Order (EO) No. 691 and did not ensure adequate preventive maintenance for all campus vehicles. A fully implemented vehicle inspection program improves the overall safety, efficiency, and economic well-being of the campus motor vehicle fleet.

VEHICLE USE CONTROLS [15]

The campus had not implemented all the guidelines prescribed in the CSU Use of University and Private Vehicles Policies and Regulations. Properly controlling use of university-owned vehicles and fully implementing the CSU Use of University and Private Vehicles Policies and Regulations ensure compliance with federal, state, campus, and CSU policy and reduce the risk of unqualified drivers and poorly maintained vehicles.

AGREEMENTS AND LEASES [17]

CAMPUS LEASING OF UNIVERSITY FACILITIES [17]

Controls over the short-term leasing of state facilities did not ensure that currently approved fees were charged or the acceptability of each lessee insurer’s ratings. Adequate controls over campus leasing of state facilities decrease the risk of using outdated, unapproved rental fees and uninsured damage to university property.

AUXILIARY LEASING OF UNIVERSITY FACILITIES [18]

Controls over the short-term leasing of state facilities by auxiliaries did not always include written policies and procedures and ensure that currently approved fees were charged. Adequate controls over auxiliary leasing of state facilities decrease the risk of inappropriate use of the facilities and outdated, unapproved rental fees.
AUXILIARY AGREEMENTS [19]

Adequate proof of insurance was not always on file throughout the term for auxiliary agreements. Complying with CSU insurance requirements and properly monitoring insurance coverage decrease the potential for losses by the campus and the CSU.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PROCUREMENT ADMINISTRATION

DELEGATIONS OF PURCHASING AUTHORITY

Library staff purchased books and periodicals without a written delegation of authority from the campus president.

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

The director of procurement services stated that campus administration believed its identification of individuals authorized to perform these functions was sufficient delegation of authority. She further stated that she felt that State University Administrative Manual (SUAM) §2445, *Purchase of Library Materials*, granted library staff the authority to order books and periodicals.

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

Subsequent to the end of fieldwork, the campus provided an appropriate delegation of authority for library purchases.

CAMPUS POLICIES AND PROCEDURES

Written policies and procedures were lacking for activities not specifically addressed in the *California State University (CSU) Policy Manual for Contracting and Procurement (PMCP)*.

*CSU PMCP (Release 2.1)*, Introduction, states that it is the responsibility of the campus to determine the disposition of any issue not specifically addressed herein or otherwise prescribed in law or regulation. Additionally, 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 herein.

State Administrative Manual (SAM) §20050 states that a satisfactory system of internal administrative controls shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions. Further, policy and procedural or operational manuals that are not currently maintained are a danger signal of a poorly maintained or vulnerable control system.
The director of procurement services stated that they were in the process of developing a comprehensive written policies and procedures manual. She further stated that policies and procedures are in place, but not always in a formal, written format.

Without written local procurement policies and procedures, the campus purchasing function operates with incomplete guidance for its staff, thereby diminishing its ability to efficiently and effectively train and support affected personnel.

**Recommendation 1**

We recommend that the campus develop comprehensive written policies and procedures for procurement activities not specifically addressed in the *CSU PMCP*.

**Campus Response**

We concur. A comprehensive written policies and procedure manual was finished on November 9, 2001.

**SPECIFIC CONTRACT ISSUES**

**TERMS AND CONDITIONS**

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

Twenty-eight of seventy-five (37%) purchase documents reviewed (46 commodity and 29 services purchases) did not include one or more of the required terms and conditions. These purchase documents represented relatively low-value purchases, with only two of the purchases exceeding bidding threshold levels.

*CSU PMCP (Release 2.1)* §200 includes various terms and conditions relating to all transactions.

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

The director of procurement services stated that her area has attempted to include all relevant terms and conditions in the limited space available on purchase documentation.

Inadequately communicating required terms and conditions increases the risk that certain federal and state requirements will not be met and may result in unfavorable contractual conditions and noncompliance with CSU policy.
Recommendation 2

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

Campus Response

We concur. Since our transition to PeopleSoft Financials on July 1, 2001, our purchase order and contract documentation references the URL address for current CSU terms and conditions, http://www.calstate.edu/CSP/crl/crl.shtml#forms.

CONTRACT AWARD REPORT

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

Our review of 18 purchase transactions requiring completion of a Contract Award Report disclosed no evidence that the reports had been completed for nine (50%) of the transactions.

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

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

The director of procurement services stated that the department believed the requirement was being met by filing reports for all formally negotiated contracts; she was unaware that the requirement applied to all services procured that exceeded $5,000.

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

Recommendation 3

We recommend that the campus formalize procedures to ensure that all required Contract Award Reports are submitted to the DFEH, and supporting documentation is maintained for all submissions.
Campus Response

We concur. PeopleSoft functionality (People Tools/nVision) allows buyers to create a Contract Award Report after generating a service purchase order in excess of $5,000. Buyers have been instructed to generate the report and document the file accordingly. Completed as of March 20, 2002.

PROCUREMENT OF SERVICES

Verification was not performed for the acceptability of each insurer’s rating; insurance coverage requirements were not always specified; and one contractor did not provide adequate proof of insurance.

Our review of seven purchase transactions that required insurance disclosed the following:

- Procedures were not in place to verify the acceptability of each insurer’s rating.

- Insurance requirements were not adequately specified for four of the transactions. No insurance requirements were specified for three of the transactions, which included sanitation and radiological services, and the other transaction did not include a provision specifying that the insurance carrier should have an AM Best rating of AVII or higher.

- The certificate of insurance submitted by one vendor did not include the CSU, the Trustees, the campus and their officers, employees, volunteers and agents as additional insured parties; and the proof of insurance was not received before commencement of work.

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

*CSU PMCP (Release 2.1) §230.03, Insurance Requirements for Service Contracts*, states that, at a minimum, errors and omission insurance is required for professional service consultants.

The lead buyer stated that the department is developing a system to reliably track all insurance certificates and their expiration dates as well as insurance company ratings.

Failure to comply with CSU insurance requirements and properly monitor insurance coverage increases the potential for loss to the campus and the CSU.
Recommendation 4

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance coverage and establish procedures to review the acceptability of each insurer’s rating.

Campus Response

We concur. At the time of the audit, we were in the process of developing an access program that tracks all insurance certificates and expiration dates. The database includes detailed insurance and related purchase order information. The data is maintained on a shared drive with access given to each buyer. A staff member has been assigned responsibility for maintenance of the file and securing new evidence of insurance when certificates expire. Buyers can verify the acceptability of each insurer’s rating on the web (www.ambest.com). Completed March 20, 2002.

SPECIAL PURCHASING ISSUES

Required contractor certifications were not obtained for the recycled content of commodity purchases; all reportable purchases were not included in the fiscal year 2000/2001 State Agency Buy Recycled Campaign (SABRC) Procurement Report; and a copy of the corresponding SABRC Procurement Plan was not submitted to the Office of the Chancellor.

Our review of the fiscal year 2000/2001 SABRC Procurement Report disclosed that reportable purchases were not included for five product categories that reflected purchases on the prior year report. Procurement management confirmed that reportable purchases were erroneously excluded.

Public Contract Code §12205(a) states that contractors shall be required to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided or used. This certification shall be furnished under penalty of perjury.

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 record-keeping procedures.

CSU PMCP (Release 2.1) §303.01 states that a campus SABRC Procurement Report and a projected one-fiscal-year SABRC Procurement Plan are to be submitted annually to the California Integrated Waste Management Board (CIWMB). A copy of the projected plan must also be transmitted to the chancellor’s office Contract Services and Procurement (CS&P) department.

The director of procurement services was not aware that the campus is required to request certifications from all vendors for the recycled content of products or that a copy of the projected plan was to be sent to the chancellor’s office. The procurement analyst stated that when the most recent SABRC Procurement Report was created, she recognized the missing reporting categories and determined that a new buyer had not been including the correct commodity category codes when making entries to the purchasing system.
Failure to request contractor certifications and adhere to SABRC reporting requirements results in noncompliance with state regulations and CSU policy.

**Recommendation 5**

We recommend that the campus:

a. Require contractors to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided or used.

b. Strengthen procedures over the accumulation of SABRC data to ensure that all reportable purchases are included in future SABRC reporting.

c. Establish procedures to forward a copy of the SABRC procurement plan to the chancellor’s office.

**Campus Response**

a. We concur. The CSU buy recycle campaign, announced on March 1, 2002, details a revised buy recycled policy, a buyers guide (CSU Buy Recycle Handbook) and a CSU Buy Recycle Products website (http://www.calstate.edu/csp/recycle/reclyce.shtml). Chancellor’s office buyer training on March 13, 2002, announced that certifications are not required for zero recycled content, steel and compost products. For all other products, we will request that contractors certify the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided. This certification may be in writing using a certification form, identified on a website, in a product catalog, or on product packaging. We initiated this process on March 20, 2002.

b. We concur. Our buyers received training to reinforce the requirement to accurately categorize recycled purchases. Completed March 20, 2002.

c. Based on the new CSU “Buy Recycle” guidelines, buy recycled procurement plans are no longer required.
MOTOR VEHICLE INSPECTIONS AND USE

MOTOR VEHICLE INSPECTION PROGRAM

The campus motor vehicle inspection program lacked some of the elements required by Executive Order (EO) No. 691 and did not ensure adequate preventive maintenance for all campus vehicles.

- The program did not address replacement policies and an annual analysis of operating costs.

- Required preventive maintenance was not performed on a regular basis. Evidence of required service could not be provided for 24 of 35 vehicles (25 passenger and 10 nonpassenger vehicles) reviewed.

- Written policies and procedures had not been developed to document the campus vehicle maintenance program.

EO No. 691, *Motor Vehicle Inspections – Delegations of Authority*, dated November 23, 1998, states that the campus president is responsible for the implementation of a campus motor vehicle inspection program (MVIP) and shall ensure that all aspects of the vehicle inspection program guidelines are followed.

The lead mechanic stated that performing immediately required repairs has made it difficult for staff to fully implement the preventive maintenance program. The director of facilities management stated that the campus was not aware of all MVIP requirements, but campus policies are in place to address some of the required elements.

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

**Recommendation 6**

We recommend that the campus:

a. Revise its MVIP to ensure compliance with EO No. 691 and fully implement the revised program.

b. Establish procedures to ensure that all required preventive maintenance occurs and is fully documented.

c. Develop comprehensive written policies and procedures for the campus vehicle maintenance program.
Campus Response

We concur. SJSU will revise its current process to include a comprehensive policy and procedures guideline ensuring compliance with EO 691. Such procedures will include a preventative maintenance validation process. The draft process will be available for review by facilities development & operations, human resources risk management, university police department, and the president’s office by June 30, 2002. The final approved policy will be in place by September 30, 2002.

VEHICLE USE CONTROLS

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

We noted that:

- The campus had not established one point of control for implementation of certain guidelines in the CSU Use of University and Private Vehicles Policies and Regulations.

- No assurance could be provided that campus departments were properly identifying employees permitted to drive university vehicles, including them in the campus defensive driving program, and reviewing their driving record from the Department of Motor Vehicles (DMV). Except for employees from the facilities development and operations department, there was no evidence that employees were notified when their four-year defensive driving course certification was due to expire.

- No individual had been authorized by the president to grant written approval to use university-owned vehicles.

- Proof that a driver is an active university employee or authorized volunteer was not being requested before issuing keys to drive the two university fleet vehicles. In addition, the campus did not require employee certification each time they accept the keys to a university fleet vehicle, that they have a valid California driver’s license, and that they have not been issued more than three moving violations or responsible for more than three accidents during the past twelve months.

- Except for checklists completed by bus drivers, the campus could not provide evidence of either routine use and collection of Trip/Daily Operator Checklists or evidence that employees were notified to complete these checklists on a regular basis.

- The two campus fleet vehicles were missing Operator Handbooks and Standard Form 270 Accident Reports; emergency and repair information in the vehicles was outdated; and one vehicle did not have DMV registration documentation.

- A university police vehicle did not have the required mileage log.
Signed copies of required checklists to indicate completion of utility vehicle training were not found in personnel files, as required by campus procedures.

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

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

Additionally, the campus control office must determine that:

- Written approval of use has been given by an individual authorized by the president to grant such approval.
- A person has a valid California driver’s license.
- A person has satisfactorily completed a CSU-approved defensive driving course.
- A person’s driving record from the DMV is requested and reviewed at least once every four years to ensure that a person has a good driving record.
- Employee certification regarding possession of a valid driver’s license and driving record is obtained.
- All necessary handbooks, accident report forms, travel logs, etc., are in the glove compartment of each university vehicle.

The San José State University *Policy on University Utility Vehicles* states that each employee who drives a utility vehicle must receive basic utility vehicle orientation and familiarization training, and a signed copy of the training checklist must be included in the employee’s personnel file as proof of compliance.

The director of facilities management stated that the campus was not aware of all of the CSU vehicle use regulations, but campus policies are in place to address some of the required regulations.

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

**Recommendation 7**
We recommend that the campus establish and implement procedures to ensure full compliance with the CSU Use of University and Private Vehicles Policies and Regulations.

Campus Response

We concur. San José State University will revise its current process to include a comprehensive policy and procedures guideline ensuring compliance with the current CSU Use of University and Private Vehicles Policies and Regulations. The draft process will be available for review by facilities development & operations, human resources risk management, university police department, and the president’s office by June 30, 2002. The approved policy will be in place by September 30, 2002.

AGREEMENTS AND LEASES

CAMPUS LEASING OF UNIVERSITY FACILITIES

Controls over the short-term leasing of state facilities did not ensure that currently approved fees were charged or the acceptability of each lessee insurer’s ratings.

We noted that:

- There was no evidence that the president or his designee had approved the current rental fee schedule.
- Insurance requirements for the presidential lease form used for the short-term leasing of campus facilities did not require that insurance coverage be provided by carriers with an AM Best rating of AVII or higher.

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

EO No. 743, CSU Insurance Requirements, dated May 5, 2000, states that the contractor, consultant, or vendor must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance, including a 30-day cancellation notification requirement; acceptability of the insurer’s rating; and the CSU, the Trustees, the campus, and their officers, employees, volunteers, and agents as additional insured.

The academic scheduling coordinator stated that the president’s office had been consulted extensively when establishing the current fee schedule, but written acknowledgement had not been retained. The lead buyer stated that the department has been attempting to update its system for obtaining and reviewing evidence of insurance coverage to facilitate meeting insurance requirements.
Inadequate controls over the leasing of state facilities increase the risk of using outdated, unapproved rental fees and uninsured damage to university property.

**Recommendation 8**

We recommend that the campus:

a. Obtain rental fee schedule approval from the campus president and implement procedures to maintain fee schedule approval on a current basis.

b. Update the insurance requirements for the short-term leasing of campus facilities to include insurance coverage by carriers with an AM Best rating of AVII or higher and establish procedures to verify the acceptability of each insurer’s rating.

**Campus Response**

a. We concur. We have asked the office of the president to provide a fee schedule. This schedule will be updated and distributed annually. This will be completed by June 1, 2002.

b. We concur. The procurement services department reviews all leases of campus facilities. They will ensure that insurance requirements are met and documented. This information will be tracked as stated above. This process will be in place by June 1, 2002.

**AUXILIARY LEASING OF UNIVERSITY FACILITIES**

Controls over the short-term leasing of state facilities by auxiliaries did not always include written policies and procedures and ensure that currently approved fees were charged.

Our review of auxiliary short-term leasing of campus facilities disclosed that written policies and procedures had not been developed for the Aquatic Center/Sports Club or Spartan Stadium, leased by the Student Union and Spartan Shops, respectively. In addition, written approval of rental rates or rate-setting guidelines was not on file for either of these facilities or the Events Center, which was also leased by the Student Union.

CCR Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires the establishment of written procedures to adequately control the leasing of campus facilities and a formalized process to set and approve related rental rates and/or guidelines.

The executive director of Spartan Shops and the administrative services manager of the Student Union stated that the rates charged for leases were based on a variety of factors and differed from event to event. The recreation facilities manager stated that her workload has made it difficult to
create written procedures, and the executive director of Spartan Shops stated that he is the only person executing leases for the stadium; therefore, no one else needs written procedures.

Inadequate controls over the leasing of state facilities by auxiliary organizations increase the risk of inappropriate use of the facilities and outdated, unapproved rental rates.

**Recommendation 9**

We recommend that the Student Union and Spartan Shops establish written policies and procedures for leasing state facilities, including the setting, approval, and periodic review of rental fee schedules and/or guidelines.

**Campus Response**

We concur.

The Student Union has policies and procedures for renting facilities on its website, [www.union.sjsu.edu](http://www.union.sjsu.edu).

Aquatic Center and Sport Club facilities use a contract for usage that requires the customer to provide adequate insurance per chancellor’s office guidelines. Written guidelines for those two areas are currently being developed and will be posted on the website and copies forwarded to campus by August 31, 2002. Procedures for renting space in the Student Union Building and for the Event Center Arena are available in detail on the website mentioned above. All customers must adhere to the chancellor’s office guidelines for insurance.

Rental rates for the above areas are reviewed annually by the board of directors and increased if appropriate. Copies of the minutes are forwarded to the president or his designee.

Spartan Shops, Inc., has the executive director review the facilities rental fee on an annual or case-by-case basis. The frequency of events compared to the variables impacting the negotiated rate does not lend themselves to the establishing of a set fee structure. Spartan Shops will continue to have the executive director review negotiated facilities use leases.

**AUXILIARY AGREEMENTS**

Adequate proof of insurance was not always on file throughout the term for auxiliary agreements.

Our review of eight auxiliary agreements for four auxiliaries disclosed that:

- Evidence of insurance was not obtained within 30 days of the effective date of the agreement for four agreements with two auxiliaries.
- No evidence of insurance renewal, within 30 days before the expiration of the term, was on file for six agreements with two auxiliaries.
EO No. 743, *CSU Insurance Requirements*, dated May 5, 2000, states that the contractor, consultant, or vendor must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance and specifies insurance coverage requirements for campus facilities and property leases. The EO further states that the campus may permit exceptions to the requirements following risk identification and evaluation.

*CSU Contract Resource Library (CRL)*, Model Auxiliary Agreements CRL034, CRL035, and CRL045 require auxiliaries to have insurance policies, or a certificate of a policy, deposited with the campus within 30 days after execution of an agreement and, on renewal of a policy, not less than 30 days before the expiration of the term of the policy.

The lead buyer stated that the department has been attempting to update its system for obtaining and reviewing evidence of insurance coverage to facilitate meeting insurance requirements.

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

**Recommendation 10**

We recommend that the campus strengthen procedures over the maintenance of proof of insurance coverage from auxiliaries.

**Campus Response**

We concur. An access program that tracks all insurance certificates and expiration dates was completed on March 20, 2002. A staff member has been assigned responsibility for maintenance of the file and securing new evidence of insurance when certificates expire.
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert L. Caret</td>
<td>President</td>
</tr>
<tr>
<td>Shawn Bibb</td>
<td>Director of Accounting/Systems and Technology</td>
</tr>
<tr>
<td>Kenneth Coale</td>
<td>Acting Director, Moss Landing Marine Laboratories</td>
</tr>
<tr>
<td>Ria Diaz</td>
<td>Buyer III</td>
</tr>
<tr>
<td>Barry Giles</td>
<td>Facilities Coordinator, Moss Landing Marine Laboratories</td>
</tr>
<tr>
<td>John Gorvad</td>
<td>Lead Auto Mechanic</td>
</tr>
<tr>
<td>Cecilia Hoang</td>
<td>Procurement Analyst</td>
</tr>
<tr>
<td>Don Kassing</td>
<td>Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Kristin Kelly</td>
<td>Administrative Services Manager, Student Union, Inc.</td>
</tr>
<tr>
<td>Barbara Keltner</td>
<td>Lead Buyer</td>
</tr>
<tr>
<td>Norma Lorigo</td>
<td>Director of Procurement Services</td>
</tr>
<tr>
<td>Betty Luna</td>
<td>Director of Facilities Management</td>
</tr>
<tr>
<td>Kevin McBride</td>
<td>Event Services Coordinator</td>
</tr>
<tr>
<td>Jerry Mimnaugh</td>
<td>Executive Director, Spartan Shops</td>
</tr>
<tr>
<td>Caryn J. Murray</td>
<td>Recreation Facilities Manager, Aquatic Center/Sport Club</td>
</tr>
<tr>
<td>Maria Pantoja</td>
<td>Manager of Administrative Services</td>
</tr>
<tr>
<td>Rita Peth</td>
<td>Purchasing Manager</td>
</tr>
<tr>
<td>Thomas Pomeroy</td>
<td>Corporal, University Police Department</td>
</tr>
<tr>
<td>Amado Ramirez</td>
<td>Corporal, University Police Department</td>
</tr>
<tr>
<td>James Renelle</td>
<td>Sergeant, University Police Department</td>
</tr>
<tr>
<td>Diane Robledo</td>
<td>Customer Service Representative</td>
</tr>
<tr>
<td>John Skyberg</td>
<td>Associate Director of Facilities Management</td>
</tr>
<tr>
<td>Sheri Tomisaka-Wong</td>
<td>Academic Scheduling Coordinator</td>
</tr>
<tr>
<td>Linda Vasquez</td>
<td>Assistant Vice President, Business Operations</td>
</tr>
</tbody>
</table>
April 15, 2002

Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802

DELEGATIONS OF AUTHORITY Audit No. 01-21

Enclosed please find San José State University’s response to the Delegations of Authority Audit No. 01-21. The campus is committed to addressing the issues identified in the audit report.

If you have any questions please contact either Shawn Bibb at (408) 924-1663 or myself at (408) 924-1500. Thank you.

Don W. Kassing
VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

Enclosure

C: Robert L. Caret, President
   Shawn Bibb, Director, Accounting & Systems and Technology
PROCUREMENT ADMINISTRATION

CAMPUS POLICIES AND PROCEDURES

Recommendation 1

We recommend that the campus develop comprehensive written policies and procedures for procurement activities not specifically addressed in the CSU PMCP.

Campus Response

We concur. A comprehensive written policies and procedure manual was finished on November 9, 2001.

SPECIFIC CONTRACT ISSUES

TERMS AND CONDITIONS

Recommendation 2

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

Campus Response

We concur. Since our transition to PeopleSoft Financials on July 1, 2001, our purchase order and contract documentation references the URL address for current CSU terms and conditions, http://www.calstate.edu/CSP/crl/crl.shtml#forms

CONTRACT AWARD REPORT

Recommendation 3

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

Campus Response

We concur. PeopleSoft functionality (People Tools/nVision) allows Buyers to create a contract award report after generating a service purchase order in excess of $5,000. Buyers
have been instructed to generate the report and document the file accordingly. Completed as of 3/20/02.

PROCUREMENT OF SERVICES

Recommendation 4

We recommend that the campus strengthen procedures over the maintenance of contractor proof of insurance coverage and establish procedures to review the acceptability of each insurer’s rating.

Campus Response

We concur. At the time of the audit, we were in the process of developing an access program that tracks all insurance certificates and expiration dates. The database includes detailed insurance and related purchase order information. The data is maintained on a shared drive with access given to each buyer. A staff member has been assigned responsibility for maintenance of the file and securing new evidence of insurance when certificates expire. Buyers can verify the acceptability of each insurer’s rating on the web (www.ambest.com). Completed 3/20/02.

SPECIAL PURCHASING ISSUES

Recommendation 5

We recommend that the campus:

a. Require contractors to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided or used.

b. Strengthen procedures over the accumulation of SABRC data to ensure that all reportable purchases are included in future SABRC reporting.

c. Establish procedures to forward a copy of the SABRC procurement plan to the chancellor’s office.

Campus Response

a. We concur. The CSU buy recycle campaign, announced on March 1, 2002, details a revised buy recycled policy, a buyers guide (CSU Buy Recycle Handbook) and a CSU Buy Recycle Products website (http://www.calstate.edu/csp/recycle/reclyce.shtml). Chancellor’s Office buyer training on March 13, 2002, announced that certifications are not required for zero recycled content, steel and compost products. For all other products, we will request that contractors certify the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the materials, goods, or supplies provided. This certification may be in writing using a certification form, identified on a
website, in a product catalog, or on product packaging. We initiated this process on 3/20/02.

b. We concur. Our buyers received training to reinforce the requirement to accurately categorize recycled purchases. Completed 3/20/02.

c. Based on the new CSU "Buy Recycle" guidelines, buy recycled procurement plans are no longer required.

MOTOR VEHICLE INSPECTIONS AND USE

MOTOR VEHICLE INSPECTION PROGRAM

Recommendation 6

We recommend that the campus:

a. Revise its MVIP to ensure compliance with EO No. 691 and fully implement the revised program.

b. Establish procedures to ensure that all required preventive maintenance occurs and is fully documented.

c. Develop comprehensive written policies and procedures for the campus vehicle maintenance program.

Campus Response

We concur. SJSU will revise its current process to include a comprehensive policy and procedures guideline ensuring compliance with EO 691. Such procedures will include a preventative maintenance validation process. The draft process will be available for review by Facilities Development & Operations, Human Resources Risk Management, University Police Department, and the President’s Office by June 30, 2002. The final approved policy will be in place by September 30, 2002.

VEHICLE USE CONTROLS

Recommendation 7

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

Campus Response

We concur. SJSU will revise its current process to include a comprehensive policy and procedures guideline ensuring compliance with the current the CSU Use of University and Private Vehicles Policies and Regulations. The draft process will be available for review by Facilities Development & Operations, Human Resources Risk Management, University
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AGREEMENTS AND LEASES

CAMPUS LEASING OF UNIVERSITY FACILITIES

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April 22, 2002

MEMORANDUM

TO:          Mr. Larry Mandel  
             University Auditor

FROM:        Charles B. Reed  
             Chancellor

SUBJECT:     Draft Final Report Number 01-21 on *Delegations of Authority*,  
             San José State University

In response to your memorandum of April 22, 2002, I accept the response as submitted with the draft final report on *Delegations of Authority*, San José State University.

CBR/amd

Enclosure

c: Dr. Robert L. Caret, President  
    Mr. Don W. Kassing, Vice President for Administration and Finance