

## MEMORANDUM

**Date:** February 28, 2017

**To:** Steve Relyea  
Executive Vice Chancellor and Chief Financial Officer

**From:**   
Larry Mandel  
Vice Chancellor and Chief Audit Officer

**Subject:** **Audit Report 16-16, *Delegations of Authority, Systemwide***

We have completed an audit of *Delegations of Authority, Systemwide* 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 chancellor's office personnel over the course of this review.

c: Timothy P. White, Chancellor



**DELEGATIONS OF AUTHORITY**  
**Systemwide**

Audit Report 16-16  
January 9, 2017

## 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, a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met.

Although the objectives of this audit were substantially met, our reviews indicated that the CO should review, revise, and/or update certain systemwide policies. Specifically, we noted that policies conflicted regarding the delegation of authority for certain real property transactions and were unclear on the authority for establishing systemwide procurement agreements. We also noted a need to provide additional training to campus procurement departments on policy requirements and monitoring practices for use of the direct-payment method for purchases. In addition, we noted opportunities to clarify or update system policies that address the proper delegation of authority for administration of personal property, the motor vehicle inspection program, and conflict-of-interest requirements.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. AUTHORITY FOR SYSTEMWIDE CONTRACTS

#### OBSERVATION

Policies regarding the authority that campus officials have in negotiating and approving contracts with systemwide or multicampus obligations need to be clarified.

Integrated California State University Administrative Manual (ICSUAM) §5204, *Strategic Sourcing Options and Alternatives*, describes various strategic purchasing and sourcing opportunities that can help campuses find discounts and reduce administrative costs. The description of each contract type includes direction regarding a campus' responsibility to either notify the CO or seek its permission if the campus is spearheading negotiations for a contract that has multicampus obligations and/or operational implications. However, the CO did not have a formal process in which these notifications and requests were routed, reviewed, approved when appropriate, and maintained for future reference.

Additionally, we noted that the authority for campus management to approve and sign contracts with systemwide or multicampus obligations was not specified or clear. For example, during our review, we found that a campus director of procurement signed a series of contracts with systemwide benefits and obligations on behalf of the Trustees of the California State University (CSU), as the lead agent for a purchasing consortium and on contracts generated from consortium activities. The campus director signed under the authority delegated at the campus level, and it was unclear whether systemwide delegated authority was required or appropriate. The ICSUAM policy addresses the negotiation and solicitation of the various systemwide contract types, but does not cover who has the authority to implement the contracts.

#### RECOMMENDATION

We recommend that the CO define and document the process a campus must take to notify the CO or seek its permission when seeking to solicit or negotiate a systemwide or multicampus contract, and to define who has the authority to sign such contracts.

#### MANAGEMENT RESPONSE

The CO will further define and document multicampus contracting processes and define signature authorities. This recommendation will be completed by June 2017.

### 2. DIRECT PAYMENTS

#### OBSERVATION

Our reviews indicated opportunities to enhance training to reinforce direct-payment policy requirements and oversight practices to campuses.

The ICSUAM policy manual on contracts and procurement describes instances in which procurement oversight is limited or even unnecessary. Specifically, ICSUAM §5205, *Low-Value Purchases*, directs campus management to use certain methods for low-value purchases, such as procurement cards and direct payments through accounts payable, to reduce administrative workload when little or no value can be added by processing the transaction through standard procurement procedures. ICSUAM §5205, *Limits on Competition*, mostly addresses procurement cards, and ICSUAM §5227, *Direct Payments*, addresses instances in which a purchase can be processed directly through accounts payable.

During the audit, we noted that four of the six campuses had exceptions related to administration of the direct-payment option for procurement in the areas of policy compliance and control enforcement. Two campuses had policies that did not address all requirements as outlined in the ICSUAM. In three instances, processes to monitor the use of the option, and to ensure that it was not used to circumvent procurement department oversight, were not operating effectively. The audit results showed only one campus wherein these weaknesses resulted in a significant number of purchases that bypassed required oversight, but in general, the role of accounts payable in monitoring certain purchase transactions was unclear.

#### **RECOMMENDATION**

We recommend that the CO provide training to campus procurement departments to address policy requirements and sound processes to monitor direct-payment transactions.

#### **MANAGEMENT RESPONSE**

The CO will provide training for campus procurement departments regarding oversight of direct-payment transactions. This recommendation will be completed by June 2017.

### **3. REAL PROPERTY TRANSACTION AUTHORITY**

#### **OBSERVATION**

The delegation of authority for granting or acquiring easements or rights-of-way for CSU properties was inconsistent with systemwide policy.

Two systemwide policies address the delegation of authority for granting easements or rights-of-way, and both indicate that the delegation is held by the campus presidents, subject to approval by the Office of General Counsel. For example, Executive Order (EO) 372, *Service Agreements, Leases, Easements, Licenses – Delegation of Authority*, although aged (issued in 1982) and partially superseded, contains a provision describing this authority model, as does State University Administrative Manual (SUAM) §9018, which references EO 372.

However, in practice, the authority to approve these transactions has been delegated in writing to the management of the Capital Planning, Design and Construction (CPDC) department at the CO. Our discussions with CPDC management indicated that the current practice, though inconsistent with policy, was initiated by the previous chancellor and

implemented by CO management, and was the preferred course of authority for these type of transactions.

**RECOMMENDATION**

We recommend that the CO review and revise policies regarding the delegation of authority for granting or acquiring easements or rights-of-way for CSU properties to reflect current acceptable practices.

**MANAGEMENT RESPONSE**

The CO will review and revise policies regarding the delegation of authority for granting or acquiring easements or rights-of-way for CSU properties. This recommendation will be completed by April 2017.

**4. POLICY DISCREPANCIES**

**OBSERVATION**

Systemwide policies were outdated or required clarification.

Our review indicated that there were several policies that should be reviewed for possible revision:

- EO 409, *Purchase, Sale, Lease and License of Personal Property – Delegation of Authority*, was issued in 1983, and more than half of the delegations in the policy have been superseded by delegations in subsequent EOs. The only remaining active delegations are for the sale, exchange, and licensing of personal property, which could be isolated into a separate policy.
- EO 691, *Motor Vehicle Inspection – Delegation of Authority*, was issued in 1998 and warrants review for relevance based on its age and outdated reporting requirements to the CO. In addition, the individuals listed as contacts for inquiries are no longer with the CSU.
- ICSUAM §5302 and §5402, policies dictating provisions for formal solicitations, both include sections stating that all CSU employees involved in the proposal evaluation process must complete a Conflict of Interest and Confidentiality Statement, CRL057. We found that campuses did not interpret this requirement as including employees in the procurement department and were not taking this step during the solicitation process.

**RECOMMENDATION**

We recommend that the CO review the policies listed above and consider revising them based on specific outdated or conflicting wording, or for contemporary relevance in the current CSU business model.

**MANAGEMENT RESPONSE**

The CO will review and revise discrepancies identified in procurement policies. This recommendation will be completed by July 2017.

## 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 EOs, provided that activities were conducted in accordance with 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 Disabled Veteran Business Enterprises 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 SUAM remains the source for policy regarding certain real property transactions, such as easements, rights-of-way, and quitclaims.

### SCOPE

The audit was performed at the CO and five campuses: Channel Islands, Maritime Academy, Sacramento, San Francisco, and Sonoma. We interviewed campus personnel and audited procedures in effect from July 1, 2014, through August 12, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative.

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

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