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October 17, 2016

Dr. Erika D. Beck, President  
California State University, Channel Islands  
One University Drive  
Camarillo, CA 93012

Dear Dr. Beck:

**Subject: Audit Report 16-18, *Delegations of Authority*,  
California State University, Channel Islands**

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

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## **DELEGATIONS OF AUTHORITY**

**California State University,  
Channel Islands**

Audit Report 16-18  
August 31, 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 the audit, the operational, administrative, and financial controls in effect as of July 1, 2016, taken as a whole, were not sufficient to meet the objectives of this audit.

In general, the audit revealed that the campus procurement function requires attention. Specifically, we found that the campus could not always provide evidence that informal and formal solicitation processes had been completed for purchases that met certain dollar thresholds. Additionally, we found that campus delegations of authority for purchasing and expenditure approvals were not always updated or appropriately granted. We also noted opportunities for improvement in obtaining insurance coverage for on-campus service vendors, processing direct-pay expenditures, and completing motor vehicle inspections and maintenance in accordance with campus policies and procedures.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. SOLICITATION PROCESS

#### OBSERVATION

The campus could not always provide evidence that transactions that met certain dollar thresholds had gone through an informal or formal solicitation process.

We reviewed 12 transactions that required an informal non-advertised solicitation process and seven transactions that required a formal solicitation process based on the dollar amount of the purchase, and we found that:

- For 11 informal solicitations, the campus could not provide documentation showing a written project scope or an attempt to obtain quotes from at least three vendors.
- For six formal solicitations, the campus could not provide documentation showing that a formal solicitation was completed.

Performing and documenting competitive solicitations provides assurance that the campus is obtaining the best value and is compliant with state regulations and California State University (CSU) policies and procedures.

#### RECOMMENDATION

We recommend that the campus:

- a. Perform solicitation processes in compliance with Integrated State University Administrative Manual (ICSUAM) policies.
- b. Provide refresher training to all procurement personnel on the solicitation process, including information on the documentation required for informal and formal solicitations.

#### MANAGEMENT RESPONSE

We concur.

- a. The procurement department will perform solicitation processes in compliance with ICSUAM polices and will provide evidence by February 28, 2017.
- b. All procurement personnel will receive refresher training on the solicitation process, including information on the documentation required for informal and formal solicitations. Evidence of the training and its content will be provided by February 28, 2017.

## 2. DELEGATIONS OF AUTHORITY

### OBSERVATION

Delegations of authority were not always updated or appropriately granted.

We found that:

- The delegations of authority for the acquisition of personal property and services for the director of procurement and logistical services and for procurement staff were not in place throughout the entire audit period. In addition, the individual who approved the delegation to the director of procurement did not have delegated authority for the dollar amount approved.
- Delegations of fiscal authority for the division of business and financial affairs were not approved prior to the time period covered by the delegations.
- Documented delegations of authority were not always available for individuals who approved procurement card transactions.

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

### RECOMMENDATION

We recommend that the campus:

- a. Approve delegations of authority timely.
- b. Review and update the delegations of authority discussed above to ensure that the delegations are current and appropriately approved, and cover all necessary types of transactions.

### MANAGEMENT RESPONSE

We concur.

- a. We will approve delegations of authority timely. Evidence of this practice will be submitted by February 28, 2017.
- b. We will conduct a review and update the delegations of authority to ensure that the delegations are current and appropriately approved, and cover all necessary types of transactions. Evidence of this review and resulting action will be provided by February 28, 2017.

### 3. INSURANCE REQUIREMENTS

#### OBSERVATION

The campus did not always obtain evidence of insurance coverage for service vendors.

We reviewed 22 service transactions that required insurance and found that:

- For five transactions, there was no insurance certificate covering the dates of service.
- For three transactions, the insurance certificate did not include additional insured endorsements as required by systemwide policy.

Obtaining evidence of insurance coverage for service vendors decreases the liability exposure of the campus.

#### RECOMMENDATION

We recommend that the campus provide refresher training to all procurement personnel addressing the circumstances in which evidence of insurance coverage should be obtained from service vendors and the specific requirements for insurance certificates.

#### MANAGEMENT RESPONSE

We concur. All procurement personnel will receive refresher training regarding the circumstances in which evidence of insurance coverage should be obtained from service vendors and the specific requirements for insurance certificates. This training, and evidence thereof, will be provided by February 28, 2017.

### 4. PROCUREMENT PROCESS

#### OBSERVATION

Purchases of goods and services were not always appropriately processed or approved.

We reviewed 50 purchases of goods and services and found that:

- In six instances, buyers approved transactions beyond their authorization limits. In an additional two instances, approved purchase orders could not be located.
- Two of five sole-source transactions were approved by an individual without delegated authority.
- For three of four purchases of information technology resources (ITR), the campus could not provide evidence that an accessibility review had been performed.

Proper approval and processing of goods and services purchases improves accountability, allows appropriate administration of funds, and decreases the risk of noncompliance with CSU

and governmental requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Provide training to procurement staff to address purchasing authorization limits, including sole-source approvals.
- b. Review the ITR procurement process and update it as necessary to ensure that all necessary documentation relating to accessibility reviews is completed and retained, and train all key personnel on the ITR procurement process.

**MANAGEMENT RESPONSE**

We concur.

- a. All procurement staff will receive training regarding purchasing authorization limits, including sole-source approvals. This training, and evidence thereof, will be provided by February 28, 2017.
- b. Information technology (IT) has implemented an ITPR process that requires accessibility be addressed as a condition to moving forward with any IT procurement. All aspects of accessibility review are incorporated and retained within the ITPR processing system for future reference. Training on this process has already been completed, and the process is currently in use. Evidence of this process and training will be provided by February 28, 2017.

**5. DIRECT PAYMENTS**

**OBSERVATION**

Campus direct-payment procedures needed to be updated, and direct-payment transactions were not always appropriately approved.

We reviewed 17 direct-pay transactions and found that:

- Campus direct payment procedures were not in compliance with ICSUAM. Specifically, the campus had not established dollar thresholds for 15 of 16 direct payment categories.
- Campus direct payment procedures did not reflect current practices. Specifically, we noted that the procedures required a check request form to process direct payments; however, accounts payable processed direct payments without this form as long as invoices were approved for payment by the department.
- Nine transactions were approved by individuals who did not have a current delegation of authority at the time of the transaction.

Current and comprehensive procedures and proper approvals for direct payment purchases decrease the risk of excessive or inappropriate purchases.

**RECOMMENDATION**

We recommend that the campus:

- a. Review and update direct-payment procedures to establish dollar thresholds for all direct-payment categories and determine whether the use of check request forms should be required, and communicate the updated procedures to individuals who approve direct-payment expenditures.
- b. Review and update the process for tracking and maintaining current direct-payment delegations of authority for campus approvers.
- c. Provide refresher training to accounts payable staff who process direct payments, emphasizing the areas noted above.

**MANAGEMENT RESPONSE**

We concur.

- a. Accounts payable will review and update direct-payment procedures to establish dollar thresholds for all direct-payment categories. We will also determine whether the use of check request forms should be required. Updated procedures will be communicated to individuals who approve direct-payment expenditures. Evidence of this review, subsequent procedural changes, and the dissemination of those changes will be completed by February 28, 2017.
- b. We will review and update the process of tracking and maintaining current direct-payment delegations of authority for campus approvers. Evidence of this review and related updates will be completed by February 28, 2017.
- c. Accounts payable staff who process direct payments will receive refresher training emphasizing the areas noted in the recommendation. This training, and evidence thereof, will be provided by February 28, 2017.

**6. MOTOR VEHICLE INSPECTION PROGRAM**

**OBSERVATION**

Administration of the campus motor vehicle inspection program needed improvement.

We found that the campus delegation of authority to the individual responsible for the motor vehicle inspection program was outdated, and that motor vehicle policies and procedures did not reflect current practices. In addition, we reviewed 10 campus vehicles and found that:

- In seven instances, the campus did not inspect passenger vehicles or electric carts within the time frames outlined by the campus policies and procedures.
- In all 10 instances, vehicle operators did not submit required periodic safety inspection forms and monthly maintenance checklists to the motor vehicle inspector.

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

#### **RECOMMENDATION**

We recommend that the campus:

- a. Update the delegation of authority for the motor vehicle inspection program.
- b. Review and update maintenance and inspection requirements in the campus motor vehicle policies and procedures as necessary to reflect current campus practices and provide reasonable assurance that vehicles remain in good working order.
- c. Communicate updated policies and procedures to all campus vehicle operators.

#### **MANAGEMENT RESPONSE**

We concur.

- a. The delegation of authority for the motor vehicle inspection program will be updated, and evidence provided, by February 28, 2017.
- b. We will review and update maintenance and inspection requirements in the campus motor vehicle policies and procedures to reflect current campus practices. Evidence of this review and subsequent updates will be completed by February 28, 2017.
- c. All updated policies and procedures will be communicated to all campus vehicle operators by February 28, 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 Executive Orders (EO), 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 (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 California State University, Channel Islands (CSUCI), procurement and contracting functions are centralized in the department of procurement and logistical services, within the business and financial affairs division. The team of buyers and contract specialists provide administration and authorization for all purchase order and contract transactions, including long-term leases and assurance of compliance with specialized purchase programs, such as DVBE and small-business-vendor participation. Procurement is also responsible for administering the procurement card program. Direct payments are administered by the accounts payable department, and the motor vehicle program is administered by facilities services, also within the business and financial affairs division. Short-term leases of campus property are administered by the office of conferences and events within the business and financial affairs division.

## SCOPE

We visited the CSUCI campus from May 31, 2016, through July 1, 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 July 1, 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
- Risk Management 2012-01 *Technical Letter re: California State University Insurance Requirements*
- Department of General Services *State Fleet Card Program Manual*
- CSUCI *Procurement and Logistical Services Operations Manual*
- CSUCI *Policy on Procurement*
- CSUCI *Procurement Credit Card Handbook*
- CSUCI *Direct Payment Procedure*
- CSUCI *Campus Fleet Administrator Program*
- CSUCI *Policy on Use of University Buildings and Grounds*

#### AUDIT TEAM

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