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November 2, 2016

Dr. Robert S. Nelsen, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Nelsen:

Subject: Audit Report 16-22, *Delegations of Authority*, California State University, Sacramento

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,
Sacramento**

Audit Report 16-22
October 3, 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 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 July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the areas under review appeared to be operating in accordance with California State University (CSU) policies and other external requirements. However, we did find that campus delegations of authority for sole-source procurements were not in compliance with systemwide policy, and policies and procedures related to direct-payment purchases needed review and clarification. Further, the campus did not have documented policies and procedures for the motor vehicle inspection program.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. APPROVAL OF SOLE-SOURCE PROCUREMENTS

OBSERVATION

The campus procurement policy and corresponding delegations of authority regarding sole-source procurements were not in compliance with systemwide policy.

Specifically, the campus was not in compliance with Integrated California State University Administrative Manual (ICSUAM) §5206.00, which states that campus sole-source requests for acquisitions valued at \$100,000 or more must have written approval from a campus authority no lower than the vice president for administration and finance. The campus delegated authority for these approvals to the director of procurement and contract services.

Proper approval of sole-source procurements improves appropriate administration of funds, and decreases the risk of noncompliance with CSU and governmental requirements.

RECOMMENDATION

We recommend that the campus update procurement policies and procedures and corresponding delegations of authority to align with systemwide requirements for the approval of sole-source procurements.

MANAGEMENT RESPONSE

We concur. We will revise our procurement desk procedures and the corresponding delegation of authority for sole-source approvals to align with ICSUAM §5206, *Limits on Competition*. The campus will provide supporting documentation for its completion by December 22, 2016.

2. DIRECT-PAYMENT POLICY

OBSERVATION

Policies and procedures for direct payments needed review and clarification.

We found that campus policies on direct payments did not adequately communicate the types of purchases that qualified as direct payments and did not establish a dollar threshold for these purchases. Additionally, the policy did not address acceptable exceptions to direct payment restrictions, although in practice, the campus allowed some exceptions with chief financial officer approval.

Current and defined direct-payment policies and procedures ensure that only appropriate low-value purchases are made via this method and decrease the risk of noncompliance with systemwide policies.

RECOMMENDATION

We recommend that the campus review and clarify direct-payment policies to address the types and dollar amounts of purchases that qualify as direct payments and acceptable exceptions to direct-payment restrictions.

MANAGEMENT RESPONSE

We concur. We will develop a campus policy and associated procedures to be in compliance with ICSUAM §5227, *Direct Payments*. The campus will provide supporting documentation for its completion by April 3, 2017.

3. MOTOR VEHICLE INSPECTION PROGRAM

OBSERVATION

The campus did not have documented policies and procedures for the campus motor vehicle inspection program.

We found that although the campus practice was to perform preventive maintenance on vehicles every six months, the campus did not have a formally documented motor vehicle inspection program that included this requirement or other elements required by systemwide policy.

Documented policies and procedures for the proper administration and maintenance of the vehicle fleet provides assurance of user safety and maximization of the useful life of the assets.

RECOMMENDATION

We recommend that the campus document policies and procedures for the campus motor vehicle inspection program.

MANAGEMENT RESPONSE

We concur. We will develop a documented motor vehicle inspection program to be in compliance with Executive Order 691, *Motor Vehicle Inspections – Delegation of Authority*. The campus will provide supporting documentation for its completion by April 3, 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 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, Sacramento, procurement functions are centralized in the procurement and contracting services (PCS) department, with the exception of the university library, which has been delegated the authority to procure books and periodicals. Buyers and contract specialists within the PCS department provide administration and authorization for all purchase order and contract transactions, including assurance of compliance with specialized purchase programs, such as disabled veteran business enterprise (DVBE) and small-business-vendor participation. Procurement cards are also administered by personnel within this department. Direct payments are administered by the accounts payable department; the vehicle fleet is administered by the facilities services department; and long-term and short-term leases are administered by the PCS department.

SCOPE

We visited the California State University, Sacramento campus from June 20, 2016, through July 22, 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 22, 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 §89031.5, §89036, §89045, §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
- California State University, Sacramento *Accounts Payable and Travel Procedures*
- California State University, Sacramento *Delegated Fiscal Authority and Responsibility*
- California State University, Sacramento *Procurement Guide*

AUDIT TEAM

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