CREDIT CARDS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 13-25
April 8, 2013

Members, Committee on Audit

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BOARD OF TRUSTEES
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# CONTENTS

Executive Summary .......................................................................................................................... 1

Introduction ........................................................................................................................................ 2
  Background .................................................................................................................................... 2
  Purpose .......................................................................................................................................... 4
  Scope and Methodology .................................................................................................................. 5

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

General Environment ....................................................................................................................... 6
  Personal Liability Credit Card ........................................................................................................ 6
  American Express University Liability Travel Card ..................................................................... 7

Credit Card Setup and Maintenance ............................................................................................... 8

Credit Card Purchases and Approvals ............................................................................................ 10
APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Campus Response
APPENDIX C: Chancellor’s Acceptance

ABBREVIATIONS

CC Credit Card
CO Office of the Chancellor
CSU California State University
CSUS California State University, Stanislaus
EO Executive Order
FISMA Financial Integrity and State Manager’s Accountability Act
FY Fiscal Year
ICSUAM Integrated California State University Administrative Manual
OUA Office of the University Auditor
P-Card Procurement Card
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor (OUA) during the last quarter of 2012, the Board of Trustees, at its January 2013 meeting, directed that Credit Cards (CC) be reviewed. The OUA previously reviewed CC in the biennial Financial Integrity and State Manager’s Accountability Act (FISMA) audits, the last of which was performed on campus in 2009.

We visited the California State University, Stanislaus campus from January 28, 2013, through February 22, 2013, and audited the procedures in effect at that time.

In our opinion, the fiscal, operational and administrative controls for CC activities in effect as of February 22, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

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.

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

GENERAL ENVIRONMENT [6]

The campus did not have documented policies or procedures addressing the use of personal liability business credit cards by employees who traveled or incurred other business expenses on behalf of the university, nor did it monitor the use of the cards to ensure that only business-related expenses were incurred and payments were made in a timely manner. Also, the campus issued American Express university liability travel cards that were not included in the current systemwide credit card program.

CREDIT CARD SETUP AND MAINTENANCE [8]

Credit card setup and maintenance needed improvement. For example, the approved credit limit did not always match the actual credit limit.

CREDIT CARD PURCHASES AND APPROVALS [9]

The monthly post-audit of procurement card transactions was not always documented, and procurement card purchases were not always allowed or properly documented in accordance with campus policy.
INTRODUCTION

BACKGROUND

The California State University (CSU) allows authorized employees to pay for certain types of expenses using campus credit cards. The use of campus credit cards provides an alternative to traditional procurement methods and offers a number of benefits, including reducing the administrative expense associated with procuring and paying for low-dollar goods and services, allowing for greater flexibility in selecting vendors, and expediting the receipt of purchases. CSU credit card programs are not intended to replace existing purchasing methods, but rather to supplement them.

CSU credit card programs began with the implementation of the CSU Procurement Card (P-Card) program for the purchase of low-dollar goods and services. Since then, credit card offerings have expanded, and a variety of programs are now available. CSU credit card programs can generally be divided into two types of offerings: university liability credit cards and personal liability credit cards.

University liability cards are those in which the campus pays the bill centrally. Common types of university liability cards employed by the campuses include P-Cards, used for the purchase of low-dollar goods and services; travel cards, used for business travel expenses; fleet cards, used for fleet-related expenses such as fuel, vehicle maintenance, and repairs; and one-cards or hybrid cards, which allow employees to use a single card to pay for more than one category of expenses. Some campuses also use P-Cards in the accounts payable department to make payments on traditional invoices. This reduces operations costs by eliminating checks and increases credit card rebates earned by the campuses.

Personal liability cards are obtained by an employee through a CSU contract; however, the employee pays the bill, and is personally liable, for the credit card. Such cards minimize the burden on an employee’s personal finances when business expenses must be incurred by the employee and subsequently reimbursed. Personal liability cards are commonly issued for business travel expenditures.

The CSU currently contracts with US Bank as its primary credit card vendor and receives rebates from US Bank based on total credit card spending and promptness of payment. Total CSU credit card spending with US Bank in fiscal year (FY) 2011/12 was approximately $90.6 million; there were approximately 5,910 CSU credit card users during this time period. The total CSU rebate earned for FY 2011/12 was $1.4 million.

The systemwide Contract Services and Procurement department at the Office of the Chancellor (CO) is responsible for managing the US Bank credit card contract, communicating credit card industry trends to campuses, verifying and distributing campus rebates, and administering components of the credit card program. Systemwide Financial Services at the CO is responsible for maintaining CSU accounting policies, including those policies related to credit card usage.

Executive Order (EO) 760, Procurement Cards, dated October 16, 2000, establishes the CSU policy regarding the use of procurement cards. It provides minimum standards for the use of procurement cards and gives the chief financial officer of each campus the responsibility for developing and maintaining policies and procedures governing the use of procurement cards to ensure strong internal controls and observance of good business practices.
Integrated California State University Administrative Manual (ICSUAM) §3103.03, *Procurement Cards*, effective January 1, 2012, provides additional details on university liability credit card program required elements, which include a designated procurement card administrator responsible for oversight of the campus procurement card program and a procurement card operations manual specific to the campus.

ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, provides additional details on the personal liability credit card program required elements, which include approval requirements for use of the cards and the stipulation that the cards be used only for bona fide business expenses that directly serve the university.

Historically, administration of campus credit card programs was reviewed by the CSU Office of the University Auditor (OUA) as part of cyclical audits based on the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983, passed by the California Legislature and detailed in Government Code §13400 through §13407.

Beginning in calendar year 2010, cyclical FISMA audits were reevaluated and discontinued due to a change in the OUA audit risk assessment methodology. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas on each campus. In addition to these high-risk areas, the OUA audit plan considered high-profile areas and core financial areas to assure comprehensive audit coverage. Credit cards were selected as the core financial area to review in 2013.
Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to CSU credit card programs and to determine the adequacy of controls over related processes to ensure compliance with Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration of campus credit card programs is well defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- Policies and procedures pursuant to campus credit card programs are current and comprehensive, and distribution procedures are effective.
- Campuses have informed credit card holders of how to report disputes and fraudulent transactions in a timely manner.
- Access to automated systems used for credit card administration is controlled and limited to authorized users.
- Procurement card purchases are accurately reconciled, in a timely manner, to bank statements and financial systems.
- Credit card payments are made accurately and in a timely manner to the card-issuing bank.
- Credit card rebates are properly accounted for.
- Security and retention of departmental records is adequate.
- Initial set-up of credit cards and changes made to existing credit cards are properly approved; credit cards are issued in accordance with campus and CSU policy; and credit card purchasing thresholds are effectively set and adhered to.
- Training for credit card users and approvers is appropriate.
- Campus processes ensure that credit cards are deactivated when employees are terminated or transferred.
- Processes are in place for the monitoring and reviewing of credit card purchases to ensure compliance with CSU and campus policies.
- Campuses have adequately controlled their financial exposure from credit card transactions.
- Credit card purchases are made in accordance with campus and CSU policies, and there is proper enforcement of sanctions for policy violations.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 22 and 23, 2013, meeting of the Committee on Audit stated that Credit Cards (CC) includes the administration of campus credit card programs. Proposed audit scope would include, but was not limited to, review of credit card administration, compliance with campus policies and procedures, approval to use credit cards, monitoring and review of credit card purchases, enforcement of sanctions for misuse, and processes to deactivate credit cards upon employee termination or transfer.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with Board of Trustee policies and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2011, through February 22, 2013.

We focused primarily on the internal administrative, compliance, and operations controls over CC activities. Specifically, we reviewed and tested:

- Administration of the campus procurement card program, including documented delegations of authority and current policies and procedures.
- Access to systems used in credit card administration.
- Processes to review and reconcile credit card bank files to campus bank statements and the general ledger.
- Credit card set-up, maintenance, and deactivation policies.
- Monthly credit card reconciliations, monitoring and review of credit card purchases, and enforcement of sanctions for violations of credit card policies.
- Credit card purchase transactions to ensure compliance with campus and CSU policies.
OBSERVATIONS, RECOMMENDATIONS, 
AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

PERSONAL LIABILITY CREDIT CARD

Administration of personal liability business credit cards needed improvement.

We found that the campus:

- Did not have documented policies or procedures addressing the use of the cards by employees who traveled or incurred other business expenses on behalf of the university.

- Did not monitor the use of the cards to ensure that only business-related expenses were incurred and payments were made in a timely manner.

Integrated California State University Administrative Manual (ICSUAM) §3103.04, Corporate Cards, effective January 1, 2012, states in part that it is the policy of the California State University (CSU) to facilitate acquisition of personal liability business credit cards, commonly known as corporate cards, for employees who incur business expenses on behalf of the university, in order to expedite payment and reduce the need for cash advances. In addition, campuses must prepare written procedures that implement this policy. It further states that corporate cards may only be used for bona fide business expenses that directly serve the University, and that CSU faculty or staff may not use corporate cards for personal expenses.

The controller stated that the lack of policies and procedures for the use of personal liability cards was due to oversight. She further stated her belief that current systemwide policies did not require the campus to monitor these cards; therefore, the campus relied on cardholders to use these cards appropriately.

The absence of detailed policies and procedures for and inadequate monitoring of credit cards increases the risk of inadequate administration of the credit card program and potential liability to the university through unallowable or inappropriate purchases or misappropriation of funds.

Recommendation 1

We recommend that the campus:

a. Develop and implement policies and procedures addressing the use of personal liability credit cards by employees who traveled or incurred other business expenses on behalf of the university.

b. Monitor the use of personal liability credit cards to ensure that only business expenses are incurred and payments are made in a timely manner.
Campus Response

We concur. The campus will develop and implement policies and procedures for the use and monitoring of personal liability credit cards by employees.

Expected date of completion: June 30, 2013

AMERICAN EXPRESS UNIVERSITY LIABILITY TRAVEL CARD

The campus issued American Express university liability travel cards that were not included in the current systemwide credit card program.

We found that:

- The campus had not consulted with the chancellor’s office (CO) to determine whether the cards were allowed under the current systemwide credit card program.

- Policies and procedures had not been developed for the use of the cards.

ICSUAM §3103.03, *Procurement Cards*, effective January 1, 2012, states that a single systemwide procurement card contract and related program will be administered by the CO department of contract services and procurement. In addition, it states that procurement card programs cannot avoid or bypass any systemwide or campus purchasing policies. It further defines a procurement card as a university liability credit card that may be used for business related purchases, and this may also include the procurement of travel related goods and services by allowing such services on the procurement card or by issuing a separate card under the systemwide procurement contract specific to such use. Campuses must prepare written procedures that implement this policy.

The controller stated that the campus did not obtain official approval from the CO for the card due to oversight, and that the card was being used by only a handful of employees. She further stated that policies and procedures had not yet been developed because the cards had only recently been issued.

Lack of compliance with the systemwide credit card program can reduce the cost benefits obtained from contractual rebates and discounts with the card issuer, and the absence of detailed policies and procedures governing credit cards increases the potential liability to the university through unallowable or inappropriate purchases.

Recommendation 2

We recommend that the campus:

a. Consult with the CO Contract Services and Procurement department to determine whether the American Express university liability travel cards are allowed under the current systemwide credit card program.
b. If the American Express university liability travel cards are allowed under the current systemwide credit card program, develop appropriate policies and procedures for the cards per systemwide policy.

**Campus Response**

We concur. The campus has consulted with the CO Contract Services and Procurement department. It has been determined that the American Express university liability travel cards are not allowed under the current systemwide credit card program. The campus will discontinue participation in this program and transition to the use of the approved university liability travel cards.

Expected date of completion: September 1, 2013

**CREDIT CARD SETUP AND MAINTENANCE**

Credit card setup and maintenance needed improvement.

We found that:

- The campus procurement card policies and procedures did not include a process for a final reconciliation of procurement card purchases and the return of a card upon an employee’s separation.
- The approval process for personal liability business credit cards did not require documented authorization from a business unit manager or supervisor.
- Fourteen campus credit cards out of the total card population had an actual credit limit different from the approved credit limit.
- One retired employee’s credit card was not canceled until two months after the official retirement date because a clearance form was not processed or submitted to the card administrator.
- In two instances where a new card was issued due to fraud, the fraudulent activity was not adequately documented.

Executive Order (EO) 760, *Procurement Cards*, dated October 16, 2000, states in part that campus procurement card policies and procedures must contain personnel clearing procedures that specifically address a final card reconciliation and return-of-card process.

ICSUAM §3103.03, *Procurement Cards*, effective January 1, 2012, states that the transactions of a cardholder are approved only by the cardholder’s supervisor or a higher reporting level. In addition, it states that the campuses must designate a single procurement card administrator responsible for the procurement card program.
ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, states that a CSU faculty or staff member is eligible to apply for a corporate card if they meet all of the following criteria: 1) their position at the university requires business travel at least once a year and/or regular hosting of business meetings/meals, 2) the card has been authorized by their supervisor and the unit’s business manager or chair, and 3) the individual has completed an application and agreed to the financial institution’s cardholder agreement.

California State University, Stanislaus (CSUS) *Procurement Card (P-Card) Policy and Procedure Handbook* states that the manager will assign two limits to the account, the single transaction limit and a monthly spend limit, and that when changes, updates, or cancellations of P-Cards are required, the program administrator is authorized to make the changes. It further states that it is the cardholder’s responsibility to return the credit card to the program administrator upon leaving or terminating services with the university. It also states that in the case of a fraud situation, the cardholder should report the fraud to the program administrator to report the activity, and a detailed written explanation should also be prepared.

The controller stated that the campus has a final card reconciliation and return-of-card process, but it was not documented in the procurement card policy due to oversight. She also stated that the campus was unaware of the requirement to obtain the authorization of the unit’s business manager or chair for personal liability cards. In addition, she stated that the campus was unaware of the credit limit differences, and that subsequent contact with the bank revealed that the bank representative administering the applications missed the single purchase limit during review and setup. She further stated her belief that the retired employee had not completed the required clearance form, which would have initiated a prompt cancellation of the card. Finally, she stated that not obtaining a detailed description in writing of fraudulent activity was due to oversight; however, the fraud had been reported and the campus had been reimbursed for these cases.

Inadequate maintenance of the credit card program can increase the risk of fraud or misuse of credit cards.

**Recommendation 3**

We recommend that the campus:

a. Update procurement card policies and procedures to include a process for final reconciliation of procurement card purchases and the return of a card upon an employee’s separation.

b. Update the approval process for campus-facilitated personal liability business credit cards to require documented authorization from a business unit manager or supervisor.

c. Ensure that the approved credit limit on credit cards is the same as the actual credit limit.

d. Ensure that when employees retire, their credit cards are canceled in a timely manner.

e. Ensure that when a new card is issued due to fraud, the fraudulent activity is adequately documented.
Campus Response

We concur. The campus will update policies and procedures to include employee separation and retirement, credit card limits, and fraud documentation. The campus will develop and implement policies and procedures for the use and monitoring of personal liability credit cards by employees.

Expected date of completion: June 30, 2013

CREDIT CARD PURCHASES AND APPROVALS

The monthly post-audit of procurement card transactions was not always documented, and procurement card purchases were not always allowed or properly documented in accordance with campus policy.

We reviewed 53 credit card purchases and found:

- One on-site building repair expense without vendor insurance and insurance indemnification documentation.
- One hotel expense with a website quote instead of an itemized zero-balance receipt.
- Five purchases greater than $500 without pre-authorization forms. For three of these purchases, the department was given a permanent verbal waiver agreement to bypass the authorization forms; however, this agreement was not documented.
- One hospitality expense without a hospitality form.
- Three purchases of minor capital outlays and equipment items costing between $500 and $5,000 that were not allowed by campus policy.
- One payment for architectural design fees.
- Three purchases for which the campus could not provide any supporting documentation.

EO 760, Procurement Cards, effective October 16, 2000, states in part that cardholders should be required to submit complete supporting documentation in a timely manner, and that campus procurement card procedures should include practices such as periodic post-audits to ensure compliance with CSU procurement card policies.

CSUS Procurement Card Policy and Procedure Handbook states in part that cardholders are required to retain receipts for all purchases and that all receipts are to be attached to the monthly statements for review. It further states that a statement detailing transactions must be submitted each month. In addition, it provides restrictions on the types of purchases that can be made:
Purchases over $500 (non-equipment) require the cardholder to complete a signed P-Card pre-purchase authorization form prior to the purchase even if the cardholder’s single purchase limit is greater than $500;

Purchases of food, gifts, flowers, gift cards, etc. require a signed hospitality form in accordance with the university hospitality policy.

Services or repairs performed by any vendor that comes onto the campus and involve risk are not allowed unless special permission has been granted in advance by the P-Card coordinator or P-Card administrator, and the cardholder is responsible for obtaining a current certificate of insurance prior to any work being performed.

Minor and major capital outlays and equipment items that are over $500 and have a useful life of one year or more are not allowed.

Architect and engineering services are not allowed.

The controller stated that the monthly post-audit was not documented due to oversight. She also stated that although the campus strives to review all monthly statements in a complete manner and requests complete supporting documentation, certain items are periodically missed due to human error. She further stated that there were a few cases for which the reviewer did detect the missing documents, and an audit finding was issued against the cardholder as a result.

The absence of evidence of the monthly post-audit review and lack of complete supporting documentation for credit card purchases can increase the risk of fraud or misuse of credit cards.

**Recommendation 4**

We recommend that the campus document the monthly post-audit of procurement card transactions and ensure that procurement card purchases are allowed and properly documented in accordance with campus policy.

**Campus Response**

We concur. The campus will update existing procurement card policies and procedures to include processes for post-audit of procurement card transactions.

Expected date of completion: June 30, 2013
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joseph F. Sheley</td>
<td>Interim President</td>
</tr>
<tr>
<td>Julie Anderson</td>
<td>Buyer II</td>
</tr>
<tr>
<td>Julie Benevedes</td>
<td>Interim Associate Vice President, Financial Services</td>
</tr>
<tr>
<td>Frank Borrelli</td>
<td>Manager, Support Services</td>
</tr>
<tr>
<td>Eleanor Carpenter</td>
<td>Account Technician II</td>
</tr>
<tr>
<td>Stephanie Faria</td>
<td>Account Technician I</td>
</tr>
<tr>
<td>Russell Giambelluca</td>
<td>Vice President, Business and Finance</td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Director, Audit Services</td>
</tr>
<tr>
<td>Regan Linderman</td>
<td>Controller, Financial Services</td>
</tr>
<tr>
<td>Mike Wojciechowski</td>
<td>Property Control Clerk</td>
</tr>
</tbody>
</table>
May 13, 2013

Larry Mandel, University Auditor
The California State University
Office of the University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

RE: Credit Card Audit Responses to Incomplete Draft Audit Report 13-25

Dear Mr. Mandel,

Enclosed please find the campus responses to the Credit Card Incomplete Draft Audit Report 13-25 for California State University, Stanislaus.

If you have any questions please do not hesitate to contact myself or Briquel Hutton, Director of Audit Services at (209) 664-6783.

Sincerely,

[Signature]

Russell Giambelluca
Vice President, Business and Finance

RG/bh
Enclosures: 1

cc: Joseph F. Sheley, President (Interim)
CREDIT CARDS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 13-25

GENERAL ENVIRONMENT

PERSONAL LIABILITY CREDIT CARD

Recommendation 1

We recommend that the campus:

a. Develop and implement policies and procedures addressing the use of personal liability credit cards by employees who traveled or incurred other business expenses on behalf of the university.

b. Monitor the use of personal liability credit cards to ensure that only business expenses are incurred and payments are made in a timely manner.

Campus Response

We concur. The campus will develop and implement policies and procedures for the use and monitoring of personal liability credit cards by employees.

Expected date of completion: June 30, 2013

AMERICAN EXPRESS UNIVERSITY LIABILITY TRAVEL CARD

Recommendation 2

We recommend that the campus:

a. Consult with the CO Contract Services and Procurement department to determine whether the American Express university liability travel cards are allowed under the current systemwide credit card program.

b. If the American Express university liability travel cards are allowed under the current systemwide credit card program, develop appropriate policies and procedures for the cards per systemwide policy.

Campus Response

We concur. The campus has consulted with the Chancellor’s Office Contract Services and Procurement department. It has been determined that the American Express university liability travel cards are not allowed under the current systemwide credit card program. The campus will
discontinue participation in this program and transition to the use of the approved university liability travel cards.

Expected date of completion: September 1, 2013

CREDIT CARD SETUP AND MAINTENANCE

Recommendation 3

We recommend that the campus:

a. Update procurement card policies and procedures to include a process for final reconciliation of procurement card purchases and the return of a card upon an employee’s separation.

b. Update the approval process for campus-facilitated personal liability business credit cards to require documented authorization from a business unit manager or supervisor.

c. Ensure that the approved credit limit on credit cards is the same as the actual credit limit.

d. Ensure that when employees retire, their credit cards are canceled in a timely manner.

e. Ensure that when a new card is issued due to fraud, the fraudulent activity is adequately documented.

Campus Response

We concur. The campus will update policies and procedures to include employee separation and retirement, credit card limits and fraud documentation. The campus will develop and implement policies and procedures for the use and monitoring of personal liability credit cards by employees.

Expected date of completion: June 30, 2013

CREDIT CARD PURCHASES AND APPROVALS

Recommendation 4

We recommend that the campus document the monthly post-audit of procurement card transactions and ensure that procurement card purchases are allowed and properly documented in accordance with campus policy.

Campus Response

We concur. The campus will update existing procurement card policies and procedures to include processes for post-audit of procurement card transactions.

Expected date of completion: June 30, 2013
June 17, 2013

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 13-25 on *Credit Cards,*
         California State University, Stanislaus

In response to your memorandum of June 17, 2013, I accept the response as submitted with the draft final report on *Credit Cards,* California State University, Stanislaus.

TPW/amd