CREDIT CARDS

CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD

Audit Report 13-27
July 2, 2013

Members, Committee on Audit

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ABBREVIATIONS

CC Credit Card
CO Office of the Chancellor
CSUB California State University, Bakersfield
CSU California State University
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, Bakersfield campus from March 25, 2013, through April 26, 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 April 26, 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]

Campus procurement card policies and procedures did not contain all information required by systemwide policy. Specifically, the procurement card policies and procedures did not include a final reconciliation as part of the personnel clearing process and did not clearly define who may qualify as a cardholder. In addition, the campus procurement card program allowed individuals to share procurement cards in certain situations.

CREDIT CARD SYSTEMS AND RECORDS [8]

The campus did not make weekly payments to the procurement card-issuing bank.

CREDIT CARD SETUP AND MAINTENANCE [8]

Approval for changes to cardholder credit limits was not always obtained and documented. Additionally, the campus did not always retrieve credit cards or revoke access to reconciliation systems from employees when they separated from the university.

CREDIT CARD PURCHASES AND APPROVALS [10]

Monthly post-audits of procurement card transactions were not always adequately performed to identify and resolve all violations to the campus procurement card 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 fiscal, 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 April 26, 2013.

We focused primarily on the internal administrative, compliance, and operational 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

CAMPUS PROCUREMENT CARD POLICIES

Campus procurement card policies and procedures did not contain all information required by systemwide policy.

We found that the procurement card policies and procedures:

- Did not include a final card reconciliation as part of the personnel clearing process.

- Did not clearly define who may qualify as a cardholder. For instance, executive officers of Associated Students, Incorporated at California State University Bakersfield and auxiliary employees, who do not typically fall under the definition of faculty and staff, were considered eligible cardholders.

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

Integrated California State University Administrative Manual (ICSUAM) §3103.03, Procurement Cards, effective January 1, 2012, states that procurement cards may be issued to and used by specifically authorized faculty and staff designated as cardholders to enable efficient and rapid acquisition of goods and designated services.

The assistant vice president of fiscal services stated that the campus’ procurement card policies did not include a final reconciliation as part of the personnel clearing process and did not provide a complete definition of a cardholder due to administrative oversight.

Incomplete written policies and procedures increase the risk of non-compliance with campus and California State University (CSU) requirements and increase the risk of financial liability due to unallowable purchases.

Recommendation 1

We recommend that the campus update procurement card policies and procedures to:

a. Include a final card reconciliation as part of the personnel clearing procedures.

b. Clearly define who may qualify as a cardholder.

Campus Response

a. The campus will modify its procurement card manual to include final reconciliations as part of the personnel clearing procedures.
Anticipated date of completion is October 31, 2013.

b. The campus will modify its procurement card policy manual to include ASI executive officers and the head resident assistant.

Anticipated date of completion is October 31, 2013.

CAMPUS PROCUREMENT CARD PROGRAM

The campus procurement card program allowed individuals to share procurement cards in certain situations.

We found that:

- Resident advisors in the housing department shared one credit card, which had been issued to an administrator in the department, through a check-out program.

- Four credit cards issued to an employee in the procurement department were shared between two buyers who made purchases on behalf of auxiliary business units.

- The emergency operations center procurement card was issued to one cardholder but was used and reconciled by other individuals in the department.

California State University, Bakersfield (CSUB) Procurement Credit Card Handbook states that the cardholder is responsible for the security of the procurement card. Only the assigned cardholder is allowed to make purchases on the credit card.

ICSUAM §3103.03, Procurement Cards, effective January 1, 2012, states that campus procedures must require that cardholders not allow a subordinate or any other person to make purchases using the procurement card.

The assistant vice president of fiscal services stated that the campus had been unaware that the department cards were considered shared cards.

Improper sharing of procurement cards increases the risk of unauthorized use and the potential for fraud and may distort the line of responsibility for purchases incurred.

Recommendation 2

We recommend that the campus discontinue the practice of allowing individuals to share procurement cards.
Campus Response

The campus will implement procedures to eliminate the sharing of procurement cards.

Anticipated date of completion is October 31, 2013.

CREDIT CARD SYSTEMS AND RECORDS

The campus did not make weekly payments to the procurement card-issuing bank.

ICSUAM §3103.03, *Procurement Cards*, effective January 1, 2012, states that campus payments to the procurement card-issuing bank for completed procurement card transactions must be made on a weekly basis prior to the closing of a monthly transaction cycle to take advantage of financial benefits related to the procurement card contract.

The assistant vice president of fiscal services stated that the campus was unaware of the weekly payment requirement and that the campus had interpreted the systemwide policy to be a recommendation, not a mandate, in order to maximize the credit card rebate. He further stated his belief that paying on a weekly basis would not allow the proper time frame to review and approve the credit card transactions, which is essential to the reconciliation process.

Failure to make weekly payments to the procurement card-issuing bank decreases the campus’ financial benefits from the procurement card contract.

Recommendation 3

We recommend that the campus make weekly payments to the procurement card-issuing bank.

Campus Response

The campus will make weekly payments to the procurement card-issuing bank.

Anticipated date of completion is October 31, 2013.

CREDIT CARD SETUP AND MAINTENANCE

CREDIT CARD SETUP

Approval for changes to cardholder credit limits was not always obtained and documented.

Specifically, we reviewed 32 procurement cards and found that in five instances, the campus was unable to provide documentation of approval for changes to cardholder credit limits.
CSUB **Procurement Credit Card Handbook** states that if a cardholder needs revisions made to their account, including raising single purchase or monthly limits, changing approving officials, and changing the default chartfield string associated with the card, cardholders must submit a procard revision form to the office of procurement.

The assistant vice president of fiscal services stated that the campus did not always obtain and document approval for changes to cardholder credit limits due to administrative oversight.

Lack of documentation of approval for changes to cardholder credit limits increases the risk of misuse of credit cards and increases the financial exposure of the university.

**Recommendation 4**

We recommend that the campus reiterate to staff that approval for changes to cardholder limits must be obtained and documented.

**Campus Response**

The campus will reiterate to staff that approval for changes to cardholder limits must be obtained and documented.

Anticipated date of completion is September 30, 2013.

**MAINTENANCE**

The campus did not always retrieve credit cards or revoke access to reconciliation systems from employees when they separated from the university.

Specifically, we found that one separated campus employee, who continued to serve the university as an unpaid volunteer, was not required to return a procurement card as part of the personnel clearing process and continued to make purchases on behalf of the university. In addition, the employee continued to have access to the university’s PeopleSoft system.

CSUB **Procurement Credit Card Handbook** states that a cardholder is responsible for returning the purchase card in accordance with the separation clearance form.

ICSUAM §3103.03, **Procurement Cards**, effective January 1, 2012, states that procurement cards may be issued to and used by specifically authorized faculty and staff designated as cardholders to enable efficient and rapid acquisition of goods and designated services.

Coded memorandum Human Resources 2005-26, **CSU Volunteer Policy**, dated June 14, 2005, states that individuals who volunteer services to the CSU, whether on an ongoing basis or for a short-term event, are considered CSU volunteers and are not appointed to an employee classification.

ICSUAM §8060.0, **Access Control**, effective April 19, 2010, states that modifications to user access privileges must be tracked and logged. Users experiencing a change in employment status (e.g.,
termination or position change) must have their logical access rights reviewed, and if necessary, modified or revoked.

The assistant vice president of fiscal services stated that the campus was unaware that the volunteer did not fall under the classification of faculty or staff and was not eligible to have a procurement card or access to the university’s reconciliation system.

Improper issuance of campus credit cards and improper granting of access to reconciliation systems to individuals who are not considered faculty or staff increases the university’s risk of fraud and financial exposure.

**Recommendation 5**

We recommend that the campus retrieve credit cards and revoke access to reconciliation systems from employees when they separate from the university.

**Campus Response**

The campus will retrieve credit cards and revoke access to reconciliation systems from employees when they separate from the university.

Anticipated date of completion is October 31, 2013.

**CREDIT CARD PURCHASES AND APPROVALS**

Monthly post-audits of procurement card transactions were not always adequately performed to identify and resolve all violations of the campus procurement card policy.

We reviewed 40 credit card purchases and found seven violations to the campus procurement card policy that were not discovered during the monthly post-audit of transactions:

- Two cardholders had engaged in transaction splitting to circumvent single transaction credit limits.
- Two reconciliation packages were not submitted in a timely manner, in accordance with campus policy.
- Two purchases for gift cards were not pre-approved by the director of procurement, as required by campus policy.
- A laptop that was purchased with a procurement card was not reported to the university’s asset management department and tagged for inventory.

CSUB *Procurement Credit Card 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 within ten business days from notification that the statement is available online, the original packet must be submitted to accounts payable. After that timeframe if a report has not been submitted, a late notification will be sent to the cardholder. In addition, the policy restricts the following types of purchases: Splitting of purchases to circumvent the dollar limitation or the competitive bidding process; cash advances including gift cards -- gift cards may only be purchased as promotional items but must be pre-approved by the director of procurement; and sensitive equipment, such as laptops, notebook computers, and firearms.

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.

The assistant vice president of fiscal services stated that the campus post-audit of monthly credit card transactions did not always identify prohibited purchases, late reports, or the absence of approvals due to staffing restraints and administrative oversight.

Inadequate monitoring of monthly procurement card transactions and improper enforcement of sanctions for policy violations increases the risk that cardholders will continue to make prohibited purchases or make purchases without proper justification and prior approvals.

**Recommendation 6**

We recommend that the campus adequately perform monthly post-audits of procurement card purchases to identify and resolve any violations to campus procurement card policy.

**Campus Response**

The campus will perform monthly post audits of procurement cards to identify and resolve any violations to campus procurement card policies.

Anticipated date of completion is October 31, 2013.
**APPENDIX A:**
**PERSONNEL CONTACTED**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Horace Mitchell</td>
<td>President</td>
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<tr>
<td>Michael Chavez</td>
<td>Director, Procurement</td>
</tr>
<tr>
<td>Brian Chen</td>
<td>System Analyst, Administrative Computing Services</td>
</tr>
<tr>
<td>Lizeth Gamez</td>
<td>Accounting Supervisor, General Accounting</td>
</tr>
<tr>
<td>Kellie Garcia</td>
<td>Associate Vice President, Human Resources</td>
</tr>
<tr>
<td>Eva Hebebrand</td>
<td>Manager, Student Financial Services</td>
</tr>
<tr>
<td>Marina Manzano</td>
<td>Contracts Technician/Buyer II, Procurement</td>
</tr>
<tr>
<td>Michael Neal</td>
<td>Vice President, Business and Administrative Services</td>
</tr>
<tr>
<td>Jerry Polkinghorne</td>
<td>Supervisor, Facilities Management</td>
</tr>
<tr>
<td>Kallya Shenoy</td>
<td>Interim Assistant Vice President, Information Technology Services</td>
</tr>
<tr>
<td>Doug Wade</td>
<td>Assistant Vice President, Fiscal Services</td>
</tr>
</tbody>
</table>
August 14, 2013

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

Re: University Response to Recommendations Contained in Report
Number 13-27, Credit Cards – CSU Bakersfield

Dear Mr. Mandel:

Attached are the University’s responses to the recommendations contained in Report
Number 13-27, Credit Card Audit.

If you have any questions or concerns, please contact my office at (661) 654-2287.

Sincerely,

Michael A. Neal
Vice President for Business
and Administrative Services

c: Horace Mitchell, CSUB President
GENERAL ENVIRONMENT

CAMPUS PROCUREMENT CARD POLICIES

Recommendation 1

We recommend that the campus update procurement card policies and procedures to:

a. Include final card reconciliation as part of the personnel clearing procedures.
b. Clearly define who may qualify as a cardholder.

Campus Response

a. The campus will modify its procurement card manual to include final reconciliations as part of the personnel clearing procedures.
   Anticipated date of completion is October 31, 2013.

b. The campus will modify its procurement card policy manual to include ASI executive officers and the head resident assistant.
   Anticipated date of completion is October 31, 2013.

CAMPUS PROCUREMENT CARD PROGRAM

Recommendation 2

We recommend that the campus discontinue the practice of allowing individuals to share procurement cards.

Campus Response

The campus will implement procedures to eliminate the sharing of procurement cards.

Anticipated date of completion is October 31, 2013.
CREDIT CARD SYSTEMS AND RECORDS

Recommendation 3

We recommend that the campus make weekly payments to the procurement card-issuing bank.

Campus Response

The campus will make weekly payments to the procurement card-issuing bank.

Anticipated date of completion is October 31, 2013.

CREDIT CARD SETUP AND MAINTENANCE

CREDIT CARD SETUP

Recommendation 4

We recommend that the campus reiterate to staff that approval for changes to cardholder limits must be obtained and documented.

Campus Response

The campus will reiterate to staff that approval for changes to cardholder limits must be obtained and documented.

Anticipated date of completion is September 30, 2013.

MAINTENANCE

Recommendation 5

We recommend that the campus retrieve credit cards and revoke access to reconciliation systems from employees when they separate from the university.

Campus Response

The campus will retrieve credit cards and revoke access to reconciliation systems from employees when they separate from the university.

Anticipated date of completion is October 31, 2013.
CREDIT CARD PURCHASES AND APPROVALS

Recommendation 6

We recommend that the campus adequately perform monthly post-audits of procurement card purchases to identify and resolve any violations to campus procurement card policy.

Campus Response

The campus will perform monthly post audits of p-cards to identify and resolve any violations to campus procurement card policies.

Anticipated date of completion is October 31, 2013.
September 4, 2013

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 13-27 on Credit Cards,
         California State University, Bakersfield

In response to your memorandum of September 4, 2013, I accept the response
as submitted with the draft final report on Credit Cards, California State
University, Bakersfield.

TPW/amd