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ABBREVIATIONS

AVP  Associated Vice President
CC   Credit Card
CO   Office of the Chancellor
CSU  California State University
CSUF California State University, Fresno
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, Fresno campus from May 6, 2013, through May 31, 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 May 31, 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]

Administration of personal liability credit cards needed improvement. For example, the campus did not have documented policies or procedures addressing the issuance and use of the cards by employees who traveled or incurred other business expenses on behalf of the university.

CREDIT CARD SYSTEMS AND RECORDS [7]

Access to credit card systems was not always appropriate.

CREDIT CARD SETUP AND MAINTENANCE [8]

Cardholder credit limits were not always in agreement with campus-approved limits, and approval of subsequent increases was not always properly documented. Also, administration of cardholder status changes needed improvement. For example, cardholders did not return their cards to the procurement card administrator when they voluntarily closed their accounts or separated from the university.
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.
PURPOSE

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 May 31, 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

Administration of personal liability credit cards needed improvement.

We found that the campus:

- Did not have documented policies or procedures addressing the issuance and 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.
- Allowed certain employees to retain their cards after separation from the university.

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 also states that CSU faculty or staff are eligible to apply for the corporate card only if they meet certain criteria and approval requirements, and 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. It further states that corporate cards, or documentation that an account has been closed, must be retrieved from an employee upon an employee’s separation. The university may be held liable for charges to a corporate card incurred after a cardholder is no longer in the service of the university.

The university controller stated that the lack of policies and procedures for the use of personal liability cards was due to oversight. He further stated that the campus relied on cardholders to use these cards appropriately and was unaware of any systemwide policy that required the monitoring of these cards. He also stated that the continuation of the cards for the separated employees was a courtesy offered for some long-time campus workers.

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 issuance and use of personal liability credit cards by employees who travel or incur 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.

c. Discontinue allowing certain employees to retain their cards after separation from the university.

**Campus Response**

We concur.

a. We will develop policies and procedures regarding the use of personal liability credit cards issued to employees by November 30, 2013.

b. We will review outstanding balances on a quarterly basis for delinquent status. We will sample expenses quarterly to verify that they are business-related. We will implement this new system of monitoring by October 30, 2013.

c. Effective immediately, all cards will be cancelled at separation.

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**CREDIT CARD SYSTEMS AND RECORDS**

Access to credit card systems was not always appropriate.

We found that one PeopleSoft user and two US Bank system users had access levels that were either beyond the users’ authorized responsibilities or should have been eliminated due to termination of employment.

ICSUAM §8060, *Access Control*, effective April 19, 2010, states that access to campus information assets containing protected data as defined in the CSU Data Classification Standard may be provided only to those having a need for specific access in order to accomplish an authorized task.

ICSUAM §8030, *Personnel Information Security*, effective April 19, 2010, states that campuses must implement procedures to revoke access to information resources upon termination of employment, or when job duties no longer provide a legitimate business reason for access, except where specifically permitted by campus policy and by the data owner. Unless otherwise authorized, when an employee voluntarily or involuntarily separates from the campus, information system privileges, including all internal, physical, and remote access, must be promptly revoked.

State Administrative Manual §4841 requires state agencies to provide for the proper use and protection of its information assets by establishing appropriate policies and procedures for preserving the integrity and security of automated files and databases.

The director of procurement and support services stated that the access issues were due to management oversight, and that user access should have been adjusted as necessary.
Improper assignment of employee access could lead to unauthorized or inappropriate disclosure of sensitive data and could adversely affect campus compliance with statutory regulations regarding protection of such data.

**Recommendation 2**

We recommend that the campus assign access to credit card systems according to employees’ authorized responsibilities and eliminate access upon termination of employment.

**Campus Response**

We concur. Effective immediately, we will review all access to systems upon termination of employment. We will review employee-authorized access to systems annually.

**CREDIT CARD SETUP AND MAINTENANCE**

**CREDIT LIMITS**

Cardholder credit limits were not always in agreement with campus-approved limits, and approval of subsequent increases was not always properly documented.

We found that:

- Three of 20 procurement cards we reviewed had credit limits that differed from those on campus approval forms.

- Three of 30 purchase transactions we reviewed were greater than the cardholder’s credit limits, and the campus was unable to provide documentation to support approval of the difference.

California State University, Fresno (CSUF) *Procurement Card Handbook*, dated December 11, 2012, states, in part, that the cardholder’s approving official will determine the spending limits for cardholders. In addition, to permanently or temporarily change the monthly or daily credit limits, the approving official must send an email request to the procurement card administrator.

The director of procurement and support services stated that the procurement card administrator, who retired in December 2012, did not maintain a file of all permanent or temporary credit limit increases, but the campus did establish such a file when the director of procurement took over the position of interim procurement card administrator.

Lack of documentation of approval for changes to cardholder credit limits increases the risk of unauthorized transactions and misuse of credit cards and increases the financial exposure of the university.
Recommendation 3

We recommend that the campus review procurement cards to ensure that credit limits are in agreement with campus-approved limits, and properly document approval of any subsequent increases.

Campus Response

We concur. Effective October 30, 2013, the campus will maintain a file with the campus-approved limits and documentation of subsequent increases.

STATUS CHANGES

Administration of cardholder status changes needed improvement.

We found that:

- For all 14 cardholder status changes we reviewed, there was no documentation to support the status change and to show that cardholders had notified the procurement card administrator when their card was lost, stolen, or compromised.

- Although cardholder accounts were being cancelled appropriately, cardholders did not return their cards to the procurement card administrator when they voluntarily closed their account or separated from the university.

CSUF Procurement Card Handbook, dated December 11, 2012, states in part that cardholders are responsible for returning the procurement cards to the procurement card administrator upon leaving the department or terminating service with the university. In addition, during instances of worn, lost, stolen or compromised cards, the cardholders are responsible for notifying the bank and the procurement card administrator.

The director of procurement and support services stated that the procurement card administrator, who retired in December 2012, did not maintain a file of all status changes, but the campus did establish such a file when the director of procurement took over the position of interim procurement card administrator. In addition, he stated his belief that although the cards should have been returned to the procurement card administrator, their cancellation reduced any open risks.

Inadequate administration of credit card status changes increases the risk of unauthorized transactions and potential compromise of sensitive data.

Recommendation 4

We recommend that the campus:

a. Maintain documentation to support all credit card status changes and to show that cardholders are notifying the procurement card administrator when their card is lost, stolen, or compromised.
b. Reiterate to cardholders that they must return their cards to the procurement card administrator upon separation from the university or revise campus procurement card policies to reflect current practices.

Campus Response

We concur.

a. Effective September 30, 2013, documentation will be maintained at the campus level when a card is lost, stolen, or compromised.

b. We will revise campus procurement card policies to reflect the current practice that credit cards will be cancelled at the point of termination. This will be implemented by November 30, 2013.
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<thead>
<tr>
<th>Name</th>
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<tbody>
<tr>
<td>Joseph I. Castro</td>
<td>President</td>
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<td>John D. Welty</td>
<td>President (At time of review)</td>
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<td>Brian Cotham</td>
<td>Director of Procurement and Support Services</td>
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<td>Anthony Forestiere</td>
<td>University Controller</td>
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<td>Clint Moffitt</td>
<td>Associate Vice President, Financial Services</td>
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<td>Christine Rodriguez</td>
<td>Administrative Analyst, Accounting Services</td>
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<td>Monica Shackleton</td>
<td>Accounts Payable/Receivable Manager</td>
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<td>Cynthia Teniente-Matson</td>
<td>Vice President, Administration and Finance and Chief Financial Officer</td>
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August 23, 2013

MEMORANDUM

To: Larry Mandel  
University Auditor  
Office of the Chancellor

From: Cynthia Teniente-Matson  
Vice President for Administration and Chief Financial Officer

Subject: Responses to Credit Cards Audit Report #13-29

The University has reviewed the preliminary draft of the Credit Cards Audit Report #13-29. Attached are campus responses to the recommendations. Please let me know if you have any questions. Thank you.

Attachment

c: Dr. Joseph I. Castro 
Mr. Clint Moffitt 
Mr. Anthony Forestiere 
Mr. Brian Cotham
CREDIT CARDS
CALIFORNIA STATE UNIVERSITY,
FRESNO
Audit Report 13-29

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus:

a. Develop and implement policies and procedures addressing the issuance and use of personal liability credit cards by employees who travel or incur 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.

c. Discontinue allowing certain employees to retain their cards after separation from the university.

Campus Response

We concur.

a. We will develop policies and procedures regarding the use of personal liability credit cards issued to employees by November 30, 2013.

b. We will review outstanding balances on a quarterly basis for delinquent status. We will sample expenses quarterly to verify that they are business-related. We will implement this new system of monitoring by October 30, 2013

c. Effective immediately, all cards will be cancelled at separation.

CREDIT CARD SYSTEMS AND RECORDS

Recommendation 2

We recommend that the campus assign access to credit card systems according to employees’ authorized responsibilities and eliminate access upon termination of employment.

Campus Response

We concur. Effective immediately, we will review all access to systems upon termination of employment. We will review employee-authorized access to systems annually.
CREDIT CARD SETUP AND MAINTENANCE

CREDIT LIMITS

Recommendation 3

We recommend that the campus review procurement cards to ensure that credit limits are in agreement with campus-approved limits, and properly document approval of any subsequent increases.

Campus Response

We concur. Effective October 30, 2013, the campus will maintain a file with the campus-approved limits and documentation of subsequent increases.

STATUS CHANGES

Recommendation 4

We recommend that the campus:

a. Maintain documentation to support all credit card status changes and to show that cardholders are notifying the procurement card administrator when their card is lost, stolen, or compromised.

b. Reiterate to cardholders that they must return their cards to the procurement card administrator upon separation from the university or revise campus procurement card policies to reflect current practices.

Campus Response

We concur.

a. Effective September 30, 2013, documentation will be maintained at the campus level when a card is lost, stolen or compromised.

b. We will revise campus procurement card policies to reflect the current practice that credit cards will be cancelled at point of termination. This will be implemented by November 30, 2013.
September 13, 2013

MEMORANDUM

TO: Mr. Larry Mandel  
    University Auditor

FROM: Timothy P. White  
      Chancellor

SUBJECT: Draft Final Report 13-29 on *Credit Cards*,  
         California State University, Fresno

In response to your memorandum of September 13, 2013, I accept the response as submitted with the draft final report on *Credit Cards*, California State University, Fresno.

TPW/amd