CREDIT CARDS

CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 13-26
July 19, 2013

Members, Committee on Audit

Lupe C. Garcia, Chair
Rebecca D. Eisen   Steven M. Glazer
William Hauck   Hugo N. Morales

Staff

University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Wendee Shinsato
Senior Auditor: Gordon Eng

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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 Cards .................................................................................................................. 6
  Athletics Department ................................................................................................................................. 7

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

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

<table>
<thead>
<tr>
<th>APPENDIX A:</th>
<th>Personnel Contacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPENDIX B:</td>
<td>Campus Response</td>
</tr>
<tr>
<td>APPENDIX C:</td>
<td>Chancellor’s Acceptance</td>
</tr>
</tbody>
</table>

## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVP</td>
<td>Associate Vice President</td>
</tr>
<tr>
<td>CC</td>
<td>Credit Card</td>
</tr>
<tr>
<td>CSU</td>
<td>California State University</td>
</tr>
<tr>
<td>CSUN</td>
<td>California State University, Northridge</td>
</tr>
<tr>
<td>EO</td>
<td>Executive Order</td>
</tr>
<tr>
<td>FISMA</td>
<td>Financial Integrity and State Manager’s Accountability Act</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>ICSUAM</td>
<td>Integrated California State University Administrative Manual</td>
</tr>
<tr>
<td>OUA</td>
<td>Office of the University Auditor</td>
</tr>
<tr>
<td>P-Card</td>
<td>Procurement Card</td>
</tr>
</tbody>
</table>
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 2008.

We visited the California State University, Northridge campus from March 18, 2013, through April 12, 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 12, 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 business 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. Also, administration of university liability declining balance travel cards (travel credit cards) in the athletics department needed improvement. For example, travel credit cards were issued by the athletics business manager without a proper delegation of authority from the procurement department, and policies and procedures for athletics department travel credit cards did not include all information required by systemwide policy.

CREDIT CARD SETUP AND MAINTENANCE [8]

Administration of credit cards upon a cardholder’s separation from the university needed improvement. For example, procurement cards were not always retrieved or canceled in a timely manner after the cardholder’s separation, the campus did not revoke procurement card system access to the US Bank online system for separated employees, and the campus did not have a process to ensure that personal liability cards were closed for separated employees.

CREDIT CARD PURCHASES AND APPROVALS [10]

Campus assets were not always tagged and uniquely identified and recorded in the campus property inventory records.
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.
INTRODUCTION

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 April 12, 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

PERSONAL LIABILITY CREDIT CARDS

Administration of personal liability business 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.

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 associate vice president (AVP) for financial services stated that the issues related to the administration of personal liability business credit cards were due to a management transition.

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-related expenses are incurred and payments are made in a timely manner.
Campus Response

We concur.

a. Policies and procedures addressing the issuance and use of personal liability credit cards have been implemented.

b. Monitoring reports have been implemented.

ATHLETICS DEPARTMENT

Administration of university liability declining balance travel cards (travel credit cards) in the athletics department needed improvement.

Specifically, we found that:

- Travel credit cards were issued by the athletics business manager without a proper delegation of authority from the procurement department.

- Policies and procedures for athletics department travel credit cards did not include all information required by systemwide policy. Such information included, but was not limited to, prohibited purchases, including splitting to circumvent purchase limits; the defined role of the approving official to ensure that a cardholder’s subordinate or peer is not designated as the approving official; sanctions for the improper use of procurement cards; and personnel clearing procedures such as final card reconciliation and card return policy.

ICSUAM §3103.03, Procurement Cards, effective January 1, 2012, states in part that the campuses must designate a single procurement card administrator responsible for the procurement card program on their campus. In addition, campuses must create and maintain a procurement card operations manual specific to their campus.

Executive Order (EO) 760, Procurement Cards, dated October 16, 2000, states in part that campus procurement card policies and procedures must, at a minimum, include provisions for prohibited purchases, including the splitting of purchases, the defined role of approving official to ensure a cardholder’s subordinate or peer is not designated as the approving official, identification of sanctions for improper use of procurement cards, and personnel clearing procedures such as final card reconciliation and card return policy.

The AVP for financial services stated her belief that the day-to-day administration of the travel credit cards was most efficiently handled by the athletics department due to the extent of traveling by coaches. She further stated that all charges on the travel credit cards are reviewed by accounts payable as part of travel claim expense processing prior to payment by the campus.

The lack of proper and appropriate administration of travel credit cards can lead to credit card misuse and increases the risk of unauthorized transactions.
Recommendation 2

We recommend that the campus:

a. Delegate authority to the athletics business manager for the issuance of travel credit cards, or take full responsibility for travel credit cards issued by the athletics department.

b. Update policies and procedures for athletics department travel credit cards to include all information required by systemwide policy.

Campus Response

We concur.

a. The campus will delegate authority to the associate athletic director, internal operations, for the distribution of travel credit cards to athletics staff. All other responsibilities, including, but not limited to, training, will be administered by the campus procurement card coordinator.

b. The campus will update its current policies and procedures for the athletics department travel credit cards to include all information required by systemwide policy.

Estimated completion date: September 15, 2013

CREDIT CARD SETUP AND MAINTENANCE

Administration of credit cards upon a cardholder’s separation from the university needed improvement.

We found that:

- Four of the 34 procurement cards we reviewed were not retrieved or canceled in a timely manner after the cardholder’s separation. One of the four cards had a transaction dated after the cardholder’s separation date.
- The campus did not revoke procurement card system access to the US Bank online system for separated employees.
- The campus did not have a process to ensure that personal liability cards were closed for separated employees.

ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, states that corporate cards, or documentation that an account has been closed, must be retrieved from an employee upon an employee’s separation.
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.

EO 760, *Procurement Cards*, dated October 16, 2000, states that personnel clearing procedures must specifically include a final card reconciliation and return-of-card process.

The AVP of financial services stated that steps in the current procedures were missed due to oversight.

Untimely return of credit cards, card cancellation, and system revocations after employee separations increases the risk of unauthorized transactions and information security risks and potential data misappropriations and misuse.

**Recommendation 3**

We recommend that the campus:

a. Retrieve or cancel credit cards in a timely manner upon a cardholder’s separation from the university.

b. Revoke system access for separated employees.

c. Develop and implement a process to ensure that personal liability cards are closed for separated employees.

**Campus Response**

We concur.

a. The campus will formally document procedures that ensure credit cards are retrieved or canceled in a timely manner upon the cardholder’s separation from the university.

b. The campus will formally document procedures to revoke system access for separated employees.

c. The campus will formally document a process to ensure personal liability cards are closed for separated employees.

Estimated completion date: September 15, 2013
CREDIT CARD PURCHASES AND APPROVALS

Campus assets were not always tagged and uniquely identified and recorded in the campus property inventory records.

We reviewed three asset purchases, and we found that one asset had not been tagged and uniquely identified and recorded in the campus property inventory records.

ICSUAM §3103.03, *Procurement Cards*, effective January 1, 2011, states that campuses must establish a threshold for tracking of equipment valued under $5,000 based on an analysis of cost versus benefit and risk of misuse or misappropriation. Computers or lab equipment are examples of the type of equipment that may be included in this category. Equipment deemed to be trackable should be tagged and recorded in the campus property inventory records but not included in the campus’ GAAP financial statements.

CSUN Asset Management Standard Operating Procedures, *Identification of University Capital and Non-Capital Equipment*, states that non-capital equipment is defined as tangible, non-consumable property with an acquisition cost of at least $2,000. Non-capital equipment has a normal useful life of at least one year, is not permanently attached to or incorporated in university buildings and grounds, and is used to conduct university business. All capital and non-capital equipment is bar-coded with a unique identification number and recorded in property inventory records.

The AVP of financial services stated that the equipment was not tagged properly due to oversight.

Insufficient control over property increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

**Recommendation 4**

We recommend that the campus ensure that qualifying assets are tagged and uniquely identified and recorded in the campus property inventory records.

**Campus Response**

We concur. The campus procedures are changed. We no longer allow equipment $2,000 and above to be purchased with the procurement card. These items can only be purchased via a purchase order and properly identified and recorded in the campus property inventory records.
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dianne F. Harrison</td>
<td>President</td>
</tr>
<tr>
<td>Katherine Cortez</td>
<td>Office Manager and Procurement Card Coordinator, Purchasing and Contract Administration</td>
</tr>
<tr>
<td>Annie Dang</td>
<td>Accounts Payable Manager, Financial and Accounting Services</td>
</tr>
<tr>
<td>Colin Donahue</td>
<td>Vice President of Administration and Finance and Chief Financial Officer (At time of review)</td>
</tr>
<tr>
<td>Deborah Flugum</td>
<td>Manager of Purchasing and Contract Administration</td>
</tr>
<tr>
<td>Howard Lutwak</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Tom McCarron</td>
<td>Vice President of Administration and Finance and Chief Financial Officer (At time of review)</td>
</tr>
<tr>
<td>Kimberly Siemen</td>
<td>Assistant Athletics Director for Business Affairs</td>
</tr>
<tr>
<td>Deborah Wallace</td>
<td>Associate Vice President of Financial Services</td>
</tr>
</tbody>
</table>
August 19, 2013

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

Subject:  Campus Response to Recommendations of Audit Report Number 13-26,  
           Credit Cards at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in the July 25, 2013 email from Anne Marie Douglas.

We have read the report including the observations and recommendations, and agree with them. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN’s systems of internal control.

Sincerely,

[Signature]

Colin Donahue  
Vice President Administration and Finance and CFO

Enclosures

cc:  Dr. Dianne F. Harrison, President  
     Howard Lutwak, Director, Internal Audit
CREDIT CARDS
CALIFORNIA STATE UNIVERSITY,
NORTH RIDGE
Audit Report 13-26

GENERAL ENVIRONMENT

PERSONAL LIABILITY CREDIT CARDS

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-related expenses are incurred and payments are made in a timely manner.

Campus Response

We concur.

a. Policies and procedures addressing the issuance and use of personal liability credit cards have been implemented.

b. Monitoring reports have been implemented.

ATHLETICS DEPARTMENT

Recommendation 2

We recommend that the campus:

a. Delegate authority to the athletics business manager for the issuance of travel credit cards, or take full responsibility for travel credit cards issued by the athletics department.

b. Update policies and procedures for athletics department travel credit cards to include all information required by systemwide policy.
Campus Response

We concur.

a. The campus will delegate authority to the associate athletic director, internal operations, for the distribution of travel credit cards to athletics staff. All other responsibilities, including, but not limited to, training will be administered by the campus procurement card coordinator.

b. The campus will update its current policies and procedures for the athletics department travel credit cards to include all information required by systemwide policy.

Estimated completion date: September 15, 2013.

CREDIT CARD SETUP AND MAINTENANCE

Recommendation 3

We recommend that the campus:

a. Retrieve or cancel credit cards in a timely manner upon a cardholder’s separation from the university.

b. Revoke system access for separated employees.

c. Develop and implement a process to ensure that personal liability cards are closed for separated employees.

Campus Response

We concur.

a. The campus will formally document procedures that ensure credit cards are retrieved or canceled in a timely manner upon the cardholder’s separation from the university.

b. The campus will formally document procedures to revoke system access for separated employees.

c. The campus will formally document a process to ensure personal liability cards are closed for separated employees.

Estimated completion date: September 15, 2013

CREDIT CARD PURCHASES AND APPROVALS

Recommendation 4

We recommend that the campus ensure that qualifying assets are tagged and uniquely identified and recorded in the campus property inventory records.
Campus Response

We concur.

The campus procedures are changed. We no longer allow equipment $2,000 and above to be purchased with the procurement card. These items can only be purchased via a purchase order and properly identified and recorded in the campus property inventory records.
September 4, 2013

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 13-26 on Credit Cards,
         California State University, Northridge

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, Northridge.

TPW/amd