

**Audit and Advisory Services**  
401 Golden Shore  
Long Beach, CA 90802-4210

September 8, 2021

Dr. Ellen N. Junn, President  
California State University, Stanislaus  
One University Circle  
Turlock, CA 95382

Dear Dr. Junn:

**Subject: Audit Report 20-10, Credit Cards, California State University, Stanislaus**

We have completed an audit of *Credit Cards* as part of our 2020-2021 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu  
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor  
Adam Day, Chair, Committee on Audit  
Jane W. Carney, Vice Chair, Committee on Audit

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# **CREDIT CARDS**

**California State University, Stanislaus**

Audit Report 20-10  
September 8, 2021

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to credit cards and to ensure compliance with relevant federal and state regulations; Trustee policy; Office of the Chancellor (CO) directives; and campus procedures.

### CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for credit cards as of June 11, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Our review indicated that overall procurement card administration needed improvement to ensure that California State University (CSU) and campus requirements were being met and procurement card policies were being followed. In addition, we found that the campus did not have an adequate process to ensure that the required employees completed conflict-of-interest filings.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. PROCUREMENT CARD ADMINISTRATION

#### OBSERVATION

Procurement card administration needed improvement.

The campus issued three different types of credit cards through US Bank: procurement cards for general low-dollar purchases; travel procurement cards; and declining-balance procurement cards, which were issued when an employee was making standard purchases from specific vendors on a consistent timetable as part of their job responsibilities. All cards required the cardholder to submit expense packets to the procurement department for any charges incurred in the monthly cycle, and the department conducted an audit of the packet to ensure it was properly prepared and approved in accordance with CSU and campus policy. Any violations of CSU or campus procurement card policy were tracked by procurement via an exception log, and appropriate remediation, including loss of purchasing privileges, were established.

We reviewed 35 individual transactions (25 on procurement cards, five on travel procurement cards, and five on declining balance procurement cards) incurred during the audit scope period, along with their related expense packets, and we found that:

- Ten expense packets did not include a completed and signed Procurement Card Approver checklist as required by the campus *Policy and Procedure Handbook*.
- Six expense packets did not include evidence of review and audit by procurement.
- One purchase of electronics for \$275 was made outside of the required process outlined in the campus *Policy and Procedure Handbook* and was not subsequently identified as a restricted purchase in the procurement review.
- One purchase of electronics for \$2,300 was made outside of the required process outlined in the campus *Policy and Procedure Handbook* and was identified as an audit finding by procurement during review. However, the exception was not entered into the exception log maintained by the procurement card administrator.
- One hospitality charge of \$5,000 for a recruitment event hosted by the College of Business Administration did not have a completed and approved hospitality form included in the expense packet as required by the campus *Policy and Procedure Handbook*. The hospitality form includes information not required for other expenses, including the purpose of the event, the names and titles of all event participants, an explanation of the benefit received by the University from the event, and approval of a Dean, AVP, or Vice President.

**RECOMMENDATION**

We recommend that the campus:

- a. Evaluate the current procurement card audit review process and implement improvements to ensure that the process meets all systemwide and campus requirements, and that controls are operational.
- b. Communicate updated procedures and provide training to key personnel.

**MANAGEMENT RESPONSE**

We concur. The campus will evaluate the current procurement card audit review process and implement improvements to ensure that the process meets all systemwide and campus requirements, and that controls are operational. The campus will communicate updated procedures and provide training to key personnel.

Expected completion date: January 31, 2022

**2. CONFLICT OF INTEREST**

**OBSERVATION**

The process for ensuring that all procurement card approving officials completed the required conflict-of-interest (COI) filing needed improvement.

Per Coded memorandum Human Resources 2010-01, *Conflict of Interest Code*, certain designated employees must complete and file a Form 700 – Statement of Economic Interests on a yearly basis. Per the 2021 filing, campus procurement card approving officials qualify as designated employees.

We reviewed a listing of all 97 employees noted by the campus as procurement card approving officials and identified 19 who did not complete a 2021 Form 700 – Statement of Economic Interests.

**RECOMMENDATION**

We recommend that the campus:

- a. Evaluate the current COI process on campus and implement improvements to ensure that the process meets all systemwide and campus requirements, and that procurement card approving officials are identified and captured in the process.
- b. Communicate updated procedures and provide training to key personnel.

**MANAGEMENT RESPONSE**

We concur. The campus will evaluate the current COI process on campus and implement improvements to ensure that the process meets all systemwide and campus requirements, and that the procurement card approving officials are identified and captured in the process. The campus will communicate updated procedures and provide training to key personnel.

Expected completion date: December 31, 2021

## GENERAL INFORMATION

### BACKGROUND

The CSU administers a systemwide credit card contract and related program that currently uses US Bank as the primary credit card vendor. The CO contract services and procurement department manages the credit card contract and related program, including maintaining systemwide policies and procedures relating to credit cards and verifying and distributing credit card rebates, which are earned based on total credit card spending and promptness of payment. The systemwide credit card program includes several offerings, which are generally divided into two types of credit cards: university liability credit cards and personal liability credit cards. The system credit card spend for FY 2019-20 was \$190.6 million and US Bank rebated more than \$1.5 million on eligible spend.

University liability cards are those in which the campus pays the bill centrally. Common types of university liability cards include procurement cards, used for the purchase of low-dollar goods and service; travel procurement cards, used for business travel expenses; and declining-balance procurement cards, which have a set, hard monthly limit and are used in instances where an employee is making routine, standard purchases from the same vendor on an ongoing basis. The use of these cards 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.

Personal liability cards are obtained by an employee through the systemwide credit card contract; however, the employee pays the bill, and is personally liable, for the credit card. These cards are designed for employees who must travel or who must incur reimbursable business or entertaining expenses on behalf of the CSU. These cards minimize the burden on an employee's personal finances when business expenses must be incurred by the employee and subsequently reimbursed and reduce the need to provide cash advances.

Responsibility for credit card programs is generally divided into three main areas: administration, which includes setting up and approving new cardholders, updating account information as necessary, providing training, and deactivating cardholder accounts; reconciliation, which involves the monthly review and approval of authorized credit card charges by the cardholder's supervisor; and monitoring and enforcement, which includes post-audits of credit card transactions.

At California State University, Stanislaus (CSU Stanislaus), the procurement department is responsible for the administration of university liability credit cards, including procurement cards, travel cards, and declining-balance procurement cards. Currently, CSU Stanislaus does not issue any personal liability cards. Additionally, the Stanislaus Associated Students Inc. (ASI) and Student Center manage their own credit card programs. Credit card reconciliations are performed at the department level by cardholders and their approvers. Monitoring and enforcement of the various university liability cards is primarily conducted by the procurement department, which performs a monthly post-audit of credit card transactions. For the 2019/20 academic year, credit card spend on campus was \$6,141,459, and the campus share of rebates was approximately \$48,000.

## SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from April 12, 2021, through June 11, 2021. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2019, to May 21, 2021.

Specifically, we reviewed and tested:

- Administration of the 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 bank statements and general ledger.
- Processes for credit card issuance, maintenance, and deactivation.
- Completion of required conflict-of-interest forms, when applicable.
- 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 systemwide policies.
- Security and retention of credit card records.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology, which was designed to provide a review of key operational, administrative and financial controls, included interviews, walkthroughs, and detailed testing of credit card transactions, monitoring and reconciliation processes. Our review was limited to gaining reasonable assurance that those elements of the credit card program were in place and did not examine all aspects of the program.

## CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.



This review emphasized, but was not limited to, compliance with:

- *CSU Procurement Cards*
- *CSU Contracts and Procurement Policy*
- *CSU Hospitality Policy*
- *CSU Travel and Business Expense Reimbursement Policy*
- *CSU Access Control*
- *Coded memorandum Human Resources 2010-01, Conflict of Interest Code*
- *Government Code §13402 and §13403*
- *CSU Stanislaus, Signature Policy for Financial Transactions*
- *CSU Stanislaus, Procurement Card Policy & Procedure Handbook*
- *CSU Stanislaus, Travel Procurement Card Policy & Procedure Handbook*

## **AUDIT TEAM**

Senior Audit Manager: Ann Hough

Senior Auditor: Kyle Ishii