

# CALIFORNIA STATE UNIVERSITY

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## ***While Its System of Direct Vendor Payments Should Continue, Its Credit Card Program Could Benefit From Better Controls***

REPORT NUMBER 96041, JULY 2000

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### ***Audit Highlights . . .***

*Our review of the California State University (CSU) revealed that direct payments to vendors were appropriate, properly supported, and documented. Accordingly, there is no need to return the payment process to the State Controller's Office.*

*Although we did not observe widespread abuse, our review of CSU's use of state-issued credit cards (PRO-Cards) also revealed that:*

- Not all purchases received review by an appropriate approving official.*
  - Some purchases violated policies and some purchases were questionable.*
  - Some purchases lacked sufficient supporting documentation.*
  - The CSU's chancellor's office and campuses could improve their own practices by learning about each other's best practices.*
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A state law effective January 1, 1997, permits the California State University (CSU) to pay its vendors directly through December 31, 2001. Our review of the CSU's system found few problems, all of which were isolated rather than systemic. Consequently, we recommend that the Legislature allow CSU to pay its vendors directly beyond December 31, 2001.

Although we found few errors with payments made by check, we identified more problems with payments made by state-issued credit cards (PRO-Cards). CSU gives PRO-Cards to certain employees for official purchases to streamline the procurement process and to purchase low-value items economically. However, because of weak internal controls—a lack of clear policies and insufficient monitoring and enforcement—cardholders sometimes were able to use the credit cards to make questionable or improper purchases. Specifically:

### **Finding #1: We found few problems with the CSU's direct payments to vendors.**

We found only 23 minor problems out of a possible 2,626 that we tested. These problems were scattered across six of the tested characteristics at five campuses and the chancellor's office. A previous review by the State Controller's Office (controller's office) had similar results and concluded that CSU's system of internal controls is generally adequate to ensure the legality and propriety of state disbursements. Further, according to the CSU's analysis supporting the change in the law, the CSU estimated that it would save \$1.2 million annually by paying its vendors directly. Consequently, we concluded that returning the vendor payment process to the controller's office would be an inefficient use of state resources.

To ensure that the vendor payment system is efficiently administered, we recommended that the Legislature enact legislation that allows the CSU to continue to pay its vendors directly beyond December 31, 2001.

***Legislative Action: Unknown.***

We are unaware of any legislative action implementing this recommendation.

**Finding #2: An appropriate approving official did not review all purchases.**

The approving officials' level of review for card purchases varied greatly at the campuses we visited. Of the 1,205 purchases we reviewed, 97 (8 percent) lacked an approving official's signature on the monthly statement or had the incorrect signature. Statements missing the official's signature prompt us to question whether the purchases were properly reviewed, particularly because we were unable to verify that all employees signing in place of the approving official had received the same training on the proper use of the PRO-Card as the assigned official.

At least two campuses we visited did not ensure that approving officials held a supervisory or managerial position of a higher rank than cardholders, but rather allowed the cardholders' peers or subordinates to act as approving officials. Additionally, the Fullerton campus permits cardholders to purchase items for the official who subsequently approves the purchases even though the purchase could be viewed as questionable or inappropriate. Because there is little separation between the employee purchasing the item and the person reviewing the charges, employees may feel pressured to approve a superior's purchase instead of questioning its appropriateness.

To ensure that the proper officials consistently review all PRO-Card purchases and supporting documentation, the chancellor's office and each campus should take these actions:

- Design a clear approval process, taking into account the possibility that approving officials may be unavailable when monthly statements must be approved and forwarded for payment.
- Ensure that a cardholder's subordinate or peer is not designated as the approving official.

- Ensure that approving officials do not approve purchases made on their behalf, which could be viewed as personally benefiting them.



***CSU Action: Partial corrective action taken.***

The chancellor's office did not specifically address the approval process regarding approving officials being unavailable when monthly statements must be approved and forwarded for payment. The chancellor's office issued an executive order stating that a cardholder's subordinate or peer should not be responsible for the approval of credit card purchases; the order also directs approving officials not to approve their own purchases.

**Finding #3: Someone other than the approved cardholder used some cards.**

We found 31 uses of PRO-Cards by people other than the cardholder. Allowing such use is a serious breach of internal controls because it is unclear who would be accountable for any improper purchases made by these other users. Although we did not find improper purchases, it is possible that improper purchases could be made.

To ensure that only authorized employees purchase items on the PRO-Card, we recommended that the chancellor's office and each campus prohibit the use of PRO-Cards by anyone other than the cardholder.

***CSU Action: Partial corrective action taken.***

The chancellor's office stated that all campuses have been directed to ensure that strong internal controls are in place to prevent abuse or excess liability through use of PRO-Cards. However, the chancellor's office did not indicate if any campus had procedures in place to prevent misuse of PRO-Cards.

**Finding #4: The chancellor's office issued PRO-Cards to non-state employees.**

The CSU did not adhere to the guidelines in its contract with the bank that issues the PRO-Card. It states that the PRO-Card program is intended for university employees only. However, we found that the chancellor's office provides PRO-Cards to employees of the California State Student Association (CSSA), a nonprofit organization representing CSU students. Use of the PRO-Card by CSSA employees also raises the question of whether it is appropriate for

non-state employees to use state resources. Use of the PRO-Card by CSSA employees requires that CSU employees who administer the PRO-Card program spend time reviewing and paying the charges. Moreover, the CSU may not be protected from liability issues with regard to CSSA employees because non-state employees are not covered in the contract between CSU and the bank that issues the credit cards.

To prevent non-state employees from abusing state resources and creating a liability, we recommended that the chancellor's office and each campus ensure that only state employees can receive PRO-Cards.



***CSU Action: None.***

In August 2001 the chancellor's office reported that a CSSA employee had misused a PRO-Card in April 2000. The chancellor's office estimated that the misuse amounted to \$10,000. Ultimately, CSSA dismissed this employee. However, the chancellor's office indicated that rather than recovering PRO-Cards from all non-state employees, it will require that use of PRO-Cards by CSSA employees will be reviewed and approved by a chancellor's office employee.

**Finding #5: Some purchases violated policies while others were questionable.**

Overall, we did not identify widespread personal abuses. However, some purchases made with the PRO-Card violated individual campus policies, other purchases appeared unreasonable or inappropriate, and still other purchases appeared personal or did not further the CSU's educational mission. In some cases, officials approved payment of charges even though it was obvious that employees were circumventing campus policies that limit their charges. Of 1,205 PRO-Card purchases at the chancellor's office and 12 campuses, we found 165 with these problems out of a possible 3,615 (4.6 percent). While 6 campuses had very few problems, we found numerous exceptions at the chancellor's office and 6 remaining campuses. Some purchases had more than one problem.

We also found questionable purchases that campus PRO-Card policies did not specifically address. For example, employees at the chancellor's office, and the campuses of Hayward, Long Beach, Monterey Bay, Sacramento, and Stanislaus used PRO-Cards to purchase \$1,027 worth of flowers and plants for new employees

and for other employees to offer sympathy, thanks, congratulations, and get-well wishes. These purchases are not items for which a state agency would normally pay; public dollars should not be spent for gifts. CSU employees should purchase gifts for co-workers with their own money.

Purchases of snacks, refreshments, and meals for staff meetings, training sessions, and lunches are also questionable. We found three occasions when the chancellor's office purchased coffee and kitchen supplies for its employees. We also noted numerous instances when Fullerton campus employees purchased refreshments for their meetings with their PRO-Cards. The cardholders did not reimburse the CSU for these purchases.

To ensure that personal or inappropriate items are not purchased with PRO-Cards, we recommended that the chancellor's office and each campus expressly prohibit purchases—such as alcohol, food, flowers, gifts, or other items—that could be used for personal benefit, unless the purchase is preapproved and the cardholder demonstrates that the purchase meets the university's mission. Food purchases for CSU employees do not meet the mission of the university unless one of the following circumstances exists:

- Official university business is being conducted with individuals who are not CSU employees.
- All CSU employees present are on travel status.
- The food is purchased for events, such as training, where some CSU employees present are on travel status.

***CSU Action: Partial corrective action taken.***

The chancellor's office stated that each campus is required to develop written policy and procedures to implement the chancellor's office executive order "Hospitality, Payment, or Reimbursement of Expenses." Further, the chancellor's office stated that the use of the PRO-Card for purchase or payment of meals or other items that could be construed to be of personal benefit is subject to preapproval by an authorizing official. However, the chancellor's office did not indicate if the campuses ensure that their policies and procedures are followed by employees using the PRO-Card and if employees reviewing and approving PRO-Card purchases enforce the policies.

**Finding #6: Some PRO-Card purchases lacked sufficient supporting documentation.**

Insufficient documentation prevented us from determining whether a number of the purchases we reviewed were appropriate. This was true for 160 (13 percent) of the 1,205 PRO-Card purchases we reviewed. Some may have been appropriate; others may not have been business-related or in compliance with campus policy. For example, many purchases lacking documentation were for meals. If cardholders do not provide a meeting agenda, state the purpose of the meeting, and who attended, neither we nor any other independent reviewer, including the approving official, can ensure that the meal has a legitimate business purpose.

We also found that some purchases lacked detailed receipts. For instance, documentation for 134 purchases either did not include itemized or detailed receipts, or had no receipt at all.

So that reviewing officials can determine the appropriateness of purchases, we recommended that the chancellor's office and each campus do the following:

- Require that cardholders sufficiently describe the purpose for each purchase.
- Require, as necessary, an authorization form prior to the purchase, for example, for sensitive items such as food purchases. For food items, this form should include the meeting agenda, the purpose of the meeting, a list of attendees, and an explanation of how the purchase meets CSU's mission and goals.
- Insist that cardholders include itemized receipts with their monthly PRO-Card statements and annotate receipts lacking sufficient descriptions of purchases.

***CSU Action: Partial corrective action taken.***

The chancellor's office stated that prohibited items and card usage is emphasized in training sessions for new users, however, it did not specify whether such training occurred at any campus.

**Finding #7: The chancellor's office and most campuses do not reconcile travel-related charges to travel expense claims.**

PRO-Card policies at all campuses except Fullerton prohibit the charging of travel-related expenses to the PRO-Card. Despite these policies, in some instances, employees were allowed to charge

travel-related costs. However, with the exception of the Fullerton campus, which not only allows but also encourages employees to use PRO-Cards for travel expenses, the chancellor's office and many campuses do not reconcile travel-related expenses charged to the PRO-Card with the travel expense claims used to reimburse employees. For example, many campuses allow fees for out-of-town conferences to be charged to the PRO-Card. Because employees may also list these fees on their travel expense claims as a business expense, the fees could be paid twice if campuses do not reconcile travel expense claims to PRO-Card statements.

To avoid duplicate payments, we recommended that the chancellor's office and each campus reconcile all travel-related expenses charged to the PRO-Card with employees' travel expense claims.

***CSU Action: Partial corrective action taken.***

The chancellor's office stated that campuses that allow usage of the PRO-Card for travel have established internal controls to prevent duplicate payments. Although the chancellor's office reported that prohibited items and card usage is emphasized in training sessions for new users, it did not specify whether such training has occurred at any campus.

**Finding #8: Many employees violate PRO-Card policies without suffering consequences.**

We found that the campuses inconsistently reprimand employees who repeatedly violate PRO-Card policies, for example, by providing insufficient documentation for purchases. Another shortcoming identified in PRO-Card transactions is the failure of many campuses to identify inappropriate purchases and ensure that staff or faculty reimburse the campus for personal purchases. Unless personal charges and related reimbursements are monitored, the CSU may not recover all funds due from cardholders.

To ensure that employees follow PRO-Card policies, officials take appropriate action for questionable or improper purchases, and, when necessary, employees reimburse CSU for inappropriate PRO-Card charges, we recommended that the chancellor's office and each campus take the following steps:

- Track policy violations, including personal charges, and suspend or cancel cards when necessary.

- Monitor inappropriate charges and subsequent cardholder reimbursements.
- Create a review process to ensure that cardholders and approving officials comply with PRO-Card policies.

***CSU Action: Partial corrective action taken.***

The chancellor's office stated that all campuses have been directed to establish internal policies and controls consistent with the above recommendations and CSU policy. The chancellor's office also stated that it implemented a program to monitor and enforce PRO-Card usage policies by tracking violations. Further, the chancellor's office stated that it has shared a user handbook with all campuses and assisted campuses with program implementation.

However, the chancellor's office did not specify which campuses had implemented similar monitoring programs.

**Finding #9: Some campuses have stronger internal controls over PRO-Card use than others.**

The chancellor's office and campuses could learn and benefit from each other's best practices. Some of the policies and procedures governing the use of PRO-Cards are more effective than others at controlling PRO-Card purchases. Not every campus has an adequate system to monitor cardholders. Finally, although every campus we visited told us that it threatens cardholders who do not adhere to policies with warnings, a reduced credit limit, and finally, confiscation of the card, not all of the campuses follow through with the prescribed action. Unless the campuses and the chancellor's office carry out cardholder reprimands, problems will continue to exist within the program.

To improve the overall quality and consistency of internal controls over PRO-Card use, we recommended that the chancellor's office and each campus review and consider implementing each other's best practices.



***CSU Action: Partial corrective action taken.***

The chancellor's office stated that best practices related to the PRO-Card program practices have frequently been addressed at both system-wide and national higher education buyer meetings.

The chancellor's office did not indicate whether any campuses have implemented best practices addressed in meetings.

