

**California State University, San Bernardino**  
5500 University Parkway  
San Bernardino, CA 92407

**MEMORANDUM**

**DATE:** June 27, 2017

**TO:** David Gee, Director, Procurement Services

**FROM:** Michael Zachary, University Internal Auditor

**SUBJECT:** Procurement Card Audit, 2017

**EXECUTIVE SUMMARY AND BACKGROUND**

As a result of the 2016-17 CSUSB Audit Plan to perform a pilot audit of campus procurement card operations, the Internal Auditor (Auditor) initiated fieldwork as planned, and completed the audit fieldwork in June 2017. The audit is intended to review standard campus procedures and practices, evaluate applicable policies, and make preparations for cyclical internal audits of procurement card operations at CSUSB.

The audit included those steps deemed appropriate in the circumstances, as stated in the *Purpose and Scope* section presented later in this report. A review of campus compliance with systemwide policies, including the Integrated CSU Administrative Manual (ICSUAM) §5250, *Procurement Cards (University Liability Credit Cards)*, Executive Order (EO) 760, *Procurement Cards*, and EO 1031, *Systemwide Records/Information Retention and Disposition Schedules Implementation*, was performed to lay the groundwork for comparison to campus policies and procedures. Additionally, reviews of CSUSB applicable written procedures (campus procurement card “policies”) such as the *CSUSB Procurement Card Program Handbook* were performed, and campus procedures were compared and contrasted with the systemwide policies applicable to procurement cards.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included such audit tests that were considered necessary in evaluating the administrative and accounting controls surrounding the areas audited.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of internal 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 may not be cost-effective; moreover, an audit may not always detect these limitations.

In the Auditor's opinion, audit results are sufficient to meet the audit objectives, and procurement card operations are adequately controlled, based on the samples selected, and the quantity of statements, transactions, and operational procedures reviewed and tested. The following brief summary bullets provide management with an *overview* of conditions that may require attention or follow-up. Areas of within the audit scope of review that are not mentioned in the *audit observations and recommendations* section of this report are considered to be satisfactory. Details of the bulleted observations below, along with audit recommendations follow in the body of this report.

- At the time of audit, a Delegation of Authority did not exist for the Procurement Card Administrator (PCA).
- Procurement Card Program Handbook updates were necessary.
- Approved cardholder supporting documents were not always available.
- A review of cardholder statements and transactions revealed mostly minor discrepancies, and one significant discrepancy that was subsequently remediated and resolved.

## **PURPOSE AND SCOPE OF AUDIT**

The audit objective was to perform an audit of campus procurement card (ProCard) operations, review and test standard campus internal controls, procedures and practices for ProCards, evaluate applicable written policies and verbally communicated practices, and identify the need for future cyclical internal audits of ProCard operations at CSUSB.

We focused primarily on the internal administrative, compliance, and operational controls over ProCards. Specifically, the audit included reviews and tests in the following areas:

- A limited sample of transactions for the period July 1, 2015 through January 31, 2017. This sample included activity data for 10 individuals that used ProCards. For those 10 individuals we tested a total of 26 monthly statements, and the accounting data for those statements. The ProCard charges tested included 30 departments set up in PeopleSoft. For these sample items, we included such tests of the records as were deemed appropriate in the circumstances.

- Conflict of interest monitoring for cardholders, including collection of “Form 700” statement(s) of economic interest, and monitoring procedures adopted by the CSUSB Human Resources Department.
- Computerized Information Access (CIA) Request Form reviews to ensure that ProCard users had been appropriately authorized to access restricted data.
- Relevant and applicable policies and procedures such as systemwide ICSUAM policies, systemwide executive orders, and campus written procedures and manuals specifically on the topic of ProCards.
- Detailed policy and procedure comparisons between relevant systemwide policies and campus procedures and practices that are used in daily processing of ProCard transactions and monthly oversight, review and approvals.
- Roles, responsibilities and authority granted to the ProCard Administrator, backup administrators, approvers (Approving Officials), alternate approvers, and cardholders, along with any necessary delegations of authority, appointment letters, or written agreements.
- Purchasing Department monitoring of acceptable use of ProCards.
- Training records showing that cardholders have received and acknowledged adequate training for ProCard usage and compliance with existing guidelines.
- The status of training for ProCard approvers.
- Spending limits granted to cardholders.
- Cardholder agreements to comply with campus and systemwide policies and procedures, as well as the card issuing bank, and conditions for return of the card.

In addition to the specific audit scope items and topics above, we held discussions with personal in the Purchasing and Human Resources Departments as considered necessary to obtain and confirm the factual data that was the subject of this audit.

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## **AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **DELEGATIONS OF AUTHORITY**

At the time of audit, a Delegation of Authority did not exist for the Procurement Card Administrator (PCA).

The Actual PCA was the Director, Procurement Services, but the authority had not been formalized in a Delegation of Authority to assign the responsibility for developing and maintaining policies and procedures governing the use of the procurement card.

*ICSUAM 5250.00, §300*, dated August 7, 2014, states the delegation of certain duties in the procurement card program is a necessity to maintain administrative flow and efficiency. The ICSUAM further states that all delegations must be in writing. This policy must be implemented going forward. Although historical application of this policy was not required, the CSU typically asks for written delegations of authority for significant assignments.

Discussions with the Purchasing staff at the Chancellor's Office confirmed that they intend for there to be written delegations of authority in place for all responsible positions in the ProCard management-oversight chain.

Lack of formal delegations of authority can lead to uncertainties with regard to authority and responsibility for specific duties.

### **RECOMMENDATION**

We recommend that Procurement Services prepare, a Delegation of Authority for the Procurement Card Administrator, and have it approved by the appropriate level of management.

### **MANAGEMENT RESPONSE**

We concur. We will prepare and implement a delegation of authority for the Procurement Card Administrator by July 31, 2017.

## **PROCUREMENT CARD POLICY AND PROCEDURES UPDATES**

Procurement Card Program Handbook updates were necessary.

For ProCard policy guidance, the campus relied on ICSUAM §5250 and on its own written procedures, the Procurement Card Program Handbook (Handbook) dated June 2015. Through discussions with Procurement Services (Purchasing) staff, and through review of the Handbook, we saw that, since the time of the last updated, changes had been made to ProCard procedures and operations. As such, Handbook updates were necessary.

All of the necessary updates to the Handbook can only be accomplished through a current review and revision of by a person involved in daily ProCard operations. However we were aware that, based on the January 2017 guidelines issued by the VP of Administration and Finance, we can see examples of necessary policy revisions in the areas of *equipment and software purchases*, and the use of the *Equipment/Software Purchase Approval Form*, as well as the section on *Restricted Purchases*. Additionally, we understand that Procurement Administration has determined the normal spending limits for ProCards (\$1,000/\$5,000) that were not previously established, and those new limits should be documented in the Handbook.

*Government Code 13402* states that State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Frequent maintenance of written policies and procedures helps to avoid misunderstandings, and provides solid guidance operationally.

### **RECOMMENDATION**

We recommend that management perform a review of the Procurement Card Program Handbook and make necessary revisions, including the revisions described in the conditions above, and ultimately annotate the Handbook with the revision date.

### **MANAGEMENT RESPONSE**

We concur. Purchasing plans to update campus procedures to include all necessary revisions by August 31, 2017.

## RECORDKEEPING AND REVIEW FOR PROCUREMENT CARDS

Approved cardholder supporting documents were not always available.

We selected 10- cardholders for testing of documentation that is necessary to authorize the cardholders to spend on the ProCard. The threshold for reporting was set at an error rate of 10% or greater. We identified the following weaknesses in documentation and recordkeeping that exceeded the threshold for reporting:

- Not all Approving Official (AO) training documentation tested was found. The training material for one of ten AO training documentation sets was not located.
- Of the 10 cardholder agreements tested for training statements, we found that 3 Procurement Card Agreements (older ones in 2013 and 2014) did not include certifications of training provided to the cardholder in the areas of *applicable policies, procedures and acceptable use*, nor did they include *agreements to comply with the terms and conditions of the issuing bank*. However, this appears to have been corrected in cardholder agreements issued in 2015 and later.
- There was no form 700 on file for one of the cardholders. We queried both Purchasing and Human Resources, and neither was able to locate a form for the individual. Although the individual did not have access to PeopleSoft Finance, campus procedures still require that a Form 700 be on file for every individual authorized to use a procurement card.

*Government Code 13401* states that active oversight processes, including regular and ongoing monitoring processes, for the prevention and early detection of fraud and errors in program administration are vital to public confidence and the appropriate and efficient use of public resources.

Proactive monitoring identifies internal control weaknesses, and reduces the chances of discrepancies in recordkeeping and documentation.

## RECOMMENDATION

These items are awareness items for management review and handling, and no specific time-sensitive follow-up is requested. Nonetheless management may wish to discuss these items with Procurement Services staff to determine if internal control improvements can be made. No management response is necessary at this time, but this will be a follow-up item in future audits.

## CARDHOLDER STATEMENTS AND TRANSACTIONS TESTING

A review of cardholder statements and transactions revealed mostly minor discrepancies, and one significant discrepancy that was subsequently remediated and resolved.

We reviewed 26 monthly cardholder statements, and identified 8 statement discrepancies, although it appears that only one of these discrepancies was significant. In our opinion, ProCard statements and transactions were being adequately monitored and controlled in Procurement Services, but errors outside of the department can occur, and Procurement Services has very little, or no, control of. Of 26 monthly cardholder statements reviewed and tested, we identified the following discrepancies:

- On one monthly statement, an employee in one of the college departments purchased a cabinet, in two pieces, with total value of \$1,087.52 and the cabinet was shipped to the employees home. Although an “*Equipment/Software Purchase Approval Form*” was completed, the college department failed to prepare a departmental property record, or an “Off-Campus Property Use Agreement” that would be signed by the Dean, and provided to the campus Property Department. Prior to the conclusion of the audit, the college department provided the *Off-Campus Property Use Agreement*, signed by both the employee and the Dean. The Dean agreed to make necessary internal control improvements, and the newly-approved documentation was provided to Property Management.
- There were no Approving Official signature dates for 5 of the statements.
- There was no cardholder signature date for one of the statements.
- Late submission of software approval forms by cardholder resulted in late approval for the 1/18/2016 invoice. However, existing controls ensured final approval.

## RECOMMENDATION

These items are awareness items for management review and handling, and no specific time-sensitive follow-up is requested. Nonetheless management may wish to discuss these items with Procurement Services staff to determine if internal control improvements can be made. No management response is necessary at this time, but this will be a follow-up item in future audits.

## **AUDIT FOLLOW-UP AND CLOSURE**

The Auditor considers this audit closed, and encourages management to appropriately address the observations and recommendations contained in this report. We plan to revisit the ProCard Audit in the next normal audit cycle and will evaluate implementation of the audit recommendations at that time.

If you have any questions or concerns, please contact me at 909-537-3430, or via e-mail.

c: Douglas Freer  
M. Monir Ahmed



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**APPENDIX A:  
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
M. Monir Ahmed	Associate Vice President Finance, Fin. And Admin. Services
Terry Ballman	Dean, Arts and Letters
Stacey Barnier	Director, Human Resources
Andrea Beechko	FS Budget LCD, ITS – Business Intelligence (ACBI)
Laura Carrizales	Admin Analyst Specialist, ITS – IS & Emerging Technologies (ISET)
Douglas Freer	Vice President for Administration and Finance/CFO
Michelle Fuller	Admin Analyst Specialist, Arts and Letters
Debra Gawryluk	Confidential Office Support, Human Resources
David Gee	Director, Procurement Services
Shannon Kelley	Accounts Payable Manager, Accounts Payable
Ken Han	Information Technology Consultant, Arts and Letters
Matthew Poole	Chair, Art
Cesar Portillo	Associate Vice President, Human Resources
John Salazar	Logistical Services Supervisor, Mail Services
Olga Valdivia	Admin Support Coordinator, Art
Myra Vigil	Admin Support Coordinator, Purchasing
Grace Wichert	Admin Support Coordinator, Purchasing