

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

MEMORANDUM

DATE: February 2, 2015

TO: Douglas Freer, Vice President for Administration and Finance/CFO

FROM: Michael Zachary, University Internal Auditor

SUBJECT: Procurement Card Pilot Audit

EXECUTIVE SUMMARY AND BACKGROUND

As a result of the 2013-14 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 December 2014. The audit is intended to review standard campus procedures and practices, evaluate all 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 Scope and Methodology section presented later in this report. Reviews of campus compliance with systemwide policies, including the Integrated CSU Administrative Manual (ICSUAM) §3103, *Procurement Cards (University Liability Credit Cards)*, <superseded>, 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 Handbook* and 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 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.

The following brief summary bullets provide management with an *overview* of conditions that may require attention. Areas of within the audit scope of review that are not mentioned in the audit observations and recommendations are considered to be satisfactory. Details of the bulleted observations below, along with audit recommendations follow in the body of this report.

KEY PROCEDURES FOR PROCUREMENT CARD PROCESSING

Our review showed that supporting documents were not always gathered and reviewed timely with monthly closing. Additionally, delegations of authority for the procurement card (ProCard) will need to be implemented. Lastly, we found that formalized and consistent ProCard training for approvers was not yet established.

PROCUREMENT CARD POLICY AND PROCEDURES UPDATES

We noted various significant updates to campus procedures that are required to be in place by June 30, 2015 in accordance with systemwide policy. Our summary of these procedures showed that campus written procedures did not clearly define responsibilities of the ProCard administrator, nor did they fully explain details of the ProCard monitoring procedures utilized by Purchasing. Additionally, we noted that campus written procedures did not require the cardholder's agreement to comply with the policy and procedures established by the issuing bank's requirements, and conditions for return of the card. We commented that campus procedures should be updated to include verbiage regarding the requirement that cardholders must (also) sign a document serving as confirmation that campus training was provided on applicable policies, procedures and acceptable use. Lastly, as stated in recommendations 2 and 3, we summarized and reemphasized the recommendation that written procedures should be updated by June 30, 2015 to include the requirement for delegations of authority for the ProCard administrator, backup administrators, and substitute approvers, and that specific training for ProCard approvers ("approving officials") needed to be updated in the campus procedures.

PURPOSE AND SCOPE OF AUDIT

The primary audit objective was to perform a pilot audit of campus procurement card (ProCard) operations, to review standard campus procedures and practices for ProCards, evaluate all applicable written policies and verbally communicated practices, and make preparations 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:

- 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.
- A limited sample of transactions for the period July 2013 through May 2014. Within this sample, taken from one department, individual ProCard transactions were selected for testing as part of the pilot audit concept applied for this audit, and included such tests of the records as were deemed appropriate in the circumstances.
- 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, alternate approvers, and cardholders, along with any necessary delegations of authority, appointment letters, or written agreements.
- Instances of personal purchases and related disciplinary actions, including 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.

- 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.

In addition to the specific audit scope items and topics above, we held discussions with personnel in the Purchasing Department, Accounts Payable, Human Resources and Facilities Services as necessary to obtain and confirm the factual data that was the subject of this audit.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

KEY PROCEDURES FOR PROCUREMENT CARD MANAGEMENT

RECORDKEEPING AND REVIEW FOR PROCUREMENT CARDS

Supporting documents were not always gathered and reviewed timely with monthly closing.

An audit test of procurement card (ProCard) transactions from the period July 16, 2013 through May 16, 2014 was based on a sample of Facilities Services transactions that were selected for review to determine if supporting documentation for the purchases made was adequate and timely. We found that none of the documentation tested, for the entire period reviewed, was sent to either Purchasing or Accounts Payable in the timeframes defined by the ProCard administrator, or prior to the audit request for documents in June 2014. Consequently, there was no review of documentation for ProCard transactions prior to, or after, payment of the statements until after the audit commenced. We requested that the ProCard supporting documents be gathered from Facilities Services, and after it was received we performed audit tests of various attributes, including types of products/services ordered, amounts paid, and approvals, and we took no exception to the adequacy of the documentation that supported the individual transactions. However we did take exception to the timeliness of the gathering of supporting documents and timeliness of the review process. Notably, Purchasing took immediate action when this deficiency was noted by the Auditor, and closed the departmental credit card that was used for the transactions in question. Additionally, Facilities Services performed their own review, and thereafter counseled staff to provide all ProCard supporting documents to Purchasing on a monthly basis.

This pilot audit test of data can't be projected to the universe of ProCards. Test samples of other ProCards will be performed at a later date. Prior to the test of transactions, Purchasing had asserted that there is a 100 percent review of all ProCard transactions. However in this test of transactions covering 11 months there was no evidence that the ProCard transactions tested had been reviewed prior to or after payment, until the time of audit. In our initial test, we simply selected a sample of 11 monthly statements (July 16, 2013 through May 16, 2014) for 1 of the 186 ProCards that was picked randomly (Facilities Services department D0750). We halted testing once the basic audit of supporting documentation, and timeliness of that documentation, showed that Purchasing's assertion of a timely 100 percent review of ProCard statements was not accurate. For the first card we reviewed, there was no supporting documentation available at the time the audit commenced, but it was provided within about one month after the initial audit request for data.

Not processing ProCard statements and supporting documents timely, including review and post-audit procedures, can result in the need for more detailed and time consuming follow-up at a later date, and even cause delays in reviewing invoices for sales and use tax.

EO 760, *Procurement Cards*, dated October 16, 2000 states that Campus procurement card procedures should include practices such as periodic post-audits, to insure compliance with the CSU procurement credit card policies.

The *CSUSB Procurement Card Handbook*, dated February 11, 2011, requires that monthly ProCard transaction reports be submitted to Purchasing by the 1st of each month. Additionally, it requires that all receipts, or “lost receipt memos” be included with each monthly transaction report. Timeliness of document submission and processing is emphasized.

RECOMMENDATION 1

We recommend that:

- a. Purchasing reemphasize its objectives to review and perform post-audits of all ProCard statements timely, in conjunction with monthly closing and payment processing.
- b. Purchasing document its review and post-audit process in ProCard written procedures.
- c. Facilities Services reemphasize to staff the need to forward all monthly ProCard documentation to Purchasing timely so that Purchasing may complete its monthly review.

MANAGEMENT RESPONSE

We concur. Our action plans are as follows:

- a. Purchasing will ensure that ProCard statements and supporting documents are received from campus departments and reviewed timely, after monthly close and payment.
Implementation Date: Completed.
- b. ProCard procedures will be updated to reflect Purchasing’s review and post audit process.
Implementation date: June 30, 2015
- c. Facilities Services has informed staff that it is necessary to process ProCard statements timely, and forward all documentation to the Purchasing Department.
Implementation Date: Completed.

DELEGATIONS OF AUTHORITY

Delegations of authority for the ProCard will need to be implemented.

Our review of ProCard management, administration and oversight of the program showed that there were no delegations of authority or “appointment letters” in place for the ProCard administrator, the three backup ProCard administrators, and substitute (backup) approvers. At the time of audit, Purchasing had only recently started providing a form to document that a substitute approver had been designated, but no formal delegations of authority or appointment letter procedures were yet in place. Additionally, campus written procedures did not require delegations of authority for the various ProCard officials.

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. Follow-up 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 2

We recommend that Purchasing develop and implement procedures to provide written delegations of authority for the ProCard administrator, backup administrators, and substitute approvers, and that CSUSB procedures be updated to reflect the requirement for written delegations of authority.

MANAGEMENT RESPONSE

We concur. Purchasing will develop and implement written procedures to provide written delegations of authority for the ProCard administrator, backup administrators, and substitute approvers. **Implementation Date: June 30, 2015.**

PROCUREMENT CARD TRAINING

Formalized and consistent ProCard training for approvers was not yet established.

Our review of overall training for all aspects of ProCard operations and handling showed that there was no evidence of consistent specialized training for ProCard approvers or for substitute approvers. Notwithstanding that, based on detailed testing we saw that formalized and consistent training was provided for cardholders. We also noted that campus written procedures did not require specialized training for approvers and substitute approvers.

ICSUAM 5250.00 §200, *Approver Responsibilities*, states that approver responsibilities include completing and acknowledging required procurement card Approver training.

EO 760 states that management and staff training should also be part of campus administration of a credit card program.

Inadequate ProCard training for approvers can lead to misinterpretation of campus procedures and guidelines, and potentially impair the control process for cardholder approvals.

RECOMMENDATION 3:

We recommend that, by the June 30, 2015 deadline, Procurement develop and implement standard training for ProCard approvers and substitute approvers, and that CSUSB procedures be updated to reflect the requirement for training.

MANAGEMENT RESPONSE

We concur. Our action plan is to develop training guidelines for approvers and substitute approvers as we update campus ProCard procedures. **Implementation Date: June 30, 2015.**

PROCUREMENT CARD POLICY AND PROCEDURES UPDATES

Significant updates were necessary for campus procedures to comply with systemwide policy.

Effective August 7, 2014 a new Integrated CSU Administrative Manual (ICSUAM) policy on procurement cards (university liability credit cards) was implemented systemwide. It contains numerous new policy specifications that are not covered in the CSUSB campus procedures. However, realizing that it would take campuses time to implement the updated systemwide policy, the Chancellor's Office has delayed the requirement for campus implementation (and update of its own written procedures) until June 30, 2015. This provides the campus with sufficient time to revise its own procedures to fully comply with systemwide policy.

One of the audit scope items included comparison of the new systemwide policy versus existing campus procedures. We found that the campus had in place two written procedures:

the CSUSB Procurement Card Handbook, dated February 2011, and the Procurement Card Program Handbook, dated April 2014. Both campus procedures have provided useful guidance to the campus in managing ProCard usage, but they are now outdated and missing significant requirements contained in the ICSUAM systemwide policy. Consequently, a review was performed to document and summarize the most significant revisions that should be made to campus procedures in order to fully comply with systemwide policy.

SUMMARY OF RECOMMENDED WRITTEN PROCEDURES UPDATES

We recommend that Purchasing update existing ProCard campus procedures, by the required June 30, 2015 deadline, with regard to the following operational areas:

- Campus written procedures did not clearly define responsibilities of the ProCard administrator. However, approver and cardholder responsibilities were adequately defined. We recommend that campus procedures be updated to define responsibilities for the administrator, in accordance with ICSUAM 52500.00, §500.
- Campus written procedures did not fully explain details of the ProCard monitoring procedures utilized by Purchasing, other than to state the consequences for cardholders if they make inappropriate purchases. For example, Purchasing's control activities for monitoring were not described, and the percentage of ProCards reviewed monthly was not included in campus procedures. We recommend campus procedures be updated to described details of Purchasing's ProCard monitoring procedures, including what percentage of transactions are reviewed, and what control activities are included in the review, in accordance with ICSUAM 5250.00, §200.
- Campus written procedures did not require the cardholder's agreement to comply with the policy and procedures established by the issuing bank's requirements, and conditions for return of the card. We recommend that campus procedures be updated to reflect ICSUAM 5250.00 §200 requirements that cardholders must sign documentation that specifically acknowledges agreement to comply with the policy and procedures established by each campus, the ProCard issuing bank, and conditions for return of the card.
- Procurement provides forms for cardholders to sign, and acknowledge training upon receipt of such training. However, campus procedures should be updated to include verbiage regarding the requirement that cardholders must (also) sign a document serving as confirmation that campus training was provided on applicable policies, procedures and acceptable use, in accordance with ICSUAM 5250.00 §200.

- As stated in recommendation 2 above, we reemphasize the recommendation that written procedures should be updated to include the requirement for delegations of authority for the ProCard administrator, backup administrators, and substitute approvers, in accordance with ICSUAM 5250.300.
- As stated in recommendation 3 above, specific training for ProCard approvers (“approving officials”) needed to be updated in the campus procedures. We recommend that campus procedures be updated to reflect ICSUAM 5250.00 §200, *Approver Responsibilities*, which states that approver responsibilities include completing and acknowledging required ProCard *approver training*.

MANAGEMENT RESPONSE

We concur. Purchasing plans to update campus procedures to include all mandatory revisions required by the ICSUAM policies. **Implementation Date: June 30, 2015.**

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 Purchasing and Facilities Services in about 90 days, and again after June 30, 2015 to evaluate implementation of the audit recommendations.

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

c: Tomás Morales
M. Monir Ahmed
Kathy Hansen
Shannon Kelley
Juan Macias
Beth Stanton

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Tomás Morales	President
M. Monir Ahmed	Associate Vice President Finance, Administration and Finance
Twillea Evans-Carthen	Manager Human Resources Programs and Employment
Douglas Freer	Vice President for Administration and Finance/CFO
Kathy Hansen	Director, Procurement & Support Services, Purchasing
Shannon Kelley	Manager, Accounts Payable
Juan Macias	Interim Director, Facilities Services (Current)
Cesar Portillo	Associate Vice President, Human Resources
Beth Stanton	Purchasing Manager, Purchasing
Michael Sylvester	Interim Director, Facilities Services (Former)
Myra Vigil	Administrative Support Coordinator, Purchasing