

# **CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Audit Report

## **STUDENT FEE REVENUES**

*July 1, 2006, through September 30, 2007*



**JOHN CHIANG**  
California State Controller

September 2008



**JOHN CHIANG**  
*California State Controller*

September 19, 2008

Dr. Alexander Gonzalez, President  
Office of the President  
California State University, Sacramento  
6000 J Street, Sacramento Hall 206  
Sacramento, CA 95819-6022

Dear Dr. Gonzalez:

The State Controller's Office (SCO) audited the California State University, Sacramento's (CSUS) expenditures of the student fee revenues for the period of July 1, 2006, through September 30, 2007.

The SCO is in the process of evaluating the expenditures of all 23 campuses within the CSU system. Each of the 23 campuses will be audited separately because, while most of the campuses and the Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously and has its own system of internal controls. When we have concluded the audits of all 23 campuses, we will combine the 23 individual audit reports into one final report.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and internal controls over the expenditures of student fee revenues. However, our audit disclosed that CSUS accounts-payable policies were not consistently followed and that CSUS's Procurement Card (ProCard) program's internal controls should be strengthened.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/wm:vb

cc: George Ashkar, Senior Director, Controller  
California State University, Office of the Chancellor  
Colleen Nickles, Assistant Vice Chancellor, Financial Services  
California State University, Office of the Chancellor  
Larry Mandel, University Auditor  
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Suzanne Green, Associate Vice President  
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California State University, Sacramento  
Justine Heartt, University Controller  
California State University, Sacramento  
Kathi McCoy, Director  
Audit Services  
California State University, Sacramento

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California State University, Sacramento's (CSUS) expenditures of the student fee revenues for the period of July 1, 2006, through September 30, 2007.

The SCO is in the process of evaluating the expenditures of all 23 campuses with the CSU system. Each of the 23 campuses will be audited separately because, while most of the campuses and the Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously and has its own system of internal controls. When we have concluded the audits of all 23 campuses, we will combine the 23 individual audit reports into one final report.

The purpose of our audit was to determine whether expenditures of student fee revenues were proper during the period of our audit and to determine whether CSUS has an adequate accounting system and internal controls over the expenditure of student fee revenues. Any reportable weaknesses identified by our audit are disclosed in this report.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and internal controls over the expenditures of student fee revenues. However, our audit disclosed that the CSUS accounts-payable policies were not consistently followed and that its Procurement Card (ProCard) internal controls should be strengthened.

## Background

On July 19, 2006, Education Code section 89721 (AB 1802) was approved, permitting individual CSU campuses to deposit into and maintain local trust account moneys collected as higher education fees and income from students from any CSU campus and from other persons pursuant to Education Code section 89700. Pursuant to Education Code section 89721, the SCO shall have the authority to audit the expenditure of moneys collected as higher education fees and income from students of any campus of the California State University and from other persons pursuant to Education Code section 89700.

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that "... the Controller shall suggest plans for the improvement and management of revenues."

**Objective, Scope,  
and Methodology**

The objective of the audit is to obtain reasonable assurance that CSUS has satisfactorily accounted for expenditures of student fee revenue and has an accounting system and internal controls to ensure that expenditures of student fee revenue are properly accounted for.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit CSUS's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that disbursements and expenditures of student fee revenues are satisfactorily accounted for. Our scope also included obtaining reasonable assurance as to the effectiveness of the internal controls over the expenditure of student fees. Accordingly, we gained an understanding of the internal controls over expenditures of student fee revenues and examined transactions on a test basis.

**Conclusion**

In our opinion, California State University, Sacramento's accounting and administrative controls in effect as of September 30, 2007, taken as a whole, were adequate to account for the expenditure of student fee revenues.

Our audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the expenditure of student fee revenues. However, our audit disclosed that CSUS's accounts-payable policies were not consistently followed and that its ProCard internal controls should be strengthened.

**Views of  
Responsible  
Officials**

We issued a draft audit report on July 23, 2008. Dr. Alexander Gonzalez, President, responded by the attached letter dated August 11, 2008, agreeing with the audit results. CSUS's response is included in the final audit report.

**Restricted Use**

This report is solely for the information and use of California State University, Sacramento; California State University, Office of the Chancellor; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

September 19, 2008

# Findings and Recommendations

## **FINDING 1— Accounts-payable policies not consistently followed**

Our audit testing revealed that California State University, Sacramento (CSUS) did not follow accounts-payable procedures for 24 of the 250 (9.6%) invoices selected for testing. The results of our tests are as follows:

- Our sample included ten direct payment requests in excess of \$5,000. We found that nine of the ten direct payment requests, totaling \$406,465, were processed without the approval of the Accounts Payable Director. We also found that two of these nine direct payment requests, totaling \$15,617, were approved by individuals other than designated officials with departmental authority.

CSUS's Accounts Payable Manual stipulates that direct payment requests over \$5,000 require approval from the Accounts Payable Director. In addition, the Accounts Payable Manual provides that each direct payment request must include an authorized signature by the requesting department. All approving signatures on the direct payment request will be verified for approving authority. Approval by the Accounts Payable Director will help to ensure that payments in excess of \$5,000 are properly supported and appropriate.

- Eleven travel expense claims included in our sample contained reimbursement for convention or conference fees over \$500. Of these eleven, only four included convention conference fees that were properly authorized by the university president or designee. Seven of the eleven travel expense claims included convention and conference fees, totaling \$26,765, that were not properly authorized by the university president or designee.

CSU's Policy and Procedures Governing Travel and Relocation Expense Reimbursement, HR 2006-25, Section 107, states that "Registration fees exceeding \$500 must be approved by the President" and "where more than two employees from the same campus are attending the same convention or conference, each claim must be approved by the President."

- Three invoices for services, totaling \$44,878, were paid without the approving department's signature.

The Accounts Payable Manual explains that "If the invoice is associated with a service, the invoice submitted for payment must be approved for payment by the department upon satisfactory completion of service." Without approval from the department, CSUS may be paying for services that were not performed or were not performed to the satisfaction of CSUS.

- Four invoices, totaling \$21,841, were for purchases made before the purchase orders were created and approved.

CSUS's Procurement and Contract Services Policy Manual provides that "Standard policy does not permit campus departments to place orders directly with vendors and service providers, apart from using

the universal delegation of authority that permits acquisitions to be made under the Procurement Card program, Direct Payment Program or through the use of a petty cash fund.” By placing orders through the university buyer, CSUS ensures that it complies with purchasing policies, and that purchases are authorized before the purchase is made.

- Of our sample of thirteen travel expense claims, we found one instance in which the receipt provided did not support the amount claimed. The employee provided a credit card statement with a charge of \$1,945 for air transportation; however, the receipt used to support the airfare charge was only \$277. The CSU’s Policy and Procedures Governing Travel and Relocation Expense Reimbursement, HR 2006-25, Section 104, Article A, provides that “All expense accounts shall be properly itemized, accompanied by the necessary vouchers/receipts and approved by the duly authorized campus officer.”

#### Recommendation

CSUS should:

- Reinforce the policy requiring that accounts-payable technicians have all necessary and proper approvals before making direct payments.
- Develop and maintain a complete and accurate register of CSUS employees who have fiscal authority to authorize disbursements.
- Ensure that all invoices for services have been approved by the requesting department before payment is made.
- Comply with CSUS procurement policies and guidelines by ensuring that campus departments, when applicable, do not place orders directly with vendors and service providers.
- Review CSUS travel policies to ensure that they comply with the Chancellor’s system-wide travel policies.

#### CSUS’s Response

In 2007-08, California State University Sacramento initiated a comprehensive review of all policies. Based in part on the audit recommendations, the financial policies are receiving special attention and undergoing additional review. As part of that review, the University will update the procurement, accounts payable, and travel manuals. These reviews will ensure that policies and procedures are well defined, stipulate appropriate transactional and approval limits, clearly define the approval process, and comply with CSU’s system-wide policies. This review process will be completed in 2008-09, and the policies and documents will be updated and disseminated.

Training occurs for both campus staff who initiate and approve transactions, and the central finance staff who review and process transactions and payments. This training reinforces compliance with established policies, and is updated as policies and procedures change. In conjunction with the review of policies and manuals, the University

will assess the need for additional campus training sessions accordingly. The University has a fiscal authority register of employees in place, and we will increase our efforts to keep it current as staffing turnover continues to occur campus-wide.

#### SCO's Comment

CSUS will review and update policies and procedures accordingly.

### **FINDING 2— Internal controls over ProCard should be improved**

Our audit indicates that CSUS did not maintain its Procurement Card (ProCard) program according to program policies and procedures. CSUS provides employees with CSUS-issued credit cards (ProCards) and encourages their use for low-value purchases in order to achieve cost savings and improve processing time. ProCard policies and procedures were developed to ensure proper management control and oversight over CSUS's ProCard program.

According to CSUS's Procurement Card Program Handbook, the Accounts Payable Department is responsible for auditing the procurement card claims for accuracy. During our audit period of July 1, 2006, to September 30, 2007, CSUS had 19,557 ProCard transactions of which 909 transactions, totaling \$356,082, were identified by the Accounts Payable Department because the transaction appeared to violate CSUS ProCard policies. These violations include exceeding single-purchase limits, splitting purchases to circumvent spending limits, failing to provide sufficient support documentation, failing to justify the business purpose of the purchase, purchasing prohibited and restricted items, failing to ensure that cardholder statements were signed, and failing to submit cardholder statements to the Accounts Payable Department.

Although the Accounts Payable Department was properly auditing ProCard use to identify violations, CSUS stopped performing follow-up procedures to correct these violations in March 2007. CSUS resumed performing follow-up procedures in December 2007, after we brought the matter to its attention. The CSUS's Procurement Card Program Handbook states, "Procurement Services and Accounts Payable will jointly administer the Procurement Credit Card program, and be responsible for accumulating, reporting, coordinating, and evaluating all aspects of the program. . . . There may be follow up by either department to complete all disputed charges, to review supporting documents for completeness, or to clear outstanding statements or other documentation."

The numerous violations identified by the Accounts Payable Department during monthly post-audit reviews indicates that the Approving Official did not properly monitor ProCard purchases and did not adequately perform reviews of the cardholder statements and support documentation. CSUS's Procurement Card Program Handbook states, "The Approving Official is the individual assigned to a cardholder to ensure compliance with procurement card policies and University fiscal and procurement rules by reviewing the transactions on no less than a monthly basis."

The Approving Official's responsibilities include:

- Monitoring the transactions for appropriateness of purchase for their assigned cardholders.
- Ensuring adequate documentation for every transaction.
- Identifying possible violations of their assigned cardholders.
- Taking appropriate action if violations are found.
- Ensuring that statements are signed by the appropriate cardholders and approving official.
- Notifying the procurement card program of changes in departmental program participants.
- Evaluating potential for employee fraud.

Without proper review and monitoring, cardholders can continue to make prohibited purchases or make purchases without proper justification and prior approvals.

We performed a test of 140 ProCard transactions, totaling \$97,257. Our audit test results confirm that CSUS did not maintain its ProCard program according to program policies and procedures. Our testing revealed that:

- Cardholders shared their credit cards with other staff. We identified 14 instances, totaling \$19,063, wherein purchases of goods and/or services were made by someone other than the authorized cardholder. CSUS's Procurement Card Program Handbook states, "Due to inherent risk, Cardholders are not to share their cards or card numbers for other individuals to use. Only the designated Cardholder is allowed to use his or her Procurement Card." By allowing unauthorized staff to make purchases using ProCards, CSUS subjects itself to potential financial losses for fraudulent or improper expenditures.
- Cardholders exceeded single purchase limits or split purchases to circumvent spending limits. We identified 17 instances, totaling \$32,055, wherein cardholders exceeded the single purchase limit or split purchases to circumvent spending limits. CSUS's Procurement Card Program Handbook states, in part, "... it is illegal to split a purchase in order to circumvent Procurement Card limits. A split purchase is defined as: The purchase of a single item costing over \$1,000 (including shipping) with the purchase being divided (split) into more than one transaction; or a single purchase transaction totaling over \$1,000 (including shipping); or the purchase of a group of items totaling over \$1,000 (including shipping) for a single purchase need." By allowing cardholders to circumvent expenditure limits, CSUS puts the campus at risk of paying for inappropriate and excessive purchases.

- Cardholders made prohibited purchases. We identified four transactions, totaling \$6,941, with one or more instances of a prohibited purchase. The four transactions were for the purchase against a contract. One of these transactions in the amount of \$310, was also for the purchase of services performed on the campus. CSUS's Procurement Card Program Handbook states, "If goods or services are 'Prohibited,' the use of the Procurement Card is unauthorized and may not be used to procure such goods or services. . . . Purchases of goods or services which require a signed contract/agreement are not allowed to be placed on the Procurement Card. . . . Cardholders are not to use the Procurement Card to purchase services which will be performed on campus due to liability issues." By allowing cardholders to make prohibited purchases as defined in CSUS's Procurement Card Program Handbook, CSUS may be allowing cardholders to make purchases using improper purchasing methods or circumvent other procurement policies. Also, CSUS may be at risk of losing funds due to the improper use of the ProCard.
- Cardholders made purchases without obtaining prior approval. We identified four instances, totaling \$3,633, wherein the cardholder did not obtain approval for purchases as required by ProCard and procurement policies. Two purchases, totaling \$517, were for computer software; two purchases, totaling \$3,116, were for equipment.

The CSUS Cardholder ProCard Statement Cardholder and Approving official signature page states, "1. Computer Hardware and Software requires pre-approval by Desktop Services."

CSUS's Procurement Card Program Handbook states, "If the goods or services are restricted, the Procurement Card may be used with prior approval from the Procurement Card Administrator or Buyer of record. . . . Equipment: Item costing \$200 or more; has a useful life of at least one year; operates independently, and the unit has a serial number. . . ."

CSUS's Procurement and Contract Services Policy Manual states, "Departments shall utilize their Procurement Card for the placement of job advertisements. . . . It is still necessary for departments to secure prior approval of all advertisements. . . ."

Cardholders who do not first obtain approval for purchases could be purchasing items that are inappropriate, unnecessary, and/or could be supplied by the campus. Purchases of equipment could go unaccounted for and be inadvertently excluded from appropriate asset management/property control and identification.

- We identified five instances, totaling \$4,891, wherein the cardholder did not provide sufficient documentation for purchases. Two instances, totaling \$3,838, were for purchases for which the cardholder provided only a partial receipt, and three instances, totaling \$1,053, were for payments for which there were no itemized receipts. CSUS's Procurement Card Program Handbook states, "Every transaction must have a valid source documentation from the

merchant. . . . All source documents should include the following information: vendor identification (merchant name), date of purchase, description and quantity of each item purchased (written in if not apparent on receipt), total cost of the order, per-item cost if available from merchant, and cardholder name and/or card number.”

Without sufficient support documentation, approving officials are unable to determine whether purchases are valid and proper, thereby putting CSUS at risk for paying for inappropriate purchases.

#### Recommendation

CSUS should put procedures in place to ensure that campus staff members satisfactorily resolve all issues identified during the post-review of ProCard purchase transactions.

Approving officials play an integral role in ensuring the cardholder’s compliance with the ProCard program. Therefore, approving officials should carefully review vendor receipts and support documentation to ensure that purchases are proper and supported. This review process will ensure cardholders’ compliance with campus policy and will address any improper use of the card or instances of non-compliance in a timely manner. Approving officials should suspend cardholder privileges for repeated violations, if necessary.

Campus staff members should participate in ongoing training on ProCard and procurement policies and guidelines so that they understand their responsibilities and future violations do not occur.

#### CSUS’s Response

California State University, Sacramento will review and revise the Procurement Card Manual to ensure that program policies and procedures are well defined. Financial Services will implement a process whereby identified procurement card exceptions are promptly and satisfactorily resolved. Cardholders and approving officials will be notified when exceptions are discovered during post-review, to include purchase of prohibited or restricted goods and services, transaction limit exceeded, itemized receipt not provided, or inadequate supporting documentation. Additionally, as necessary, appropriate disciplinary actions will be taken, to include, suspension or termination of the procurement card, and any other appropriate personnel action.

During 2008-09, Financial Services will conduct training for cardholders and approving officials to ensure both groups fully understand their responsibilities and ramifications for non-compliance with program policies and procedures.

#### SCO’s Comment

CSUS concurred with our recommendation.

**Attachment—  
CSUS's Response to  
Draft Audit Report**

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August 11, 2008

Andrew Finlayson, Chief  
State Agency Audits Bureau  
Division of Audits  
State Controller's Office  
P. O. Box 942850  
Sacramento, CA 94250-5874

Re: Audit Report: Student Fee Revenues – California State University, Sacramento

Mr. Finlayson:

Thank you for the opportunity to review and provide comment on the audit report concerning the review of Student Fee Revenues at California State University, Sacramento. The University is committed to addressing and resolving the issues identified in the audit report. We submit our responses to the audit recommendations as follows.

**Finding 1:** California State University, Sacramento did not follow accounts payable procedures for 24 of the 250 invoices selected for testing.

**Recommendation:**

The University should:

- Reinforce the policy requiring that accounts-payable technicians have all necessary and proper approvals before making direct payments.
- Develop and maintain a complete and accurate register of CSUS employees who have fiscal authority to authorize disbursements.
- Ensure that all invoices for services have been approved by the requesting department before payment is made.
- Comply with CSUS procurement policies and guidelines by ensuring that campus departments, when applicable, do not place orders directly with vendors and service providers.
- Review CSUS travel policies to ensure that they comply with the Chancellor's system-wide travel policies.

**Response:**

In 2007/08, California State University, Sacramento initiated a comprehensive review of all policies. Based in part on these audit recommendations, the financial policies are receiving special attention and undergoing additional review. As part of that review, the University will update the procurement, accounts payable, and travel manuals. These reviews will ensure that policies and procedures are well defined, stipulate appropriate transactional and approval limits, clearly define the approval process, and comply with CSU's system-wide policies. This review process will be completed in 2008/09, and the policies and documents will be updated and disseminated.

Training occurs for both campus staff who initiate and approve transactions, and the central finance staff who review and process transactions and payments. This training reinforces compliance with established policies, and is updated as policies and procedures change. In conjunction with the review of policies and manuals, the University will assess the need for additional campus training, and schedule those training sessions accordingly. The University has a fiscal authority register of employees in place, and we will increase our efforts to keep it current as staffing turnover continues to occur campus-wide.

**Finding 2:** California State University, Sacramento did not maintain its Procurement Card program according to program policies and procedures.

**Recommendation:**

CSUS should put procedures in place to ensure that campus staff members satisfactorily resolve all issues identified during the post-review of ProCard purchase transactions.

Approving officials play an integral role in ensuring the cardholder's compliance with the ProCard program. Therefore, approving officials should carefully review vendor receipts and support documentation to ensure that purchases are proper and supported. This review process will ensure cardholders' compliance with campus policy and will address any improper use of the card or instances of non-compliance in a timely manner. Approving officials should suspend cardholder privileges for repeated violations, if necessary.

Campus staff members should participate in ongoing training on ProCard and procurement policies and guidelines so that they understand their responsibilities and future violations do not occur.

**Response:**

California State University, Sacramento will review and revise the Procurement Card Manual to ensure that program policies and procedures are well defined. Financial Services will implement a process whereby identified procurement card exceptions are promptly and satisfactorily resolved. Cardholders and approving officials will be notified when exceptions are discovered during post-review, to include purchase of prohibited or restricted goods and services, transaction limit exceeded, itemized receipt not provided, or inadequate supporting documentation. Additionally, as necessary, appropriate disciplinary actions will be taken, to include, suspension or termination of the procurement card, and any other appropriate personnel action.

During 2008/09, Financial Services will conduct training for cardholders and approving officials to ensure both groups fully understand their responsibilities and ramifications for non-compliance with program policies and procedures.

Please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439 if you have any additional questions.

Sincerely,



Alexander Gonzalez  
President

AG/km

- c: Stephen G. Garcia, Vice President for Administration and Chief Financial Officer  
California State University, Sacramento  
Kathi McCoy, Director of Auditing Services  
California State University, Sacramento  
Suzanne Green, Associate Vice President for Financial Services  
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Justine Heartt, University Controller  
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