

Commonwealth of Pennsylvania
State System of Higher Education
California University of Pennsylvania
July 1, 2005, to July 11, 2008
Performance Audit



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March 27, 2009

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

This report contains the results of a performance audit of California University of Pennsylvania of the State System of Higher Education from July 1, 2005, to July 11, 2008. The audit is authorized under the provisions found in Act 188 of 1982 (24 P.S. §20-2001 et seq). Those provisions state: "Activities of the system under this article shall be subject to the audit of the Department of the Auditor General." We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The report details our audit objectives, scope, methodology, findings, and recommendations. The report notes that California did not use all available collection methods for delinquent student accounts and, thus, did not maximize the value of potential receipts. The contents of the report were discussed with the management of California University of Pennsylvania, and all appropriate comments are reflected in the report.

We appreciate the cooperation extended to us by the management and staff of California University of Pennsylvania and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

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Background Information

State System of Higher Education

The Commonwealth of Pennsylvania's state-owned colleges and universities were under the administrative control of the Pennsylvania Department of Education prior to July 1, 1983. The legislative enactment of Act 188 of 1982 on December 17, 1982, transferred administrative and operational responsibility to the newly created State System of Higher Education (State System), and the institutional designations of the state colleges were changed to universities effective July 1, 1983.¹ Today, the State System comprises 14 universities, 4 branch campuses, the McKeever Environmental Learning Center, and the Dixon University Center. The 14 state-owned universities include Bloomsburg, California, Cheyney, Clarion, East Stroudsburg, Edinboro, Indiana, Kutztown, Lock Haven, Mansfield, Millersville, Shippensburg, Slippery Rock, and West Chester.

A centrally established Board of Governors, which functions as the primary policy setting and control authority, administers the State System for the State System. The Board consists of 20 members and has the overall responsibility for planning and coordinating the State System's development and operations. Its statutory powers include establishing operating policies, appointing university presidents, reviewing and approving university operating and capital budgets, setting tuition and fee levels, creating new programs, and promoting cooperation among institutions. Members of the Board include legislators, State System university students and trustees, and members of the public. The Governor and Secretary of Education, or their designees, also serve on the Board. Additionally, a chancellor is appointed by the Board to serve as the chief executive officer of the State System.

At the individual university level, Act 188 of 1982 granted certain statutory responsibilities to each university president and locally established Council of Trustees.

The State System was created to enhance the higher educational service system of the Commonwealth by providing the highest quality education at the lowest possible cost to the students. The primary mission of the State System is to provide instruction for undergraduate and graduate students to and beyond the master's degree level in the liberal arts and sciences and in applied fields, including the teaching profession. Each university is to provide appropriate educational, student living, and other facilities as deemed necessary by the State System's Board.

¹ 24 P. S. § 20-2001 et seq.

Background Information

California University of Pennsylvania

California University of Pennsylvania is located in the borough of California, Washington County, approximately 35 miles south of Pittsburgh. California originated in 1852. Currently, it is a multi-purpose institution of higher learning that offers degree programs in the College of Liberal Arts, College of Education and Human Services, Eberly College of Science and Technology, and the School of Graduate Studies and Research.

The California main campus consists of 37 buildings situated on 90 acres. An additional 98-acre recreation complex is located one mile from campus. This off-campus site includes a new housing complex for over 700 students who live in furnished, four-person suites. California also offers programs and courses at off-campus centers located in the Southpointe Industrial Complex in Canonsburg and in the Regional Enterprise Tower in Pittsburgh.

California is academically accredited by the Middle States Association of Colleges and Schools. Academic programs are also individually accredited by the appropriate professional organizations.

Student enrollment for the 2007 fall semester was 7,204 students, comprised of 6,566 full-time and 638 part-time students. Student enrollment for the 2006 fall semester totaled 6,745 students, comprised of 6,158 full-time and 587 part-time students.

For the 2007 fall semester, California employed 878 personnel, including 409 faculty and 469 administrative and support personnel. For the 2006 fall semester, California employed 841 personnel, including 401 faculty and 440 administrative and support personnel.

Background Information

The Joint State Government Commission compiled the following select unaudited operating statistics for the 2005-06 and 2006-07 academic years for California and the State System.

<u>Data/Location</u>	<u>2005-06</u>	<u>2006-07</u>
Full-Time Equivalent Students (FTE's):		
California University		
Undergraduate	5,870	6,301
Graduate	<u>1,271</u>	<u>1,402</u>
Total	<u>7,141</u>	<u>7,703</u>
State System of Higher Education		
Undergraduate	91,766	92,678
Graduate	<u>10,446</u>	<u>10,366</u>
Total	<u>102,212</u>	<u>103,044</u>
Full-Time Equivalent Instructional Faculty:		
California University	311	312
State System of Higher Education	5,258	5,366
State Instruction Appropriations (rounded in millions):		
California University	\$ 28.9	\$ 32.4
State System of Higher Education	\$ 443.3	\$ 463.0
Degrees Conferred		
California University	1,677	1,731
State System of Higher Education	21,038	21,945

Objectives, Scope, and Methodology

We conducted this performance 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 selected the audit objectives from the following general areas: Client Management, including a review of California's protection and confidentiality of student social security numbers; Expense Management, including an evaluation of California's maintenance expenses and work order administration; Inventory Management, including an assessment of the university's management of its automotive fleet, as well as an evaluation of compliance with related university policies; and Revenue Management, including a review of the pricing structure for the Distance Education Program, as well as university collection methods and compliance with State System policies for Student Accounts Receivable. The audit also included an update on the status of prior audit findings and recommendations regarding the purchasing card program and the Student Association, Inc.

The specific audit objectives were:

- To assess the protection and confidentiality of student Social Security numbers at California. (Finding 1)
- To assess the adequacy of controls over maintenance expenditures. This included an assessment of the economy and efficiency of operations, as well as work order administration. (Finding 2)
- To assess the adequacy of automotive fleet management, and to determine whether California complied with policies and procedures. (Finding 3)
- To evaluate the tuition and fee pricing structure for California's distance education students, including its compliance with internal policy. (Finding 4)
- To determine whether California maximized its collection efforts and processed delinquent accounts in accordance with policies and procedures. (Findings 5 and 6)

We also determined the status of management's implementation of the recommendations presented in our prior audit report regarding the purchasing card program and the Student Association, Inc.

Objectives, Scope, and Methodology

To accomplish these objectives, auditors reviewed Act 60 of 2006, as well as the associated legal opinion from the Pennsylvania State System of Higher Education's Office of Legal Counsel. Auditors also reviewed California's guidelines for requests for maintenance service and projects, policies and procedures for the use of university vehicles,² the Pennsylvania State System of Higher Education Board of Governors tuition policy,³ and the Commonwealth of Pennsylvania Governor's Office directive regarding the processing of delinquent claims,⁴ as well as written narratives of university procedures for the collection of delinquent accounts receivable.

Auditors interviewed appropriate university personnel, including the Director of Computing Systems, the Student Information System Programming and Operations Manager, the Bursar, the Director of the Office of Financial Aid, the Comptroller, Director of Inventory and Risk Insurance Management, and the Associate Director of the Office of Academic Records. Auditors also interviewed the internal auditor, the interim director of the physical plant, the work order clerk, and the physical plant secretary. They also had discussions with appropriate university personnel regarding the prior audit findings and recommendations.

To assess the protection and confidentiality of student Social Security numbers, auditors observed demonstrations of employee access (or lack of access) to Social Security numbers in the online student information system at various university offices, including California's computer center, Office of Academic Records, and the Student Association, analyzed an internally prepared list of university personnel and offices with access to Social Security numbers in the online student information system. Auditors also toured Dixon Hall, the campus building that housed the majority of California's administrative offices, including the Offices of the Bursar, Academic Records, and Financial Aid.

To assess the adequacy of controls over maintenance expenditures, auditors analyzed the documentation associated with 37 predominantly high or medium priority work orders from the general population of 1,273 work orders completed by the electrical, carpentry, and maintenance shops between January 1, 2008, and May 31, 2008. Auditors also examined the documentation associated with 140 of 325 work orders open on April 30, 2008, and the supporting documentation for 29 of 1,138 maintenance purchases between July 1, 2007, and May 13, 2008.

To assess the adequacy of automotive fleet management, auditors examined the exterior condition, license plates, and odometer readings of 17 of the university's 45 fleet vehicles. They also analyzed the vehicle maintenance cost summary prepared by the university's Office of Inventory and Risk Management for the fiscal year ended June 30, 2007, reviewed the internally prepared summary of central pool vehicle usage from January 2007 through May 2008, examined the signed driver history forms for 33 of 577 vehicle operators listed

² California University of Pennsylvania, "Policies and Procedures for the Use of Commonwealth/University Vehicles," September 15, 2003.

³ Pennsylvania State System of Higher Education Board of Governors, Policy Number 1999-02-A, "Tuition," adopted April 18, 1999, and amended October 10, 2002.

⁴ Commonwealth of Pennsylvania Governor's Office, Management Directive 310.10 Amended, "Collection, Requests for Compromise, and Write-off of Delinquent Claims," August 29, 1996.

Objectives, Scope, and Methodology

by the university's Office of Inventory and Risk Management, and reviewed the vehicle request forms, usage authorization forms, vehicle sign-out logs, and payroll records associated with 47 of 1,965 trips between July 3, 2006, and April 11, 2008.

To evaluate the tuition and fee pricing structure for California's distance education students, auditors examined the listing of online degrees offered by California as of April 30, 2008,⁵ the 2007-2008 tuition and fee schedule for undergraduate students⁶ and graduate students,⁷ as well as the fee descriptions prepared by its bursar's office. Auditors also reviewed and analyzed the tuition and fees charged to 36 of 1,289 distance education students enrolled at California for the spring 2008 semester.

To determine whether California maximized its collection efforts and processed delinquent accounts in accordance with the policies and procedures, auditors selected and analyzed 34 of 1,365 university accounts designated delinquent as of April 17, 2008, and the university's report of account write-offs authorized by the Attorney General between July 1, 2006, and June 13, 2008.

Auditors also performed tests as part of, or in conjunction with, the current audit to gain an understanding of the status of implementation of the prior audit findings.

The scope of the audit was from July 1, 2005, to July 11, 2008, unless indicated otherwise in the body of the individual topic areas.

⁵ http://www.cup.edu/majors/alpha_major.jsp?degree_type=0&class_type=online View Date: April 30, 2008.

⁶ <http://www.cup.edu/administration/bursar/ugtuition.jsp> View Date: July 6, 2008.

⁷ <http://www.cup.edu/administration/bursar/graduatetuition.jsp> View Date: July 6, 2008.

Audit Results

Social Security Numbers

Historically, most colleges and universities relied upon Social Security numbers as unique identifiers for students, faculty, and staff to generate reports on grades, payroll information, and employee benefits.⁸ However, the use of Social Security numbers for identification purposes creates substantial risks. Identity thieves can abuse Social Security numbers to commit fraud.

Act 60 of 2006, effective on December 26, 2006, limits the use of Social Security numbers as student or employee identifiers.⁹ According to an internal memorandum from the Pennsylvania State System of Higher Education, Office of Legal Counsel, this recent legislation creates an affirmative duty for the university to establish specific security measures to ensure that identity theft does not occur when the university is the custodian of a Social Security number.

Finding 1 – California limited the exposure of student Social Security numbers.

California adopted several measures to limit the exposure of student Social Security numbers. In November 2007, California discontinued its use of the student Social Security number as a visible identifier for university-related transactions. Instead, since November 2007, California assigned each student a unique, eight-digit, campus-wide identification number upon application, or at the earliest possible point of contact between the individual student and the university. The eight-digit identifier was not derived from the student's Social Security number.

California also mitigated the remaining limited exposure of student Social Security numbers. Although students utilized the new identifiers to register for classes and review financial aid data, grades, and account information, since November 2007, California still collected and retained Social Security numbers within the university's computer system to accommodate vital university functions. According to the Programming and Operations Manager for the student information system, employees in only 12 of the university's 285 offices had access to student Social Security numbers in the online system in order to conduct critical university functions, such as the processing of student admission applications, academic records, and financial aid. California required all administrators and faculty members to sign a computer use agreement. Additionally, according to its director, the Office of

⁸ http://www.upenn.edu/computing/da/privacy/SSN_restriction.html View Date: July 15, 2008.

⁹ P.L. 281, No.60, "An act relating to the confidentiality of Social Security numbers."

Audit Results

Financial Aid shredded any of its hard-copy reports that contained student Social Security numbers on a daily schedule.

According to university management, California followed the guidelines of the applicable state law, as follows:

...Social Security numbers may be included in applications and forms sent by mail, including documents sent as part of an application or enrollment process or to establish, amend or terminate an account...¹⁰

Finally, California physically secured Dixon Hall, which housed the majority of the university's administrative offices. California installed security cameras, key locks on all office doors, and coded entry locks on the doors to the Offices of the Bursar, Financial Aid, and Academic Records.

Expense Management

California's maintenance department is responsible for the care and maintenance of 37 buildings on its 90-acre main campus. Additionally, this department maintains the main campus grounds and a 98-acre recreation complex located one mile from the main campus, as well as the motor vehicles and equipment for the university. The university maintenance department employs over 90 workers in 11 specialty trade shops, including the electrical, carpentry, and paint shops.

Finding 2 – California controlled its maintenance expenditures and work order system effectively.

California adequately controlled its maintenance expenditures and effectively administered its work order system. The review of 29 maintenance disbursements did not disclose any unnecessary or exorbitant expenditure. Additionally, purchasing and receiving documents, invoices, and documented justifications accompanied the 29 sampled disbursements.

The university prioritized its work orders and established guidelines for completion. California required high priority, or emergency, work orders to be completed immediately, medium priority work orders to be completed within 3 working days, and routine work orders to be completed within 30 calendar days. The review of 37 work orders processed between January 1, 2008, and May 31, 2008, disclosed that the maintenance department timely completed the corresponding electrical, carpentry, and maintenance shop work. The maintenance department completed all 30 emergency work orders on the date of request, 4 of 5 medium priority work orders on the date of request, and a routine work order 10

¹⁰ P.L. 281, No.60, "An act relating to the confidentiality of Social Security numbers."

calendar days after request. The staff did not list the date of completion for the remaining two work orders – a medium priority work order and routine work order.

Lastly, only two of the 140 sampled work orders open at April 30, 2008, involved safety or security issues. The maintenance staff ordered a part for one work order, open for 215 days, to repair an exhaust fan in a restroom. The purchasing department was in the process of soliciting a new vendor to supply exit lights for the remaining work order.

Automotive Fleet

California owns/leases and operates 45 licensed motor vehicles, including sedans, minivans, pick-up trucks, and specialty trucks. The university automotive fleet consists of 16 central pool vehicles and 29 vehicles permanently assigned to various university departments. The fleet operations subdivision of the Office of Inventory and Risk Management is responsible for the maintenance and repair of all 45 vehicles, as well as for the schedule and assignment of the university's 16 central pool vehicles. California reported that the fleet operations subdivision expended approximately \$15,900 for maintenance and repairs and approximately \$67,500 for supplies and fuel for all fleet vehicles during the fiscal year ended June 30, 2007.

California has established policies and procedures to govern the assignment and use of university vehicles. Drivers must be Commonwealth or university employees and possess a valid Pennsylvania driver license. Before the initial use of a university vehicle, operators must submit qualified driver history records to the Office of Inventory and Risk Management. The appropriate department chair, dean, or area vice president must authorize all travel in order for the Office of Inventory and Risk Management to release a university vehicle. Finally, the driver must be acting within the scope of his/her employment while operating a university vehicle.¹¹

Finding 3 – California managed its automotive fleet effectively.

California followed its policies and procedures regarding the assignment and use of university vehicles. The examination of 33 driver history forms disclosed that each of the sampled drivers possessed a valid Pennsylvania driver license and a documented history appropriate for vehicle usage. Additionally, the review of the vehicle request forms, usage authorization forms, and payroll records associated with 47 university trips revealed that appropriate personnel approved all 47 trips and that the drivers were active employees of the university.

¹¹ California University of Pennsylvania, "Policies and Procedures for the Use of Commonwealth/University Vehicles," September 15, 2003.

Audit Results

California effectively maintained and utilized its automotive fleet. A visual inspection of 17 of the university's 45 vehicles disclosed that the exterior condition of each of the sampled vehicles was satisfactory. The vehicle maintenance cost summary did not report excessive maintenance or repair expenditures for any of the 45 vehicles. Although California acquired 14 of its 45 vehicles during the 1990's, maintenance and repair costs averaged approximately \$350 per vehicle for the fiscal year ended June 30, 2007. Finally, the internally prepared summary of central pool vehicle mileage disclosed that the 16 central pool vehicles were driven an average of approximately 11,000 miles during the 2007 calendar year.

Distance Education

The technological advances that make quality distance education possible require institutions of higher education to become global and geographic boundaries to become less meaningful. The Board of Governors of the Pennsylvania State System of Higher Education defines distance education as "any method for instructional delivery that occurs when students are not at the same location as the instructor when the instruction is received. Examples include classes via cable television, the internet, satellite, videotapes, and correspondence courses."¹² During the spring 2008 semester, California offered 23 distance education degree programs in several different fields of study, including Exercise Science and Health Promotion, Education, Sport Management Studies, and Legal Studies. The 23 programs included 2 baccalaureate degree programs, 15 master's degree programs, and 6 post-master's certificate programs.

The tuition policy of the Board of Governors of the Pennsylvania State System of Higher Education requires its universities to charge both its undergraduate and graduate resident distance education students "the appropriate prevailing per-credit resident rate." The policy requires the universities to charge its nonresident distance education students "a per-credit tuition within the range of 102 to 250 percent of the prevailing resident per-credit tuition rate." The policy offers university presidents the "discretion of setting the nonresident distance education per-credit tuition rate on a course-by-course or program-by-program basis."¹³

Finding 4 – California charged distance education students tuition and fees correctly.

California properly charged tuition and fees to its distance education students during the spring 2008 semester. The review of spring 2008 billing records for 36 distance education students disclosed that California's tuition rates complied with the guidelines established by the Board of Governors tuition policy. California accurately charged the 4 sampled military

¹² Pennsylvania State System of Higher Education Board of Governors, Policy Number 1999-02-A, "Tuition," adopted April 18, 1999, and amended October 10, 2002.

¹³ Ibid.

and 12 sampled resident online students the per-credit rate applied to all other Pennsylvania residents and active duty military personnel. The university accurately charged the 20 nonresident distance education students tuition rates that equaled 102 to 150 percent of the resident per-credit tuition rate. These program-specific rates, although less than the tuition rate charged to nonresident students on the main campus, were also within the range specified by the Board of Governors policy.

California also assessed the appropriate fees to all 36 students in the sample. The university charged each of the 36 students a technology fee that corresponded to the individual student's enrollment status and residency status. California also charged each of the sampled students a \$15 per-credit off-campus fee. While the university properly charged an exercise science fee to those students enrolled in specified programs, it did not charge any of the 36 sampled online students the fees associated with the main campus (such as the university service fee, the student association fee, the student center expansion fee, or the student center operation and maintenance fee).

Revenue Management

The Commonwealth of Pennsylvania and California have developed policies and procedures for the processing of delinquent student accounts, including guidelines for collection and write-off of old accounts. After California exhausts its outlined collection procedures, it forwards delinquent accounts to the Commonwealth's Office of the Attorney General for further collection efforts. The Attorney General utilizes dunning letters, phone contacts, payment plans, and collection agencies to collect money owed to the Commonwealth. The Attorney General then authorizes California to write off any accounts deemed uncollectible. In financial statements for the fiscal year ended June 30, 2007, California reported \$460,450 as uncollectible accounts.

Finding 5 – California processed delinquent student accounts in accordance with established policies and procedures.

California sent dunning letters, documented payment arrangements, placed registration holds, and submitted doubtful accounts to the Attorney General in accordance with established policies and procedures. California processed the 34 sampled delinquent accounts timely. The university sent the three required past-due notices and then forwarded the 21 remaining delinquent accounts from the sample to the Attorney General an average of 142 days after the end of the semester. Additionally, the university placed financial holds on all 34 sampled delinquent accounts, preventing the enrollment or receipt of grades/transcripts by the students with past-due balances on their accounts.

Finding 6 – California did not use all available collection methods for delinquent accounts.

Audit Results

California did not use all available collection methods and, thus, did not maximize the value of potential receipts. From July 1, 2006, to June 13, 2008, the Attorney General authorized and California subsequently wrote off approximately \$222,100 in student accounts. The university did not assess the feasibility of using the services of either an independent collection agency or a credit-reporting bureau. Accordingly, California did not maximize its collection efforts or its potential collections.

Governor's Office Directive Number 310.10 provides for uniform minimum collection efforts.¹⁴ According to the Attorney General's Financial Enforcement Section, California can either write off the account as authorized or pursue independent collection efforts after it receives authorization from the Attorney General. The Attorney General's Financial Enforcement Section indicated that although the Attorney General does utilize outside collection agencies, the office does not file records with credit-reporting agencies. Furthermore, the collection efforts of the Attorney General do not preclude subsequent efforts by the university.

Credit-reporting agencies maintain credit histories and are referenced before lending institutions and credit card companies approve loans or grant credit. The risk that future loans could be denied may create an incentive for delinquent student debtors to pay outstanding obligations.

Private agencies base their fees on a percentage of the value of collections. If California had contracted with an outside agency to collect its student debts, the university may have increased the ultimate value of its receipts without incurring additional expense.

Recommendations:

California management should assess the costs and benefits of contracting with a private agency to pursue collections of accounts authorized by the Attorney General for write-off. The university should also consider filing a record of its delinquent accounts with a credit-reporting agency.

Management Comments:

The draft report states that "From July 1, 2006, to June 13, 2008, the Attorney General authorized and California subsequently wrote off approximately \$222,100 in student accounts." It should be noted that the time period covered by these accounts is July 2001 to July 2007.

California University of Pennsylvania has entered into a contract with a private agency to pursue collections of accounts authorized by the Attorney General for write-off. The University is exploring the option of filing a record of its delinquent accounts with a credit-reporting agency.

¹⁴ Commonwealth of Pennsylvania Governor's Office, Management Directive 310.10 Amended, "Collection, Requests for Compromise, and Write-off of Delinquent Claims," August 29, 1996.

Auditor Comments:

For clarification, the period from July 2001 to July 2007 represents the time when the accounts were incurred whereas the period from July 1, 2006, to June 13, 2008 represents the period in which the delinquent accounts were written off.

Status of Prior Audit Findings and Recommendations

The following is a summary of the findings and recommendations presented in our audit report for July 1, 2003, to June 8, 2005, along with a description of the disposition of each recommendation by California.

Prior Audit Results

Prior Finding IV-1 – California did not comply with Commonwealth or university purchasing card policies or controls.

The prior audit reported that California did not enforce policies and procedures regarding the authorized use of purchasing cards. Cardholders did not comply with university policies regarding equipment transaction limits and Commonwealth policies regarding purchase contracts and associated change orders. Cardholders purchased equipment valued in excess of \$500 in violation of university policy. Additionally, California credit card expenditures for a renovation project exceeded a competitively bid contract limit by approximately \$14,000. Although the university subsequently implemented a change order in response to this purchase overage, it did not document all approvals required by the Commonwealth.

We recommended that California enforce its purchase contract terms and purchasing card policies and procedures, as well as Commonwealth guidelines for procurement change orders. We also recommended that California devise a method to reconcile all credit card purchases against corresponding blanket orders to ensure that purchase totals do not exceed purchase limits.

Status:

To follow up on the deficiencies noted in the prior report, the auditors interviewed California's Director of Purchasing and its Internal Auditor. The auditors also reviewed the Commonwealth's Field Procurement Handbook,¹⁵ the State System of Higher Education's purchasing card policy and procedures,¹⁶ and California's purchasing policies and procedures for cardholders. Additionally, the auditors examined the monthly purchasing card activity statements for 18 staff cardholders and the supporting documentation for 29 of 1,038 purchasing card transactions between June 13, 2007, and February 13, 2008.

¹⁵ Commonwealth of Pennsylvania Governor's Office, Manual M215.3 Revision No.4, "Field Procurement Handbook," April 17, 2003.

¹⁶ <http://www.passhe.edu/executive/finance/Procurement/Documents/PurchasingCardPolicy.pdf> View Date: June 30, 2008.

Status of Prior Audit Findings and Recommendations

The current audit disclosed that California appropriately addressed the issues noted in the prior audit. California amended the issuance and monitoring of its purchasing cards to improve controls over the amount and propriety of corresponding expenditures. The university reduced the number of its issued and active purchasing cards from 31 at December 2004 to 18 at February 2008. In September 2005, the university revised its purchasing card policies and procedures, increasing its allowable maximum for small purchases of equipment and furniture to the \$1,500 limit also imposed by the State System. The university prohibited the use of credit card purchases against blanket orders. Additionally, California modified the procedures for credit card purchase requests and statement reconciliation. The university required cardholders to obtain prior approval for all credit card purchases, with the exception of those for equipment or facility components due to an emergency. The revised procedures also stipulated that the purchasing department issue purchase orders for all approved requests and encumber the necessary monies against the correct fund centers. The procedures then required cardholders to reconcile and forward the monthly statements that detail individual card activity and the supporting receipts and documentation to the purchasing department for additional review. Finally, after completing its reconciliation, the purchasing department would authorize payment for the purchasing card invoice.

The review of 29 of 1,038 purchasing card transactions processed between June 13, 2007, and February 13, 2008, disclosed that all sampled purchases were allowable and accompanied by adequate supporting documentation. Based on the internal controls established by California and the results of our transaction testing, we concluded that California complied with the recommendations of the prior report.

Prior Finding V-2 – The Student Association did not adequately monitor vending machine commissions.

The prior audit reported that our review of the Student Association's agreement with a vending machine contractor and vendor inventory sales reports, commission statements, and cancelled checks for March 2004 through February 2005 disclosed deficiencies. The vendor paid commissions based on gross sales less Pennsylvania sales tax in violation of contract terms, resulting in commission shortfalls that totaled \$2,445. The vendor did not pay commissions on the inventory sales of five added products, resulting in commission shortfalls that totaled \$7,674. Finally, the Association did not adequately investigate contract development with an alternative vending supplier, resulting in a possible opportunity cost of about \$29,400 in commission revenue.

We recommended that Association management require the contract monitor to review the supporting documentation for inventory sales in order to ensure the accuracy of commission calculations and compliance with contract terms. Additionally, we recommended that Association management and the vending contractor follow contract provisions regarding any additional changes to the product line. We recommended that the Association recover the commission shortfalls related to the exclusion of the five added products and the commission calculations based on gross sales less sales tax. Finally, we recommended that

Status of Prior Audit Findings and Recommendations

the Association thoroughly investigate the feasibility of supplying its beverage items directly from the producer in order to increase commission revenue.

Status:

To follow up on the deficiencies noted in the prior report, the auditors interviewed California's Controller and the Association's Chief Financial Officer. The auditors also analyzed the agreement between the Pennsylvania State System of Higher Education and the Pepsi Bottling Group effective February 16, 2005, through December 31, 2014, as well as the Association contracts for vending services effective between May 18, 1997, and May 18, 2012. The auditors examined the vending machine contractor's inventory sales reports and commission statements from March 2006, November 2006, and February 2007, as well as vending commission adjustment checks received in June and August 2005. Finally, the auditors reviewed the newspaper ads, requests for proposal, and contractor proposals associated with a 2007 bid solicitation for vending services.

The current audit disclosed that the Association complied with the recommendations of the prior report. In June 2005, the Association recovered \$12,015 from its vending contractor for commissions related to the sale of the above five added products between May 7, 2003, and March 1, 2005. In August 2005, the vending contractor paid the Association \$6,097 to adjust for the shortfall in commissions related to the tax on product sales between May 7, 2003, and June 7, 2005. Additionally, the review of inventory sales reports and commission statements for March 2006, November 2006, and February 2007 disclosed that vending commission calculations were accurate and complied with contract terms, and the vending contractor paid commissions based on the gross sales of all products in the Association's vending inventory. Finally, the Association investigated the feasibility of supplying its beverage items directly from the producer. The Association advertised for vending service bids in February 2007 and solicited proposals from 17 different firms, including the local Pepsi supplier, in March 2007. The request for proposals offered three different vending options: 1) full service, 2) snack group only, and 3) beverage service only. Only two firms submitted formal proposals, both for the full-service option. The beverage producer, Pepsi, did not submit a bid proposal. In May 2007, the Association contracted with its previous vending supplier at the terms of its proposal, the more advantageous of the two formal submissions.

Prior Finding V-3 – The Student Association did not adequately control credit card expenditures.

The two preceding audits reported that the Association did not adequately control its credit card expenditures. The immediately preceding audit reported that California or Association employees did not retain receipts for 47 of 175 credit card transactions during April 2004, September 2004, and February 2005. The missing receipts represented about \$4,400 of the \$25,400 in purchases for the three months. Additionally, despite its tax-exempt status, the

Status of Prior Audit Findings and Recommendations

Association paid approximately \$200 in Pennsylvania sales tax for 34 of the 128 transactions for which receipts were retained.

We recommended that Association management enforce the official policies and procedures regarding the retention of purchase receipts. We also recommended that the Association's board revise these policies and procedures to include guidelines regarding the tax-exempt status of the Association.

Status:

To follow up on the deficiencies noted in the prior report, the auditors interviewed the Association's Chief Financial Officer and reviewed the draft of its corporate credit card policies marked as effective July 2008. The auditors also examined the supporting documentation for 218 transactions valued at about \$67,700 from the approximately \$190,500 in purchases from April 2007 through March 2008.

The current audit disclosed that the Association substantially implemented the recommendations of the prior report. The review of 218 purchases between April 1, 2007 and March 31, 2008, disclosed that California or Association employees retained receipts and documented justifications for all sampled transactions. However, the Association paid approximately \$490 in Pennsylvania sales tax for 20 of the 218 transactions despite its tax-exempt status. The Association's credit card policies and procedures adopted in November 2004, did not address the tax-exempt status of the Association. However, the Association's Chief Financial Officer, hired in November 2007, prepared a draft of new policies and procedures that did address the tax-exempt status. The Association's board had not yet approved the new guidelines as of July 11, 2008. Accordingly, we will review the approved guidelines during our next audit to ensure that the Association has implemented appropriate procedures.

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