

*Office of Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210*

Larry Mandel
*Vice Chancellor and
Chief Audit Officer*

*562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu*

July 19, 2017

Report #17-202

Dr. Timothy P. White
Chancellor
The California State University
401 Golden Shore
Long Beach, CA 90802

Dear Dr. White:

Pursuant to a request from your office and approval from the Chair of the Board of Trustees' Committee on Audit on April 21, 2017, the Office of Audit and Advisory Services has conducted an investigation in response to allegations raised by California State University, Office of the Chancellor (CO) administrators. Specifically, we investigated whether an employee in the department of Capital Planning, Design and Construction incurred personal rental car charges and improperly billed them to the CO.

To investigate the allegations, we reviewed applicable policies and procedures, as well as information gathered by CO administrators. We also obtained additional information and documentation, including rental-car billing records, the employee's email, and her position description. In addition, we interviewed CO staff members, including the employee.

Included within the report are the results of the investigation along with specific recommendations which, we believe, would benefit CO fiscal and operational management.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Douglas Faigin, Chair, Committee on Audit

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus

SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY,
OFFICE OF THE CHANCELLOR
AN EMPLOYEE MISUSED STATE RESOURCES

Investigative Report 17-202
June 23, 2017

Members, Committee on Audit

Douglas Faigin, Chair
Hugo N. Morales, Vice Chair
Silas H. Abrego Lillian Kimbell
Peter J. Taylor

Staff

Vice Chancellor and Chief Audit Officer: Larry Mandel
Senior Manager of Investigations: Cindy Sanford
Senior Auditor: Jon Saclolo

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

EXECUTIVE SUMMARY

Allegations	1
-------------------	---

INTRODUCTION

Background	2
Scope and Method of Investigation.....	2

RESULTS OF INVESTIGATION

Initial Allegation	3
Investigation Results	3

RECOMMENDATIONS

Recommendations	6
-----------------------	---

APPENDICES

Appendix A:	Campus Response
-------------	-----------------

ABBREVIATIONS

AP manager	Accounts Payable Manager
CO	Office of the Chancellor
CPDC	Capital Planning, Design and Construction
CSU	California State University
HR director	Human Resources Director

EXECUTIVE SUMMARY

ALLEGATIONS

It was alleged that an employee in the department of Capital Planning, Design and Construction (CPDC) incurred personal rental car charges and improperly billed them to the Office of the Chancellor (CO).

INVESTIGATION RESULTS

Improper Rental Car Charges

The employee incurred personal rental car charges and improperly billed them to the CO, renting cars on 11 separate occasions between October 2, 2014, and February 21, 2017. The total cost of the rentals was \$5,562 for 231 rental days, with a total of 10,688 miles driven. The employee has so far repaid \$1,599.

INTRODUCTION

BACKGROUND

Capital Planning, Design and Construction and the Employee's Role

CPDC is responsible for carrying out the authority of the Board of Trustees in the construction and physical development of California State University (CSU) campuses and any buildings, facilities, and improvements connected with the CSU. The employee was in a position in CPDC that did not typically require travel; however, her position did afford her the opportunity to review the appropriateness of rental car charges for the department.

CO Actions and Notifications

In January 2017, the accounts payable manager (AP manager) learned that the employee had rented a car for personal use and that the charge had been billed to the CO. Although the employee repaid the amount after being questioned about it, the AP manager then discovered additional rentals made by the employee and billed to the CO. The AP manager notified the employee's superiors, who in turn notified the human resources director (HR director). The employee was placed on paid administrative leave effective April 10, 2017. On April 21, 2017, the interim vice chancellor of human resources requested that the Office of Audit and Advisory Services conduct an investigation. The request was approved the same day.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegation, we reviewed the information gathered by the AP manager and HR director. We also obtained additional information and documentation, including rental-car billing records, the employee's email, and her position description. In addition, we interviewed CO staff members, including the employee. We reviewed records dated between July 2014, and April 2017.

RESULTS OF INVESTIGATION

ALLEGATION

It was alleged that an employee in the CPDC department incurred personal rental car charges and improperly billed them to the CO.

INVESTIGATION RESULTS

The employee incurred personal rental-car charges and improperly billed them to the CO, renting cars on 11 separate occasions between October 2, 2014, and February 21, 2017. The total cost of the rentals was \$5,562 for 231 rental days, with a total of 10,688 miles driven. The employee has so far repaid \$1,599.

Some CSU employees are required to travel for state business. To help facilitate that travel, the state of California has contracts with two rental-car agencies. CSU *Travel Procedures* allow payment for rental cars from these agencies to be billed directly to the CO when employees are traveling on state business. Although the employee traveled to two conferences over the course of two years, her position did not typically require her to travel.

We obtained information from the accounts payable department showing the rental-car charges made by the employee; the information included the dates of the rentals, miles driven, and total cost. Using this information, we compiled a list of all known car-rental dates for the employee. Between October 2, 2014, and February 21, 2017, the employee rented cars on 11 separate occasions for a total of 231 days, including numerous weekends and holidays. We found one instance in October 2016 where the employee used one of those rental cars to travel on state business for four days to attend a conference with other CPDC staff. However, the employee retained the rental car for 24 additional days for personal use and rented cars in 10 other instances. The employee confirmed that all of these instances were for personal use.

In three instances, including the instance in which a rental car was used partially for travel to a conference on state business, the employee repaid the CO for the full cost of the rentals. It is unclear why the employee did not pay the CO for only the portion of the rental that was not related to the conference. The pro-rated cost of the rental car for the four days that were related to state business, but nevertheless reimbursed by the employee, was \$91.

The table below shows the dates and cost of the rentals, as well as the dates and amounts of the repayments.

Activity	Dates	Number of Days	Amount
Car rental – personal use	10/2/14 - 10/19/14	17	438.09
Car rental – personal use	10/31/14 - 11/3/14	4	165.28
Car rental – personal use	12/30/14 - 1/13/15	15	321.33
Car rental – personal use	12/19/15 - 1/5/16	17	382.84
Car rental – personal use	6/1/16 - 6/29/16	28	638.12
Car rental – personal use	8/3/16 - 8/22/16	19	480.03
Car rental – including personal and business use	9/29/16 - 10/27/16	28	639.56
Car rental – personal use	10/27/16 - 11/30/16	34	872.96
Car rental – personal use	11/30/16 - 12/28/16	28	638.12
Car rental – personal use	12/28/16 - 1/30/17	33	788.04
Car rental – personal use	2/13/17 - 2/21/17	8	198.23
Subtotal of all rentals		231	\$5,562.60
Less: portion of car rental related to state business	10/16/16 - 10/19/16	(4)	(91.37)
Total days of personal use and related charges		227	\$5,471.23
Repayment	3/2/15*	n/a	(321.33)
Repayment	8/31/16*	n/a	(638.12)
Repayment	1/31/17*	n/a	(639.56)
Total still owed by employee			\$3,872.22

*Date of the money order used for repayment.

The employee confirmed that she was aware at the time she made the bookings that her car rentals were being direct-billed to the CO and that she had not been authorized to make those charges. When we asked her why she was billing the car rentals to the CO, the employee stated that she did not have the means to pay for the rental cars herself. She also said that she did not intend to defraud the CO and that it was always her intention to reimburse the cost of the direct billings. However, as shown in the table, the employee has so far only reimbursed the CO for three of the 11 car rentals. Additionally, based on our interviews with accounts payable staff, the employee was not proactive about repaying the CO for the inappropriate billings. Further, when we interviewed the employee, she was unaware of all of her personal rentals and the associated costs. The employee could not explain how she planned to determine the amount she needed to repay when she did not have the information necessary to calculate a total. When asked why she needed the cars, the employee stated that she did not have her own car and was renting cars to commute between her home and the CO.

The employee resigned effective May 22, 2017, and has agreed to pay restitution for the balance of the personal rental car charges.

California Government Code, §8314, prohibits state officers and employees from using state resources such as state funds for personal enjoyment, private gain or advantage, or an outside endeavor not related

to state business. If the use of state resources is substantial enough to result in a gain or advantage to an officer or employee for which a monetary value may be estimated, or a loss to the state for which a monetary value may be estimated, the officer or employee may be liable for a civil penalty not to exceed \$1,000 for each day on which a violation occurs plus three times the value of the unlawful use of state resources.

Accounts Payable

Although it is not currently required in documented policies or procedures, the accounts payable department has in the past conducted reconciliations of the direct billings to corresponding travel expense claims. These reconciliations enable the department to determine whether the direct billings had a related, approved travel expense claim that included a description of the business purpose of the trip. However, accounts payable is currently about two years behind in conducting the reconciliations, which allowed the employee's rental car activity to go largely undetected.

In addition, each month the AP manager sends to various department representatives a spreadsheet that includes information about the direct-billing charges. The email recipients are asked to review the information; if the code indicating which account should be charged is missing, they are asked to fill in the information. The employee's activities could have been detected in this review, as well, but the employee was the person in her department responsible for reviewing the spreadsheet. The AP manager inherited the distribution list for the spreadsheet from a former employee and was unsure how the recipients were determined.

RECOMMENDATIONS

Our investigation was administrative in nature. The conclusions we drew were made within that context. Recommendations that would mitigate the recurrence of similar findings are presented below.

We recommend that the CO:

1. Develop written procedures for conducting timely reconciliations of direct-billing charges to travel expense claims, including information about steps to be taken when an error or problem is discovered.
2. Provide training on the new procedures to accounts payable staff responsible for implementing them.
3. Perform the past reconciliations to catch up to the present day and continue to conduct them on a timely basis.
4. Determine the appropriate individuals to receive the monthly direct-billing information for review and revise the distribution list accordingly.
5. Continue the process of collecting restitution from the now-former employee.

CO Response

We concur. Procedures will be established to ensure responsible departmental and accounts payable management appropriately review monthly reconciliations of direct-billed travel charges to travel claims. Necessary training will be provided. Unreconciled transactions will be analyzed and appropriately disposed. Finally, efforts to collect restitution will continue in accordance with CSU policy.



401 Golden Shore, 5th Floor
Long Beach, CA 90802-4210

www.calstate.edu

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

562-951-4600
srelyea@calstate.edu

DATE: July 10, 2017

TO: Larry Mandel
Vice Chancellor and Chief Audit Officer

FROM: Steve Relyea 
Executive Vice Chancellor and Chief Financial Officer

SUBJECT: Investigative Report #17-202

In response to the Investigative Report dated June 23, 2017, we are providing the enclosed management response.

Should you have any questions, please contact us.

SR:mpr

Attachment

c: Timothy P. White, Chancellor
Mary Ek, Assistant Vice Chancellor/Controller, Financial Services
Ann Avery, Accounts Payable Manager, CO Accounts Payable
Michael Redmond, Assistant Vice Chancellor, Strategic Initiatives & Support Services

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

SPECIAL INVESTIGATION

CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

AN EMPLOYEE MISUSED STATE RESOURCES

Investigative Report 17-202

RECOMMENDATIONS

1. Develop written procedures for conducting timely reconciliations of direct-billing charges to travel expense claims, including information about steps to be taken when an error or problem is discovered.
2. Provide training on the new procedures to accounts payable staff responsible for implementing them.
3. Perform the past reconciliations to catch up to the present day and continue to conduct them on a timely basis.
4. Determine the appropriate individuals to receive the monthly direct-billing information for review and revise the distribution list accordingly.
5. Continue the process of collecting restitution from the now-former employee.

CO RESPONSE

We concur. Procedures will be established to ensure responsible departmental and accounts payable management appropriately review monthly reconciliations of direct-billed travel charges to travel claims. Necessary training will be provided. Unreconciled transactions will be analyzed and appropriately disposed. Finally, efforts to collect restitution will continue in accordance with CSU policy.