

California State Auditor

B U R E A U O F S T A T E A U D I T S

CAL-Card Program:

It Has Merits, But It Has Not Reached Its Full Potential



July 2000
2000-001.3

The first five copies of each California State Auditor report are free.
Additional copies are \$3 each, payable by check or money order.
You can obtain reports by contacting the Bureau of State Audits
at the following address:

**California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814
(916) 445-0255 or TDD (916) 445-0255 x 216**

OR

**This report may also be available
on the World Wide Web
<http://www.bsa.ca.gov/bsa/>**

Alternate format reports available upon request.

Permission is granted to reproduce reports.



CALIFORNIA STATE AUDITOR

MARY P. NOBLE
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

July 6, 2000

2000-001.3

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As part of our annual financial and compliance audit of the State of California for the fiscal year ended June 30, 2000, required by Section 8546.3 of the California Government Code, the Bureau of State Audits presents its audit report concerning the State's management and use of the CAL-Card program from December 1998 through November 1999.

This report concludes that departments can do more to ensure their employees more effectively use the CAL-Card as one component of the departments' overall procurement programs. We noted that the high number of cardholders and the large volume of purchases have created inefficiencies because of the increased administrative workload. In addition, we found that the CAL-Card program is supplanting normal procurement methods. Although the extent to which controls existed and were enforced varied among the seven departments we reviewed, we found that departments that trained their staff in proper CAL-Card procedures and had a monitoring and enforcement process had fewer errors in the sample we tested. Finally, we found that some of the control features built into the CAL-Card program are not working as originally intended.

Respectfully submitted,

MARY P. NOBLE
Acting State Auditor

CONTENTS

| | |
|---|----|
| <i>Summary</i> | 1 |
| <i>Introduction</i> | 5 |
| <i>Audit Results</i> | |
| The CAL-Card Program Should Be Better Integrated Into the Procurement Process | 9 |
| Departments Can Improve Controls Over Their CAL-Card Programs | 15 |
| Control Features Provided by the Bank Are Not Working as Intended | 21 |
| Recommendations | 23 |
| <i>Appendix</i> | |
| Testing Results From Individual Departments | 27 |
| <i>Responses to the Audit</i> | |
| Business, Transportation and Housing Agency Department of Transportation | 29 |
| Resources Agency | 33 |
| State and Consumer Services Agency Department of General Services | 35 |
| Health and Human Services Agency Employment Development Department | 41 |
| <i>California State Auditor's Comments on the Response From the Employment Development Department</i> | 45 |

SUMMARY

Audit Highlights . . .

Our review of the State's use of its purchasing card (CAL-Card) program found that:

- Personal use of the program is not widespread.*
 - High numbers of card-holders and a large volume of transactions have created unanticipated inefficiencies.*
 - CAL-Card sometimes inappropriately supplants other procurement methods.*
 - Departments that train their staff and enforce their policies have fewer problems with their CAL-Card program.*
 - Certain control features built into the CAL-Card program are not working as intended, which reduces their usefulness.*
-

RESULTS IN BRIEF

The Department of General Services (General Services) created the State of California's purchasing card (CAL-Card) program in 1992 to streamline the process that state departments use to make small purchases. Under this program, state employees are issued credit cards to make work-related purchases. Between December 1998 and November 1999, CAL-Card purchases among state departments other than the California State University system totaled nearly \$107 million. The California State University system also uses the purchasing card program, but it is the subject of a separate report.

We reviewed the administration of the CAL-Card program at the seven state departments that used the program most heavily during the period December 1998 through November 1999. Although our review did not identify widespread personal abuses, we found that departments can more effectively use the program by integrating it into their overall procurement practices. We noted that a high number of cardholders and large volume of purchases have created unanticipated inefficiencies for some departments, in part because the need to review and process CAL-Card transactions has greatly increased the administrative workload. About 4 percent of the transactions in our sample were for purchases that totaled less than \$10 each and were made primarily for photo processing and single videotapes. The average transaction was less than \$200 in most of the 31 departments participating in the CAL-Card program, and in 4 it was less than \$100. Departments could improve the effectiveness of the CAL-Card program by planning and coordinating their purchases, especially very small purchases. Finally, the CAL-Card program is supplanting normal procurement methods. Some departments used the CAL-Card for purchases of more than \$15,000 that would have been better handled by standard procurement methods, and cardholders had vendors split purchases to circumvent spending limits, or used the card for travel-related purchases, in direct violation of CAL-Card policies.

The extent to which controls existed and were enforced varied among the seven departments we reviewed, but departments that trained their staff in proper CAL-Card procedures and had a

monitoring and enforcement process had fewer errors in the sample we tested. Three of the seven departments we reviewed do not require formal training in CAL-Card procedures for their employees who either hold cards or approve purchases. In addition, some departments have not implemented effective review processes to ensure that purchases are in accordance with CAL-Card policies. Only three of the seven departments perform post-payment reviews of transactions. Post-payment reviews are important because they allow departments to monitor cardholders' use of CAL-Cards and to detect and correct problems.

We also found that some of the control features built into the CAL-Card program are not working as originally intended. Departments can limit the amount charged per transaction or charged in a 30-day period, yet in at least one instance, the bank did not prevent a cardholder from exceeding this limit. In addition, although departments can block purchases from certain types of vendors through the use of vendor codes, departments have found that the codes are so broad that blocking them limits legitimate access to some vendors. Consequently, some departments have chosen not to use these codes.

RECOMMENDATIONS

To establish a more effective CAL-Card program, departments should take the following steps:

- Reemphasize to their cardholders and approving officials that the CAL-Card program has specific procedures and controls and is only one of several procurement methods available.
- Assess the costs and benefits of operating the CAL-Card program and, based on this assessment, determine the appropriate number of cardholders and approving officials needed.
- Train cardholders and approving officials in CAL-Card procedures and institute a system of post-payment monitoring and enforcement.

As the State's CAL-Card coordinating agency, General Services should negotiate with the bank for revised groupings of vendor types into merchant codes to allow departments to more effectively block inappropriate vendors.

AGENCY COMMENTS

The agencies and audited departments generally concur with the findings and recommendations in this report. Each department is planning to take action to strengthen controls over their CAL-Card programs. In addition, the Department of General Services recognizes the importance of the merchant code restrictions and is working to make improvements in this area. ■

Blank page inserted for reproduction purposes only.

INTRODUCTION

BACKGROUND

In 1992, the California Department of General Services (General Services) launched the State of California purchasing card (CAL-Card) program. Through this program, state departments can authorize staff to use credit cards for small purchases, which are defined as purchases that are less than \$15,000. The goal of the CAL-Card program is to streamline the procurement cycle for small purchases for the departments' purchasing and administrative staff. Between December 1998 and November 1999, state departments other than the California State University system completed more than 540,000 CAL-Card transactions totaling nearly \$107 million. The California State University's use of the state credit card program is discussed in a separate Bureau of State Audits report entitled *California State University: While Its System of Direct Vendor Payments Should Continue, Its Credit Card Program Could Benefit From Better Controls*, issued in July 2000.

General Services provides centralized business management services to state departments and has developed and instituted several programs to help departments purchase goods and services. One of these programs is the CAL-Card program. After a pilot program with six state departments, General Services found that the CAL-Card program was effective for small purchases and increased the number of vendors willing to do business with the State. It then recommended expanding the program to all state departments.

General Services has four major responsibilities in administering the CAL-Card program. It negotiates the specific program design with the bank furnishing the program, coordinates the CAL-Card program for the State as a whole, prepares and issues general program guidelines, and facilitates the quarterly task force comprising representatives from participating organizations. In addition, General Services includes CAL-Card transactions in its periodic audits at departments.

According to General Services, the CAL-Card program provides several benefits to the State and to participating vendors. It provides a more efficient means of purchasing by doing the following:

- Drastically streamlining the procurement cycle for purchasing and administrative staff.
- Eliminating invoices for small, individual purchases so that departments receive one invoice per month.
- Reducing check requisitions, petty cash, and pay warrants for small purchases.
- Eliminating workload in the purchasing unit for small purchases. This could either result in a need for fewer staff or allow existing staff to focus on other purchasing functions, such as negotiating discounts and improving service and delivery.

General Services also asserts that participating vendors benefit because they do not wait for 30 to 45 days to receive payment. Vendors can also eliminate collection efforts because they are paid immediately.

Each department that participates in the CAL-Card program is responsible for implementing the program within the guidelines established by General Services. To do this, departments assign a departmental CAL-Card coordinator, who is responsible for helping to develop departmental policies for implementing the program, training staff in the specific provisions of the CAL-Card program, and developing procedures to ensure that the department pays the monthly bill within the required time period. Because participating departments perform different activities to carry out their missions, the CAL-Card program allows them to tailor the program to their specific needs. For example, some departments may decide to use the card to procure only commodities, not services. Departments can also establish low 30-day purchase limits for some cardholders while allowing higher 30-day purchase limits for others whose work requires them to make more purchases.

SCOPE AND METHODOLOGY

As part of our annual financial and compliance audit of the State of California for the fiscal year ending June 30, 2000, the Bureau of State Audits performed a review of the State's use of the CAL-Card program. We identified the seven departments with the greatest dollar amount of purchases for the period December 1, 1998, through November 30, 1999. These departments are as follows:

- Department of Transportation
- Department of General Services
- Department of Parks and Recreation
- Department of Forestry and Fire Protection
- Department of Fish and Game
- Employment Development Department
- California Conservation Corps

We both randomly and judgmentally selected samples of CAL-Card purchases made in each department during this time and reviewed them to determine whether they complied with the State's procurement policies and CAL-Card program guidelines. We also determined whether they complied with the department's own purchasing and CAL-Card policies. In addition, we performed the following steps:

- Determined whether the cardholders and approving officials had certified that all purchases listed on the monthly statement were correct and for official state business.
- Determined whether documentation was adequate and valid and the purchases met the department's business needs.
- Where applicable, reviewed documentation for group meals and lodging to ensure that it complied with requirements for emergency purchases.¹

¹ Cardholders may use the CAL-Card to pay for lodging or food only when responding to an officially declared emergency.

We limited our testing at the Department of Transportation to the period between May 1999 and November 1999 because the department's own audits and investigations unit had performed an audit of the CAL-Card program for the period April 1998 through April 1999. The Department of Transportation has an agreement with the State Controller's Office to perform periodic audits of the department's CAL-Card program because it is no longer required to send all the supporting documentation with its claim schedules to the State Controller's Office. ■

AUDIT RESULTS

To determine how state departments have implemented the State of California’s purchasing card (CAL-Card) program, we tested 1,236 CAL-Card purchases for four or five characteristics, as described in the scope and methodology. We did not find widespread personal abuse of CAL-Cards; however, we found 401 errors out of a total of 4,964 tests, an error rate of 8.1 percent. Details on these errors can be found in the appendix. Departments can do more to ensure their employees more effectively use the CAL-Card as just one of several procurement methods. Although the extent of controls varied among the departments, those departments that trained their staff and monitored CAL-Card use had fewer errors. Finally, we found that some of the control features built into the CAL-Card program are not working as originally intended.

THE CAL-CARD PROGRAM SHOULD BE BETTER INTEGRATED INTO THE PROCUREMENT PROCESS

The CAL-Card program is one of several methods that state departments use for procuring goods and services. The program has helped streamline the procurement process by providing departments with greater flexibility and a convenient mechanism for making purchases of less than \$15,000. However, not all departments are using the CAL-Card program efficiently. The number of cardholders in some departments may be excessive while the value of the average transaction in some departments is quite small, indicating that purchases are often poorly planned. Because of these factors, the administrative workload involved in processing CAL-Card transactions has been unexpectedly heavy and the CAL-Card program is not achieving its full potential as an effective and efficient purchasing mechanism.

Some Departments May Have More Cardholders Than Needed

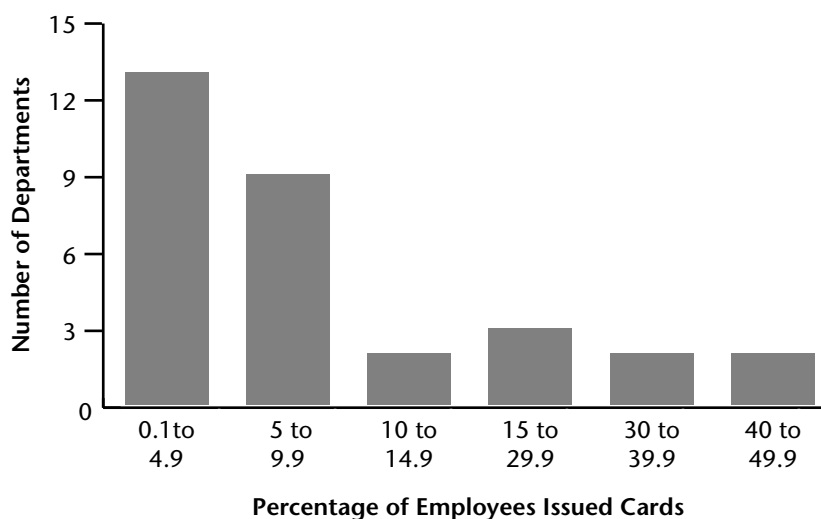
When a department first participates in the CAL-Card program, it should decide which employees need to make small purchases. This decision is the basis for determining the number of cards

that the department should authorize. For the period from December 1998 through November 1999, we compared the number of cards issued to the number of positions at 31 of the largest participating departments. This analysis is admittedly imprecise because a few departments authorize their cardholders to have more than one card. For example, one department issues one card to cardholders for supplies and another for services. Another department issues one card for regular purchases and another with a significantly higher purchase limit to some cardholders for emergency use, such as when fighting wildfires.

As Figure 1 shows, 22 of the 31 departments (71 percent) have issued cards to fewer than 10 percent of their employees. However, 2 departments—the Department of Parks and Recreation and the Department of Fish and Game—have issued cards to more than 40 percent of their employees, and another 2 departments, including the California Conservation Corps, have done so for more than 30 percent of their employees. We question whether this many employees should have procurement as one of their duties.

FIGURE 1

Percentage of Employees Issued CAL-Cards at Certain State Departments

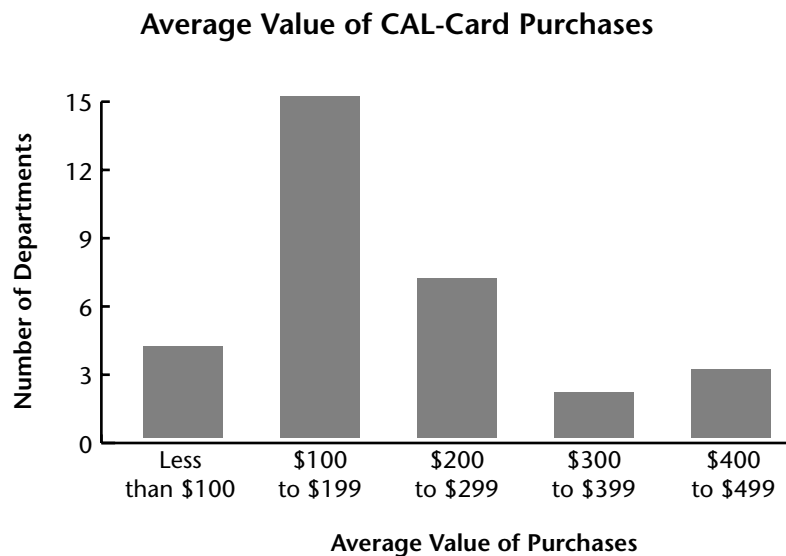


Most of the departments we visited rely on their field offices to determine the number of CAL-Cards required and have not made a central decision regarding how many CAL-Cards they need based on their overall procurement policies. It may be more efficient for fewer people to have the CAL-Card and for cardholders to coordinate purchases for other employees.

Small Purchases Are Not Always Well-Planned

Two indicators of the extent to which a department plans and coordinates its purchases are the average value per transaction and the volume of minor purchases. The average value per transaction was lower than expected while the volume of minor purchases was larger than expected, indicating that departments using the CAL-Card are not planning and coordinating purchases. When the Department of General Services (General Services) evaluated the pilot credit card program in 1994, it found that the average value per transaction was nearly \$100. It arrived at this amount by determining the average transaction amount for 1,200 credit cards in 6 departments over a 15-month period, during which cardholders made 55,533 transactions totaling \$5.3 million. During this time, cardholders had a limit per transaction of \$500. Currently, typical purchase limits on individual cards are at least \$1,000. If we assume that doubling the purchase limit will also double the average amount per transaction, we would expect that most departments would have an average transaction of about \$200. As Figure 2 shows, however, 19 of the 31 largest departments participating in the CAL-Card program (61 percent) averaged less than \$200 per transaction. More significantly, 4 departments averaged less than \$100 per transaction, with a range of \$53 to \$96. This analysis leads us to question whether departments are adequately planning their purchases, especially the minor ones.

FIGURE 2



At the seven departments we visited, 52 of the 1,236 transactions we reviewed (4 percent) totaled less than \$10. These purchases ranged from \$2.36 to \$9.69. When General Services evaluated the pilot credit card program, it found that the average cost to process a credit card purchase was \$38, while the average cost of processing a purchase using a sub-purchase order was \$63. Using a credit card for minor purchases may not always be cost-effective, although depending on the circumstances, it may be the best alternative. Based on the types of items purchased in the minor transactions in our sample, such as photo processing and single videotapes, we believe that the employees involved could have consolidated these purchases for several employees or obtained a larger supply of often-used items.

Growth in CAL-Card Volume Has Increased Administrative Workload

The growth of the CAL-Card program has caused some unanticipated inefficiencies. Table 1 shows the number of cardholders at the seven departments we reviewed, the total number of transactions during the audit period, and the number of administrative staff dedicated exclusively to processing CAL-Card transactions.

TABLE 1

CAL-Card Volume at Tested Departments

| Department | Cardholders | Transactions December 1998—November 1999 | Administrative Staff Dedicated to CAL-Card |
|------------------------------|-------------|--|--|
| Transportation | 2,502 | 161,082 | 20 |
| Parks and Recreation | 1,246 | 67,024 | 2 |
| Fish and Game | 956 | 31,391 | 2 |
| Employment Development | 789 | 29,251 | 2 |
| Forestry and Fire Protection | 786 | 24,799 | 2 |
| General Services | 670 | 50,964 | 2 |
| Conservation Corps | 155 | 11,273 | 2 |

One of the benefits the CAL-Card program was to provide was a reduction in more labor-intensive purchasing methods. However, at least two departments have not experienced the expected decrease in these other methods. Additionally, due to the high

volume of CAL-Card purchases, low staff levels at some departments, and the short time frame for payments to the sponsoring bank, some departments must redirect staff from other tasks to process the payments. For example, the Department of Parks and Recreation, an agency with a high volume of purchases and cardholders, has to focus all accounts payable staff on processing CAL-Card invoices for three to five days each month. During this time, these staff must postpone their other responsibilities. The Department of Transportation, the agency with the highest volume of purchases and cardholders, has a 20-member unit assigned full-time to processing CAL-Card payments.

Late payments ranged from 46 to 276 days after the date of the credit card statement.

The high volume of CAL-Card transactions has proven a burden for cardholders, approving officials, and payment units when reconciling and processing CAL-Card statements. As a result, payments are sometimes delayed. We found that delays at various processing points have caused some departments to take longer to pay than the 45 days after the statement date that the CAL-Card contract requires. Late payments were made from 46 to 276 days after the statement date. Some delays occurred when field office staff did not review and submit the reconciled monthly card statements to the accounting office by the required deadlines. In other cases, late payments are caused by delays in the accounting offices processing the statements for payment. In an extreme example, the Department of Fish and Game occasionally used its revolving fund to make overdue payments before receiving the supporting documentation from its field offices. This practice violates the requirement that payment be made only after charges have been verified and thus circumvents an important control. Planning and coordinating purchases, and limiting the number of cardholders might reduce the high volume of monthly transactions, which could lead to more prompt and efficient payment processing.

CAL-Card Sometimes Supplants Other More Appropriate Procurement Methods

Before using the CAL-Card, departments do not always plan purchases or consider whether another purchasing method could provide a greater benefit. Departments participating in the CAL-Card program are required to follow all state laws and rules governing procurement as well as the CAL-Card purchasing restrictions stated in their contracts with the bank. These requirements are in place to ensure that the State gets the best value for its money and to minimize the risk of loss due to misuse of the credit cards.

Cardholders have used the CAL-Card to make large purchases that are more effectively made by contracting.

The convenience of the CAL-Card makes it more likely that normal procurement methods and policies will not be followed. For example, each year the California Conservation Corps purchases four sets of uniforms for each of its 5,000 new corps members. We identified \$44,850 in CAL-Card purchases for uniforms at 4 of 11 service districts. Each transaction ranged from \$74 to \$14,397. The price the service districts paid for trousers ranged from \$16 to \$19.95 per pair, while prices for short-sleeved work shirts ranged from \$15.30 to \$19.20 each. The large number of uniforms indicates that this purchase is not within the parameters of the CAL-Card program. Because the corps delegated the purchase of uniforms to its service districts and authorized the use of the CAL-Card for payment, it did not adequately integrate the CAL-Card program into its overall procurement program. Allowing uniform purchases at the district level, rather than purchasing them for all districts at a central location, precludes the corps from negotiating quantity discounts with vendors and permits the inconsistency in prices that we found. Consequently, the corps cannot ensure that it has received the best value for its money.

Weaknesses in departmental controls over the CAL-Card program have also allowed state employees to circumvent statewide and departmental CAL-Card procurement policies. At two of the seven departments we reviewed, cardholders split three purchases totaling \$21,600 to circumvent single-purchase limits. In one instance at the Department of Transportation, two cardholders split one purchase of employee service awards totaling \$2,145 to avoid each cardholder's single-purchase limit of \$1,000. One cardholder's account was charged \$959, and the other had two charges on consecutive days totaling \$1,186. Another purchase involved a General Services cardholder. The cardholder purchased 525 classroom kits, which provide information to trainers and teachers about how to teach awareness of the 9-1-1 emergency program to elementary schoolchildren, totaling \$14,200—which is \$9,200 over the cardholder's single-purchase limit. To avoid the limit, the cardholder had the vendor give her four separate credit card receipts, all dated the same day. In an expanded analysis, we found that this cardholder purchased nearly \$145,000 from this vendor over a 10-month period. She split the purchases on another 12 of these purchases, which ranged from \$5,294 to \$14,986 per day. The department states it is currently purchasing this vendor's products through a multiyear, sole-source contract instead of using the CAL-Card.

Nearly 5 percent of the transactions we tested were for travel-related purchases, although this is not an allowed use of the card.

Statewide CAL-Card guidelines and departmental policies specifically prohibit the use of the CAL-Card for travel-related items because the State uses other procurement methods for these purchases. Cardholders may use the CAL-Card for food or lodging only when responding to an officially declared emergency. Departments may further restrict the purchases their cardholders can make but must ensure that their policies are consistent with CAL-Card purchasing restrictions in their contracts with the sponsoring bank. In our review of 1,236 CAL-Card transactions, we found 61 purchases totaling \$55,503 in which cardholders used the CAL-Card for travel-related expenses, such as lodging, meals, airfare, gasoline, and car rentals, in direct violation of statewide CAL-Card guidelines and departmental CAL-Card policies. To give an example, 16 transactions totaling \$6,557 were for car rental and airfare charged by cardholders at five departments.

We found another 17 CAL-Card charges amounting to \$4,602 for items such as employees' work boots and memberships in professional organizations. When these items are purchased without a CAL-Card, the employee usually pays for them and submits a claim for reimbursement. The department then reimburses the employee by issuing a revolving fund check. Departments that use the CAL-Card do not have a mechanism, other than the approving official's review, to determine whether the purchase was made through the other process. In some departments, the cardholder's approving official may not be the person who approves the cardholder's reimbursement claims. Consequently, departments cannot ensure that they are not paying for these expenses twice.

DEPARTMENTS CAN IMPROVE CONTROLS OVER THEIR CAL-CARD PROGRAMS

Departments participating in the CAL-Card program are responsible for establishing policies and controls for their programs. Because the statewide guidelines are flexible, departments can tailor their policies to meet their specific needs. As a result, CAL-Card policies varied at the seven departments we tested. Although each department we visited has similar manuals addressing the statewide guidelines, differences are evident in the stringency of the policies, the training requirements at each department, and the monitoring the department does to enable enforcement of its policies. Each component is important in its own right and is essential to a successful program.

Policies and Training Provide Guidance Before a Purchase

Departments that train cardholders and approving officials benefit from these efforts. Training in all aspects of the program is vitally important to assure the success of the CAL-Card program. Not only does it familiarize the participants with procurement policies, it gives them a clear understanding of their department's policies, procedures, and requirements.

Every department is responsible for training participants in the program, yet three of the seven departments we tested do not make training mandatory for cardholders and approving officials. As Figure 3 illustrates, these departments had more errors than those that made training a priority. Cardholders at these departments made prohibited purchases, circumvented CAL-Card policies, and failed to provide supporting documentation for their purchases more frequently than cardholders at the other four departments. At General Services, 19 percent of the attributes we tested had errors. On the other hand, the Employment Development Department, which trains its employees, had an error rate of only 2.9 percent.

Effective CAL-Card programs have four key components:

- ***Policies***
 - ***Training***
 - ***Monitoring***
 - ***Enforcement***
-

Monitoring and Enforcement Provide Oversight After a Purchase

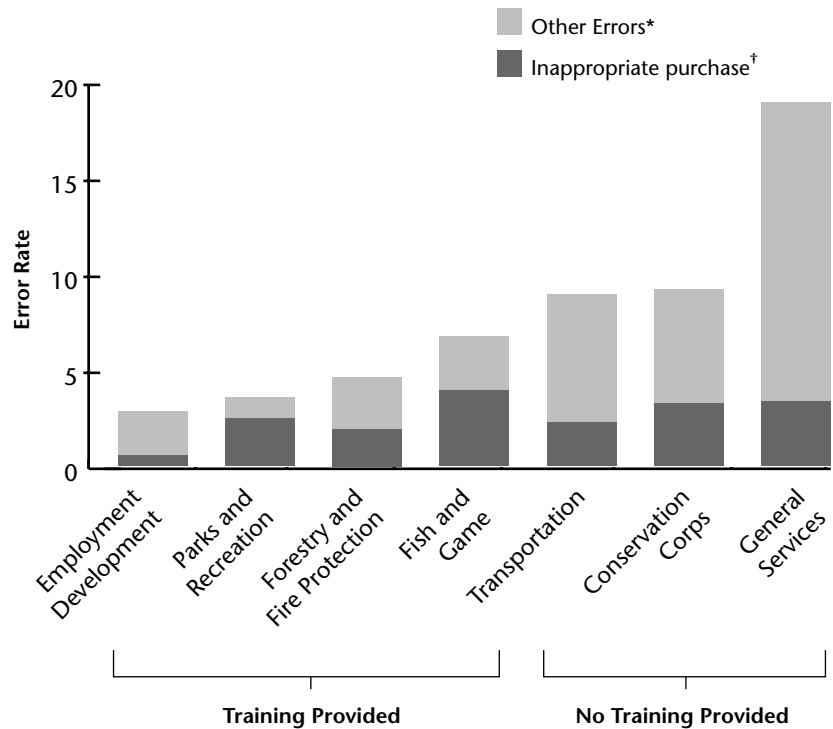
Because CAL-Card purchases are approved after they are made, departmental reviews of purchases are vital to ensure that cardholders continuously adhere to all applicable CAL-Card policies and procedures. Departments use three methods to review cardholder activity. Before the department makes a payment, the approving official reviews the cardholder's transactions. Once approved, the statement is delivered to accounting, which also performs a review to ensure that the cardholder included the proper supporting documentation. After making the payment, the department may review the transactions to identify mistakes that were not recognized in the first two reviews. Departments that use these processes to monitor the program and train their employees in CAL-Card procedures had fewer errors than ones that provide only training.

Poor Implementation of the Review Process at Some Departments Has Weakened It as a Control

The initial review by the approving official is the most significant review a department performs. The approving official's responsibility is to verify that purchases are made for official use

FIGURE 3

Error Rates and Training Policies of Audited Departments



* Purchases are missing cardholder signature, approving official signature, detailed receipt, or meal form.

† Purchases prohibited by statewide or departmental CAL-Card guidelines policies, or purchases that should have been made under a contract or other procurement method.

only, ensure that receipts and documentation are in order, and see that a complete statement package for each cardholder is reconciled and promptly submitted for payment. For this review to be effective, the approving official should be trained in and familiar with policies for procurement and the CAL-Card, and must take care when approving invoices. In addition, each department’s accounting unit is responsible for verifying that the approving official has signed the statement before making a payment to the bank. Our testing indicated that reviews by approving officials do not always identify purchases of prohibited commodities and services or those that are not supported, that are missing required preapproval, or that violate other departmental policies.

Our review of detailed receipts found that some items purchased were either inappropriate, questionable, or for personal use. Specifically, 130 transactions (10.5 percent) of the 1,236

Reviews by approving officials are not effective in ensuring that all purchases comply with CAL-Card policies.

transactions we tested were, at least in part, for purchases that are prohibited by either the statewide CAL-Card guidelines or by the department's own CAL-Card policies. For example, at the Department of Forestry and Fire Protection, a cardholder purchased \$715 of artwork in direct violation of the department's policy. The approving official approved the statement without questioning the need for this purchase. Other prohibited purchases that approving officials did not question were flowers for an employee, break-room supplies, and items that are specifically prohibited by department policies, such as computer equipment and industrial clothing.

Approving officials also sometimes failed to identify the purchase of services that departments have specifically restricted or prohibited. For instance, the Department of Fish and Game prohibits employees from charging any services with a CAL-Card, yet a cardholder used the CAL-Card to pay a past-due invoice of \$189 for monthly Internet service. At the Department of Parks and Recreation, we identified three transactions totaling \$2,800 for recurring services, such as monthly satellite television service, which the department prohibits. In both cases, approving officials did not question the charges.

Approving officials also approved statements containing charges that were not sufficiently documented. We noted approved charges for which cardholders provided receipts that included only the part number or a product name without a further description of the item. Further, cardholders at some departments lost receipts and did not always give a detailed list of the items purchased. For example, at the Department of Fish and Game, a cardholder who lost a receipt instead submitted a hand-drawn picture of a receipt as supporting documentation but did not list the quantity or unit prices of the items purchased. Moreover, our review of all seven departments found 77 transactions totaling more than \$40,000 that lacked detailed receipts to identify the purchases and whether they were allowable.

We also found that approving officials failed to identify purchases that required preapproval under their department's policy. At four of the seven departments, 12 purchases totaling more than \$10,300 did not have the required preapproval on file yet were submitted for payment by the approving official. For example, at the Department of Transportation, four conference room rentals amounting to \$2,545 were not preapproved as required by the department's CAL-Card manual. At the Department of Fish and Game, \$3,925 in computer purchases also lacked required

preapproval. Departments often require preapproval to ensure that certain purchases are in accordance with the department's mission, not available in another unit, or are compatible with current equipment.

In another direct violation of statewide and departmental policies, cardholders at six of the seven departments allowed other employees to use their CAL-Card on 49 occasions. These 49 transactions totaled \$15,362. In 44 of these instances, the approving official had authorized the statement for payment.

More than 6 percent of the transactions in our test did not include enough support to identify the purchase and its propriety.

Although reconciliation and review of the monthly cardholder statements by both the cardholder and the approving official is one of the primary controls of the CAL-Card program, some departments have implemented review procedures that have actually weakened this control. For instance, not all departments have enforced the requirement that the cardholder and approving official sign the statement before it is processed for payment. Specifically, four departments allow other employees who are neither designated cardholders nor approving officials to sign as alternate cardholders or approving officials.

We found that the cardholder's signature was not on the copy of the monthly statement for 83 of our 1,236 sample items, representing four of the seven departments. In many of these cases, the signature of the approving official was on the copy. However, 110 (8.9 percent) of the 1,236 items we sampled appeared on monthly statements that either did not have the signature of the approving official or were signed by someone other than the designated approving official. None of the alternate signers were authorized as approving officials. In addition, for 30 of the 110 transactions lacking the appropriate approving official signature, the cardholder also had not signed the statement. The absence of the approving official's signature on the monthly statement indicates that the departments cannot be sure that the approving officials reviewed the charges. The State Controller's Office has refused to pay some claim schedules submitted by departments when the monthly statements they submit did not include approving official signatures. However, departments cannot rely on the State Controller's Office for this review because it does not perform a detailed examination of all claim schedules that it receives for payment.

Not All Departments Enforce CAL-Card Policies

Post-payment review of transactions is another method departments use to monitor the CAL-Card program. These reviews ensure that cardholders and approving officials are following department policies. Departments that conduct post-payment reviews can identify areas where enforcement is needed as well as cardholders who abuse the program. Only three of the seven departments we selected perform a post-payment review of the CAL-Card program. Two of the departments perform a post-payment review of all their CAL-Card transactions. Because at least one department is using overtime to accommodate the workload for these reviews, we believe the departments should focus efforts on problem areas to reduce the workload. The department that is using overtime for these reviews is already considering this approach.

The departments that performed post-payment reviews were able to recognize problems and begin addressing them. For example, an internal audit at the Department of Transportation revealed that employees were not submitting paperwork. Consequently, the department owed the bank \$874,371 in past-due amounts. The department focused on the cardholders who were the cause of the problem, and the resulting corrective action reduced the past-due amounts to \$110,793. Although the post-payment reviews did not identify all errors, we noted significantly fewer errors for departments that did a post-payment review, in addition to training cardholders and approving officials.

Information from post-payment reviews can help departments reinforce program policies.

The post-payment reviews are successful only if the department uses the information to focus its enforcement efforts on areas of concern. All of the qualities of a good program described earlier are essential; however, they do not provide value if the department does not attempt to prevent repeated misuse. Removing cardholders from the program or lowering card limits are different ways departments can enforce the rules of the program. However, these measures are not always used. For example, an internal audit at the Department of Transportation revealed that its accounting department identified 38 prohibited purchases and submitted them to the program coordinator for further review and possible corrective action. However, the program coordinator followed up on only 6 of these purchases. Because the causes of the problem for the other 32 purchases have not been resolved, those cardholders may continue to make similar purchases.

CONTROL FEATURES PROVIDED BY THE BANK ARE NOT WORKING AS INTENDED

In addition to the fact that the participating departments have not always fully implemented strong controls over the CAL-Card program, some controls that the bank designed specifically for the program also are not working as intended. These controls—dollar limits and merchant category restrictions—are meant to prevent the misuse of the CAL-Card, and are primary selling points to encourage departments to participate in the program. However, dollar limits can be circumvented and the use of merchant category restrictions actually limits the ability of cardholders to make legitimate purchases.

Dollar limits consist of single-purchase limits and 30-day purchase limits. The single-purchase limit restricts the amount of any single purchase the cardholder makes. A single purchase can consist of multiple items and represents the total purchased at one time at a merchant location. The 30-day purchase limit reflects the maximum dollar amount that the department has authorized for a cardholder to spend within a 30-day billing cycle. As noted in a previous section, we found instances in which cardholders had circumvented this limit by having vendors split purchases. We also found one instance in which the control imposed by the 30-day purchase limit failed. The monthly statement for one cardholder at the Employment Development Department showed that the cardholder had exceeded the 30-day purchase limit of \$8,500 by \$1,800. The cardholder was able to complete seven transactions with three vendors after reaching his limit. According to the contract between the State and the bank, as part of the transaction authorization process, the bank compares each requested transaction against the cardholder's single-purchase and 30-day limits and the merchant code restrictions. The bank approves requests that meet these limits or restrictions. However, this did not occur in multiple instances in the case of this one employee.

In addition to assigning dollar limits, departments can use merchant activity codes to prevent cardholders from using the CAL-Card at certain merchants. Every vendor's bank assigns a four-digit standard industry classification code to the vendor. The bank that operates the CAL-Card program has designed a special method of grouping the classification codes. The bank first groups the codes based on common goods, services, and types of business. It then assigns a letter to each merchant group. When authorizing cards, state departments assign

cardholders a three-digit merchant activity code that specifies the merchant groups from which they can make purchases. For example, code 000 indicates that the cardholder is authorized to purchase from all merchant groups. If the department assigns code 152, the cardholder can purchase only from vendors in merchant groups J (discount, department, and, variety stores; miscellaneous general merchandise; and duty-free stores) and O (miscellaneous business services).

At least two departments have lifted all vendor restrictions because the current control system impedes legitimate purchases.

Problems arise with the merchant activity code system because the bank has not developed codes for every combination of merchant groups. As a result, a department cannot limit cardholders to merchant groups J and K (which includes miscellaneous and specialty retail stores), for example, because no code exists for this combination. However, the contract between the State and the bank allows participating departments to request that the bank develop a code for the desired merchant category grouping.

Because of the way the bank has grouped vendor types into merchant codes, the Department of Parks and Recreation and the Department of Forestry and Fire Protection have found that using these codes hampers their normal operations and have lifted all vendor restrictions. At least two merchant codes include such a wide variety of vendor types that their effectiveness as a control is diminished. These codes are groups H and K. Table 2 lists the vendor types included in group H.

Although the CAL-Card program prohibits cardholders from using the card for food or drug purchases, most supermarkets and drugstores carry many more items and provide more services than simply selling food and drugs. For example, many supermarkets and drugstores provide photo processing at a very competitive price. In some rural areas, these vendors may be the most convenient source for cost-effective photo processing. In fact, the Department of Parks and Recreation found that so many of its cardholders used supermarkets or drugstores for work-related photo processing it had to unblock this vendor code. There is little question that departments should prevent their cardholders from purchasing items at liquor stores. However, because liquor stores are included in the same merchant code as vendors that provide convenient services appropriate to the work needs of cardholders, it is not realistic to uniformly block purchases from this group.

TABLE 2

| Group H Vendor Types | |
|-------------------------------|---|
| Merchant Category Code | Description |
| 5122 | Drugs, drug proprietors, and druggist sundries |
| 5411 | Grocery stores, supermarkets |
| 5422 | Freezer and locker meat |
| 5441 | Candy, nut, and confectionery stores |
| 5451 | Dairy products |
| 5462 | Bakeries |
| 5499 | Miscellaneous food stores (specialty, markets, and convenience) |
| 5912 | Drug stores and pharmacies |
| 5921 | Package stores (beer, wine, and liquor) |

Source: CAL-Card Agency Program Coordinator Guide

In another example, group K includes 82 separate vendor types that encompass stores selling computer equipment, hardware, electrical and plumbing supplies, office supplies, clothing, jewelry, records, and other types of merchandise. It also includes cigar stores, florists, glassware and crystal shops, and antique shops. Although many of these vendors provide goods that are appropriately obtained with the CAL-Card, others, such as the cigar stores and florists, are much less likely to sell items that staff can legitimately purchase. However, because group K includes all of these vendors, departments cannot block the inappropriate vendors without also blocking the appropriate ones.

RECOMMENDATIONS

To establish a more effective CAL-Card program, departments should take the following steps:

- Reemphasize to their cardholders and approving officials that the CAL-Card program has specific procedures and controls and is only one of several procurement methods available.
- Determine the benefits they want to receive from the CAL-Card program, the level of resources they are willing to devote to managing and maintaining the program, and the benchmarks

they will use to determine whether they have met their goals. Based on these assessments, the departments can determine how many cardholders and approving officials should participate in the program.

- Institute initial and ongoing training for cardholders and approving officials.
- Develop monitoring systems that include reviews of policies specific to the CAL-Card program and department-specific elements, such as preapprovals.
- Develop and use enforcement policies that consist of warnings, reduction of credit limits, and removal of cardholders and approving officials that violate CAL-Card program policies.

As the State’s CAL-Card coordinating agency, General Services should negotiate with the bank for revised groupings of vendor types into merchant codes to allow departments to more effectively block inappropriate vendors.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



MARY P. NOBLE
Acting State Auditor

Date: July 6, 2000

Staff: Ann K. Campbell, CFE, Audit Principal
Nancy C. Woodward, CPA
Russ Hayden, CGFM
Del Pelagio, CPA
Amy Anderson
Peter A. Foggiato, III
Susie Lackie
Ana Mason

Blank page inserted for reproduction purposes only.

APPENDIX

Testing Results From Individual Departments

| Department | Purchases Tested | Attributes Tested | Statements Not Signed by Cardholder | Statements Not Signed by Approving Official | No Detailed Receipt | Inappropriate Purchase* | No Meal Approval Form | Total Errors | Percentage of Errors |
|--|------------------|-------------------|-------------------------------------|---|---------------------|-------------------------|-----------------------|--------------|----------------------|
| Department of Transportation | 131 | 524 | 21 | 10 | 4 | 12 | | 47 | 9.0% |
| Department of General Services | 207 | 828 | 54 | 49 | 26 | 28 | | 157 | 19.0 |
| Department of Parks and Recreation | 180 | 720 | 0 | 2 | 6 | 18 | | 26 | 3.6 |
| Department of Fish and Game | 184 | 736 | 2 | 4 | 15 | 29 | | 50 | 6.8 |
| Department of Forestry and Fire Protection | 227 | 928 | 6 | 5 | 13 | 18 | 1 | 43 | 4.6 |
| Employment Development Department | 139 | 556 | 0 | 11 | 2 | 3 | | 16 | 2.9 |
| California Conservation Corps | 168 | 672 | 0 | 29 | 11 | 22 | | 62 | 9.2 |
| Totals | 1,236 | 4,964 | 83 | 110 | 77 | 130 | 1 | 401 | 8.1% |

* Inappropriate purchases include those prohibited by statewide and departmental CAL-Card guidelines or policies, or purchases that should have been made under a contract or other procurement method.

Blank page inserted for reproduction purposes only.

Agency's comments provided as text only.

Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814-2719

June 20, 2000

Mary P. Noble
Acting State Auditor
Bureau of State Audits
555 Capitol Mall
Sacramento, CA 95814

Dear Ms. Noble:

Attached is the Department of Transportation's (Caltrans) five-day response to the Bureau of State Audits' (BSA) June 13, 2000, draft audit report, *CAL-Card Program: It Has Merits, But It Has Not Reached Its Full Potential (Report No. 2000-001.3)*. Thank you for your attention to this important program, the opportunity to respond to the draft report, and the time extension to respond.

Caltrans concurs with the BSA's findings and recommendations. In fact, a Caltrans internal audit of the CAL-Card program performed for the period April 1998 through April 1999 reported findings similar to those cited by the BSA. As the BSA report noted, based on the results of the internal audit, Caltrans has already taken steps to improve inefficiencies in the CAL-Card process.

To reduce the administrative time required for CAL-Card transactions, Caltrans is currently piloting an electronic version of the CAL-Card process that includes approval via electronic signature. The Purchase Card Accounting & Requisition System (PCARS) is expected to decrease both processing time and the amount of paper generated by the present process. In addition, it may help reduce the number of cardholders.

I am pleased to report that Caltrans has already begun formal training to CAL-Card holders and approving officials on both the PCARS, where appropriate, and on

Mary P. Noble
June 20, 2000
Page 2

the CAL-Card program. In addition, a post-payment and enforcement system to be established during the development of the PCARS will identify and correct instances of CAL-Card misuse.

Although the number of CAL-Card holders (approximately 11 percent) may not be excessively high considering the number of geographic locations of Caltrans facilities, Caltrans staff will assess whether or not the number of cardholders is appropriate as they move forward with process improvements.

The BSA recommendations will be very helpful to the Business, Transportation and Housing (BT&H) Agency and all of its departments in addressing the current and future needs of this program. If you need additional information, please do not hesitate to contact me, or Michael Tritz, Chief of the Office of Internal Audits within the BT&H Agency, at (916) 445-7976.

Sincerely,

(Signed by: Maria Contreras-Sweet)

MARIA CONTRERAS-SWEET
Secretary

Attachment

Department of Transportation
Office of the Director
1120 N Street
Sacramento, CA 94273-0001

June 15, 2000

MARIA CONTRERAS-SWEET, Secretary
Business, Transportation, and Housing Agency
980 - 9th Street, Suite 2450
Sacramento, CA 95814

Dear Secretary Contreras-Sweet:

The Bureau of State Audits (BSA) completed an audit of the State's use of the CAL-Card program. The audit period was from December 1998 through November 1999. BSA reviewed seven State Departments that used the program the most during this audit period, of which Caltrans was one of the departments. This review is part of BSA's comprehensive financial and compliance audit of the State of California for fiscal year ending June 30, 2000. BSA forwarded a copy of their draft audit report (copy attached) for the Department's review and comment.

After reviewing the draft audit report, we are in agreement with the findings and recommendations. The Department began taking the following actions:

- To increase Department awareness of controls and procedures related to the CAL-Card program, the Department is currently providing Statewide CAL-Card training and Purchase Card Accounting & Requisition System (PCARS) training to cardholders and approving officials. Further, as a result of an internal audit, the Department recently issued a Department-wide memo addressing internal control weaknesses noted in the CAL-Card program.
- Based on the size of the Department and its geographic locations, the Department believes the number of cardholders is appropriate. In addition, PCARS should streamline the number of administrative staff needed for payment processing purposes.
- The Department is currently addressing its CAL-Card training needs through the Statewide CAL-Card and PCARS training programs to cardholders and

Secretary Contreras-Sweet
June 15, 2000
Page 2

approving officials. This is followed up with monthly CAL-Card newsletters. In addition, during the development of PCARS, the Department will institute a system of post-payment monitoring and enforcement procedures. However, the Department's success in implementing PCARS is based on approval from the State Controller's Office (SCO). The Department is currently working very closely with SCO to achieve this goal.

If you have any questions, please contact Gerald A. Long at (916) 323-7122.

Sincerely,

(Signed by: Tony V. Harris for Jeff Morales)

JEFF MORALES, Director
Department of Transportation

Agency's comments provided as text only.

Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, Ca 95814

June 19, 2000

Mary P. Noble
Acting State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Dear Ms. Noble:

Subject: CAL-Card Program Audit 2000-001.3

The subject audit involved four Resources Agency Departments: Fish and Game, Forestry and Fire Protection, Parks and Recreation and the California Conservation Corps. On page 3*, the report states "...our review did not identify widespread personal abuses..." However, it did find "...that departments can more effectively use the program..." Each department has indicated that the review of departmental practices has been helpful. The California Conservation Corps has indicated that it conducted an extensive audit of its administrative procedures in December 1999. That audit reached similar conclusions, and corrective actions like those proposed are underway. All departments have begun, or will be instituting new, more comprehensive training for all cardholders.

The audit recommends that all departments conduct an assessment of the benefits desired from the Cal-Card program, and "...determine the appropriate number of cardholders and approving officials they need to have participate in the Cal-Card program." (Page 28)* This recommendation stems, partly from the concern about a high percentage of employees authorized to use the card. Because of the decentralized nature of operations of the departments selected for review, the number of cardholders may have been larger than expected. The departments will review their list of cardholders and determine if the benefits of widespread access are warranted.

*These page numbers refer to an earlier draft of the report.

Mary P. Noble
June 19, 2000
Page 2

Additional recommendations suggest the development of "...monitoring systems that include review of policies specific to CAL-Card and department-specific elements, such as preapprovals" and using "...enforcement policies that consist of warnings, reduction of credit limits, and removal of cardholders and approving officials from the CAL-Card program." (Page 28)* Each of the departments will develop procedures to incorporate these features into their operations.

All departments commented on the professionalism exhibited by the audit team, and the value of the findings and suggestions. As a result of your audit, we will be instructing all of our reporting organizations to examine their CAL-Card procedures and training programs in conjunction with the findings of this report.

Yours sincerely,

(Signed by: Mary D. Nichols)

Mary D. Nichols
Secretary for Resources

Agency's comments provided as text only.

State and Consumer Services Agency
Office of the Secretary
915 Capitol Mall, Suite 200
Sacramento, CA 95814

June 19, 2000

Mary Noble, Acting State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Noble,

SUBJECT: AUDIT REPORT NO. 2000-001.3

Enclosed is our response prepared by the Department of General Services to the Bureau of State Audits' Report No. 2000-001.3 entitled "CAL-Card Program: It Has Merits, But It Has Not Reached Its Full Potential." A copy of the response on diskette is also included.

If you have any questions or need additional information, please contact me at 653-4090.

Sincerely,

(Signed by: Clothilde V. Hewlett)

Clothilde V. Hewlett
Undersecretary

Enclosures

MEMORANDUM

Date: June 16, 2000 File No.: 2000-001.3

To: Aileen Adams, Secretary
State and Consumer Services Agency
915 Capitol Mall, Room 200
Sacramento, CA 95814

From: **Department of General Services
Executive Office**

Subject: **RESPONSE TO BUREAU OF STATE AUDITS' REPORT NO. 2000-001.3 - "CAL-CARD PROGRAM: IT HAS MERITS, BUT IT HAS NOT REACHED ITS FULL POTENTIAL"**

Thank you for the opportunity to respond to Bureau of State Audits' (BSA) Report No. 2000-001.3 which addresses recommendations to the Department of General Services (DGS). The following response addresses recommendations made to the seven state departments, including the DGS, that were included in the scope of BSA's review of the CAL-Card program. It also addresses a recommendation made to the DGS as the administrator of the CAL-Card program for the state.

OVERVIEW OF THE REPORT

The DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2000-001.3. As discussed in this response, the DGS will take appropriate actions to address the recommendations.

Overall, the DGS is pleased that the extensive and in-depth audit of the CAL-Card programs of seven state departments did not identify any significant personal abuse. The error rates and exceptions noted in the report are not surprising when consideration is given to the complexities involved in implementing a new and extensively used procurement process. Since the roll-out of the program to all state departments in 1995, the annual use of CAL-Cards to procure goods and services has grown to approximately \$200 million. Currently, there are 122 state agencies, 22 universities, 104 school districts and 208 other local government entities participating in the program.

The significant and fast growth of the CAL-Card program has been due to the widespread acceptance of the program by both card users and the state's suppliers. Of particular note, the usage of the card has been very popular with small businesses. Small businesses are particularly pleased with the immediacy of payment provided by the use of CAL-Cards. The card has been popular with state agencies because it provides a tool that empowers staff to acquire goods and services at the point and time of need. By avoiding delays caused by waiting for traditional acquisition systems, the use of the CAL-Card procurement process helps the state to be more responsive to the needs of taxpayers while helping to control costs.

Although program benefits are great, the DGS recognizes that there are areas for improvement within its own CAL-Card operations and those of participating departments. To deal with the issues found within the DGS, an internal task force will be created to review existing policies, procedures and practices. The task force will analyze the results of the BSA's audit and ensure that each recommendation is appropriately addressed. Further, the task force will develop a training program designed to ensure that all staff involved in the use of a CAL-Card are informed of state and department requirements.

To assist in ensuring that the results of the BSA's audit are communicated to CAL-Card participating departments, in its role as the state's CAL-Card coordinating agency, the DGS will present the results of the BSA's audit at the next CAL-Card quarterly task force meeting. The task force meetings are attended by state agency CAL-Card program coordinators and other interested parties.

It should be noted that both the DGS and the Department of Finance (DOF) have recognized the need for additional monitoring and auditing of CAL-Card transactions. Therefore, the DGS' Procurement Division and Audit Section have added coverage of CAL-Card transactions within their compliance reviews performed of other state agencies. Further, in a 1999 revision to its audit guide used by state agencies to biennially evaluate internal control systems, the DOF added specific audit procedures for testing CAL-Card transactions. Since biennial internal control audits are required of the largest state agencies, this action should ensure the timely audit of the CAL-Card programs of agencies that have the most significant usage.

The following response only addresses the recommendations. Although we believe that some of the individual exceptions found within the DGS' operations are explainable and do not represent significant weaknesses in internal control, in general, the actions recommended by the BSA have merit and will be promptly addressed.

RECOMMENDATIONS

RECOMMENDATION # 1: To establish a more effective CAL-Card program, departments should take the following steps:

- ***Reemphasize to their cardholders and approving officials that the CAL-Card program has specific procedures and controls and that it is only one of several procurement methods available. Through training and other communications, the departments should clarify to cardholders and approving officials that the CAL-Card program is not always the most appropriate method of procurement.***
- ***Determine the benefits they want to receive from the CAL-Card program, the level of resources they are willing to devote to managing and maintaining the program, and the benchmarks they will use to determine whether they have met their goals. Based on***

this assessment, the departments can determine the appropriate number of cardholders and approving officials they need to have participate in the CAL-Card program.

- ***Institute initial and ongoing training of cardholders and approving officials, as well as a system of post-payment monitoring and enforcement of CAL-Card program policies.***
- ***Develop monitoring systems that include review of policies specific to CAL-Card and department-specific elements, such as preapprovals.***
- ***Develop and use enforcement policies that consist of warnings, reduction of credit limits, and removal of cardholders and approving officials from the CAL-Card program.***

DGS RESPONSE # 1:

Based on the results of the BSA's audit, the DGS will reemphasize to program participants its existing CAL-Card policies and procedures. Further, as discussed in the Overview section of this response, the DGS will also develop a comprehensive CAL-Card training program that will include information on the various procurement methods available to cardholders and when each should be utilized. It should be noted that the DGS' current written policies and procedures clearly provide that cardholders and approving officials understand state and DGS' procurement requirements prior to program participation. In fact, the policies contain detailed descriptions of the allowable, restricted and prohibited uses of the CAL-Card.

As to the performance of an assessment of the benefits, resources and benchmarks associated with the CAL-Card program, the DGS believes that its current policy which allows program managers/supervisors to determine the need for a CAL-Card within their operations is appropriate. By placing the responsibility at this level, the party with direct knowledge of the circumstances of a program's procurement needs is making operational decisions and, therefore, accountable for the appropriateness of those procurements. However, in response to the concerns expressed by the BSA, the DGS will request that each manager/supervisor participating in the CAL-Card program assess their CAL-Card usage to ensure that it is meeting the programmatic goal of increasing efficiency in making small procurements.

It should be noted that after the period tested by the BSA the DGS reorganized its CAL-Card processing activities to allow for a more effective and efficient payment process and ensure that an appropriate degree of resources are being used to administer the program's fiscal operations. Specifically, in January 2000, CAL-Card payment processing responsibilities were disseminated among fiscal office staff members who are assigned to process transactions for specific divisions/offices. Prior to this date, only two fiscal office staff members processed CAL-Card transactions for the total department. The DGS has found that the dissemination of CAL-Card processing responsibilities among more staff has improved the monitoring of program transactions for compliance with existing policies. Further, the dissemination of responsibilities

has resulted in great improvement in the timeliness of processing CAL-Card statements for payment.

For the recommended actions related to training and post-payment monitoring and enforcement, as previously discussed, a comprehensive CAL-Card training program will be developed and implemented within the department. It is foreseen that the training will include a refresher course for existing cardholders and approving officials. Further, the DGS Audit Section will take action to ensure that its internal audit program includes a review of CAL-Card transactions. Specifically, as part of its biennial review of the DGS' systems of internal control, the Audit Section will ensure that CAL-Card transactions are included in its purchasing cycle tests.

For the recommended action that addresses improving existing monitoring systems, the previously discussed training program will emphasize the compliance monitoring responsibility of approving officials as provided in DGS policy. This policy provides that the approving official is responsible for reviewing the charges of the cardholder to ensure that they are appropriate and supported by proper documentation.

The final recommended actions pertaining to enforcement practices represent existing DGS policy. The DGS will continue to take appropriate actions when misuse is identified, including the removal of cardholders and approving officials from the program.

RECOMMENDATION # 2: *As the State's CAL-Card coordinating agency, the Department of General Services should negotiate with the bank for a revised grouping of vendor types into merchant codes to allow departments to more effectively block inappropriate vendors.*

DGS RESPONSE # 2:

The need for the capability to restrict uses of the CAL-Card according to the merchant coding system has long been recognized by the DGS. The DGS has negotiated with the current CAL-Card contractor for improvements in this service and will continue to do so. The latest DGS effort to attain improvements has been to make this a prominent issue in the recently issued Request for Proposals whereby various banks are competing to continue the CAL-Card program. It is hoped that the winning proposal will improve services including the coding system without adding any costs to the state.

In addition, the National Association of Procurement Card Professionals organization has made improving the merchant coding system one of its highest priority issues. The DGS participates in this organization along with the federal government and other states.

CONCLUSION

The DGS has a firm commitment to ensuring that its CAL-Card program is operated in compliance with state and department requirements. As part of its continuing efforts to improve program operations, the DGS will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this issue, please call me at 445-3441.

(Signed by: Barry D. Keene)

BARRY D. KEENE, Director
Department of General Services

BDK:RG:ca:worddata:director:2000-001.3rpt

Agency's comments provided as text only.

Health and Human Services Agency
1600 Ninth Street, Room 460
Sacramento, CA 95814

June 20, 2000

Mary P. Noble*
Acting State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, Ca 95814

Dear Ms. Noble,

Enclosed is the Employment Development Department's (EDD) response to the Bureau of State Audits CAL-Card draft report entitled "Cal-Card Program: It Has Merits, But It Has Not Reached Its Full Potential."

If you have any questions regarding the EDD's response, please contact Ray York, in the Director's Office, at (916) 654-8210.

Sincerely,

(Signed by: Grantland Johnson)

GRANTLAND JOHNSON
Secretary
California Health and Human Services Agency

Enclosure

*California State Auditor's comments appear on page 45.

MEMORANDUM

To: Pam Harris, MIC 78
From: Frank Collins
Employment Development Department
Subject: CAL-CARD PROGRAM AUIT

Date: June 19, 2000
File No.: Res_com\audits\single

The Administration Branch has reviewed the Bureau of State Audits (BSA) draft for the Cal-Card program.

Bureau of State Audits Recommendations

To establish a more effective CAL-Card program, departments should take the following steps:

- Reemphasize to their cardholders and approving officials that the CAL-Card program has specific procedures and controls and that it is only one of several procurement methods available. Through training and other communications, the departments should clarify to cardholders and approving officials that the CAL-Card program is not always the most appropriate method of procurement.
- Determine the benefits they want to receive from the CAL-Card program, the level of resources they are willing to devote whether they have met their goals. Based on this assessment, the departments can determine the appropriate number of cardholders and approving officials they need to have participate in the CAL-Card program.
- Institute initial and ongoing training of cardholders and approving officials, as well as a system of post-payment monitoring and enforcement of CAL-Card program policies.
- Develop monitoring systems that include review of policies specific to CAL-Card and department-specific elements, such as preapprovals.
- Develop and use enforcement policies that consist of warnings, reduction of credit limits, and removal of cardholders and approving officials from the CAL-Card program.

Employment Development Department Response

The Employment Development Department (EDD) already follows the recommendations as cited in the report and will continue to do so. However, in our efforts to continuously improve the CAL-Card program, the EDD will initiate new processes to ensure that the CAL-Card program policies and procedures are followed.

Also, we offer the following comments on discrepancies the auditors identified in the report relating to the EDD:

Approving Official Signatures

The EDD verifies the signature of the cardholder and the approving official on the original statement. The original statement is sent to the State Controller's Office. The EDD retains a copy of the statement for their records. The EDD will reiterate to the cardholder and approving official, in the EDD CAL-Card newsletter, the necessity of having signatures on the copies of the statements. In the event a signature is not on the copy of the statement, the EDD's Accounting Section will note on the copy that the original statement is signed.

When it is necessary to have alternate approving signatures, the designated alternate will include the statement, signing on behalf of "_____." This will enable the CAL-Card reviewing staff to validate the signatures.

①

Detailed Receipts

A detailed receipt is necessary in order to pay the CAL-Card. If a detailed receipt is not provided, the cardholder and the approving official will be informed that the bill can not be paid until a detailed receipt is provided. If the receipt is unavailable, the cardholder will submit a letter detailing the items purchased and the amount.

Exceeding the 30 Day Purchase Limit

The EDD is working with the bank to ensure they are enforcing the purchase limits.

Pam Harris
June 19, 2000
Page three

Inappropriate Purchases

The EDD CAL-Card newsletter will be used to reiterate the appropriate purchases that can be made on the CAL-Card.

If you have questions, please contact Greg Coyne at 654-7311 or Jill Goddard-Mercer at 654-8100.

(Signed by: Frank Collins)

FRANK COLLINS
Acting Deputy Director
Administration Branch

COMMENTS

California State Auditor's Comments on the Response From the Employment Development Department

To provide clarity and perspective, we are commenting on the response to our audit report from the Employment Development Department (department). The numbers below correspond to the numbers we have placed in the department's response.

- ① Of the 11 exceptions related to approving officials' signatures at the department, an alternate signed 10 of the statements. However, none of these alternates are designated as an approving official for the department nor have any been trained in CAL-Card policies and procedures. The addition of a statement that the alternate is signing on behalf of the approving official does not address our concern that the alternates may not be aware of specific CAL-Card policies, such as restricted purchases or purchase dispute procedures.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press