State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

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To: JAN SMELSER
Chief
Division of Procurement and Contracts

Date: May 20, 2008

File: P3000-366

CLARK PAULSEN
Chief
Division of Accounting

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Final Audit Report – CAL-Card Approving Officials

Attached is Audits and Investigations' (A&I) final audit report covering the control functions of CAL-Card Approving Officials. Your response has been included as part of our final report.

A&I is scheduled to release a Statewide CAL-Card Approving Officials audit report within the next two months, for which we will request formal status reports. Therefore, your status reports on the implementation of your audit finding dispositions for this report at 60, 180, and 360 days will be waived.

If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107 or myself at (916) 323-7122.

Attachment

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P3000-366
CAL-Card Approving Officials
May 2008

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

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Summary

Audits and Investigations (A&I) has completed the CAL-Card Approving Officials (AOs) audit. The purpose of the audit was to determine if AOs are complying with CAL-Card Administrative policies and procedures.

The audit focused on CAL-Card AOs' responsibilities according to the Department's CAL-Card Handbook and procedural updates. Our audit disclosed that AOs are not complying with CAL-Card Administrative policies and procedures in the following areas:

- Weaknesses over Statement of Account (SOA) Packages.
- SOA Packages Not Retained.
- Weaknesses over CAL-Card Approving Official Status.
- Weakness over Mandatory CAL-Card Training.
- Conflict of Interest Statement Forms Are Not Completed and Retained.

Background

The Department of General Services (DGS) developed the CAL-Card program to improve the efficiency of small purchases made by State departments. The CAL-Card program allows departments to use VISA cards to streamline the procurement process and improve timely delivery of products and services. DGS developed policies and procedures for State agencies to follow when purchasing through the CAL-Card program.

The Department utilizes the CAL-Card program to purchase small dollar and high volume repetitive items. The Department developed the CAL-Card Handbook to ensure compliance with DGS policies and procedures. Division of Procurement and Contracts (DPAC) is responsible for the administration of the CAL-Card program. DPAC appoints a CAL-Card Coordinator to serve as the contact throughout the Department to assist Cardholders (CHs) and AOs with CAL-Card policies and procedures. Division of Accounting (DofA), Office of External Accounts Payable (OEAP), oversees the VISA Payments Unit which processes CAL-Card payments.

To assist DPAC and OEAP, the Purchase Card Accounting and Requisition System (PCARS) was implemented in March 2000. PCARS helps simplify the high volume of CAL-Card payments by reducing paperwork and processing time for CAL-Card purchases each month. In addition, PCARS was designed to produce several ad hoc reports with information about CAL-Card purchases made

by CHs. PCARS also allows the users to electronically process a Purchase Requisition. This system has been implemented in all 12 Districts and Headquarters, with the exception of the Equipment Shops. The OEAP, Division of Equipment, and Headquarters Information Technology are working on a program to incorporate the Equipment Shop CHs into the PCARS system. In the meantime, the Equipment Shop AOs submit their CHs' CAL-Card purchase documents to the VISA Payment Section for payment processing.

The Department had approximately 1,750 CHs that purchased over $35 million in small goods and services in Fiscal Year 2004-05. There are about 550 AOs, who are responsible for reviewing their CHs' SOA packages to verify that all required documents are attached, approvals were obtained, costs were economical for the Department, and purchases comply with Department policies and procedures. In addition, AOs are responsible for ensuring that copies of CHs' SOA packages with all supporting documents are centrally filed in the district/division. Most card limits are set at $5,000 per transaction and $50,000 per month. However, management has some cards with a limit of $25,000 per transaction and $250,000 per month for emergencies. The bank offers rebates for timely payment of VISA transactions.

Objectives, Scope, and Methodology

The scope of the audit was limited to the control functions of CAL-Card AOs to determine if AOs are complying with CAL-Card administrative policies and procedures.

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to determine whether:

- AOs are performing their duties according to the CAL-Card Handbook.
- CAL-Card transactions comply with the CAL-Card Handbook and State and Department policies and procedures.
- SOA packages have all required supporting documentation.
- SOA packages are reviewed, approved, and submitted to the DofA timely by the AOs.
- AOs are ensuring that each CH's SOA packages are retained at their division/district for five years.

This audit encompassed various departments, divisions, and programs within Districts 1, 10, and 22. Our audit included tests as we considered necessary to achieve the above audit objectives, and included SOA packages dated between July 2004 and June 2005. During the course of our audit, we identified significant control deficiencies for CAL-Card purchases processed through AOs in District 1. This resulted in expanded audit field work that was completed June 13, 2007. A separate Audit Report, P4200-040, specific to District 1 findings was issued on March 18, 2008. This additional audit field work continued to substantiate the conclusion reached in this report and identified additional CAL-Card internal control weaknesses.

It should be noted that subsequent to the audit being performed, a revised CAL-Card Handbook was issued in September 2007. As such, this report will reference criteria that was applicable during the audit period as well as the revised criteria.

Conclusion

Our audit disclosed that CAL-Card AOs are not consistently complying with CAL-Card administrative policies and procedures. The following issues were noted:

- Weaknesses over SOA Packages.
- SOA Packages Not Retained.
- Weaknesses over CAL-Card Approving Official Status.
- Weakness over Mandatory CAL-Card Training.
- Conflict of Interest Statement Forms Are Not Completed and Retained.

In addition, the expanded field work identified the following issues:

- Excessive Prices Paid for Cal-Card Transactions with Florida-Based Companies.
- Inventory Control Deficiencies – Merchandise Purchased with Florida-Based Companies.
- Violations of CAL-Card Policy.

For more details, please refer to our audit report P4200-040, dated March 18, 2008.

The Department should address the deficiencies outlined above and in more specific detail in the Findings and Recommendations section of this report.

Views of Responsible Officials

We requested and received a response from the Division Chief of DPAC. This official has, in general, concurred with the findings and recommendations. Please see Attachment for the complete response.

GERALD A. LONG
Deputy Director
Audits and Investigations

December 22, 2005
June 13, 2007
(Last Dates of Audit Field Work)

FINDINGS AND RECOMMENDATIONS

Finding 1 – Weaknesses over Statement of Account Packages

Approving Officials (AOs) are not properly reviewing and approving Statement of Account (SOA) packages. Our review of 78 cardholders' (CHs) files of SOA packages for the 2004-05 fiscal year revealed the following:

- Purchase Requests (PR) were not approved prior to the purchase in 86 percent (67 of 78) of the CHs' files.
- Signatures were missing on the SOAs and/or PR forms in 27 percent (21 of 78) of the CHs' files.
- 41 percent (32 of 78) of the CHs' files lacked supporting documentation, such as detailed invoices, IT approvals, PR forms, and training request forms.
- 38 percent (30 of 78) of the CHs made prohibited purchases, such as split purchases, split equipment rentals, prepaid rental, prepaid service agreements, prepaid training classes, prepaid wireless service, and a $65,000 payment to a third party for services provided by a Department contractor.
- 2 CHs did not take advantage of the vendor's early payment discounts.

In addition, we surveyed 47 CAL-Card AOs and noted the following:

- 11 percent (5 of 47) stated that the PRs are not approved before the purchases are made.
- 89 percent (42 of 47) stated that the CHs obtain verbal approval before purchases are made; however, follow-up documentation was not maintained to support that prior approval was given.
- 49 percent (23 of 47) stated that they required the CHs to maintain their copies of the SOA packages.
- 9 percent (4 of 47) stated that they do not review the SOA packages for complete supporting documentation.
- 11 percent (5 of 47) stated that they do not review SOA packages for prohibited purchases.

Lack of proper review and approval puts the Department at risk for loss of State funds from allowing purchases of unauthorized/improper goods and services. In addition, without proper review and approval, billing errors on the part of the vendor and/or applicable discounts could be missed.

Finding 1 – (Continued)

The CAL-Card Handbook states:

- AOs must ensure that all CAL Card purchases are in accordance with State and Department procurement and contract policies and procedures (Section 1.2.4, changed to Section 2.7 in the September 2007 revision).
- Prohibited use of the card includes payment of membership dues, split orders, third-party suppliers, prepayment of goods and services, prepaid training or registrations (Chapter 2, changed to Chapter 5 in the September 2007 revision).
- The Streets and Highways Code, Section 136-136.5 allows for highway equipment to be rented for $2,500 or less without formal competitive bidding (Section 3.3.4, changed to Section 4.8 in the September 2007 revision).

Recommendation

We recommend that DPAC remind the AOs of their roles and responsibilities, and take a more active role in suspending or canceling all CAL-Card holders that violate State and Department procurement policies and procedures.

Division of Procurement and Contract's Response

The Division Chief of DPAC concurred with this finding. DPAC established a departmental task force to make recommendations on how to involve districts and divisions in training and enforcement processes. For the complete response, please refer to the Attachment.

Finding 2 – Statement Of Account Packages Not Retained

Districts and divisions are not retaining their CHs' SOA packages as required. We selected 158 CHs' SOA packages for the five fiscal year period of 2000 - 2005 for review. Our review noted the following:

- AOs could not locate 32 percent (51 of 158) of the CHs' files.
- SOA packages and/or supporting documents were missing from 46 percent (72 of 158) of the CHs' files.

In addition, our survey of 47 AOs revealed that:

- 66 percent (31 of 47) were not aware that a copy of each CH's SOA packages and supporting documents should be retained in a central file at the district/division for five years.
- 49 percent (23 of 47) stated that they assigned their responsibility of retaining SOA packages to the CHs. However, the AOs did not obtain possession of the CHs' file packages when the CHs left the district/division/program.

Finding 2 – (Continued)

Furthermore, 5 of the 7 District Deputy Directors and Division Chiefs surveyed were not aware that SOA packages and supporting documentation should be retained in a central file at the district/division for 5 years.

By not retaining copies of all their CHs' SOA packages over the last five years, the Department cannot support that public funds were used according to State and Department CAL-Card policies and procedures.

The CAL-Card Handbook, Section 1.7, (changed to Section 3.11 in the September 2007 revision) requires records of all CAL-Card transactions to be centrally and securely maintained in the purchasing division/district for five fiscal years including the current fiscal year.

Recommendation

We recommend that DPAC issue a memo reminding all Deputy Directors, District Directors, and Division Chiefs of the CAL-Card record retention policy.

Division of Procurement and Contract's Response

The Division Chief of DPAC concurred with this finding. The task force plans to recommend changes to the CAL-Card Handbook and training programs. For the complete response, please refer to the Attachment.

Finding 3 – Weaknesses over CAL-Card Approving Official Status

CAL-Card AO status is not always terminated when individuals are no longer assigned the AO role. We noted that 27 percent (17 of 64) of the AOs we surveyed were no longer active AOs and documents were not submitted to have their accounts removed from the Purchase Card Accounting and Requisition System (PCARS), the CAL-Card database.

Untimely removal of AOs puts the Department at risk of an AO accessing PCARS and approving purchases without Department authorization.

Good business practice dictates the removal of access to sensitive data by unauthorized users as soon as possible.

Supervisors of AOs are not properly notifying DPAC to remove AOs who no longer need access to PCARS.

Recommendation

We recommend that DPAC:

- Remind all Deputy Directors, District Directors, and Division Chiefs about the importance of notifying DPAC when one of their AOs no longer requires access to PCARS.
- Consider developing a process that would help determine if the list of AOs and CHs in PCARS is correct.

Division of Procurement and Contract's Response

The Division Chief of DPAC concurred with this finding. The task force will be making recommendations for an annual review and certification of AOs and CHs by districts and divisions. For the complete response, please refer to the Attachment.

Finding 4 – Weakness over Mandatory CAL-Card Training

The mandatory CAL-Card training is not always being completed. We found that 23 percent (11 of 47) of the AOs surveyed have not attended a training course within the last three years. Furthermore, two of these AOs have never attended a CAL-Card training session even though one AO's application was approved as recent as May 2005.

The Department and/or the State is continuously improving its purchasing procedures and policies. AO lack of training increases the risk of improper CAL-Card transactions through lack of knowledge.

The July 1, 2004, addition to the CAL-Card procedures (now included in Section 1.13 of the September 2007 CAL-Card Handbook) state that, all CAL-Card applicants must complete CAL-Card training prior to becoming either a CH or an AO, and every three years thereafter.

Since AOs are supervisors and managers, some believed that they do not need the training because they know what is required when completing PRs and what supporting documents are needed. Other AOs have passed the responsibilities of CAL-Card compliance to the CHs because the CHs are the ones who are preparing the documentation and making the purchase.

Recommendation

We recommend that DPAC enforce the CAL-Card Handbook, Section 1.13 Training, for those who have not attended a training course within the required three years by terminating their accounts.

Division of Procurement and Contract's Response

The Division Chief of DPAC concurred with this finding. On October 2007 and April 2008, DPAC issued a memo notifying all Deputy Directors, District Directors, and Division Chiefs of the

training policy. For the complete response, please refer to the Attachment.

Finding 5 – Conflict of Interest Statement Forms Are Not Completed and Retained

Signed Conflict of Interest Statement forms were not consistently completed and retained in a central file for the AOs selected for testing. We were unable to locate the Conflict of Interest Statement forms for 60 percent (18 of 30) of the AOs sampled. In addition, only one of nine divisions sampled within the three districts has the signed forms retained in a central file.

Without signed forms, the Department cannot be assured the CAL-Card AOs are free from incompatible activities and conflict of interest.

The CAL-Card Handbook, Section 1.3, (changed to Section 1.17 in the September 2007, revision) states that all employees involved in purchasing or CAL-Card activities must certify that they have received, read, understand and will abide by all provisions of the following documents:

- Deputy Directive DD-09, Incompatible Activities and Conflict of Interest.
- California Public Contract Code, Article 8, Sections 10410 and 10411.
- California Government Code Section 19990.

In addition, the CAL-Card Handbook, Section 1.3 (changed to Section 1.17 in the September 2007 revision) requires that signed certification forms be kept on file at the district or division for review by Department of General Services or internal audit personnel. The confirmations must be kept for five years following the most recent purchase made by the CH.

District/division management did not know that the Conflict of Interest Statement forms were to be retained by the district or division in a central file and some did not know the form even existed or that it is required to be signed by AOs and the CHs.

Recommendation

We recommend that DPAC issue a memo to Deputy Directors, District Directors, and Division Chiefs to reinforce the requirement for signing and retaining the CAL-Card Conflict of Interest Statement.

Division of Procurement and Contract's Response	The Division Chief of DPAC concurred with this finding and had replaced the form ADM 0009 with Conflict of Interest Statement, form ADM 3043. Additionally, the task force is working on recommendations to ensure the Conflict of Interest forms are retained for all persons participating in the CAL-Card program. For the complete response, please refer to the attachment.
Audit Team	Ken Craig, Chief, Internal Audits Mary Ann Campbell-Smith, Audit Supervisor Kevin Yee, Audit Supervisor Randy Braun, Auditor

ATTACHMENT

DIVISION OF PROCUREMENT AND CONTRACT'S RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

To: GERALD A. LONG
Deputy Director
Audits and Investigation

Date: May 9, 2008

From: JAN SMELSER
Chief
Division of Procurement and Contracts

Subject: DPAC Response to Draft CAL-Card Approving Officials Audit Report (P3000-366)

Thank you for the opportunity to provide a response to the draft audit report dated March 2008. The CAL-Card Program is highly valued by the Department and offers an effective way to streamline acquisitions. In March 2008, DPAC established a departmental task force to determine if adequate and effective measures are in place and to recommend process improvements. We anticipate the team's findings and recommendations will be issued in late May.

FINDING 1 – WEAKNESSES OVER STATEMENT OF ACCOUNT PACKAGES

Recommendation: DPAC remind the Approving Officials (AOs) of their roles and responsibilities, and take a more active role in suspending or canceling all CAL-Cardholders that violate State and Department procurement policies and procedures.

Response: The CAL-Card Team plans to make recommendations on how to involve Districts and Divisions in training and enforcement processes.

FINDING 2 – STATEMENT OF ACCOUNT PACKAGES NOT RETAINED

Recommendation: DPAC issue a memo reminding all Deputies, District Directors, and Division Chiefs of the CAL-Card retention policy.

Response: The CAL-Card Team plans to recommend changes to the CAL-Card handbook and training programs and will emphasize the CAL-Card retention policy.

FINDING 3 - WEAKNESS OVER CAL-CARD APPROVING OFFICIALS STATUS

Recommendation: DPAC 1) remind Deputies, District Directors, and Division Chiefs of the importance of notifying DPAC when one of their AOs no longer requires access to PCARS; and 2) consider developing a process that would help determine if the list of AOs and CHs in PCARS is correct.

Response: The CAL-Card Team will be making recommendations for annual review and certification of AO and CH by Districts and Divisions to ensure that the list of AOs and CHs in PCARS is correct.

FINDING 4 – WEAKNESS OVER MANDATORY CAL-CARD TRAINING

Recommendation: DPAC enforce the CAL-Card Handbook Section 1.13 Training for those who have not been attending a training course within the required three years by terminating their accounts.

Response: On October 26, 2007 and April 14, 2008, DPAC issued a memo notifying all Deputies, District Directors, and Division Chiefs of the training policy. Since October a significant number of AOs and CHs have completed refresher training. DPAC has notified management that CHs and AOs have until June 30, 2008 to complete training before we cancel accounts.

FINDING 5 – CONFLICT OF INTEREST STATEMENT FORMS ARE NOT COMPLETED AND RETAINED

Recommendation: DPAC issue a memo to Deputies, Districts Directors, and Division Chiefs to reinforce the requirement for signing and retaining the CAL-Card Conflict of Interest Statement (COI).

Response: In March 2008 the ADM 3043, Conflict of Interest Statement, replaced the ADM 0009 and is now available on CEFS. The Acquisitions Manual and CAL-Card Handbook will be updated to reflect this change. Additionally the CAL-Card Team is working on recommendations to ensure COI forms are retained for all persons participating in the CAL-Card program.

If you have any questions or need additional information, please contact Roger Westrup, Office Chief, at (916) 227-4577.

c: Roger Westrup
Rhonda Valdry