State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: JAN SMELSER
Chief
Division of Procurement and Contracts

CLARK PAULSEN
Chief
Division of Accounting

Date: June 27, 2008

File: P3000-375/376

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.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date.

We thank you and your staff for the assistance provided during the audit. 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

c: Will Kempton, Director
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P3000-375 **P3000-376**
CAL-Card **Approving Officials**
June 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 a statewide audit of the Department of Transportation (Department) CAL-Card Approving Officials (AOs). 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.
- Cardholders' Files of SOA Packages Not Retained.
- Weaknesses Over Mandatory CAL-Card Training.
- Conflict of Interest Statement Forms Are Not Completed and Retained.
- Weaknesses Over CAL-Card AO Status.

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. The 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. The 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 1,734 CHs that purchased over $43 million in small goods and services during fiscal year 2006-07. There are about 764 AOs, who are responsible for reviewing the CHs' SOA packages to verify that all required documents are attached, approvals are obtained, costs are 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 districts or divisions. 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 purchasing 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 was a statewide audit and included various divisions and programs within Districts 4, 6, 8, 9, 12, and 59. Our audit included tests as we considered necessary to achieve the above audit objectives, and included SOA packages dated between July 2006 and June 2007.

It should be noted that subsequent to the audit period, 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. Specifically, we noted the following:

- Weaknesses Over SOA Packages.
- Cardholders' Files of SOA Packages Not Retained.
- Weaknesses Over Mandatory CAL-Card Training.
- Conflict of Interest Statement Forms Are Not Completed and Retained.
- Weaknesses Over CAL-Card AO Status.

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 the Attachment for the complete response.

GERALD A. LONG
Deputy Director
Audits and Investigations

February 8, 2008
(Last Day of Audit Field Work)

FINDINGS AND RECOMMENDATIONS

Finding 1 – Weaknesses Over Statement of Account Packages

We reviewed 142 cardholders' (CHs) files for fiscal year 2006-07 and noted that Approving Officials (AOs) are not properly reviewing and approving Statement of Account (SOA) packages. Each CH file contained up to 12 SOA packages. The exceptions noted below reflect the CH files that contained at least one, but mostly multiple, errors in the SOA package:

- Purchase Requests (PRs) were approved after the purchase was made in 91 percent (129 of 142) of the CH files.
- Missing SOA packages and/or supporting documents in 60 percent (85 of 142) of the CH files reviewed. These consisted of a lack of detailed invoices and/or credit card receipts, PR forms, approval signature on PRs, receiving date and/or signature, and training request forms.
- Prohibited purchases in 25 percent (35 of 142) of the CH files reviewed. The prohibited purchases consisted of the following: paid past-due bills and late fees, split purchases, prepaid service agreements, prepaid training classes, third-party payments, and lack of required approvals from the Division of Information Technology (IT), the Division of Business, Facilities, and Securities (DBFS), the Department of General Services (DGS), and the Prison Industry Authority.
- SOAs were not signed in 13 percent (18 of 142) of the CH files reviewed.

Lack of proper review and approval puts the Department of Transportation (Department) at risk for loss of State funds from allowing unauthorized and/or improper purchase of 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.

The CAL-Card Handbook states:

- The approving official is responsible for the purchases made on the CAL-Card and for all supporting documentation. Approving officials ensure that all CAL-Card purchases are made in accordance with State and Department procurement and contract policies and procedures. This includes that purchase requests are approved by the requester's supervisor prior to the purchase being made. (January 2002, Section 1.2.4 and September 2007, Chapter 2, Section 2.7)

Finding 1 – Continued

- The cardholder must obtain an itemized receipt or invoice directly from the supplier, for orders made in person, phone, or Internet (January 2002, Section 3.1.2 and September 2007, Chapter 3, Section 3.10).
- Prohibited use of the card includes payment of past due invoices, late charges, split orders, third-party suppliers, and freight exceeding $300 without approval from DGS. In addition, prepayment of goods and services, training, or registrations are also considered prohibited purchases (January 2002, Section 2 and September 2007, Chapter 5).
- Regardless of the purchasing mechanism used, DBFS's approval is required for facility and security related items including space heaters, and IT's approval is required for miscellaneous telecommunications equipment, microcomputer system and components, and for computer software (September 2004, Acquisition Manual, Section 1.6.4 and SAM 4819.2).

During interviews, AO surveys, and field exit conferences, we found a general lack of understanding or misinterpretation of the AO's responsibilities as stated in the CAL-Card Handbook. The majority of the AOs relied on the CHs to comply with Department policies and procedures and did not properly review SOA packages for compliance.

Recommendation

We recommend that DPAC remind the AOs of their roles and responsibilities, and suspend or cancel all CAL-Cards for CHs that violate State and Department procurement policies and procedures.

Division of Procurement and Contracts' Response

The Division Chief of DPAC concurred with this finding. DPAC assembled a CAL-Card team to determine if adequate and effective measures are in place to reconcile and monitor the use of CAL-Cards. The team's recommendations will be presented to the CAL-Card Executive Steering Committee in July. For the complete response, please refer to the Attachment.

Finding 2 – Cardholders' Files of Statement of Account Packages Not Retained

Districts and divisions are not retaining their CHs' files of SOA packages and supporting documents as required. We selected 279 active and inactive CHs from six districts for the five-year period of fiscal years 2002-2007. We found that active and inactive CHs' files were not maintained in a secure central location for the required five years by 26 of the 32 divisions in the six districts reviewed.

In addition, we found that the sampled districts and divisions retained a complete file of SOA packages and required documents for only 16 percent (46 of 279) of the active and inactive CHs, as required. The remaining 233 CHs' files had the following deficiencies:

Finding 2 - Continued

- Files for 67 CHs were not available for review because the files could not be located or were in such disarray that the documents could not be matched to a corresponding SOA.
- Files for 166 CHs did not contain all of the SOA packages and/or required documentation.

The CAL-Card Handbook requires records of all CAL-Card transactions to be centrally and securely maintained in the purchasing division and/or district for five fiscal years including the current fiscal year (January 2002, Section 1.7 and September 2007, Chapter 3, Section 3.11).

During interviews and exit conferences with district and division management, we found a general lack of understanding of the CAL-Card Handbook requirement regarding centrally located files.

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

Recommendation

We recommend that DPAC issue a memorandum reminding district and division management of the importance of complying with the CAL-Card five-year record retention policy.

Division of Procurement and Contracts' Response

The Division Chief of DPAC concurred with this finding. DPAC assembled a CAL-Card team to address the retention of SOA packages. The team's recommendations will be presented to the CAL-Card Executive Steering Committee in July. For the complete response, please refer to the Attachment.

Finding 3 – Weaknesses Over Mandatory CAL-Card Training

AOs are not attending or completing the mandatory CAL-Card training. As of February 19, 2008, we noted that 27 percent (14 of 52) of AOs surveyed have not attended a training course within the last three years. This lack of training increases the risk of improper CAL-Card transactions.

Section 1.13 of the September 2007, CAL-Card Handbook Revision, states that, all CAL-Card applicants must complete CAL-Card training prior to becoming either a CH or an AO, and every three years thereafter.

Some AOs believe that because they are supervisors or managers and know what documentation is required when completing purchase requests and procuring the goods or services, they do not need the

Finding 3 – Continued

training. Other AOs have delegated the responsibilities of CAL-Card compliance to the CHs, since they are the ones 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 suspending all of the AOs' CHs' CAL-Card accounts.

Division of Procurement and Contracts' Response

The Division Chief of DPAC concurred with this finding. Cardholders and Approving Officials have been informed they must complete training by June 30, 2008, to avoid suspension of card privileges. For the complete response, please refer to the Attachment.

Finding 4 – Conflict of Interest Statement Forms Are Not Completed and Retained

The signed Conflict of Interest Statement forms (ADM-0009) were not consistently completed and retained in a central file. We were unable to locate signed forms for 98 percent (58 of 59) of AOs sampled.

Section 1.17 in the September 2007, CAL-Card Handbook 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 in 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, Section 1.17 in the September 2007, CAL-Card Handbook revision requires that signed certification forms be kept on file at the district or division for review by DGS or internal audit personnel.

AOs are not fully aware of the requirements and their responsibilities relative to conflict of interest. In addition, not all district or division management was aware that ADM-0009 existed and required to be signed by CAL-Card AOs and CHs and to be retained by the district or division 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.

Recommendation

We recommend that DPAC issue a memorandum to district and division management reinforcing the requirement for signing and retaining the Conflict of Interest Statement forms.

Division of Procurement and Contracts' Response

The Division Chief of DPAC concurred with this finding. DPAC assembled a CAL-Card team to address the signing and retaining of the Conflict of Interest Statement. The team's recommendations will be presented to the CAL-Card Executive Steering Committee in July. For the complete response, please refer to the Attachment.

Finding 5- 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 71 percent (53 of 75) of AOs surveyed have an active AO role and the remaining 29 percent should have had their accounts removed from the PCARS.

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

AOs' supervisors are not always submitting the proper documents authorizing DPAC to remove AOs, who no longer need access to PCARS. In addition, DPAC has been understaffed and has not removed the AOs from the CAL-Card database in a timely manner.

Untimely removal of AOs puts the Department at risk of unauthorized AOs accessing PCARS and approving purchases.

Recommendation

We recommend that DPAC:

- Remind all district and/or division management of the importance of notifying DPAC when AOs no longer require access to PCARS.
- Consider developing a process that would help determine if the list of AOs and CHs in PCARS is current.

Division of Procurement and Contracts' Response

The Division Chief of DPAC concurred with this finding. DPAC assembled a CAL-Card team to address maintaining a list of active AOs. The team's recommendations will be presented to the CAL-Card Executive Steering Committee in July. For the complete response, please refer to the Attachment.

Audit Team	Laurine Bohamera, Chief, Internal Audits Juanita Baier, Audit Supervisor Zilan Chen, Audit Supervisor Randy Braun, Auditor Kathy Brooks, Auditor Deborah Gip, Auditor Sharon Stewart, Auditor

ATTACHMENT

DIVISION OF PROCUREMENT AND CONTRACTS' RESPONSE TO THE DRAFT REPORT

Memorandum

Flex your power!
Be energy efficient!

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: June 26, 2008

From: for JAN SMELSER
Chief
Division of Procurement and Contracts

Subject: Response to Draft Audit Report on CAL-Card Approving Officials (P3000-375/376)

This is the Division's response to the Draft CAL-Card Approving Officials Audit Report (June 2008) covering the period of July 2006 to June 2007. The audit covered various divisions and programs within Districts 4, 6, 8, 9, 12 and 59.

Due to ongoing CAL-Card compliance issues and recent CAL-Card audit findings, in April 2008, DPAC assembled a CAL-Card team to determine if adequate and effective measures are in place to secure card numbers and expiration dates and to reconcile and monitor the use of CAL-Cards. The team met on a weekly basis from March 25, 2008 to May 6, 2008 and was comprised of staff from DPAC, Audits, Accounting, Division of Engineering, and District 10. The team's recommendations will be presented to the CAL-Card Executive Steering Committee in July. The team's recommendations will address several program weaknesses including the audit's five findings that included:

1) Weaknesses Over Statement of Account Packages
2) Cardholders' Files of Statement of Account Packages Not Retained
3) Weaknesses Over Mandatory CAL-Card Training
4) Conflict of Interest Statement Forms Are Not Completed and Retained
5) Weaknesses Over CAL-Card Approving Official Status

During FY 2007/2008 DPAC made a conscientious effort to take more timely and consistent corrective action that resulted in numerous warnings, suspensions, and cancellations of cards. To address outstanding refresher training, between October 2007 and June 2008 DPAC sent three memorandums to the Chief Deputy Director, Deputy Directors, Division Chiefs and District Directors notifying them of the requirement for staff to complete refresher training every three years. Much progress has been made. Cardholders and Approving Officials have been informed they must complete training by June 30, 2008 to avoid suspension of card privileges. A new Conflict of Interest form

(ADM 3043), replacing the ADM 0009, was recently placed on CEFS; however, revisions to this form are now underway. DPAC will enhance its training program for Cardholders and Approving Officials and we will develop processes to help determine if the list of Cardholders and Approving Officials in PCARS is current.

DPAC will provide 60, 180, and 360-day updates on the progress of addressing these findings upon issuance of the final report.

c: CPennington
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