CALIFORNIA DEPARTMENT OF TRANSPORTATION

Audit Report

CAL-CARD PROGRAM

March 1, 2009, through February 23, 2011

JOHN CHIANG
California State Controller

March 2012

JOHN CHIANG
California State Controller

March 7, 2012

Malcolm Dougherty, Acting Director
California Department of Transportation
1120 N Street, MS 49
Sacramento, CA 95814

Dear Mr. Dougherty:

This report presents the results of the State Controller's Office (SCO) audit of the Department of Transportation's (Caltrans) CAL-Card Program. We conducted our audit pursuant to Government Code section 12418, which stipulates that the State Controller shall direct and superintend the collection of money due the State.

Our audit identified the following internal control deficiencies over the Caltrans CAL-Card Program:

- Caltrans approving officials do not always review the details of cardholder purchases, and appear unclear as to the process for cardholders who have separated from State service or have transferred from other departments. In addition, cardholders were unaware of the existence of a District Office CAL-Card liaison and were uncertain as to the role of the liaison.
- Caltrans did not comply with the Memorandum of Understanding regarding the requirement for an audit by an external auditor and for processing only four claims per month.
- Caltrans did not always adhere to its procurement guidelines regarding pre-approval of purchases, submission of statement of account in a timely manner, prohibited purchases, and document retention.
- Caltrans cardholders improperly used CAL-Cards to make split purchases to circumvent the transaction limit of $5,000 or to avoid the formal procurement process for services more than $5,000.

If you have any questions, please contact Andy Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Laurine Bohamera, Chief, Audits & Investigations
California Department of Transportation
Clark Paulsen, Division Chief, Division of Accounting
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) performed an audit of the California Department of Transportation's (Caltrans) CAL-Card Program for the period from March 1, 2009, through February 23, 2011. This report presents the results of the SCO audit.

The purpose of this audit was to determine Caltrans' compliance with and adherence to internal controls regarding the CAL-Card Program.

Our audit identified the following internal control deficiencies over the Caltrans CAL-Card Program:

- Caltrans approving officials do not always review the details of cardholder purchases, and appear unclear as to the process for cardholders who have separated from State service or have transferred from other departments. Cardholders were unaware of the existence of a District Office CAL-Card liaison and were uncertain as to the role of the liaison.
- Caltrans did not comply with the Memorandum of Understanding regarding the requirement for an audit by an external auditor and for processing only four claims per month.
- Caltrans did not always adhere to its procurement guidelines regarding pre-approval of purchases, submission of statement of account in a timely manner, prohibited purchases, and document retention.
- Caltrans cardholders improperly used CAL-Cards to make split purchases to circumvent the transaction limit of $5,000 or to avoid the formal procurement process for services more than $5,000.

Background

On December 17, 1997, Caltrans and the SCO entered into an agreement through a Memorandum of Understanding for the purpose of defining the terms and conditions that Caltrans accepts as a condition of receiving from the SCO a delegation of responsibility for the review and retention of CAL-Card Program purchasing documentation.

In February 2011, Caltrans submitted a Memorandum of Understanding to the SCO proposing revisions to the original. Prior to accepting the revisions, the SCO decided to audit the CAL-Card Program administered by Caltrans to determine whether existing controls are sufficient. In addition, the SCO determined how the proposed revisions would affect internal controls.

In July 2010, Caltrans converted from the PCARS/Transportation Reporting and Accounting Management System (TRAMS) system to the Advantage accounting system for its financial system used to process CAL-Card transactions.

Overview of the Caltrans' CAL-Card Program

The Division of Procurement and Contracts (DPAC) is responsible for the administrative oversight of the CAL-Card program. The Commodity and CAL-Card Payments Branch (Accounting) assists DPAC in payment of the balance due to US Bank, which issues the CAL-Card. The DPAC CAL-Card Coordinator set the single purchase limit of $5,000 and the monthly purchase limit up to $50,000. Split purchases are not allowed, and only the authorized cardholder may use the card.

CAL-Card training is provided to cardholders and approving officials by DPAC. Employees must complete a CAL-Card training program before they are allowed or permitted to have CAL-Cards. The approving official must complete CAL-Card and approving-official training. Training is available via individual study, video teleconference, or online.

At the time of the audit, Caltrans had approximately 1,359 cardholders. The CAL-Card Coordinator usually processes and issues 10 to 15 new cards every week. The Accounting Department is responsible for reviewing purchases, remitting payments to US Bank, and submitting claims to the SCO.

Each month, the CAL-Card Accounting Supervisor downloads files from US Bank. The Statement of Account is printed by the cardholder by the 23rd of each month. The statement lists all transactions posted on the cardholder's account for the month. All paperwork must be submitted to Accounting on the 8th of each month. The statement must match with all supporting documents, such as invoices and receipts.

The Accounting Department reviews the statement, matches transactions with Purchase Authority Purchase Order requests, and checks for pre-approval. Accounting also audits the Statement of Account for signature, receiving date, and coding. The cardholder creates a Cardholder Purchase Order online when approval is obtained. Using the statement and the purchase order, Accounting reviews the statement against supporting documents and reviews purchase information on the department's Advantage accounting system. Accounting then prints the information from the Advantage accounting system, matches the supporting documents, and checks for approval signatures.

Questionable Statements of Account and Cardholder Purchase Orders are set aside so that Accounting may request additional information. Copies of questionable purchases are also sent to DPAC so that the CAL-Card Coordinator can review and notify the cardholder of potential violations. Once Accounting completes its audits, it will compile the claim. The claims are created in the Advantage accounting system. Claims are then submitted to the SCO for reimbursement.

Audit Authority

The SCO has the authority to inspect, audit, or review the fiscal accounting records and other supporting documentation for each claim submitted by the agency. Government Code section 12410 states:

> The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment. Whenever, in his opinion, the audit provided for by Chapter 4 (commencing with Section 925), Part 3, Division 3.6 of Title 1 of this code is not adequate, the Controller may make such field or other audit of any claim or disbursement of state money as may be appropriate to such determination.

Objective, Scope, and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this audit included but were not limited to:

- Determining Caltrans' compliance with the terms and conditions specified within the Memorandum of Understanding effective January 1998 for implementation and continued operation of the CAL-Card Program.
- Determining whether purchases made by Caltrans were legal and proper and in accordance with CAL-Card program guidelines.
- Determining whether Caltrans maintains adequate documentation to support CAL-Card purchases and claims submitted to SCO.

The scope of our review included obtaining reasonable assurance that Caltrans' CAL-Card payments are legal, proper, and have sufficient supporting documentation. The original audit period was from July 1, 2006, through December 31, 2010. However, on March 23, 2011, the audit period was changed to March 1, 2009, through February 23, 2011, because Caltrans archives its records after 1-1/2 years and the process of retrieving records would have lengthened the time for reviewing records more than five years old.

The audit methodology and procedures included, but were not limited to, the following:

- Obtaining an understanding of the system of internal controls related to the CAL-Card process and documenting our understanding in order to properly plan the audit.
- Analyzing and evaluating the strengths and weaknesses of the system of internal controls related to the CAL-Card Program.

- Interviewing staff associated with the CAL-Card Program to document our understanding of the controls and procedures established for monitoring and enforcement of the CAL-Card Program.
- Downloading detailed transactions for the review period from US Bank Access Online for analysis.
- Performing tests to determine whether purchases were in compliance with procurement and program policies and procedures.

We ensured that the audit objectives were met by conducting interviews with Caltrans staff, reviewing policies and procedures, selecting samples from the transactions, and performing other testing as deemed necessary.

We performed the following procedures:

- Reviewed the Caltrans CAL-Card Handbook (2009), the State Administration Manual (SAM), and other applicable policies and procedures related to the CAL-Card process.
- Reviewed work performed by Caltrans' Internal Audits Office.
- Documented a description of the internal controls regarding the CAL-Card process for initiating a card, processing payments, submitting claims, and documented the CAL-Card process at the Caltrans' District Office.
- Analyzed and evaluated the internal controls for the CAL-Card process.
- Performed tests to determine if control objectives are being properly achieved.

Conclusion

The SCO audit found that the California Department of Transportation's cardholders have used the card for split and prohibited purchases, and do not always submit their Statements of Account in a timely manner. The approving officials do not always ensure that purchases are pre-approved or review the cardholder purchases in detail. Caltrans is not in compliance with some of the requirements of the Memorandum of Understanding.

Caltrans should improve its internal controls in the areas of updating policies and procedures to reflect current processes, supporting documentation maintenance, split-purchase monitoring, and the review/ pre-approval of purchases by cardholders.

Views of Responsible Official

We issued a draft audit report on November 29, 2011. Malcolm Dougherty, Acting Director, responded by letter dated January 20, 2012 (Attachment), agreeing with audit results. The final audit report includes Caltrans' response.

Restricted Use

This report is intended solely for the information and use of the California Department of Transportation and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

March 7, 2012

Findings and Recommendations

FINDING 1—Approving officials do not perform their duties and responsibilities

The District Office CAL-Card approving officials do not always thoroughly perform their duties and responsibilities, as follows:

- Details of purchases submitted by cardholders on the Statements of Account are not always reviewed by the approving official. Based on results of transactions we tested and discussion with approving officials in the District Office, we believe approving officials are not always reviewing purchases. Some approving officials may be relying on the CAL-Card Payments Branch staff to catch potential errors. The results of our audit are stated below:
  - 26 exceptions (14%) are related to items purchased without prior approval, totaling $25,066 (30%)
  - 2 exceptions (1%) are related to prohibited items totaling $179 (0.2%)
  - Split purchases were submitted by cardholders
- Our interviews determined that the District Office staff are unclear on the process for separated or transferred employees.
- Some approving officials and some cardholders at District 10 were uncertain of the role or existence of a District Office CAL-Card liaison. The role of the liaison is to disseminate information about current policies, procedures, requirements, and trends in the CAL-Card Program to appropriate staff.

CAL-Card Liaison

The CAL-Card Liaison is a departmental agent who provides a link of communication about CAL-Card Program concerns between cardholders, approving officials, other CAL-Card liaisons in the field, and the DPAC CAL-Card Unit.

According to a desk procedures document provided by Caltrans' CAL-Card Program Coordinator, the liaison's roles and responsibilities are as follows:

- Participate with DPAC and Caltrans Accounting Division in routine teleconferences;
- Disseminate information about current policies, procedures, requirements, and trends in the CAL-Card Program to appropriate staff;
- Be knowledgeable of State and Department purchasing policies and procedures;
- Immediately report any misuse of a CAL-Card to the DPAC CAL-Card Unit;
- Notify the DPAC CAL-Card Unit if a Liaison is not able to perform the roles and responsibilities and if a Liaison replacement is necessary.

The CAL-Card Handbook, Division of Procurement and Contracts, states:

> Approving Official Responsibilities:
>
> 1. Ensure that before making a purchase, the Cardholder has prepared and obtained supervisory approval for the Purchase Request supporting each purchase.
> 2. Ensure that CAL-Card is used only for official use and within the procurement and contract policies and procedures set forth by the State, Department, District/Division and US Bank, and signify by signature on the SOA.
> 3. Review assigned Cardholder's charges and the SOA to ensure that purchases are for official use and within appropriate categories and the proper documentation is provided.

The CAL-Card Handbook, Division of Procurement and Contract, states:

> Account Changes:
>
> If a CAL-Card needs to be replaced, cancelled or an account needs to be changed, submit a CAL-Card Account Adjustment (ADM 2012) form to the CAL-Card submittal mailbox (address). Some instances of changes or cancellations are:
>
> 1. The transfer or retirement of an Approving Official.
> 2. The transfer, separation, or retirement of a Cardholder.
> 3. Name, address or phone number change.
>
> The CAL-Card Unit will initiate new card issuance or account change with US Bank.

The CAL-Card Handbook, section 2.7, Approving Official Responsibility, states:

> Inform the CAL-Card Unit of any changes with the cardholder and or approving official account (i.e. account cancellation, retirement, account to be voluntarily closed).

<u>Recommendations</u>

- Caltrans' DPAC should take the lead, with CAL-Card Payments Section's support, and develop a process by which to ensure that approving officials are held accountable if they fail to review the back-up details for purchases prior to approving the Statement of Account.

- Caltrans should ensure that approving officials and human resource personnel are aware of the importance of cancelling the CAL-Cards of separating and transferring employees, and that a process is established by which Human Resources may notify DPAC of employee transfers and separations.

- Caltrans' DPAC should take the lead, with the CAL-Card Payment Section's support, to ensure that District Office cardholders and approving officials are aware of the roles and responsibilities of the CAL-Card liaisons. This can be accomplished by updating the CAL-Card Handbook and through communication and training.

- Caltrans' Internal Audits should expand its scope to review District Office practices to ensure compliance by cardholders, approving officials, liaisons, and human resource personnel.

Caltrans' Response

The CAL-Card Handbook and on-line CAL-Card training cover the roles and responsibilities of cardholders and approving officials. This finding will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012. DPAC will also explore the feasibility of developing a separate on-line training course for approving officials by June 30, 2012. Approving officials are held accountable by the implementation of the CAL-Card Three Strikes Policy (issued September 12, 2011) where three "strikes" (violations) in a 3 year period will result in an automatic card cancellation. The approving official is notified each time there is a violation and is given an opportunity to take corrective action. The approving official's immediate supervisor is also notified of all violations, and their second and third line supervisors are notified after the first violation.

The CAL-Card Handbook and on-line CAL-Card training instructs approving officials and cardholders to notify the CAL-Card Unit of any changes such as transfers, retirements, and separations of employees. Additionally, DPAC receives a weekly separation report from Human Resources. This report is regularly reviewed and reconciled against open CAL-Card accounts. This finding will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012. DPAC will request that Human Resources provide notification of staff transfers and will continue to reemphasize the need for approving officials and cardholders to notify DPAC upon cardholder separation.

The revised CAL-Card Handbook (which is in final review) and the on-line CAL-Card Training addresses the role of CAL-Card Liaisons. Training must be renewed annually. Earlier this year DPAC requested that CAL-Card Liaisons collect training certificates and introduce themselves to cardholders and approving officials. During a recent CAL-Card Liaison teleconference, DPAC discussed the importance of keeping their approving officials and cardholders abreast of issues.

DPAC recommended that liaisons schedule quarterly meetings with cardholders and approving officials. SCO's findings and recommendations will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012.

The scope of the CAL-Card Approving Official audits currently performed by Caltrans Internal Audits, already cover district practices to ensure compliance by cardholders and approving officials. Future audits will incorporate compliance activities for the CAL-Card liaisons and human resource personnel.

SCO's Comment

Caltrans concurs with our finding and recommendation. We acknowledge Caltrans' intent to implement our recommendation.

FINDING 2—Caltrans is not in compliance with the Memorandum of Understanding

Caltrans is not in compliance with the Memorandum of Understanding as follows:

- Caltrans has not undergone the required audit of its CAL-Card process by an external auditor.
- Caltrans' Commodity and CAL-Card Payments Branch is not in compliance with the original Memorandum of Understanding dated December 17, 1997. Caltrans is processing more than four claims per month. To comply with the SCO requirement that claim schedules be no more than 1" thick, Caltrans should process approximately 18 to 22 claims per month. Caltrans is currently requesting a change to the original Memorandum of Understanding.

The Memorandum of Understanding (dated December 17, 1997), Responsibilities of Caltrans, Section M., Program Review Provisions, states:

> To subject the CAL-Card program to a comprehensive review by an external auditor every second fiscal year after the initial review to determine that the operation of the program is in compliance with all applicable rules and regulations pertinent to the State of California procurement and disbursement activities. . . .

Further, the Responsibilities of Caltrans, Section F., Claim Submission Provisions, states:

> To submit no more than one claim schedule weekly to SCO to make payment to the credit card company. . . .

Recommendations

- Caltrans should ensure compliance with the external audit requirements of the Memorandum of Understanding (General Provisions, Section M). The audit is to be conducted every other year to determine whether the program is in compliance with all applicable rules and regulations pertinent to State of California procurement and disbursement activities.
- The SCO and Caltrans should agree on the best way to process claims to fulfill the requirements of the Memorandum of Understanding. The SCO and Caltrans should then revise the Memorandum of Understanding based on the mutually agreed-upon procedures.

Caltrans' Response

> Caltrans Accounting believes the proposed modified MOU relating to the CAL-Card Program Review satisfies any potential risk by outlining an internal audit that would be performed according to SCO guidelines and applicable standards. Caltrans' Internal Auditors conducted two CAL-Card Audits this year (P3000-399, CAL-Card Approving Officials Audit and P3000-392, Reports for CAL-Card Transactions Audit). Caltrans Internal Audits is independent of all officers and functions of the Caltrans' CAL-Card Program. Therefore, for the best use of taxpayer funds, Caltrans requests that SCO invoke the MOU's Program Review Provisions, Section K, which provides for comprehensive audits by Caltrans' Internal Audits to minimize review costs.

Caltrans agrees the MOU should be modified to reflect a realistic number of claims. Due to the volume of CAL-Card transactions, cardholders, and the 1-inch SCO requirement, Caltrans has always submitted between 16 and 23 claims per month. Caltrans proposes to submit no more than 25 claims per month.

SCO's Comment

Caltrans concurs with our finding and recommendation. We acknowledge Caltrans' intent to implement our recommendation.

FINDING 3—
Not adhering to CAL-Card Handbook guidelines

We determined that Caltrans did not always adhere to its procurement guidelines. Based on testing performed, Caltrans does not ensure that cardholders follow the CAL-Card Handbook guidelines to support their expenditures. Based on analysis of the testing performed, the cardholders repeatedly violated the rules as follows:

- Items were not pre-approved before purchases were made—the invoice date was prior to the purchase approval authority date;
- Statements of account were not submitted in a timely manner;
- Cardholders purchased prohibited items; and
- Supporting documentation was not always maintained.

We analyzed the US Bank month-end reports provided by the Chief of Caltrans' Commodity and CAL-Card Payment Branch. Out of a population of 184 reports, we found the following exceptions:

- 2 exceptions (1%) totaling $221 (0.2%) related to Statements of Account were not submitted in a timely manner
- 26 exceptions (14%) totaling $25,066 (30%) related to items purchased without prior approval
- 2 exceptions (1%) totaling $179 (0.2%) related to purchase of prohibited items
- 12 exceptions (6.5%) totaling $2,523 (3%) related to a lack of properly maintained supporting documents

The CAL-Card Handbook, Division of Procurement and Contracts, Chapter 2, Section 2.4, Cardholder Responsibilities, states:

1. Use the CAL-Card for official use only.
2. Use the CAL-Card within the procurement and contracting guidelines set forth by the State, Department, US Bank and Districts/Divisions.
3. Meet departmental deadlines for completion of clearing PCARS transactions to DOA for payment of the invoice. Refer to Chapter 8.1 Late or Incomplete Submittals of the CAL-Card Handbook.
4. Maintain the security of the CAL-Card.
5. Promptly notify US Bank, Approving Official and CAL-Card Unit of lost or stolen cards and fraudulent use.

6. Keep account numbers and documents out of open view to prevent unauthorized use.
7. Create the Purchase Request in PCARS before making the purchase.
8. Verify that the vendor is on file with TRAMS before making the purchase, or submit a completed Form STD.204 prior to making the purchase.
9. Do not allow others the use of your CAL-Card.
10. Obtain supervisor or approving official approval prior to purchases.
11. Sign the SOA certifying that the purchases listed are for official use of the State of California.

Further, Chapter 2, Section 2.7, Approving Official Responsibilities, states:

The general responsibilities of the Approving Officials (AO) include:

1. Ensure that before making a purchase, the Cardholder has prepared and obtained supervisory approval for the Purchase Request supporting each purchase (see CH 3.1 of the CAL-Card Handbook).
2. Ensure the CAL-Card is used only for official use and within the procurement and contract policies and procedures set forth by the State, Department, District / Division and US Bank, and signify by signature on the SOA.
3. Review assigned Cardholder's charges and the SOA to ensure that purchases are for official use and within appropriate categories and that proper documentation is provided. This review and approval cannot be delegated except to another Approving Official or Approving Official Delegate already designated in the PCARS program. Do not share your password with others.
4. Meet prescribed deadlines established by US Bank and DOA for submission of the SOA and other documents for payment of invoices, including completing PCARS work by the established deadline. Failure to do so could result in the bank's suspension of ALL Cardholders in the Level (i.e., District and Division) for late payments.
5. Ensure copies of each SOA package are kept in a central location and in accordance with the departmental Retention Schedule.
6. Keep account numbers and documents out of open view to prevent unauthorized use.
7. Inform the CAL-Card Unit of any changes with the Cardholder and or Approving Official account (i.e. account cancellation, retirement, account to be voluntarily closed).

3.11 Record Retention

Records of all CAL-Card transactions must be centrally and securely retained in the purchasing Division / District for two years (plus the current fiscal year) then, if necessary, transferred to secure storage for an additional three years for a total of five years plus the current fiscal year. (For additional information, see the Caltrans Acquisition Manual, CH 8 (Rev 7/2008)).

The Memorandum of Understanding (dated December 17, 1997), General Provisions, Section B and Section C, states that Caltrans should:

> Retain the above documentation at a central location in Sacramento. . . . Provide the SCO with ready access to all CAL-Card documentation. . . .

Recommendation

Caltrans should ensure that cardholders and approving officials comply with the Caltrans CAL-Card Handbook, specifically in the areas of ensuring that purchases receive prior approval and have supporting documentation.

Caltrans' Response

> The CAL-Card Handbook and on-line CAL-Card training set forth the requirement that cardholders must obtain prior approval before making a purchase. This requirement was reinforced with the CAL-Card Liaisons during a recent teleconference. The CAL-Card Liaisons were instructed to remind their approving officials and cardholders of this requirement.
>
> In September 2011, DPAC issued an Information Bulletin to all Caltrans employees, informing them of the new policy for addressing CAL-Card Program violations. Under the new policy, cards are cancelled following three violations (e.g., prohibited purchases, late Statement of Account reconciliation(s), etc.) during a three-year period.

SCO's Comment

Caltrans concurs with our finding and recommendation. We acknowledge Caltrans' intent to implement our recommendation.

FINDING 4—Cardholders are circumventing single-purchase limits

Caltrans cardholders improperly used CAL-Cards to make split purchases for services provided by a vendor. In addition, some cardholders are using their cards to circumvent the $5,000 per day purchase limit and/or avoid the formal procurement process for products or services of more than $5,000.

We received a file from the Chief of Caltrans' Commodity and CAL-Card Payment Branch. The file contained transactions from June 2009 through February 2011 from US Bank. We created an extract file using Audit Command Language's query function on the amount and transaction date. We then isolated transactions in excess of $4,999 for testing and judgmentally selected 17 of 34 transactions (50%) for a total amount of $95,564.

Based on our analysis of the transactions selected and the supporting documentation, we believe some cardholders are splitting purchases and therefore circumventing the competitive bid process or bypassing the control that limits each transaction to $5,000. Of the 17 transactions, 10 transactions ($49,970) were split payments for services rendered, such as re-grading, painting, pressure-washing, and trench-shoring.

We reviewed a report created by the Chief of Caltrans' Commodity and CAL-Card Payment Branch. This report was available on the old PCARS system. Our review of 15 transactions from the PCARS report determined that Caltrans Accounting reported split purchases and the Division of Procurement and Contracts (DPAC) issued appropriate action(s) to the cardholders. However, Accounting did not report 6 of 15 (40%) of the transactions ($12,054) as split purchases to DPAC. The CAL-Card Coordinator believes that these are all split purchases.

The CAL-Card Handbook, Section 1.7, Spending Limitations, states:

> There are two (2) spending limits established for Cardholders:
>
> - Single Purchase Limit: $4,999.99 for any single purchase transaction (for responses to US Bank, use $5,000).
> - 30-Day Spending Limit: $50,000 per 30 day billing cycle.
>
> Services: Services of $5,000 or more require a contract. The Public Contract Code requires services of $5,000 or more be advertised in the California State Contract.
>
> Register and competitively bid, unless exempted otherwise (SCM §5.80; GC §14825 et seq.; PCC §10340). Therefore the same repetitive services purchased by a Cardholder cannot exceed $4,999.99 in a 12 month period.
>
> DPAC closely monitors services over $5,000 and has an intervention program to address prohibited purchases. Refer to Chapter 8 of the CAL-Card Handbook for further information.

Further, Section 1.8, Splitting of Orders, states:

> Orders shall not be split to circumvent competitive bidding and/or advertising.

Finally, Section 5.15, Service Contracts, states:

> Services that exceed $5,000 by law require advertising in the California State Contracts Register (unless exempt by statute or State policy), competitive bidding, and a written contract.
>
> A service contract invoice cannot be paid with a CAL-Card because service contracts as a general rule exceed the CAL-Card $5,000 single purchase limit.

<u>Recommendation</u>

Caltrans should explore options for generating reports to alert DPAC of potential split payments, such as the report used on the old PCARS.

<u>Caltrans' Response</u>

> During July 2011, Caltrans implemented Advantage, a new financial management system. DPAC is exploring options to expand the reporting capabilities of Advantage to include potential split purchases.

<u>SCO's Comment</u>

Caltrans concurs with our finding and recommendation. We acknowledge Caltrans' intent to implement our recommendation.

OBSERVATION—Cardholders can receive goods directly without verification

District Office 10 cardholders can receive goods directly from the vendor.

Based on discussions with two cardholders and two approving officials at District Office 10, cardholders are allowed to receive goods directly, which is the purpose of possessing a card. However, orders such as those for office supplies, tools, or equipment parts are not always verified by the supervisor, approving official, or other personnel in addition to the cardholder.

The CAL-Card Handbook, Division of Procurement and Contracts, Receipt of Good and Services, states:

> Cardholders must accurately and timely validate the receipt of all ordered goods or services delivered by suppliers.
>
> The responsible manager will identify the person accountable for validation of receipt for every transaction.

The State Contracting Manual (SCM), Volume 2, Purchasing Authority Manual, Section 1.A4.4, states:

> Departments with any type of purchasing authority must always be mindful to maintain sufficient separation of duties in order to reduce the risk of error or fraud in the department's purchasing program.
>
> Key duties and responsibilities should be segregated to separate the responsibilities for: conducting the procurement, approving purchase documents, acknowledging and receiving goods and services, approving invoices, and preparing payments.
>
> **Note:** No one person should control more than one of the key aspects of a procurement activity.

SAM Section 20050, Internal Control, Financial Integrity and State Manager's Accountability Act, states:

> Internal accounting controls comprise the methods and procedures directly associated with safeguarding assets and assuring the reliability of accounting data. Internal administrative controls comprise the methods and procedures that address operational efficiency and adherence to management policies.

<u>Recommendation</u>

While the purpose of a CAL-Card is to provide cardholders with autonomy to purchase items, SCO recommends that Caltrans require that products ordered, specifically office supplies, go through the mail room or other unit to prevent cardholders from receiving the goods directly.

<u>Caltrans' Response</u>

> The CAL-Card Handbook, Chapter 3, Section 3.5, Receipt of Good/Services, states the "Cardholders must accurately and timely validate the receipt of all ordered goods or services delivered by suppliers." Most districts/units do not have a mailroom/central location or staff resources to perform stock receiving on behalf of the cardholder. However, to ensure that there is no conflict of interest in ordering and receiving goods. Caltrans will implement and add to the

CAL-Card Handbook a requirement that another employee or manager in the same office must verify receipt of the items ordered and sign the receiving record or the authorizing document.

SCO's Comment

Caltrans concurs with our observation and recommendation. We acknowledge Caltrans' intent to implement our recommendation.

Attachment—
Caltrans' Response to
Draft Audit Report

DEPARTMENT OF TRANSPORTATION
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Flex your power!
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January 20, 2012

Mr. Jeffrey V. Brownfield, Chief
Division of Audits
State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95814

Dear Mr. Brownfield:

The California Department of Transportation's (Caltrans) response to the State Controller's Office audit of the CAL-Card Program, dated November 29, 2011, is attached for your information. We appreciate the opportunity to work with your staff to ensure Caltrans' policies and procedures comply with State laws and regulations.

If additional information is needed, please contact Francesca Negri, Chief, Division of Procurement, at (916) 227-6100.

Sincerely,

MALCOLM DOUGHERTY
Acting Director

Enclosure

c: Norma Ortega, Deputy Director, Finance, Caltrans
Francesca Negri, Chief, Division of Procurement and Contracts, Caltrans
Clark Paulsen, Chief, Division of Accounting, Caltrans

Caltrans' Response to the State Controller's Office
Cal-CARD Program Audit
Attachment A

Recommendation 1:

Caltrans' DPAC should take the lead, with CAL-Card Payment Section's support, and develop a process by which to ensure that approving officials are held accountable for not reviewing the back-up details for purchases prior to approving the Statement of Account.

Caltrans should ensure that approving officials and human resource personnel are aware of the importance of cancelling the CAL-Cards of separating and transferring employees, and that a process is established by which Human Resources may notify DPAC of employee transfers and separations.

Caltrans' DPAC should take the lead, with the CAL-Card Payment Section's support to ensure that district office cardholders and approving officials are aware of the roles and responsibilities of the CAL-Card liaisons. This can be accomplished by updating the CAL-Card Handbook and through communication and training.

Caltrans' Internal Audits should expand its scope to review district office practices to ensure compliance by cardholders, approving officials, liaisons, and human resource personnel.

Caltrans Response: The CAL-Card Handbook and on-line CAL-Card training cover the roles and responsibilities of cardholders and approving officials. This finding will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012. DPAC will also explore the feasibility of developing a separate on-line training course for approving officials by June 30, 2012. Approving officials are held accountable by the implementation of the CAL-Card Three Strikes Policy (issued September 12, 2011) where three "strikes" (violations) in a 3 year period will result in an automatic card cancellation. The approving official is notified each time there is a violation and is given an opportunity to take corrective action. The approving official's immediate supervisor is also notified of all violations, and their second and third line supervisors are notified after the first violation.

The CAL-Card Handbook and on-line CAL-Card training instructs approving officials and cardholders to notify the CAL-Card Unit of any changes such as transfers, retirements, and separations of employees. Additionally, DPAC receives a weekly separation report from Human Resources. This report is regularly reviewed and reconciled against open CAL-Card accounts. This finding will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012. DPAC will request that Human Resources provide notification of staff transfers and will continue to reemphasize the need for approving officials and cardholders to notify DPAC upon cardholder separation.

The revised CAL-Card Handbook (which is in final review) and the on-line CAL-Card Training addresses the role of CAL-Card Liaisons. Training must be renewed annually. Earlier this year DPAC requested that CAL-Card Liaisons collect training certificates and introduce themselves to cardholders and approving officials. During a recent CAL-Card Liaison teleconference, DPAC discussed the importance of keeping their approving officials and cardholders abreast of issues.

DPAC recommended that liaisons schedule quarterly meetings with cardholders and approving officials. SCO's findings and recommendations will be discussed with the CAL-Card Liaisons at the next teleconference in January 2012.

The scope of the CAL-Card Approving Official audits currently performed by Caltrans Internal Audits, already cover district practices to ensure compliance by cardholders and approving officials. Future audits will incorporate compliance activities for the CAL-Card liaisons and human resource personnel.

Recommendation 2:

Caltrans should ensure compliance with the external audit requirements of the Memorandum of Understanding (General Provisions, Section M). The audit is to be conducted every other year to determine whether the program is in compliance with all applicable rules and regulations pertinent to State of CALifornia[sic] procurement and disbursement activities.

The SCO and Caltrans should agree on the best way to process claims to fulfill the requirement of the Memorandum of Understanding. The SCO and Caltrans should then revise the Memorandum of Understanding based on the mutually agreed-upon procedures.

Caltrans Response: Caltrans Accounting believes the proposed modified MOU relating to the CAL-Card Program Review satisfies any potential risk by outlining an internal audit that would be performed according to SCO guidelines and applicable standards. Caltrans' Internal Auditors conducted two CAL-Card Audits this year (P3000-399, CAL-Card Approving Officials Audit and P3000-392, Reports for CAL-Card Transactions Audit). Caltrans Internal Audits is independent of all officers and functions of the Caltrans' CAL-Card Program. Therefore, for the best use of taxpayer funds, Caltrans requests that SCO invoke the MOU's Program Review Provisions, Section K, which provides for comprehensive audits by Caltrans' Internal Audits to minimize review costs.

Caltrans agrees the MOU should be modified to reflect a realistic number of claims. Due to the volume of CAL-Card transactions, cardholders, and the 1-inch SCO requirement, Caltrans has always submitted between 16 and 23 claims per month. Caltrans proposes to submit no more than 25 claims per month.

Recommendation 3:

Caltrans should ensure that cardholders and approving officials comply with the Caltrans CAL-Card Handbook, specifically in the areas of ensuring that purchases receive prior approval and have supporting documentation.

Caltrans Response: The CAL-Card Handbook and on-line CAL-Card training set forth the requirement that cardholders must obtain prior approval before making a purchase. This requirement was reinforced with the CAL-Card Liaisons during a recent teleconference. The CAL-Card Liaisons were instructed to remind their approving officials and cardholders of this requirement.

In September 2011, DPAC issued an Information Bulletin to all Caltrans employees, informing them of the new policy for addressing CAL-Card Program violations. Under the new policy, cards are cancelled

following three violations (e.g., prohibited purchases, late Statement of Account reconciliation(s), etc.) during a three-year period.

Recommendation 4:

Caltrans should explore options for generating reports to alert DPAC of potential split payments, such as the report used on the old PCARS.

Caltrans Response: During July 2011, Caltrans implemented Advantage, a new financial management system. DPAC is exploring options to expand the reporting capabilities of Advantage to include potential split purchases.

Observation Recommendation:

While the purpose of a CAL-Card is to provide cardholders with autonomy to purchase items, SCO recommends that Caltrans require that products ordered, specifically office supplies, go through the mail room or other unit to prevent cardholders from receiving the goods directly.

Caltrans Response: The CAL-Card Handbook, Chapter 3, Section 3.5, Receipt of Goods/Services, states the "Cardholders must accurately and timely validate the receipt of all ordered goods or services delivered by suppliers." Most districts/units do not have a mailroom/central location or staff resources to perform stock receiving on behalf of the cardholder. However, to ensure that there is no conflict of interest in ordering and receiving goods, Caltrans will implement and add to the CAL-Card Handbook a requirement that another employee or manager in the same office must verify receipt of the items ordered and sign the receiving record or the authorizing document.

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