

CAL-CARD PROGRAM

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

REPORT NUMBER 2000-001.3, JULY 2000

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 cardholders 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.***
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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. We reviewed the administration of the CAL-Card program at the seven state departments that used the program most heavily during this period. These seven departments are listed in the box on the following page. Although our review did not identify widespread personal abuses, we found 401 errors out of a total of 4,964 tests, an error rate of 8.1 percent. These errors included purchases with no detailed receipt or purchases specifically prohibited by departmental policies. We concluded that departments can more effectively use the program by integrating it into their overall procurement practices. In addition, some of the control features built into the CAL-Card program are not working as originally intended. Specifically, we found the following conditions:

Finding #1: Some departments may have more cardholders than needed.

Although the CAL-Card 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, not all departments are using the CAL-Card program efficiently. Specifically, of the seven departments we visited, two—the Department of Parks and Recreation (Parks and Recreation) and the Department of Fish and Game—have issued cards to more than 40 percent of their employees, while another two, including the California Conservation Corps, have issued cards to more than 30 percent of their employees. We question whether this many employees should have procurement as one of their duties.

Finding #2: Small purchases are not always well planned.

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 19 of the 31 largest departments (61 percent) 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.

Finding #3: Growth in CAL-Card volume has increased administrative workload.

One of the benefits the CAL-Card program was to provide a reduction in more labor-intensive purchasing methods. However, of the seven departments we visited, at least two—Parks and Recreation and the Department of Transportation (Transportation)—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. Moreover, 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. 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.

We reviewed the use of Cal-Cards at the following departments:

- ✓ 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 recommended that departments 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.

Department Action: Corrective action taken.

General Services has created an internal task force to review existing policies, procedures, and practices. To date, the task force has focused on updating existing CAL-Card policies and procedures. A draft version of the revised policies and procedures was scheduled to be finalized by August 31, 2001, and sent to the business services office for review. General Services has given its business services office the responsibility to oversee and monitor its CAL-Card program.

Transportation reports that its internal audit of its automated purchasing card system is almost complete. The audit includes a review of the methods used to determine the appropriate number of cardholders and approving officials. Transportation plans to implement recommendations from the audit once it is finalized.

The Resources Agency, which oversees four of the departments we audited—Parks and Recreation, the Department of Forestry and Fire Protection, the Department of Fish and Game, and the California Conservation Corps—reported that all of its departments have reviewed their CAL-Card usage. Departments using the CAL-Card have implemented changes in the areas of concern noted in the audit report or have a schedule outlined to complete implementation before October 1, 2001. Specifically, all departments have reviewed the number of cardholders and approving officials and have made changes where needed.

The Employment Development Department (Employment Development) indicated that it has completed an analysis of its existing CAL-Card program and has implemented corrective action where applicable.

Finding #4: CAL-Card sometimes supplants other more appropriate procurement methods.

Two departments—the California Conservation Corps and General Services—used the CAL-Card for purchases of more than \$15,000 that would have been better handled by standard procurement methods. In addition, cardholders at Transportation and General Services had vendors split purchases to circumvent spending limits. We also found 61 purchases totaling \$55,503 where cardholders used the CAL-Card for travel-related purchases for which the State has established other procurement methods. These purchases, such as lodging, meals, airfare, gasoline, and car rentals, are in direct violation of statewide CAL-Card guidelines.

We recommended that departments 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.

Department Action: Corrective action taken.

General Services noted that its internal task force is developing and implementing a comprehensive CAL-Card training program for cardholders and approving officials. The task force has decided that an interactive training course located on the department's intranet is the best approach for meeting this goal. A training course has been selected and will be implemented when the revised CAL-Card policies and procedures are finalized.

Transportation has completed comprehensive CAL-Card training in all districts for cardholders and approving officials. The training covered alternate procurement methods available as well as CAL-Card policies and procedures. During the 2001–02 fiscal year, Transportation plans to revise the CAL-Card Handbook and VISA Tips Guide and conduct follow-up training for cardholders and approving officials.

The Resources Agency reported that its departments have improved training requirements and programs. All cardholders must attend training classes and certify that they have completed such training before cards are issued. In addition, departments have instituted refresher training.

Employment Development indicated that it has an ongoing process to communicate the CAL-Card program's role in procurement through its CAL-Card manual and the initial training of cardholders. It also noted that it has developed an electronic mail database of all CAL-Card cardholders and approving officials to facilitate the communication of updated CAL-Card information.

Finding #5: Departments can improve controls over their CAL-Card programs.

Effective CAL-Card programs have four key components: policies, training, monitoring, and enforcement. Every department is responsible for training participants in the program, yet of the seven departments we tested, neither Transportation, the California Conservation Corps, nor General Services makes training

mandatory for cardholders and approving officials. 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. In addition, poor implementation of the review process at some departments has weakened it as a control. We found that the initial review by the approving official is the most significant review a department performs. However, our testing indicated that reviews by approving officials do not always identify purchases of prohibited commodities and services. Moreover, the reviews do not always detect purchases that are not supported, that are missing required preapproval, or that violate other departmental policies.

We recommended that departments institute initial and ongoing training for cardholders and approving officials and develop monitoring systems that include reviews of policies specific to the CAL-Card program and department-specific elements, such as preapprovals. In addition, departments should 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.

Department Action: Corrective action taken.

General Services' new training course will include a module that emphasizes the compliance monitoring responsibilities of approving officials. Further, the business services office will establish procedures to ensure the ongoing monitoring of CAL-Card usage within the department. Also, General Services' audit section is including coverage of CAL-Card usage in its biennial review of the department's systems of internal control. General Services noted that it is continuing to take appropriate actions when misuse is identified, including the removal of cardholders and approving officials from the program.

Transportation has completed training for cardholders and approving officials. In addition, Transportation is continuing to address post-payment monitoring in the CAL-Card program and establishing post-payment procedures. When the internal audit of its automated purchasing card system is finalized, Transportation plans to implement the audit recommendations.

The Resources Agency reported that its departments have strengthened their monitoring and enforcement policies. Where appropriate, departments have assigned additional monitoring staff. Departments have also strengthened consequences for inappropriate use of the CAL-Card and, in some instances, employees have been counseled for incorrect use of the card.

Employment Development noted that it has an ongoing process that requires training of all new cardholders and approving officials. Additionally, its CAL-Card staff is currently merging files into a new database that will allow more flexibility in tracking CAL-Card information. In an effort to strengthen the approving process, Employment Development has identified and trained alternate approving officials. In the future, new card requests will require that an alternate be identified at the time cards are requested. The cardholder, approving official, and alternate will be scheduled for training at the same time.

Finding #6: Control features provided by the bank are not working as intended.

Two primary controls that the sponsoring bank installed in the program—dollar limits and merchant category restrictions—are meant to prevent the misuse of the CAL-Card. However, dollar limits can be circumvented, and the use of merchant category restrictions actually limits the ability of cardholders to make legitimate purchases. We found three instances in our testing where cardholders were able to circumvent either the single purchase limit or the 30-day purchase limit. Further, because of the way the bank has grouped vendor types into merchant codes, two departments 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. For example, one merchant code includes 82 separate vendor types that encompass stores selling computer equipment, hardware, office supplies, jewelry, flowers, and cigars. Although many of the vendors in this code provide goods that are appropriately obtained with the CAL-Card, others are much less likely to sell items that staff can legitimately purchase. However, because one merchant code includes all these vendors, departments cannot block the inappropriate vendors without also blocking the appropriate ones.

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

Department Action: Partial corrective action taken.

General Services recognizes the need for the capability to restrict uses of the CAL-Card through the merchant coding system and included this in the request for proposals issued in June 2000 for the new contract. The existing contractor was the successful competitor. However, the contractor did not propose significant improvements to the merchant coding system because of limitations in what could be reasonably provided without significant cost to the State.

