State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: FRANCESCA NEGRI, Chief
Division of Procurement and Contracts

CLARK PAULSEN, Chief
Division of Accounting

MICHAEL MILES
District Director
District 7

LAURIE BERMAN
District Director
District 11

Date: June 27, 2013

File: P3000-0412

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Subject: **FINAL AUDIT REPORT ON THE CAL-CARD PROGRAM**

Attached is Audits and Investigations' final audit report on the CAL-Card Program. Your response has been included as part of our final report. This report is intended for your information and Department Management.

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. If all findings have not been corrected within 360-days, please continue to provide status reports every 180-days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits and Construction Claims, at (916) 323-7107, or myself at (916) 323-7122.

Attachment

c: Malcolm Dougherty, Director
Norma Ortega, Acting Chief Deputy Director
Steven Keck, Acting Chief Financial Officer
Megan Rettke, Chief, Non-IT Services and Commodities,
Division of Procurement and Contracts
Gilbert Petrissans, Chief, Office of Commodity & Contract Payables
Duncan McIntosh, Deputy District Director of Administration, District 7
Cory Binns, Chief Deputy District Director, District 11
Lorna Rice, Deputy District Director of Administration, District 11
Laurine Bohamera, Chief, Internal Audits and Construction Claims, Audits and Investigations
Kevin Yee, Audit Manager, Audits and Investigations

P3000-0412
CAL-Card Program
June 2013

William E. Lewis
Assistant Director
Audits and Investigations
California Department of Transportation

REPORT CONTENTS

AUDIT REPORT	Page
Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	3

FINDINGS AND RECOMMENDATIONS

DISTRICTS 7 AND 11

1. Prohibited and Restricted Purchases	4
2. CAL-Card Control Weaknesses	8
3. Property Control Weaknesses	9

DIVISION OF ACCOUNTING

4. Review and Reporting Weaknesses	11
5. Inaccurate Vendor Transaction Reports Within Advantage	11

ATTACHMENTS

1. District 7's Response to the Draft Report
2. District 11's Response to the Draft Report
3. Division of Procurement and Contracts' Response to the Draft Report
4. Division of Accounting's Response to the Draft Report

Summary

Audits and Investigations has completed an audit of the California Department of Transportation's (Caltrans) CAL-Card program. The purpose of the audit was to determine if CAL-Card transactions are in compliance with state requirements and Caltrans policies and procedures.

Our audit disclosed that Caltrans' established policies, procedures and internal controls for CAL-Card are generally adequate, except for the issues noted below:

- Prohibited and Restricted Purchases.
- CAL-Card Control Weaknesses.
- Property Control Weaknesses.
- Review and Reporting Weaknesses in Division of Accounting.
- Inaccurate Vendor Transaction Reports Within Advantage.

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 CAL-Card is issued by US Bank through a Master Service Agreement established by DGS.

Caltrans uses the CAL-Card program to purchase small dollar and high volume repetitive items. The Division of Procurement and Contracts (DPAC) administers the CAL-Card Program and is responsible for developing written policies, procedures, and control measures to ensure compliance with DGS requirements. Additionally, DPAC is responsible for developing training for Cardholders and Approving Officials and monitoring CAL-Card activity to ensure compliance.

Caltrans Division of Accounting (DofA), Office of Commodity and Contracts Payables, CAL-Card Payments Section, is responsible for preparing claim schedules to the State Controller's Office (SCO) for payment to US Bank for Caltrans' CAL-Card purchases. The CAL-Card Payments Section is also responsible for reviewing Cardholder Statement of Account (SOA) packages for accuracy and completeness, and reporting Cardholder violations to DPAC.

Between July 2011 and July 2012, the CAL-Card Payments Section reviewed over 130,000 CAL-Card purchases totaling approximately $76 million. Caltrans was granted a delegation of responsibility for the review and retention of CAL-Card program purchasing documentation by the SCO through a Memorandum of Understanding (MOU) dated January 1, 1998. This MOU was revised on March 1, 2013, to allow retention of purchasing documentation in the districts, divisions, and programs. As part of this MOU, Audits & Investigations is required to

Background (Continued)

review internal controls and transactions paid through the CAL-Card program on a biennial basis.

Caltrans has approximately 1,285 Cardholders and 460 Approving Officials. Cardholders are responsible for using the CAL-Card within the procurement and contracting guidelines and obtaining approval prior to purchase. The Approving Officials are responsible for reviewing the Cardholders' SOA packages to verify that all required documents are attached, approvals are obtained, costs are economical, and purchases comply with state requirements and Caltrans policies and procedures. In addition, Approving Officials are responsible for ensuring that copies of Cardholders' SOA packages with all supporting documents are centrally filed in the districts or divisions and submitted timely to the CAL-Card Payments Section.

As a result of previous audit findings, DPAC issued a Three Strikes Policy in 2011 to reduce the number of recurring prohibited purchases by automatically cancelling a cardholder's card after three violations of the CAL-Card policy within a three year period.

Objectives, Scope and Methodology

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing and included tests of transactions for Districts 7 and 11. The objectives of the audit were to determine whether:

- CAL-Card transactions comply with the CAL-Card Handbook, state requirements, and Caltrans policies and procedures.
- Cardholder SOAs and supporting documents are reviewed, approved, and submitted to the CAL-Card Payments Section in a timely manner.
- SOA packages contain all required supporting documentation.
- SOA packages are retained by Approving Officials or their districts/divisions/programs for the required five-year retention period.
- CAL-Card liaisons are assigned to the districts/divisions/programs and have defined roles and responsibilities.
- Equipment purchases are tagged and recorded as required.

Conclusion

Our audit disclosed that CAL-Card transactions are not consistently in compliance with CAL-Card administrative policies and procedures. Specifically, we noted the following:

- Prohibited and Restricted Purchases.
- CAL-Card Control Weaknesses.
- Property Control Weaknesses.
- Review and Reporting Weaknesses in Division of Accounting.
- Inaccurate Vendor Transaction Reports Within Advantage.

Conclusion (Continued)

Although testing of CAL-Card transactions was limited to Districts 7 and 11, we believe the findings discussed above maybe universal as similar findings in other districts, divisions, and programs have been reported in prior audits and reviews.

Views of Responsible Officials

We requested and received responses from the Division Chiefs of DPAC, DofA, and the Directors of Districts 7 and 11. These officials have concurred with the findings and recommendations. Please see the Attachments for their complete response.

William E. Lewis
Assistant Director
Audits and Investigations

June 19, 2013

FINDINGS AND RECOMMENDATIONS

DISTRICT SPECIFIC FINDINGS

Finding 1 - Prohibited and Restricted Purchases

We reviewed 262 Statement of Accounts (SOAs) with a total of 1,002 purchase transactions in Districts 7 and 11. Of the 1,002 CAL-Card transactions reviewed, 692 (69 percent) were from District 7 and 310 (31 percent) were from District 11. Our review of the 1,002 CAL-Card Purchase Orders (CPOs) noted 93 (9 percent) instances of prohibited purchases as discussed below.

Prohibited Purchases

- **Past Due Invoices -** Seventeen payments of past due invoices in District 7 and nineteen payments in District 11. CAL-Card Handbook section 5.6, Past Due Invoices, states "A past due invoice cannot be paid with a CAL-Card."
- **Third Party Payments -** Two third party payments in District 7 and four payments in District 11. CAL-Card Handbook section 5.19, Third Party Payments, states that "Payments through third party agents such as PayPal, VeriSign and others are prohibited."
- **Prepayments -** One transaction in District 7 was a prepayment for services and one transaction in District 11 was a prepayment for goods. CAL-Card Handbook section 5.11, Prepayment, prohibits payment prior to the receipt of goods or services.
- **Service Contracts -** Eight payments for recurring services in District 7 that should require a service contract and not be paid through the CAL-Card. CAL-Card Handbook section 5.15, Service Contracts, states "Services that exceed $5,000 in twelve (12) months, from any single vendor (for the same type of service), are otherwise prohibited."
- **Split Purchases -** Thirty three split purchases in District 7 and five split purchases in District 11. CAL-Card Handbook section 5.3, Splitting Purchases / Exceeding the Single Purchase Limit, states that "Splitting purchases and/or exceeding the Single Purchase Limit is a prohibited use of the CAL-Card."
- **Visa Surcharge -** One payment in District 7 included a convenience fee. CAL-Card Handbook section 5.21, Visa Surcharge, states that "Credit card fees for use of the CAL-Card are prohibited, as well as any other fee that does not result in a direct value to the State."
- **Open Training Coupons/Vouchers -** Two invoices in District 11 for training lacked the information required to use CAL-Card as a payment method. CAL-Card Handbook 5.8, Open Training Coupons/Vouchers, states "The CAL-Card cannot be used to purchase non-descriptive training, i.e.,

Finding 1 – (Continued)

lacking specific date, location of training and employee name…"

Failure to Use Mandatory State Contracts

Many of the Statewide Commodity Contracts are mandatory for all state agencies and must be used when purchasing items contained in the contract. Some mandatory contracts allow state agencies to purchase from a Small Business, Microbusiness, or Disabled Veteran Business Enterprise by using the "Off-Ramp" provision of the contract. Cardholders must comply with the "Off-Ramp" requirements contained in the contract when exercising this option.

- Nineteen purchases of office supplies in District 7, and thirteen purchases in District 11, did not comply with the requirement to use the mandatory Statewide Commodity Contract; or failed to provide documentation that the "Off-Ramp" option was used per contract instructions.
- Thirteen purchases of ink or toner cartridges in District 7, and six purchases in District 11, did not comply with the requirement to use the mandatory Statewide Commodity Contracts; or failed to provide documentation that the "Off-Ramp" option was used per contract instructions.

CAL-Card Handbook section 1.16, Leveraged Procurement Agreements (LPA's), states in part "In order to leverage the State's purchasing power it is critical that, for those identified goods and services strategically sourced, the State maximizes its purchasing power through the LPA's."

Failure to Obtain Information Technology (IT) Certification Unit Approval

Fifteen purchases in District 7 did not have prior IT approval as required. CAL-Card Handbook section 4.6, Information Technology (IT) Purchases, states that "All IT purchases require a justification (IT Justification Form) and prior written authorization by the IT Certification Unit."

Lack of Itemized Invoice or Receipt

Seven purchases in District 7 and five purchases in District 11 did not have an itemized invoice or receipt as required. CAL-Card Handbook section 3.5, Invoice/Sales Receipt, states that "The Cardholder must obtain an itemized receipt or invoice directly from the supplier when ordered in person, by phone or via the Internet."

Failure to Obtain a Prison Industry Authority (PIA) Waiver

Twenty purchases in District 7 and sixteen purchases in District 11 did not have a PIA waiver as required. CAL-Card Handbook section 4.4, Prison Industry Authority (PIA) Purchases, states "State agencies are required by law to purchase any items manufactured by Prison Industry Authority or to obtain a waiver prior to the purchase of those items elsewhere." According to the Division of Procurement and

Finding 1 – (Continued)

Contracts (DPAC), there is ambiguity in this process. Therefore, DPAC will update the CAL-Card manual to provide succinct instructions, expectations and step-by-step procedures to CAL-Card users in accordance with the California Penal Code 2807 and State Administrative Manual (SAM).

Our review found that Cardholders are not always following proper procedures in the CAL-Card Handbook. Prohibited and restricted purchases continue to occur due to lack of proper education, training, delays in violation notifications, and failure to consistently apply corrective action measures.

Although the CAL-Card is a payment method, CAL-Card users are required to follow procurement policies and procedures. However, our review found that experience and knowledge of state procurement policies and procedures are not required for CAL-Card issuance. The only requirement for CAL-Card issuance is that the applicant must have permanent civil service status and complete Caltrans' CAL-Card training. The current training program to become a Cardholder and Approving Official is limited to an overview of the CAL-Card Handbook with multiple choice questions relating to the overview. Additionally, even though CAL-Card Liaisons are required to be knowledgeable about state requirements and Caltrans purchasing policies and procedures, they are not required to complete CAL-Card training.

A survey of twenty six Cardholders and Approving Officials revealed that sixty percent of Cardholders and fifty-seven percent of Approving Officials identified a lack of proper training as the source of the recurring findings. Although the CAL-Card Handbook provides guidelines, it is not detailed enough to provide adequate instructions for procurement, therefore; any training solely based on information contained in the handbook is insufficient. For example, the CAL-Card Handbook provides general information regarding IT purchases and the requirement for obtaining approval from the IT Certification Unit, but does not provide a list of commonly purchased items requiring approval. Furthermore, changes in processes and procedures are not updated timely in the CAL-Card Handbook. Instead, the changes are discussed during monthly CAL-Card Teleconference Meetings, included in meeting notes, but are not immediately reflected in the CAL-Card Handbook until the next update.

In addition, due to staffing issues in the DPAC CAL-Card Unit, violation notifications to Cardholders and Approving Officials occur months after the violations are identified by the CAL-Card Payments Section. For example, DPAC last notified Cardholders and Approving Officials of potential prohibited purchases and late submittals in September 2012 for May 2012 purchases. As a result, Cardholders and Approving Officials do not receive timely feedback

Finding 1 – (Continued)

to eliminate future violations. Finally, the enforcement of the Three Strikes Policy by DPAC has been met with continued resistance by district staff, and in some cases has not been implemented.

Noncompliance with the CAL-Card Handbook increases the risk of misuse, unauthorized purchases, and loss of state assets. In addition, non-compliance with CAL-Card requirements could result in Caltrans losing its CAL-Card purchasing authority.

Recommendation

We recommend Districts 7 and 11:

- Issue a memo reminding Cardholders and Approving Officials of the CAL-Card Handbook requirements.
- Remind Approving Officials to review for prohibited and restricted purchases, specifically for recurring findings as outlined above.

We recommend DPAC:

- Develop and implement comprehensive training to address prohibited and restricted purchases, specifically for recurring findings as outlined above.
- Require CAL-Card Liaisons to complete CAL-Card training.
- Develop a "Frequently Asked Questions" page to be included on the CAL-Card website.
- Modify the CAL-Card Handbook section 3.9, File Documentation, to require cardholders that use the "Off-Ramp" provision of the mandatory Statewide Commodity Contracts to submit the list of price quotes recorded on the Bid Quote Worksheet and the supporting bids to the Division of Accounting with the SOA packages.
- Work with the IT Certification Unit to develop a list of items requiring approval and post this list on the CAL-Card website.
- Remind Cardholders and Approving Officials of the requirement to obtain PIA approval prior to purchase.
- Provide timely feedback to Cardholders and Approving Officials regarding prohibited and restricted purchases, within 60 days from the date the CAL-Card Payment Section notifies DPAC of the violations.
- Review districts', divisions', and programs' CAL-Card procurement files on a sample basis to determine compliance with the State Controller's Office (SCO) Memorandum of Understanding (MOU) and compliance with CAL-Card Handbook requirements; communicate deficiencies to Cardholders and Approving Officials; and update policies and procedures as needed.
- Enforce the Three Strikes Policy.

Districts 7 and 11 Responses

Districts 7 and 11 responded that they will issue a memo to remind Cardholders and Approving Officials of the CAL-Card Handbook requirements as well as remind Approving Officials of their responsibility to review for prohibited and restricted purchases. In May 2013, the CAL-Card Payments Section conducted three sessions of CAL-Card training in District 7. Additionally, a link to a training video for processing CAL-Card transactions in the Advantage system was sent to District 7 Cardholders. District 11 will schedule all Cardholders and Approving Officials for refresher CAL-Card training.

Division of Procurement and Contracts' Response

DPAC is in agreement with the recommendations and is developing and implementing comprehensive CAL-Card training, modifying the CAL-Card Handbook as well as modifying their internal compliance review process to address the prohibited and restricted purchases. Please see attachment for their complete response.

Finding 2 – CAL-Card Control Weaknesses

In addition to the prohibited and restricted purchase violations discussed in Finding 1 above, our review of these transactions noted the following control deficiencies:

Purchase Prior to Approval

Three hundred sixty seven purchases (53 percent) in District 7 and two hundred seventeen purchases (70 percent) in District 11 were initiated prior to approval. On average, District 7 purchases occurred twenty four days and District 11 purchases occurred twenty days prior to approval. CAL-Card Handbook section 3.1, Purchase Requests/Material Transaction Document, states that "Approval is necessary before making any purchase, and the approval must be documented in the procurement file."

CAL-Card Purchase Order Prepared Late

Two hundred ninety nine CPOs (43 percent) in District 7 and ninety five CPOs (31 percent) in District 11 were prepared more than five calendar days after the date of purchase. On average, the CPOs were prepared in the districts twenty three days and twenty one days after purchase, respectively. CAL-Card Handbook section 3.1 requires that the CPOs be prepared prior to making the purchase, or as soon as possible thereafter.

Purchases Lacking Sufficient Justification

Three hundred forty seven CPOs (50 percent) in District 7 and one hundred fifty CPOs (48 percent) in District 11 did not have sufficient justification for the purchase, and did not specify the benefit to the state. CAL-Card Handbook section 3.1 requires that the CPO include the justification for and the description of the requested merchandise or product, specifying the benefit to the state.

We found that the majority of the purchases tested were initiated by the Division of Maintenance staff in the districts; and that they do not

Finding 2 – (Continued)

always have access to computers which delays the preparation and approval of the CPOs.

Timely review and approval of purchases by Approving Officials is essential to ensure that purchases comply with the CAL-Card Handbook. After the purchase occurs, the purchase may only be contested in cases of fraud. Noncompliance with the CAL-Card Handbook increases the risk of misuse, unauthorized purchases, and loss of state assets. In addition, non-compliance with CAL-Card requirements could result in Caltrans losing its delegated CAL-Card purchasing authority.

Recommendation

We recommend:

1. Districts 7 and 11 issue a memo reminding Cardholders and Approving Officials of the CAL-Card Handbook requirements for:
   - Prior approval of purchases and timely preparation of the CPOs.
   - Justifying their purchases by including a description of the goods/services and specifying the benefit to the state.
2. DPAC:
   - Review districts', divisions', and programs' CAL-Card procurement files on a sample basis to determine compliance with the SCO's MOU and also review files for the aforementioned findings.
   - Issue statewide reminders and instructions for items of noncompliance.
   - Clearly define what is meant by "as soon as possible thereafter" in the CAL-Card Handbook section 3.1 regarding preparation of CPOs.

Districts 7 and 11 Responses

Districts 7 and 11 responded that they will issue a memo to Cardholders and Approving Officials reminding them of the requirements for prior approval, timely preparation of CPOs, and sufficient purchase justification.

Division of Procurement and Contracts' Response

DPAC will remind and instruct Cardholders and Approving Officials of items of noncompliance via monthly CAL-Card Teleconference Meetings and CAL-Card E-Blasts. Additionally, DPAC is modifying the CAL-Card Handbook as well as their internal compliance review process to address the control weaknesses. Please see attachment for their complete response.

Finding 3 – Property Control Weaknesses

A review of thirty five equipment purchases in District 7 and five purchases in District 11 found weaknesses in property control procedures and recordkeeping.

Our review found that none of the equipment purchased had Caltrans tag numbers, and as a result, were never recorded in the Districts' property databases. SAM section 8651, Identification and Tagging,

Finding 3 – (Continued)

requires that all state property be tagged after purchase and SAM section 8650 requires that departments keep track of state property. In addition, Caltrans Property Control Manual (PCM), section 1.3, Responsibilities, states that Property Controllers in the districts are responsible for tagging, monitoring, and inventorying all expendable and nonexpendable state property within their respective district. Finally, CAL-Card Handbook, section 4.5, Equipment Purchases, states that all equipment costing $500 or more be controlled, identified and tagged.

We also found that property controllers in both districts were not notified of the purchases by Cardholders or DPAC. For those purchases where the correct designated object codes were used, DPAC failed to generate a report to notify property controllers of the equipment purchases. Additionally, some of the CPOs contained the wrong object codes. The correct designated object codes for equipment must be entered into the CPOs in Advantage to enable correct reporting of expenditures by object codes for districts. PCM, section 2.2, Controlling, Identifying and Tagging Equipment, states that the CAL-Card Unit will notify the Property Controllers of equipment purchases made with the CAL-Card on a monthly basis. Without sufficient property control processes and procedures, Caltrans will be unable to safeguard its assets, increasing the risk of loss of state assets.

Recommendation

We recommend:

1. Districts 7 and 11 issue a memo reminding Cardholders and Approving Officials of the requirements for tagging and recording equipment.
2. DPAC:
   - Remind Cardholders and Approving Officials statewide of the requirements for tagging and recording equipment.
   - Include a property control component in the training recommendation outlined in Finding 1.
   - The CAL-Card Unit report equipment purchases to the Property Controllers as required.

Districts 7 and 11 Responses

Districts 7 and 11 responded that they will issue a memo reminding Cardholders and Approving Officials of the requirements for tagging and recording equipment.

Division of Procurement and Contracts' Response

DPAC is developing and implementing comprehensive CAL-Card training and modifying their internal compliance review process to address the property control weaknesses. Additionally, DPAC will remind Cardholders and Approving Officials of the requirement for tagging and recording equipment via monthly CAL-Card Teleconference Meetings and CAL-Card E-Blasts.

Finding 4 – Review and Reporting Weaknesses

Of the two hundred seven prohibited and restricted purchases identified in Finding 1, one hundred thirty eight (67 percent) were not identified by the CAL-Card Payments Section and were not reported to DPAC.

The CAL-Card Payments Section reviews approximately ten thousand purchases per month, and prepares and submits claim schedules to the SCO for payment. Due to the volume of purchases and Prompt Payment Act requirements, Division of Accounting's ability to audit purchases in detail is limited. Additionally, DPAC requested that the CAL-Card Payments Section discontinue reporting certain findings because DPAC did not consider them to be prohibited. For example, DPAC requested that findings for recurring services not be reported since most of the Cardholders were in the process of obtaining service agreements.

Failure to identify prohibited and restricted purchases increases the risk of Cardholders repeating violations. Additionally, if certain violations are not reported to DPAC, proper corrective action such as notification of violation to Cardholders and ultimately elimination of cards will not occur.

Recommendation

We recommend the CAL-Card Payments Section report all violations identified to DPAC for follow-up.

Division of Accounting's Response

Division of Accounting agreed to report all violations identified to DPAC for follow-up.

Finding 5 – Inaccurate Vendor Transaction Reports Within Advantage

A review of an Advantage report for a vendor transaction history revealed that expenditures for another vendor were also included in the report. Advantage combines vendor transactions with the same Standard Industrial Classification code under one vendor when creating the CAL-Card payment request. This process in the system does not affect vendor payment, however; it results in overstatements and understatements of vendor expenditure reports. Lack of accurate vendor transaction reports, makes it difficult to audit or track payments made to a specific vendor. Division of Accounting is in the process of implementing changes in Advantage. The changes are pending testing.

Good business practice requires accurate financial data in order to promote and support sound management decisions, and provide auditable data.

Recommendation

We recommend the CAL-Card Payments Section request a change in Advantage to address this issue.

Division of Accounting's Response	Division of Accounting has requested a change in Advantage to correct the Vendor Transaction History reporting. Programming changes have been completed. Accounting is working with IT to validate and implement the changes.
Audit Team	Laurine Bohamera, Chief, Internal Audits and Construction Claims Kevin Yee, Audit Manager Veronica Kaldani, Auditor-in-Charge Nancy Serrato, Auditor David Wong, Auditor

ATTACHMENT

DISTRICT 7'S RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: WILLIAM E. LEWIS
Acting Assistant Director
Audits and Investigations

Date: June 19, 2013

From: MICHAEL MILES
District Director
District 7

Subject: **Response to Draft Audit Report of the Cal-Card Program (P3000 – 0412)**

After reviewing the draft audit report and participating in the exit conference, District 7 will be taking the following steps to address the findings of the audit.

District 7 Work Plan

Item	Steps	Completion Date	Person Responsible
Prohibited and Restricted Purchases	Distribute memo to all Cal-Card holders and Approving Officials with emphasis on prohibited purchases, failure to use mandatory State Contracts and failure to obtain Information Technology (IT) Certification Unit approval.	August 1, 2013	Duncan McIntosh DDD Administration
	The Cal-Card Payments Section conducted 3 sessions of Cal-Card training to Cal-Card Holders in District 7 in May 2013.	Completed : May 2013	
	A link to HQ Accounting website on Cal-Card Processing in AMS Advantage (training video) was sent to all District 7 Cal-Card Holders on record for review/ training on processing Cal-Card transactions.	Completed: June 11, 2013	
Cal-Card Control Weaknesses	Distribute memo to all Cal-Card holders and Approving Officials to strengthen the control of Cal-Card purchase process to avoid purchases without prior approval, late preparation of Cal-Card Purchase Order, and obtain sufficient purchases justification.	August 1, 2013	Duncan McIntosh DDD Administration

Property Control Weakness	Distribute memo to Property Controller, all Cal-Card Holders and Approving Officials stating that all equipment costing $500 or more be controlled, identified, and tagged.	August 1, 2013	Duncan McIntosh DDD Administration

Progress reports providing feedback on the status of the work plan items will be provided at 60-day, 180-day and 360-day milestones.

If you have any questions or need additional information, please contact Duncan McIntosh, Deputy District Director of Administration at (213) 897-0362.

c: Lindy K. Lee, Chief Deputy District Director
Duncan McIntosh, Deputy District Director, Administration

ATTACHMENT

DISTRICT 11'S RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Date: June 28, 2013

File: P-3000-0412

Lorna a Rice

From: LORNA RICE
Deputy District Director, Administration
District 11

Subject: **Response to Draft Audit Report of the CAL-Card Program for District 11**

After reviewing the audit report and participating in the exit teleconference, District 11 will be taking the corrective actions noted in Attachment 1 to address the findings of the report and implementing the recommendations noted on page 7.

A Memorandum to all affected District Divisions participating in the Cal-Card program shall be disseminated of the findings upon receipt of the final audit report. Corrective Actions and progress reports on the status of work plan action items will be provided at the 60-, 180-, and 360-day milestones. Corrective Action Plans for employees who are non-compliant will be addressed on a case-by-case basis. CAM 1113002372 - Materials Lab - Bond issue and Schedule

If you have any questions, please contact me at (619) 688-6672.

Attachment:
1) Corrective Action Plan in response to Draft Audit Report of the CAL-Card Program for District 11.

c: Laurie Berman, District Director, District11
Cory Binns, Chief Deputy District Director, District 11
Everett Townsend, Deputy District Director, Maintenance, District 11
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
Kevin Yee, Audit Manager, Audits and Investigations

D-11 Maintenance Corrective Action Plan to CAL-Card Program Audit
June 26, 2013

1) Prohibited and Restricted Purchases

Item	Steps	Completion Date	Person Responsible
Issue a Memo Reminding Cardholders and Approving Officials of the CAL-Card Handbook Requirements	Issue a memo to all Cardholders and Approving Officials that will cover the following established procedures: Prohibited Purchases: • Past Due Invoices • Third Party Payments • Prepayments • Split Purchases • Open Training Coupons/Vouchers Use of Mandatory State Contracts Itemized Invoices or Receipts Prison Industry Authority (PIA) Waiver Schedule all Cardholders and Approving Officials for refresher training.	July 1, 2013	Everett Townsend DDD Maintenance
Remind Approving Officials to Review for Prohibited and Restricted Purchases, Specifically for Recurring Findings	Issue a memo to all Approving Officials to review for prohibited and restricted purchases and their responsibility to meet CAL-Card handbook guidelines and requirements.	July 1, 2013	Everett Townsend DDD Maintenance

2) CAL-Card Control Weaknesses

Item	Steps	Completion Date	Person Responsible
Issue a Memo Reminding Cardholders and Approving Officials of the CAL-Card Handbook Requirements for: • Prior Approval of Purchases and Timely Preparation of the CPO's • Purchase Justification Including: a) Description of the Goods/Services and b) Specifying the Benefit to the State	Issue a memo to all Cardholders and Approving Officials that will cover the following established procedures: Ensure prior approval before making purchases. Timely preparation of CAL-Card Purchase Orders. Sufficient descriptive justification for purchases that specifies the benefit to the State.	July 1, 2013	Everett Townsend DDD Maintenance

D-11 Maintenance Corrective Action Plan to CAL-Card Program Audit
June 26, 2013

3) Property Control Weaknesses

Item	Steps	Completion Date	Person Responsible
Issue a Memo Reminding Cardholders and Approving Officials of the Requirements for Tagging and Recording Equipment	Issue a memo to all Cardholders and Approving Officials that will cover the following established procedures: Tagging and Recording Equipment	July 1, 2013	Everett Townsend DDD Maintenance

ATTACHMENT

DIVISION OF PROCUREMENT AND CONTRACTS' RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: WILLIAM E. LEWIS
Acting Assistant Director
Audits and Investigations

Date: June 24, 2013

File: P3000-0412

From: FRANCESCA NEGRI, Chief
Division of Procurement and Contracts

Megan Rettke

Subject: **Status Report for CAL-Card Program Audit**

The Division of Procurement and Contracts has attached the Draft Audit Response on the implementation of audit finding dispositions for the CAL-Card Program Audit dated June 6, 2013.

If you have any questions on the status report, please contact Megan Rettke at (916) 227-6082.

Attachment:
Draft Audit Response

Audit Name: CAL-Card Program Audit
Audit Number: P3000-0412
Audit Series: Initial Response to Draft and Exit Conference

	FINDINGS AND RECOMMENDATIONS 1 PROHIBITED AND RESTRICTED PURCHASES	**Status**	**Response Date(s)**	**Audit Series**
1: 1	Recommend that the Division of Procurement and Contracts (DPAC): • Develop and implement comprehensive training to address prohibited and restricted purchases, specifically for recurring findings as outlined in the report.	In Process	06/24/2013	Response to Draft
	Response: DPAC hired a SSMI, starting July 1, 2013 to implicitly manage the CAL-Card and compliance review program. Development and implementation of a comprehensive CAL-Card training program is expected to be completed by February 28, 2014.			
1:2	Recommend that DPAC: • Require CAL-Card Liaisons to complete CAL-Card training.	In Process	06/24/2013	Response to Draft
	Response: Development and implementation of a CAL-Card Liaison training program is expected to be completed by February 28, 2014.			
1:3	Recommend that DPAC: • Develop a "Frequently Asked Questions" page to be included on the CAL-Card website.	In Process	06/24/2013	Response to Draft
	Response: Development and implementation of a Frequently Asked Questions link on the DPAC intranet site is expected to be completed by December20, 2013.			
1:4	Recommend that DPAC: • Modify the CAL-Card Handbook (CCH) section 3.9, File Documentation, to require the list of price quotes recorded on the Bid Quote Worksheet and the supporting bids to be submitted to the Division of Accounting (DOA) with the Cardholder Statement of Account (SOA) packages.	In Process	06/24/2013	Response to Draft
	Response: In accordance with Audits' email clarification (6/25/2013), section 1:4 is related to documenting price quotes when using the DGS mandatory contract off-ramp option. DPAC will modify the CAL-Card handbook to provide guidance on properly documenting files when using the off-ramp option as permitted in specific DGS Mandatory Contracts. Small Business (SB), including a "microbusiness" (MB), or a Disabled Veteran Business Enterprise (DVBE) must be acquired in accordance with the rules outlined in the respective contract. These changes will be done by September 2013.			

FINDINGS AND RECOMMENDATIONS 1 (CONTINUED) PROHIBITED AND RESTRICTED PURCHASES		**Status**	**Response Date(s)**	**Audit Series**
1:5	Recommend that DPAC: • Work with the Information Technology (IT) Certification Unit to develop a list of items requiring approval and post this list on the CAL-Card website	In Process	06/24/2013	Response to Draft
	Response: Development and implementation of an Information Technology certification requirement list and the process to maintain it is expected to be completed by January 31, 2014.			
1:6	Recommend that DPAC: • Remind Cardholders and Approving Officials of the requirement to obtain PIA approval prior to purchase	In Process	06/24/2013	Response to Draft
	Response: DPAC will remind cardholders and approving officials of the appropriate process via the CAL-Card monthly teleconference meeting by August 2013 and will also reiterate this message via CAL-Card E-Blast.			
1:7	Recommend that DPAC: • Provide timely feedback to Cardholders and Approving Officials regarding prohibited and restricted purchases, within 60 days from the statement date.	In Process	06/24/2013	Response to Draft
	Response: DPAC receives the data from Accounting (Visa Payables) already approximately 60 days in arrears from SOA date. DPAC will review its process to provide timely determinations within 60 days from receipt from Accounting. Some determinations, depending on the complexity may take longer than 60 days. DPAC will revise its current process to improve notifying Cardholders and approving officials of prohibited purchases and/or late submittals by April 14, 2014.			
1:8	Recommend that DPAC: • Review districts', divisions', and programs' CAL-Card procurement files on a sample basis to determine compliance with the State Controller's Office (SCO) MOU and compliance with CCH requirements; communicate deficiencies to Cardholders and Approving Officials; and update policies and procedures as needed.	In Process	06/24/2013	Response to Draft
	1:8 Response: DPAC concurs with this recommendation and will incorporate such recommendation into its internal compliance review process which is currently being revamped. These changes will be incorporated by May 16, 2014.			

1:9	DPAC will: • Enforce the Three Strikes Policy.	In Process	06/24/2013	Response to Draft
	Response: DPAC hired an SSMI, starting July 1, 2013, to implicitly manage the CAL-Card program to address the timeliness and enforcement.			
FINDINGS AND RECOMMENDATIONS 2 CAL-CARD CONTROL WEAKNESSES		**Status**	**Response Date(s)**	**Audit Series**
2.2:1	Recommendation that DPAC: • Review districts', divisions', and programs', CAL-Card procurement files on a sample basis to determine compliance with the SCOs' MOU and also review files for the aforementioned findings.	In Process	06/24/2013	Response to Draft
	Response: DPAC concurs with this recommendation and will incorporate language into the internal compliance review process which is currently being revamped. These changes will be incorporated by May 16, 2014.			
2.2:2	Recommendation that DPAC: • Issue statewide reminders and instructions for items of noncompliance.	In Process	06/24/2013	Response to Draft
	Response: DPAC will remind cardholders and approving officials of the appropriate process via the CAL-Card monthly teleconference meetings and will also reiterate this message via CAL-Card E-Blast. DPAC changed its process in March 2013 to have experienced procurement analysts' work with the CAL-Card users (that are cited for non-compliance) on an individual basis to educate and train them specifically regarding the non-compliant purchase in question.			
2.2:3	Recommendation that DPAC: • Clearly define what is meant by "as soon as possible thereafter" in the CCH section 3.1 regarding preparation of the CAL-Card Purchase Orders (CPO).	In Process	06/24/2013	Response to Draft
	2.2:3 Response: DPAC recognizes the ambiguity and is revising the CAL-Card manual in its entirety. The CAL-Card manual will be updated and incorporated into the Caltrans Acquisition Manual (as chapter 12). These changes will be done by September 2013.			
FINDINGS AND RECOMMENDATIONS 3 REVIEW AND REPORTING WEAKNESSES		**Status**	**Response Date(s)**	**Audit Series**
3.2:1	DPAC will: • Remind Cardholders and Approving Officials statewide of the requirement for tagging and recording equipment	In Process	06/24/2013	Response to Draft
	Response: DPAC's Acquisition and HQ Property Management met on June 10, 2013 to address this recommendation. DPAC will remind cardholders and approving officials of the appropriate			

	process via the CAL-Card monthly teleconference meeting, in August 2013, and will also reiterate this message via CAL-Card E-Blast. Additionally, DPAC will be creating a new pre-purchase checklist and will also add this to the SOA check list by October 2013.			
3.2:2	DPAC will: • Include a property control component in the training recommendations as outlined in Finding 1.	In Process	06/24/2013	Response to Draft
	Response: **As noted in Finding #1, Development and implementation of a comprehensive CAL-Card training program is expected to be completed by February 28, 2014; this component will be included.**			
3.2:3	DPAC will: The CAL-Card Unit report equipment purchases to the Property Controllers as required.	In Process	06/24/2013	Response to Draft
	Response: DPAC concurs with this recommendation and will incorporate such recommendation into its internal compliance review process which is currently being revamped. These changes will be incorporated by May 16, 2014.			

Approving Managers	Date Received Audit	Approval Date	Comments
Diane Hultman, SSM I	6-13-2013	6-21-2013	
Louise Lozoya, SSM II	6/13/2013	6/21/2013	
Jennifer Burnett, SSM II	6/21/13	6/21/13	
Alison Garcia, SSM II, acting for Kelly Takigawa, Assistant Division Chief	6/21/13	6/21/13	
Megan Rettke, Assistant Division Chief	6/21/13	6/21/13	

ATTACHMENT

DIVISION OF ACCOUNTING'S RESPONSE TO THE DRAFT REPORT

State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
Be energy efficient!

To: WILLIAM E. LEWIS
Assistant Director
Division of Audits and Investigation

Date: June 25, 2013

File: P3000-0412

From: CLARK PAULSEN
Chief
Division of Accounting

Subject: CAL-Card Transactions Review Audit - P3000-0412

The Division of Accounting (Accounting) received the Draft Audit Report, CAL-Card Program Review Audit – P3000-0412, dated June 6, 2013. As discussed in the exit conference held June 10, 2013, the following is our response to the findings:

Finding 4 – Review and Reporting Weaknesses

We concur with the recommendation. Accounting will report all violations identified to DPAC for their follow-up.

Finding 5 – Inaccurate Vendor Transaction History Reporting within Advantage

We concur with this recommendation. Accounting has requested a change in Advantage to correct the Vendor Transaction History reporting. Programming changes have been completed. Accounting has been working with IT to validate and implement the changes. It is expected that this will be completed by August 31, 2013. It should be noted that while Vendor Transaction History Reporting in Advantage is sometimes inaccurate, the core data in the system is accurate.

Should you have any questions regarding this response, please contact Katrina Kimber at (916)227-9055.

c: SKeck, Acting Chief Financial Officer
DKempster, Chief – IT Solutions Division
GPetrissans, Chief – Office of Commodities and Contract Payable's, Division of Accounting
KKimber, Chief – Commodity & CAL-Card Payments Branch, Division of Accounting
NFelcher, Audit Coordinator - Division of Accounting
RTakao, Audit Coordinator - Division of Audits & Investigation