

# DEPARTMENT OF TECHNOLOGY SERVICES

Audit Report

## CAL-CARD PURCHASES

*October 1, 2007, through June 30, 2008*



**JOHN CHIANG**  
California State Controller

September 2009



**JOHN CHIANG**  
California State Controller

September 4, 2009

Melissa Matsuura  
Deputy Director of Administration  
Office of Technology Services  
1651 Alhambra Boulevard  
Sacramento, CA 95816

Dear Ms. Matsuura:

The State Controller's Office (SCO) completed a performance audit of CAL-Card purchases made by the Department of Technology Services for the period of October 1, 2007, through June 30, 2008.

Our audit disclosed that the department should review its purchasing limit policies, and that cardholders circumvented state purchasing policies when using the CAL-Card.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: Margaret Driver, Chief  
Procurement and Contract Services Branch  
Office of Technology Services

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed a performance audit of the CAL-Card purchases made by the Department of Technology Services for the period of October 1, 2007, through June 30, 2008.

Our audit disclosed that the department should review its purchasing limit policies, and that cardholders circumvented state purchasing policies when using the CAL-Card.

## Background

The Department of Technology Services participates in the State of California's purchasing card (CAL-Card) program established by the Department of General Services (DGS). The CAL-Card program is a payment method that allows state departments to use VISA cards (CAL-Cards) to streamline the procurement process and to expedite delivery of products and services at a reduced cost. Under this program, state employees are issued credit cards to make work-related purchases not to exceed the department's assigned dollar limit.

Participating agencies, including the Department of Technology Services, must follow program requirements established by DGS as well as US Bank's standardized CAL-Card guidelines. However, DGS program requirements are flexible and allow agencies to customize their CAL-Card policies.

## Objectives, Scope, and Methodology

The objective of this performance audit was to determine whether the department's CAL-Card purchases (payments) were properly made in accordance with state policies and procedures and contained adequate supporting documentation. The scope of this audit includes CAL-Card purchases made by the department from October 1, 2007, through June 30, 2008.

This audit was performed under the SCO's authority pursuant to Government Code section 12410.

We conducted this performance 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.

To achieve our audit objectives we performed the following procedures:

- Reviewed the department's CAL-Card policies and procedures to determine whether its policies and procedures complied with state CAL-Card program guidelines established by DGS;

- Gained an understanding of the department's internal controls over its CAL-Card program for the purpose of identifying internal control weaknesses; and
- Judgmentally sampled 52 transactions valued at \$99,881 from a universe of 1,156 transactions valued at \$509,851. CAL-Card transactions were tested by developing procedures to determine whether:
  - Cardholders certified, and approving officials approved each purchase selected for testing;
  - Purchases were properly supported by adequate documentation (invoices, receipts, etc.);
  - Cardholders did not circumvent state purchasing requirements and guidelines when using the CAL-Card; and
  - Purchases were not prohibited, as defined by DGS's CAL-Card guidelines and the department's own policies.

## Conclusion

Our audit did not reveal any significant internal control deficiencies or weaknesses that would be considered pervasive in their effects on the Department of Technology Services' Cal-Card purchase program. The department's CAL-Card policies comply with the CAL-Card program guidelines established by DGS.

We have made two recommendations to improve the department's CAL-Card purchasing program. The department should review its purchasing limit policies, and cardholders should not circumvent state purchasing policies. Our recommendations are presented as findings within this report.

## Views of Responsible Official

We issued a draft audit report on June 4, 2009. Melissa Matsuura, Deputy Director of Administration, responded by letter dated July 20, 2009, agreeing with the audit results. The department's response is included in this report as an attachment.

## Restricted Use

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

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

September 4, 2009

# Findings and Recommendations

## **FINDING 1— Review of purchasing limits is recommended**

The Department of Technology Services should review its policy on single-purchase limits or require cardholders to comply with the current policy.

A departmental Administrative Bulletin, dated May 27, 2006, states:

Each individual CAL-Card will be issued with a single-purchase limit of \$1,000, and a monthly purchase limit of \$2,000. Exceptions to the dollar limit may be submitted by the affected Division directly to the Agency Program Coordinator (APC) . . . for approval.

Our review of purchasing limits of department cardholders revealed that of the department's 33 cardholders, 29 had purchasing limits that exceeded departmental policy.

We noted that all nine of the cardholders whose files we reviewed during our testing, had purchasing limits that exceeded the limits set forth by departmental policy. Upon review of these files, we discovered that none of the nine cardholder files included documentation to support that the affected division requested the limit increase or that the APC approved the limit increase.

In addition, we performed separate testing in order to identify whether cardholders were splitting CAL-Card transactions in order to circumvent single-purchase limits. We found documentation to support that cardholders were circumventing the single-purchase limit by making a purchase from a merchant on a particular day and having the merchant divide the charges into two or more transactions. Specifically, ten cardholders split purchases 15 separate times during the audit period.

The department's Procurement and Contracting Manual, Chapter 9, states that cardholders:

. . . must not split purchases to circumvent a cardholder's daily or monthly purchase limits, or to avoid competitive bidding limits or purchasing authority limits.

### Recommendation

We recommend that the department comply with its single-purchase limit policy. The department can comply by lowering its cardholders' single-purchase limits to the limit provided by the current departmental policy. However, since many of the cardholders have limits that exceed departmental policy, we recommend that the department review its purchasing requirements and adjust its current single-purchase limits accordingly in order to gain the maximum benefit from the CAL-Card purchase program.

We also recommend that all exceptions to the purchasing limit policy be documented in the cardholder's file.

Department's Response

The OTech concurs with these recommendations and will be placing greater emphasis on policy requirements and documentation by both the cardholders and the program administrators to avoid exceeding purchase limits. During the audit period of the CAL-Card program, the OTech was operating with policy and procedures developed from a conservative approach as a result of the consolidation of the two data centers (Teale Data Center and Health & Human Services Data Center). Due to the lack of sufficient historical data at the time of consolidation, single-purchase limit needs were not yet known. Because the DTS now has sufficient historical data related to the business needs of the cardholders, single-purchase limits have been adjusted.

SCO's Comment

The department concurred with our recommendation.

**FINDING 2—  
Review of purchasing  
limits is recommended**

Our testing of 52 transactions, totaling \$99,881, revealed the following CAL-Card transactions that violated agency and/or state purchasing policies:

- Of the 52 CAL-Card purchase transactions tested, 9 transactions required a purchase order (STD. 65); however, the department failed to use a purchase order for any of these transactions.
- Of the 52 CAL-Card purchase transactions tested, 19 transactions, totaling \$21,930, did not include documentation to indicate that OTech obtained the best price for the goods purchased.

The Purchasing Authority Manual (PAM), Chapter 9, Section B, Topic 4—CAL-Card Program Participation Requirements, Section 9.B.6.4, Supporting Documentation, states:

For those transactions that don't require a purchase document to be created, the following, as applicable, must be documented and retained in support of the transaction. . . :

- Documentation to support fair and reasonable pricing for the purchase transaction.
- Responsible bids from at least two responsible suppliers.
- An approved NCB contract justification.

PAM, Chapter 9, Section 9.B.3.1, states:

The CAL-Card is a payment mechanism, not a procurement approach and, therefore, does not relieve departments from adhering to all procurement laws, regulations, policies, procedures, and best practices. . . .”

Recommendation

We recommend that the department follow state purchasing policies when using the CAL-Card. The department should properly document that it has obtained the best price for goods and services purchased with the CAL-Card.

Department's Response

The OTech agrees that proper documentation is required. Annual CAL-Card training for the department was conducted the week of June 29, 2009 and this year's training emphasized the need for comprehensive documentation upon execution of a purchase order. In addition, OTech is reviewing its business requirements and will make any necessary revisions.

SCO's Comment

We agree with the department's response.

**Attachment—  
Department of Technology Services’  
Response to Draft Audit Report**

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**Administration Division**

P.O. BOX 1810  
RANCHO CORDOVA, CA 95741-1810  
(916) 739-7607 (Office)  
(916) 733-7607 (Fax)



July 20, 2009

Andrew Finlayson, Chief  
State Agency Audits Bureau  
State Controller's Office, Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

**Re: Department of Technology Services (DTS) Audit Report  
CAL-Card Purchases – October 1, 2007 through June 30, 2008**

Dear Mr. Finlayson:

The Department of Technology Services (DTS) appreciates the opportunity to comment on the draft audit report for CAL-Card Purchases dated June 4, 2009. Unfortunately, the audit report was misdirected and we did not receive the report until July 2, 2009. We appreciate the extension of additional time to provide comments.

As you are probably aware, effective May 10, 2009, the DTS merged into the Office of the Chief Information Officer (OCIO) per the Governor's Reorganization Plan #1 of 2009. The DTS has been renamed to the Office of Technology Services (OTech) and will be referenced as such for the remainder of this response.

The draft audit report identified two recommendations for OTech to consider. The recommendations requests OTech strengthen policies and procedures to ensure CAL-Card holders make appropriate transactions. OTech will use these recommendations to improve the oversight of the CAL-Card program.

Below are OTech responses to the specific recommendations provided in the draft report.

**FINDING 1** – The department should review its policy on single-purchase limits or require cardholders to comply with current policy.

**Recommendation:**

1. We recommend that the department comply with its single-purchase limit policy. The department can comply by lowering its cardholders' single-purchase limits to the limits provided by the current departmental policy. However, since many of the cardholders have limits that exceed departmental policy, we recommend that the department review its purchasing requirements and adjust its current single-purchase limits accordingly in order to gain the maximum benefit from the CAL-Card purchase program.

Andrew Finlayson

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July 20, 2009

2. We also recommend that all exceptions to the purchasing limit policy be documented in the cardholder's file.

**Response:**

The OTech concurs with these recommendations and will be placing greater emphasis on policy requirements and documentation by both the cardholders and the program administrators to avoid exceeding purchase limits. During the audit period of the CAL-Card program, the OTech was operating with policy and procedures developed from a conservative approach as a result of the consolidation of the two data centers (Teale Data Center and Health & Human Services Data Center). Due to the lack of sufficient historical data at the time of consolidation, single-purchase limit needs were not yet known. Because the DTS now has sufficient historical data related to the business needs of the cardholders, single-purchase limits have been adjusted.

**FINDING 2** – Of the 52 CAL-Card purchase transactions tested, 9 transactions required a purchase order, and 19 transactions did not include documentation to indicate that the department obtained the best price for the goods.

**Recommendation:**

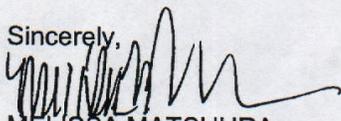
1. We recommend that the department follow state purchasing policies when using the CAL-Card. The department should properly document that it has obtained the best price for goods and services purchased with the CAL-Card.

**Response:**

The OTech agrees that proper documentation is required. Annual CAL-Card training for the department was conducted the week of June 29, 2009 and this year's training emphasized the need for comprehensive documentation upon execution of a purchase order. In addition, OTech is reviewing its business requirements and will make any necessary revisions.

We appreciate the opportunity to respond to the draft report. If you have any questions, or require further information, please contact Margaret Driver at (916) 739-7607.

Sincerely,



MELISSA MATSUURA  
Deputy Director  
Administration Division

cc: M. Driver, IT Procurement and Contract Services Branch

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**