

CALIFORNIA DEPARTMENT OF TRANSPORTATION

Audit Report

CAL-CARD PROGRAM AUDIT

July 1, 2020, through June 30, 2022



MALIA M. COHEN
California State Controller

November 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

November 1, 2023

David Prizmich, Chief
Division of Procurement and Contracts
California Department of Transportation
1727 30th Street
Sacramento, CA 95816

Dear Mr. Prizmich:

The State Controller's Office (SCO) audited the California Department of Transportation's (Caltrans) CAL-Card Program for the period of July 1, 2020, through June 30, 2022. The purpose of the audit was to determine whether Caltrans complied with CAL-Card Program policies and maintained adequate internal controls over the CAL-Card Program.

Our audit determined that Caltrans:

- Complied with the terms and conditions specified in the Memorandum of Understanding between Caltrans and the SCO, effective March 1, 2013;
- Did not maintain effective internal controls to ensure that purchases were legal, proper, and in accordance with CAL-Card Program guidelines;
- Made CAL-Card transactions that did not comply with all rules and regulations pertinent to state procurement and disbursement activities, but the transactions were appropriate, reasonable, legal, and proper use of state funds; and
- Maintained adequate documentation to support CAL-Card Program purchases and claims submitted to the SCO.

If you have any questions, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at (916) 323-5744, or by email at respilla@sco.ca.gov.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

Mr. David Prizmich
November 1, 2023
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KT/ac

Attachment

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California Department of Transportation
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Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Transportation's (Caltrans) CAL-Card Program for the period of July 1, 2020, through June 30, 2022. The purpose of the audit was to determine whether Caltrans complied with CAL-Card Program policies and maintained adequate internal controls over the CAL-Card Program.

Our audit determined that Caltrans:

- Complied with the terms and conditions specified in the Memorandum of Understanding (MOU) between Caltrans and the SCO, effective March 1, 2013;
- Did not maintain effective internal controls to ensure that purchases were legal, proper, and in accordance with CAL-Card Program guidelines;
- Made CAL-Card transactions that did not comply with all rules and regulations pertinent to state procurement and disbursement activities, but the transactions were appropriate, reasonable, legal, and proper use of state funds; and
- Maintained adequate documentation to support CAL-Card Program purchases and claims submitted to the SCO.

Background

The CAL-Card is a purchase card issued by U.S. Bank to participating state and local government agencies. Cards are issued in a cardholder's name and billed to the agency. Participating state agencies must comply with all procurement laws, regulations, policies, procedures, and best practices as indicated in their CAL-Card Participating Addendum and the *State Contracting Manual*. On March 1, 2013, Caltrans revised its MOU with SCO regarding the CAL-Card Program. The MOU defines the terms that Caltrans accepts as a condition of receiving delegated responsibility from SCO for the review and retention of CAL-Card Program purchasing documentation.

Overview of the Caltrans CAL-Card Program

Caltrans' Division of Procurement and Contracts (DPAC) provides administrative oversight of the CAL-Card Program to ensure departmental compliance. DPAC's responsibilities include:

- Developing and distributing written policies, procedures, and control measures to ensure that Caltrans complies with program requirements;
- Administering Caltrans' bank database by processing applications and account adjustments from CAL-Card holders and managers;
- Serving as the liaison between CAL-Card holders and U.S. Bank;
- Providing CAL-Card training for CAL-Card holders, managers, and liaisons;
- Monitoring CAL-Card activity to ensure compliance; and

- Managing account and level number assignments.

The CAL-Card Payments Section and the Shops Payment Section of Caltrans' Division of Accounting are responsible for auditing and preparing purchasing documents and claim schedules, and sending them to the SCO for payment. Their responsibilities include:

- Receiving Statement of Account packages sent by CAL-Card Program managers, reviewing submitted documents for accuracy and completeness, and following up on missing documentation;
- Assisting DPAC with training CAL-Card holders, managers, and liaisons;
- Partnering with the DPAC CAL-Card Branch to provide customer service to Caltrans CAL-Card users; and
- Providing copies of documentation for questionable purchases and Late Submittal Reports of potential CAL-Card holder violations to DPAC.

Audit Authority

We conducted this audit pursuant to Government Code (GC) section 12410, which provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

In addition, the SCO and Caltrans entered into Interagency Agreement Number 22A1145, wherein the SCO agreed to audit Caltrans' CAL-Card Program for the period of July 1, 2020, through June 30, 2022.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether Caltrans:

- Complied with the terms and conditions specified in the MOU between Caltrans and SCO, effective March 1, 2013;
- Maintained adequate internal controls to ensure that purchases were legal, proper, and in accordance with Cal-Card Program guidelines;
- Made CAL-Card transactions that complied with all applicable rules and regulations pertinent to the State's procurement and disbursement activities, and were appropriate, reasonable, legal and proper use of state funds; and
- Maintained adequate documentation to support CAL-Card Program purchases and claims submitted to the SCO.

The audit period was July 1, 2020, through June 30, 2022. The audit population consisted of CAL-Card transactions—totaling \$67,681,361—that were processed during the audit period, as follows (amounts are rounded to the nearest dollar):

CAL-Card Transactions by Group	Unit	Amount
Expenditures of at least \$10,000 (items examined 100%)	42	\$ 619,774
Expenditures of less than \$10,000 (statistically sampled plus judgmental selection)	43,571	67,061,587
Total population	43,613	\$ 67,681,361

To achieve our audit objectives, we performed the following procedures:

- We reviewed Caltrans' policies and procedures for the CAL-Card Program, including DPAC's May 2022 *Acquisitions Manual for Non-Information Technology and Information Technology Goods and Services (Acquisitions Manual)*.
- We reviewed the MOU between Caltrans and the SCO.
- We reviewed prior SCO audit reports.
- We interviewed Caltrans management and staff to gain an understanding of the operations and activities related to the administration and monitoring of the CAL-Card Program.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; interviewing Caltrans officials knowledgeable about the data; and tracing data to source documents, based on statistical sampling, judgmental selection, and targeted selection. We determined that the data was sufficiently reliable for the purposes of achieving our audit objectives.
- We selected CAL-Card transactions using statistical sampling (as discussed in Appendixes A and B), judgmental selection, and targeted selection based on risk factors and other relevant criteria.
- We analyzed and examined selected transactions, and reviewed relevant files and records to determine Caltrans' compliance with requirements and the adequacy of Caltrans' internal controls over the CAL-Card Program.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

As a result of performing the audit procedures, we determined that Caltrans complied with the terms and conditions specified in the March 1, 2013 MOU between Caltrans and the SCO; did not maintain effective internal controls to ensure that purchases were legal, proper, and in accordance with CAL-Card Program guidelines; did not ensure that CAL-Card transactions complied with all rules and regulations pertinent to state procurement and disbursement activities; and maintained adequate documentation to support CAL-Card purchases and claims submitted to the SCO.

We found inadequate implementation and monitoring of internal controls, and instances of noncompliance with the requirements of state laws and policies and of Caltrans' *Acquisitions Manual*; however, the transactions were appropriate, reasonable, legal, and proper use of state funds. The instances of noncompliance are as follows:

- Delayed approval of Caltrans purchase orders (CPOs) and unregulated purchases – We examined 346 transactions; 104 (or 30 percent) of

them had been completed before CPOs were approved. These 104 transactions and the projected errors had a value of \$6,862,963. Some of the transactions were unregulated: competitive bidding requirements were not met for a \$10,000 transaction; and a \$11,467 transaction was split into multiple transactions, circumventing competitive bidding requirements and spending limits (see Finding 1).

- Service contracts not executed promptly, or not executed at all – We examined 42 transactions; 15 (or 36 percent) of them had been completed before contracts were executed, and three (or seven percent) of them had been completed without a contract. The 15 transactions completed before contracts were executed had a value of \$280,025, and the three transactions completed without a contract had a value of \$46,156 (see Finding 2).
- Late and advance payments – We examined 296 transactions and found that 19 (or six percent) of them had not been paid promptly; these 19 transactions had a value of \$259,204. We also examined 199 transactions and found that four (or two percent) of them had been paid in advance; these four transactions had a value of \$34,346 (see Finding 3).

Follow-up on Prior Audit Findings

Our prior CAL-Card Program audit report for the period of July 1, 2019, through June 30, 2020, issued on September 13, 2022, included audit findings. As the current audit period began only three months after the prior report was issued, we recognize that Caltrans may not have had adequate time to implement appropriate corrective actions in response to the prior audit findings. Based on the work performed in the current audit, we noted similar findings (see Findings 1, 2, and 3). See Appendix C for the status of the prior audit findings and Caltrans' implementation of corrective actions.

Views of Responsible Officials

We issued a draft audit report on September 11, 2023. Caltrans representatives responded by memorandum dated September 18, 2023, acknowledging the audit results, and indicating that Caltrans has taken steps to correct the noted deficiencies. This final audit report includes Caltrans' response as an attachment.

Restricted Use

This report is solely for the information and use of Caltrans, 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

November 1, 2023

Findings and Recommendations

FINDING 1— Delayed approval of purchase orders; unregulated purchases (Repeat Finding)

Our audit found that Caltrans had completed \$6,862,963 in CAL-Card transactions before preparing and approving CPOs. Some of these transactions also did not comply with competitive bidding requirements and purchase limits: a \$10,000, transaction was completed without a competitive bidding process; and another transaction, totaling \$11,467, was split into three transactions, circumventing bidding requirements and purchase limits. Caltrans also lacked adequate control over its procurement process. If not mitigated, these control deficiencies leave Caltrans to the risk of making additional improper purchases.

The \$6,862,963 in transactions completed before CPOs were approved consist of \$6,053,775 in identified and projected transactions based on the results of statistical sampling, and \$809,188 in identified transactions based on the results of targeted and judgmental selection.

CPOs include important information about purchases, such as supplier details, procurement methods, terms and conditions, and purchase descriptions and justifications. Cardholders submit the CPOs for managerial review and approval of purchases. Caltrans' *Acquisitions Manual* requires that CPOs be created before making purchases; in emergencies, CPOs may be completed no more than five days after emergency purchases. However, as we found with the transactions described in this finding, Caltrans completed several CPOs more than five days after it ordered goods or received services. CPOs should be created and approved before ordering goods or services to ensure that purchases are appropriate and comply with requirements.

Transactions of at least \$10,000

We target-selected individual CAL-Card transactions of at least \$10,000. We examined all 42 transactions, totaling \$619,774. Caltrans incurred these expenditures by procuring services related to emergency cleanup and disposal of hazardous and non-hazardous materials, and by renting equipment required to preserve state assets, protect the traveling public, reduce fire danger, and trim vegetation for visibility.

Delayed approval of CPOs

Of the 42 transactions, 41—with a total cost of \$609,774—had been completed before CPOs were approved, in violation of Caltrans' *Acquisitions Manual*. In five (or 12 percent) of the 41 transactions, services had been rendered or equipment had been rented between 180 and 365 days before the CPOs were approved; and in two (or five percent) of the 41 transactions, services had been rendered or equipment had been rented 366 days or more before the CPOs were approved. One CPO was prepared more than three years after services were rendered.

Although Caltrans has processes in place for preparing and completing CPOs in a timely manner, our audit found no evidence that Caltrans had implemented controls to ensure that these processes are followed.

Competitive bidding requirements not met

Caltrans requires a competitive bidding process for purchases exceeding \$10,000. Of the 41 individual CAL-Card transactions that had been completed before CPOs were approved, one transaction—totaling \$10,000—had been completed without a competitive bidding process. The CPO stated that the purchase was for welding and fabricating products for “shop and maintenance.”

Although Caltrans has processes in place for purchases exceeding \$10,000, our audit found no evidence that Caltrans had implemented controls to ensure that these processes are followed. If not mitigated, these control deficiencies leave Caltrans at risk of not getting the most competitive prices for goods and services.

Transactions of less than \$10,000

During the audit period, Caltrans processed 43,571 individual CAL-Card transactions of less than \$10,000. We statistically selected a sample (as described in Appendix A) of 105 transactions, totaling \$392,762, out of the 43,571 transactions, totaling \$67,061,587. We stratified the population (as described in Appendix B) into two strata and tested samples as follows:

- Stratum 1 (no split transactions) – We randomly selected 55 transactions totaling \$84,839.
- Stratum 2 (potential split transactions) – We randomly selected 50 transactions totaling \$307,923.

Delayed approval of CPOs

In Stratum 1, we found 10 transactions, totaling \$7,454, that had been completed before the CPOs were approved; and in Stratum 2, we found seven transactions, totaling \$44,232, that had been completed before the CPOs were approved. Therefore, we identified 17 transactions, totaling \$51,686, that had been completed before the CPOs were approved. We projected an additional \$6,002,089 in transactions completed before CPOs were approved. Therefore, the identified and projected transactions completed before CPOs were approved have a total of \$6,053,775.

The following table summarizes the results of our statistical sampling (amounts are rounded to the nearest dollar):

Calculation of Projected Errors	Stratum 1 – No Split Transactions	Stratum 2 – Potential Split Transactions	Total
Identified transactions with delayed CPOs	\$ 7,454	\$ 44,232	\$ 51,686
Divide by: Sample	84,839	307,923	392,762
Error rate for projection (differences due to rounding)	8.79%	14.36%	N/A
Population that was statistically sampled	61,598,212	4,467,382	66,065,594
Multiply by: Error rate for projection	8.79%	14.36%	N/A
Identified and projected transactions with delayed CPOs (differences due to rounding)	5,412,052	641,723	6,053,775
Less: Identified transactions with delayed CPOs	7,454	44,232	51,686
Projected transactions with delayed CPOs	\$ 5,404,598	\$ 597,491	\$ 6,002,089

We also examined an additional 199 transactions—totaling \$995,993—that we judgmentally selected from Stratum 2. Of these 199 transactions, 46—totaling \$199,414—had been completed before the CPOs were approved.

Although Caltrans has processes in place for preparing and completing CPOs in a timely manner, our audit found no evidence that Caltrans had implemented controls to ensure that these processes are followed.

Transaction split into multiple transactions

Caltrans' *Acquisitions Manual* prohibits splitting a transaction to circumvent competitive bidding requirements and spending limits. Our examination of the 199 CAL-Card transactions also found that one transaction, totaling \$11,467, had been split into three transactions: \$5,515; \$5,000; and \$952. This transaction involved sewer rooters and vacuum breaker repair kits.

Although Caltrans has processes in place for purchases exceeding \$10,000, our audit found no evidence that Caltrans had implemented controls to ensure that these processes are followed. If not mitigated, these control deficiencies leave Caltrans at risk of additional violations of state requirements for purchases of goods and services.

Criteria

Section 12.3.2, part C, of Caltrans' *Acquisitions Manual* states, in part:

All purchases must be for official State business and in accordance with this Acquisition[s] Manual. Approval is necessary before making any purchase, and it must be documented in the CAL-Card procurement file. Despite the dollar amount under your authorized limit, the CPO STD.65 [Purchasing Authority Purchase Order Form] must be completed with the justified purchase. . . .

Section 12.3.2, part D, of Caltrans' *Acquisitions Manual* states, in part:

The CPO shall be prepared prior to making the purchase. If an emergency has occurred, the CPO should be completed within five working days of the transaction to allow the purchaser to validate that the Payee Data Record, STD.204 is on file in Advantage [Caltrans' integrated financial management solution] for the vendor. If a Payee Data Record is not on file, the CAL-Card Holder is responsible in obtaining one. . . .

Section 12.3.1 of Caltrans' *Acquisitions Manual* states, in part:

. . . Goods: If goods total \$10,000 or more, a Purchasing Authority Purchase Order (PAPO) STD.65 issued by DPAC is required. These purchases must be obtained through competitive bidding, unless exempted otherwise through a leveraged procurement agreement or other codes or regulations. . . .

Section 12.5.2, part A, of Caltrans' *Acquisitions Manual* states, in part:

Public Contract Code (PCC) 10329 states that "No person shall willfully split a single transaction into a series of transactions for the purpose of evading the bidding requirements of this article." Also, the Department may not split an order to circumvent the limits of its delegated purchasing authority. . . .

Section 12.5.3, part A, of Caltrans' *Acquisitions Manual* states:

Services \$10,000.00 and over in any 12-month period require a service contract and are therefore prohibited on the CAL-Card. Splitting payments (See Section 12.5.2) to circumvent this requirement is considered fraudulent.

Recommendation

We recommend that Caltrans:

- Ensure that CAL-Card holders and managers comply with purchase order policies and procedures pursuant to Caltrans' *Acquisitions Manual*;
- Ensure that non-emergency CPOs are completed prior to ordering goods or services; and that emergency CPOs are completed within five working days of the transaction, as required by Caltrans' *Acquisitions Manual*;
- Ensure that CAL-Card managers strengthen the CAL-Card Statement of Account and CPO reviews to detect instances where cardholders are splitting purchases to circumvent spending limits;
- Implement controls, including existing policies and procedures, to ensure that its purchasing processes are followed;
- Strengthen its internal controls to ensure better oversight of the procurement process; and
- Implement the corrective actions described in the prior audit report, as this is a repeat finding.

**FINDING 2—
Service contracts
not executed
promptly, or not
executed at all
(Repeat Finding)**

Caltrans' *Acquisitions Manual* includes a process for obtaining services for hazardous spill cleanup. This process allows Caltrans to hire an appropriately licensed contractor, and quickly obtain documents and approval for emergency hazardous spill cleanup contracts. Emergency services require a Confirmation of Verbal Agreement (CVA) with a contractor. A CVA is a temporary contract that should be superseded by a permanent standard agreement as soon as possible.

Service contracts not executed in a timely manner

As discussed in Finding 1, we target-selected individual CAL-Card transactions of at least \$10,000, and examined all 42 transactions, totaling \$619,774. We found 15 transactions, with a total cost of \$280,025, involving emergency services that were provided under CVAs. The services included emergency cleanup and disposal of hazardous or non-hazardous materials spilled on highways, and were initiated and completed

by the contractors long before standard agreements were executed. Our review of contracts and invoices indicates that Caltrans had adequate time to complete the required standard agreements. For example, the service for one CVA was provided in November 2020 and the standard agreement was executed on June 8, 2021.

Although Caltrans has processes in place for obtaining and executing contracts in a timely manner, our audit found no evidence that Caltrans had implemented controls to ensure that these processes are followed.

Services paid for without contracts

We also found that three transactions, with total cost of \$46,156, were paid for without a contract. These expenditures were incurred for services related to emergency cleanup and disposal of hazardous and non-hazardous materials.

Although Caltrans has policies in place for disallowing payment of invoices before goods are received and services are rendered, our audit found no evidence that Caltrans had implemented controls to ensure that these policies are followed. If not mitigated, this control deficiency leaves Caltrans at risk of making additional improper payments.

Criteria

Item number 18 of Caltrans' Confirmation of Verbal Agreement for Highway Spills (ADM-3024) states, in part:

This Confirmation of Verbal Agreement (CVA) is a temporary contract, which, as soon as time allows, will be superseded by a permanent Standard Agreement (STD 213 Agreement). . . .

Section 4.07, "Approval of Emergency Contracts," of the *State Contracting Manual*, Vol. 1, states:

"Emergency" is defined in PCC §1102 as "a sudden, unexpected occurrence that poses a clear and imminent danger, requiring immediate action to prevent or mitigate the loss or impairment of life, health, property, or essential public services."

The law recognizes exceptions from competitive bidding in emergencies (PCC §§10340 [b][1] and 10371 [d]), but no exception is provided from contract approval. The basic policy is to respond to the emergency as circumstances demand and then to obtain the formal approval(s) as soon as practicable. However, before the start of the work, the contract must be verbally authorized by someone with authority at the agency to initiate a contract in such situations. If there is any question about whether the circumstances qualify as an emergency, DGS/OLS should be contacted as soon as possible. The contract will be processed on an expedited basis as discussed in SCM 1, section 4.08 C.

The Note for Hazmat Cards in section 12.3.1 of Caltrans' *Acquisitions Manual* states, in part:

Services are paid for in arrears and cannot be pre-paid. The CAL-Card is only a payment mechanism on an executed service contract. Hazmat Cards can only be used in conjunction with the Emergency Service

Contract executed through DPAC. Emergency Contracts are executed after the hazardous emergency is cleaned up. Payments on Hazmat services shall not be made until a valid service contract is executed. . . .

Recommendation

We recommend that Caltrans:

- Adhere to its policies, and obtain and execute contracts in a timely manner; and
- Implement the corrective actions described in the prior audit report, as this is a repeat finding.

FINDING 3— Late and advance payments (Repeat Finding)

Our audit found that Caltrans made late payments for services, with a total cost of \$259,204; and improperly made advance payments, totaling \$34,346, to vendors. Caltrans had not implemented controls to ensure that existing processes were followed.

Late payments

Our examination of the CAL-Card transactions found the following late payments:

- Fifteen—with a total cost of \$256,186—of the 42 transactions of at least \$10,000 that we selected using a targeted approach were paid more than 45 days after the invoices were received, in violation of state law and Caltrans' *Acquisitions Manual*. Of the 15 transactions, two were paid between 180 and 365 days after the invoices were received, and one was paid 403 days after the invoice was received.
- One—with a cost of \$1,494—of the 199 transactions that we judgmentally selected from Stratum 2 (with potential split transactions) was paid more than 45 days after the invoice was received.
- Three—with a total cost of \$1,524—of the 55 transactions that we randomly selected from Stratum 1 (with no split transactions) were paid more than 45 days after the invoices were received.

Pursuant to Caltrans' *Acquisitions Manual*, DPAC recommends that cardholders pay the properly submitted and undisputed invoices within 30 days of the invoice date. If an invoice is not paid within 45 days of the invoice date, the CAL-Card holder is issued a "strike." A third "strike" results in automatic card cancellation. We found no evidence that the CAL-Card holders involved with the 19 late transactions had been issued "strikes."

The California Prompt Payment Act, codified in GC sections 927 through 927.13, requires that, in order to avoid late payment penalties, state agencies pay promptly submitted, undisputed invoices within 45 days, and specifies procedures and exclusions relating to that requirement.

Although Caltrans has processes in place for paying invoices in a timely manner, our audit found no evidence that Caltrans had implemented

controls to ensure that these processes are followed. If not mitigated, these control deficiencies leave Caltrans at risk of failing to take advantage of discounts, incurring late payment penalties, and failing to comply with state laws and policies.

Advance payments

During our examination of the 199 CAL-Card transactions judgmentally selected from Stratum 2 (with potential split transactions), we found that four transactions, totaling \$34,346, had been paid before goods were received or services were rendered. The payments were made based only on “quote” estimates from vendors.

Although Caltrans has policies in place for disallowing payment of invoices before goods are received and services are rendered, our audit found no evidence that Caltrans had implemented controls to ensure that these policies are followed. If not mitigated, this control deficiency leaves Caltrans at risk of making additional improper payments.

Criteria

GC section 927(b) states:

It is the intent of the Legislature that state agencies pay properly submitted, undisputed invoices, refunds, or other undisputed payments due to individuals within 45 days of receipt or notification thereof, or automatically calculate and pay the appropriate late payment penalties as specified in this chapter.

Section 12.5.15, part A, of Caltrans’ *Acquisitions Manual* states:

The CAL-Card does not allow for payment prior to the receipt of goods or services performed (SCM [State Contracting Manual] Vol. 2, Chapter 9, and Section 1901.2). The California Constitution, Article 16, Section 3 and Section 6, prohibits gift[s]/donations of public funds. An advance payment or pre-payment is considered a gift of public funds since the State has received no benefit and the subsequent receipt of goods/services cannot be guaranteed. . . .

Recommendation

We recommend that Caltrans:

- Adhere to the California Prompt Payment Act and Caltrans’ *Acquisitions Manual*, and pay for CAL-Card transactions in a timely manner;
- Establish and implement adequate controls to ensure that Caltrans pays for only those CAL-Card transactions that meet the requirements for payment; and
- Implement the corrective actions described in the prior audit report, as this is a repeat finding.

Appendix A— Audit Sampling Methodology

This Appendix outlines our audit sampling application for all audit areas where statistical sampling was used.

We used attributes sampling for tests of compliance. We chose this sample design because:

- It follows the American Institute of Certified Public Accountants (AICPA) guidelines;
- It allowed us to achieve our objectives for tests of compliance in an efficient and effective manner;
- Audit areas included a high volume of transactions;
- We planned to project the results to the intended population; and
- We had the collective knowledge and skills to plan and perform the sampling plan and design.

We conducted compliance testing on samples chosen by computer-generated simple random selection. The sample contained 105 transactions. We determined the sample size using a calculator with a binomial distribution because the population contained more than 250 items. The population consisted of 43,571 individual CAL-Card transactions of less than \$10,000, totaling \$67,061,587. As stated in *Technical Notes on the AICPA Audit Guide: Audit Sampling* (March 1, 2012), page 5, although the hypergeometric distribution is the correct distribution to use for attributes sample sizes, the distribution becomes unwieldy for large populations unless suitable software is available. Therefore, more convenient approximations are frequently used instead.

The confidence level was 90.00%; the tolerable error rate was 5.00%; and the expected error rate was 2.0 (1.75%). Pursuant to the AICPA's *Audit Guide: Audit Sampling* (December 1, 2019 edition), pages 131-132, the expected error rate is the expected number of errors planned for in the sample. It is derived by multiplying the expected error rate by the sample size. The expected number of errors in the sampling tables on pages 135-136 was rounded upward, e.g., 0.2 errors becomes 1.0 error. Results were projected to the intended (total) population.

Appendix B— Population Stratification and Sample Size Allocation

This table shows the stratification of the population from which the sample was selected, and allocation of statistical samples (monetary amounts are rounded to the nearest dollar):

Expenditures Under \$10,000 (by Stratum)	Population Unit	Population Amount	Allocation of Statistical Samples Between Strata	Additional Judgmental Selections for Test of Split Transactions	Amount of Additional Judgmental Selections	Total Number of Transactions Tested	Population Amount for Projection of Statistical Sampling Results
Stratum 1 – no split transactions (statistically sampled)	42,560	\$ 61,598,212	55	N/A	N/A	55	\$ 61,598,212
Stratum 2 – potential split transactions (statistically sampled plus judgmental selection)	1,011	5,463,375	50	199	\$ 995,993	249	4,467,382
Total	43,571	\$ 67,061,587	105	199	\$ 995,993	304	\$ 66,065,594

Appendix C— Summary of Prior Audit Findings July 1, 2019, through June 30, 2020

Prior Audit Finding	Current Status	Explanation if Not Fully Resolved
<p><u>Finding 1—Caltrans made CAL-Card purchases before preparation and approval purchase orders</u></p> <p>Caltrans made CAL-Card transactions before preparing and approving CPOs [Caltrans purchase orders] authorizing the purchase. CPOs should be created and approved prior to ordering services to ensure that purchase are appropriate and comply with requirements.</p>	Not resolved; see Finding 1	This is a repeat finding in the current audit period. During the exit conference, Caltrans explained that it had not had enough time to implement corrective actions and that it is currently working to improve its internal procurement processes to avoid similar issues in the future.
<p><u>Finding 2—Service contracts were not executed in a timely manner; late payments for provided services</u></p> <p>Caltrans made CAL-Card transactions involving emergency services that were provided under CVAs [Confirmations of Verbal Agreement]. The services included emergency cleanup and disposal of hazardous or non-hazardous materials spilled on highways, and were initiated and completed by the contractors long before standard agreements were executed. Caltrans had adequate time to complete the required standard agreements. Caltrans made payments that were made more than 45 days after the invoices were received.</p>	Not resolved; see Finding 2	This is a repeat finding in the current audit period. Caltrans explained that it has established a process to prevent any further delay in payments for services rendered. In addition, a Memorandum was issued on December 9, 2022, and a CAL-Card Program E-Blast 22-4 Memorandum was issued on December 13, 2022, to emphasize that service contracts must be executed in a timely manner.
<p><u>Finding 3—Caltrans paid for service that was partially complete at the time of payment</u></p> <p>Caltrans paid one transaction before the service was complete.</p>	Resolved	
<p><u>Finding 4—Caltrans paid for contractor work outside of service agreement dates</u></p> <p>Contractors were paid for work on days that were not specified within their service agreements.</p>	Resolved	

**Attachment—
California Department of Transportation's Response to
Draft Audit Report**

Memorandum

To: ROOCHEL ESPILLA
Chief
State Controller's Office

Date: September 18, 2023

File: S23CCP0001

From: DAVID L. PRIZMICH
Chief
Division of Procurement and Contracts

Subject: **RESPONSE TO DRAFT REPORT – CAL-CARD PROGRAM AUDIT**

The Division of Procurement and Contracts (DPAC) has attached a response to the findings outlined in the CAL-Card Program Audit. DPAC will continue to make process improvements to satisfy the recommendations.

If you have any questions regarding this response, please contact Lien Huynh at (279) 234-2671 or Leannette Dahn at (279) 599-1420.

APPROVED

David Prizmich

DAVID L. PRIZMICH
Chief
Division of Procurement and Contracts

09/21/2023

Date

c: Tracy Gentry, Deputy Division Chief, DPAC
Rajit Sharma, Deputy Division Chief, DPAC
Mari Jo Snider, Office Chief, DPAC
Char Krantz, Office Chief, DPAC
Heather Breault, Branch Chief, DPAC
Leannette Dahn, Branch Chief, DPAC

State Controller's Office (SCO) - Response to Final Report Audit Name: CAL-Card Program Audit Auditee: California Department of Transportation (Caltrans), Division of Procurement and Contracts (DPAC) Audit No. S23-CCP-0001			
SCO Recommendation	Auditee Response to Final Report	Estimated Completion Date	Staff Responsible
Audit Report Finding #1 Delayed approval of purchase orders; unregulated purchases (Repeat Finding); competitive bidding requirements not met			
Ensure that CAL-Card holders and managers comply with purchase order policies and procedures pursuant to Caltrans' Acquisitions Manual.	The Division of Procurement and Contracts (DPAC) will issue a policy E-Blast to program participants, reinforce the existing policy in the monthly CAL-Card educational meeting, and post the meeting notes on the CAL-Card website. DPAC will ensure E-Blast information is in the Acquisition Manual.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Ensure that non-emergency CPOs are completed prior to ordering services; and that emergency CPOs are completed within five (5) working days of the transaction, as set forth in Caltrans' Acquisitions Manual.	The Division of Procurement and Contracts (DPAC) will issue a policy E-Blast to program participants, reinforce the existing policy in the monthly CAL-Card educational meeting, and post the meeting notes on the CAL-Card website. The policy E-Blast will ensure the first version of CPO created and approved in Advantage is printed and retained in the procurement file. DPAC will ensure E-Blast information is in the Acquisition Manual.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Ensure that CAL-Card managers strengthen the CAL-Card Statement of Account and CPO reviews to detect instances where cardholders are splitting purchases to circumvent spending limits.	The Division of Procurement and Contracts (DPAC) will issue a policy E-Blast to program participants, reinforce the existing policy in the monthly CAL-Card educational meeting, and post the meeting notes on the CAL-Card website. DPAC will ensure E-Blast information is in the Acquisition Manual.	31 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Implement controls, including existing policies and procedures, to ensure that its purchasing processes are being followed.	The Division of Procurement and Contracts (DPAC) will issue a policy E-Blast to program participants, reinforce the existing policy in the monthly CAL-Card educational meeting, and post the meeting notes on the CAL-Card website. DPAC will ensure E-Blast information is in the Acquisition Manual.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch

State Controller's Office (SCO) - Response to Final Report Audit Name: CAL-Card Program Audit Auditee: California Department of Transportation (Caltrans), Division of Procurement and Contracts (DPAC) Audit No. S23-CCP-0001			
SCO Recommendation	Auditee Response to Final Report	Estimated Completion Date	Staff Responsible
Strengthen its internal controls to ensure better oversight of the procurement process.	The Division of Procurement and Contracts (DPAC) will issue a policy E-Blast to program participants, reinforce the existing policy in the monthly CAL-Card educational meeting, and post the meeting notes on the CAL-Card website. DPAC will ensure E-Blast information is in the Acquisition Manual.	31 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Implement the corrective actions described in the prior audit report, as this is a repeat finding.	Corrective actions were implemented through a Memorandum on 12/9/2022 and a CAL-Card Program E-Blast 22-4 Memorandum on 12/13/2022 to emphasize that service contracts must be executed in a timely manner. Will reissue Memorandum and CAL-Card E-Blast to strengthen policy.	31 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Audit Report Finding #2 Service contracts not executed promptly, or not executed at all (Repeat Finding)			
Adhere to policies and obtain and execute contracts in a timely manner.	DPAC will collaborate with the Caltrans Maintenance Hazmat Program to ensure service contract requests are submitted in a timely manner to obtain and execute the service contracts. Policy correspondence will be sent to all Hazmat Coordinators.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Implement the corrective actions described in the prior audit report, as this is a repeat finding.	Corrective actions were implemented through a Memorandum on 12/9/2022 and a CAL-Card Program E-Blast 22-4 Memorandum on 12/13/2022 to emphasize that service contracts must be executed in a timely manner. Will reissue Memorandum and CAL-Card E-Blast to strengthen policy.	31 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Audit Report Finding #3 Late and advance payments (Repeat Finding)			

State Controller's Office (SCO) - Response to Final Report Audit Name: CAL-Card Program Audit Auditee: California Department of Transportation (Caltrans), Division of Procurement and Contracts (DPAC) Audit No. S23-CCP-0001			
SCO Recommendation	Auditee Response to Final Report	Estimated Completion Date	Staff Responsible
Adhere to the California Prompt Payment Act and Caltrans' Acquisitions Manual, and pay for CAL-Card transactions in a timely manner.	DPAC will collaborate with the Caltrans Equipment Rental Program to ensure rental service dates are within the contract term. Policy correspondence will be sent to all Equipment Coordinators.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Establish and implement adequate controls to ensure that Caltrans pays only those CAL-Card Program transactions that meet the requirements for payment	DPAC will collaborate with the Caltrans Equipment Rental Program to ensure rental service dates are within the contract term. Policy correspondence will be sent to all Equipment Coordinators.	30 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch
Implement the corrective actions described in the prior audit report, as this is a repeat finding.	Corrective actions were implemented through a Memorandum on 12/9/2022 and a CAL-Card Program E-Blast 22-4 Memorandum on 12/13/2022 to emphasize that service contracts must be executed in a timely manner. Will reissue Memorandum and CAL-Card E-Blast to strengthen policy.	31 to 60 Days of Final Audit Report	Department of Transportation, Division of Procurement and Contracts CAL-Card Administration and Compliance Branch

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