

# CALIFORNIA LOTTERY

Audit Report

## CAL-CARD PROGRAM

*January 1, 2003, through December 31, 2007*



**JOHN CHIANG**  
California State Controller

February 2009



**JOHN CHIANG**  
**California State Controller**

February 11, 2009

Joan M. Borucki, Director  
California Lottery  
600 North Tenth Street  
Sacramento, CA 95811

Dear Ms. Borucki:

The State Controller's Office audited the California Lottery's (Lottery) Cal-Card Program, for the period of January 1, 2003, through December 31, 2007.

Our audit of the Lottery's Cal-Card program disclosed that cardholders made purchases that were prohibited use of the Cal-Card and split purchases to avoid purchase limits. In addition, the Lottery did not maintain written approvals to increase the card purchasing limit for cardholders.

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

Sincerely,

*Original signed by*

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

JVB/sk:vb

cc: John Mass, Chairman  
California Lottery Commission  
Cynthia Flores, Commissioner  
California Lottery Commission  
Manuel Ortega, Commissioner  
California Lottery Commission  
Michael T. Ota, Deputy Director  
Finance Division  
California Lottery  
Roberto Zavala, Chief  
Internal Audits  
California Lottery

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) Cal-Card program for the period of January 1, 2003, through December 31, 2007.

Our audit of the Lottery's Cal-Card program disclosed that cardholders made purchases that were prohibited uses of the Cal-Card and split purchases to avoid purchase limits. In addition, the Lottery did not maintain written approvals to increase the card purchasing limit for cardholders.

## Background

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that, "... the Controller shall suggest plans for the improvement and management of revenues."

Proposition 37, the California State Lottery Act of 1984 (Lottery Act), amended the California Constitution to authorize the establishment of a statewide lottery, to create the California Lottery Commission, and to give the commission broad powers to oversee the operation of a statewide lottery.

Pursuant to Government Code section 8880.67, the SCO may conduct other special post-audits of the Lottery, as the State Controller deems necessary. The Controller or his/her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the California Lottery Commission.

The Cal-Card program is intended to streamline payment procedures and reduce the administrative burden associated with the purchase of supplies for state and local agencies. The State of California Master Service Agreement with U.S. Bank provides the Lottery with VISA bank card services through the Internal Merchant Purchase Authorization Card (I.M.P.A.C.) Government Services program.

Purchasing Authority Manual section 1.3.7 states, "Any department with delegated purchasing authority may apply to participate in the State's Cal-Card purchase program." All state and participant procurement and contracting rules, guidelines, and procedures must be followed.

## **Objectives, Scope, and Methodology**

The purpose of the audit was to determine if the Lottery's transactions made via Cal-Card are adequately controlled and comply with sound financial and program management practices.

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. We did not audit the Lottery's financial statements.

The objectives of our audit were to determine whether the Lottery's:

- Fiscal controls over the Cal-Card Program are adequate;
- Cal-Cards are being used for authorized purposes; and
- Accountability for the Cal-Card is maintained.

The procedures performed in the audit included:

- Analyzing and evaluating Cal-Card purchases;
- Performing tests of procedural compliance and propriety of the administrative expenditures processed through the Cal-Card, as deemed necessary;
- Reviewing work performed by any external audit organization or by the Lottery's Internal Audit Office or by any other Lottery unit; and
- Reviewing the Department of General Services (DGS) Cal-Card procedures, California Lottery Cal-Card procedures, California Lottery Act, State Administrative Manual, and other applicable rules and regulations.

## **Conclusion**

Our audit of the Lottery's Cal-Card Program disclosed that the cardholders made prohibited purchases totaling \$11,789 as described in Finding 1. Lottery staff inappropriately split purchases to avoid purchase limits for purchases totaling \$7,474 as described in Finding 2. In addition, the Lottery did not maintain written approvals to increase the card purchasing limit for cardholders as described in Finding 3.

## **Views of Responsible Official**

The SCO issued a draft report to the Lottery dated December 12, 2008. Joan Borucki, Lottery Director, responded by the attached letter dated December 9, 2008. Ms. Borucki agreed with all three findings.

**Restricted Use**

This report is intended for the information and use of the California Lottery, the California Lottery Commission, 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 the final report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

February 11, 2009

# Findings and Recommendations

**FINDING 1—  
Cardholders made  
purchases that were  
prohibited**

Our audit disclosed that the Lottery did not follow the Cal-Card procedures regarding prohibited uses. We identified prohibited uses of the Cal-Card for purchases totaling \$11,789. The Lottery VISA Cal-Card User Guide prohibits the cardholder from using the card for non-work related/personal items, and training classes. By allowing cardholders to make prohibited purchases as defined in the Lottery’s Cal-Card User Guide, the Lottery is allowing cardholders to circumvent the procurement procedures. The prohibited uses are as follows:

1. The Lottery spent a total of \$6,616 on prior anniversary/employee recognition events for the years 2003 through 2006. These consisted of purchases that were prohibited per the Lottery’s VISA Cal-Card Guide and included rental of items used at an outside event, such as tents, tables, chairs, props, stages, costumes, and decorations. Cal-Card guidelines prohibit the cardholder from using the card for non-work related/personal items. In addition, these costs were incurred for the employees’ benefit; therefore, do not fit the mission of the Lottery and are an inappropriate use of public funds.

<u>Anniversary Events</u>	
<u>Year of Event</u>	<u>Unallowable Cal-Card Purchases Identified</u>
2003	\$ 2,289
2005	2,007
2006	<u>2,320</u>
Total	<u>\$ 6,616</u>

California Government Code section 8880.64 states in part:

Expenses of the lottery shall include all costs incurred in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods and services required by the lottery including but not limited to, the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communication, compensation paid to Lottery game retailers and reimbursement of costs of services provided to the lottery by other governmental entities, and for the costs for any other goods and services necessary for effectuating the purposes of this chapter.

Promotions and incentives noted in Government Code section 8880.64 apply to the promotion of Lottery sales and do not provide for anniversary/employee recognition presents for employees. When public funds are used, they must be necessary and reasonably relative to the mission of the entity incurring the expense. The costs incurred appear to be for the benefit of Lottery employees. As the Lottery was not able to provide any specific statute or regulation allowing it to incur these costs, the costs constitute an improper gift of public funds and thus are unallowable.

On May 20, 2008, the Lottery Commission established regulations regarding an employee recognition program for California Lottery employees; the regulations require the program to be similar to those at other state agencies and the payments for this purpose are not to exceed in value those allowed by California Government Code section 19823. In addition, the regulations allow for 25 years of state service awards not to exceed in value that allowed by California Government Code section 19849.9.

2. The Lottery inappropriately purchased non-business related items in three transactions totaling \$2,382. Two refrigerators totaling \$1,142 and three microwave ovens totaling \$1,240 were purchased to supply the employee break rooms. These purchases are not part of the Lottery's mission. Cal-Card guidelines prohibit the cardholder from using the card for non-work-related/personal items.

The Department of General Services' Purchasing Authority Manual, Chapter 2, section 2.A2.2, specifies:

Departments may not procure personal items such as Kleenex, glass wipes and/or appliances that are not part of the department's mission.

The Cal-Card purchases of the refrigerators and microwave ovens are not necessary for effecting the purpose of the Lottery Act and do not comply with the Act. The Lottery has improperly expended state funds of \$2,382.

3. In two cases, the Lottery used the Cal-Card for purchasing two training classes totaling \$2,790. The Lottery's VISA Cal-Card User Guide prohibits the cardholder from using the card for training classes. The Lottery did not have any documentation to authorize these prohibited purchases.

#### Recommendation

Cardholders should be reminded of their responsibilities to ensure that the Cal-Card is used appropriately and all purchases are within the established guidelines.

Approving Lottery officials should carefully review vendor receipts and supporting documentation to ensure that purchases are proper and supported. This review process will ensure cardholders' compliance with Lottery's policies and will address any improper use of the card.

Lottery's Response

The Lottery recognizes the importance of following CAL-Card procedures and ensuring expenditures are appropriate Lottery business related expenses. As a result, the Lottery is reviewing the CAL-Card program and will make necessary revisions as needed. Additionally, the Lottery will take the following steps in addressing this finding:

1. As noted in its response to the December 2008 State Controller's Office Revolving Fund Expenditures Audit Report, Finding 2, the Lottery Commission has adopted regulations concerning employee recognition programs.
2. The Lottery agrees and will no longer purchase microwave ovens or refrigerators using the CAL-Card program.
3. The Lottery agrees that its CAL-Card user's guide prohibits its use for the payment of training classes. The Lottery is reviewing its policies regarding training charges and will make any necessary revisions.

**FINDING 2—  
Cardholders  
improperly split  
purchase transactions  
to avoid purchase  
limits**

Four Cal-Card transactions totaling \$7,473 were split to avoid single purchase limits defined in the DGS Procurement Manual and the Lottery Cal-Card Manual. The Lottery did not have any documentation to authorize split purchases.

The Lottery VISA Cal-Card User Guide prohibits the splitting of purchases to avoid using the correct procurement procedures.

In addition, Section 9.B3.5 of the DGS Procurement Manual states:

Departments will not split purchases to circumvent a cardholder's daily or monthly purchase limits. Also, cardholders will not split transactions to avoid competitive bidding limits or purchasing authority limits.

By allowing cardholders to circumvent expenditure limits the Lottery increases the risks of paying for inappropriate and excessive purchases.

Recommendation

The Lottery should strengthen the Cal-Card statement review process to detect instances where cardholders are splitting purchases to circumvent spending limits. In addition, cardholders and approving officials should ensure that purchases do not exceed established spending limits.

Lottery's Response

The Lottery agrees and is reviewing its business needs and will make any necessary revisions.

**FINDING 3—  
Approval for  
increased Cal-Card  
limits were not  
maintained**

Our audit disclosed that four of ten (40%) employee-issued Cal-Cards tested did not show documentation supporting credit limits higher than the initial \$2,000, 30-day limit set by the Lottery.

The Lottery's VISA Cal-Card User Guide states that card limits are set at the time the cards are issued. Limits may be increased by written request, with appropriate justification to the CAL-Card administrator. It also states approving officials may request temporary increases via written justification.

In addition, the Lottery VISA Cal-Card User Guide states the initial purchasing limit per card is \$2,000 per 30-day period.

The risk for improper purchases is increased if documentation for increasing the credit limit is not maintained.

Recommendation

The Lottery should ensure that each cardholder's file contains a set of standardized forms and supporting documentation identifying the cardholder's purchase limit, which should include any card limit increases.

Lottery's Response

The Lottery agrees as requests for increases were not always in writing or retained. Requests for increases are now written and retained. In addition, the Lottery is reviewing its business needs and will make any necessary revisions.

**Attachment—  
California Lottery's  
Response to Draft Report**

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January 9, 2009

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

Subject: State Controllers Office Audit of the Visa CAL-Card Program – January 1, 2003 through,  
December 31, 2007

Dear Mr. Finlayson:

The California State Lottery (Lottery) offers the following general comments and specific points regarding the recently concluded audit conducted by the State Controllers Office (SCO). The audit scope was limited to an audit of the Lottery's Visa CAL-Card program (CAL-Card) for the period January 1, 2003 through December 31, 2007. Further the audit fieldwork started on April 3, 2008.

The draft report listed a number of recommendations for the Lottery to consider. Most of the recommendations request the Lottery to follow policy and procedure and ensure CAL-Card users make appropriate transactions. The Lottery finds these recommendations useful. The Lottery's CAL-Card program is currently being reviewed and revisions will be made as necessary.

Below are the Lottery's responses to the specific recommendations provided in the draft audit report.

**FINDING 1 - Cardholders made purchases that were prohibited:**

**RECOMMENDATION:**

1. The Lottery should remind cardholders of their responsibilities to ensure that the CAL-Card is used appropriately and all purchases are within the established guidelines.
2. Approving Lottery officials should carefully review vendor receipts and supporting documentation to ensure that purchases are proper and supported as well as in compliance with the Lottery's policies and address any improper use of the card.

**RESPONSE:**

The Lottery recognizes the importance of following CAL-Card procedures and ensuring expenditures are appropriate Lottery business related expenses. As a result the Lottery is reviewing the CAL-Card program and will make necessary revisions as needed. Additionally the Lottery will take the following steps in addressing this finding:

Andrew Finlayson  
January 9, 2009  
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1. As noted in its response to the December 2008 State Controllers Office's Office Revolving Fund Expenditures Audit Report, Finding 2, the Lottery Commission has adopted regulations concerning employee recognition programs.
2. The Lottery agrees and will no longer purchase microwave ovens or refrigerators using the CAL-Card program.  
The Lottery is reviewing its policies regarding training charges and will make any necessary revisions.

**FINDING 2 - Cardholders improperly split purchase transactions to avoid purchase limits:**

**RECOMMENDATION:**

1. The Lottery should strengthen the CAL-Card statement review process to detect instances where cardholders are splitting purchases to circumvent spending limits.
2. Cardholders and approving officials should ensure that purchases do not exceed established spending limits.

**RESPONSE:**

The Lottery agrees and is reviewing its business needs and will make any necessary revisions.

**FINDING 3 - Approval for increased CAL-Card limits were not maintained:**

**RECOMMENDATION:**

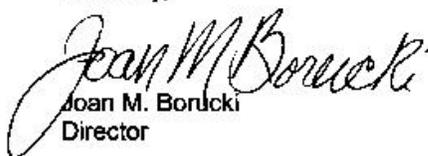
The Lottery should ensure that each cardholders file contains a set of standardized forms and supporting documentation identifying the cardholders purchase limit, which should include any card limit increases.

**RESPONSE:**

The Lottery agrees as requests for increases were not always in writing or retained. Requests for increases are now written and retained. In addition, the Lottery is reviewing its business needs and will make any necessary revisions.

If you have any additional questions, please contact my Audit Chief, Roberto Zavala at (916) 323-7156.

Sincerely,

  
Joan M. Borucki  
Director

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

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