

An Analysis of the Use and Oversight of County Purchase Cards

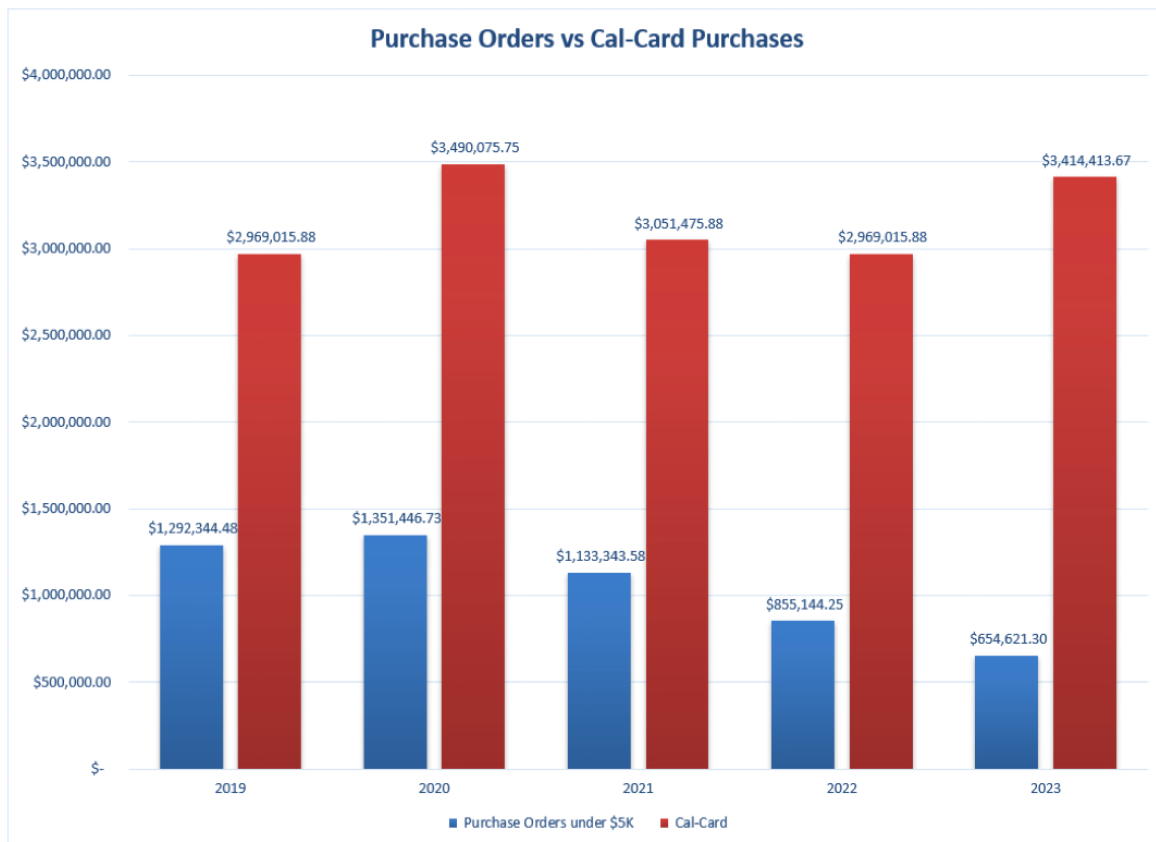
May 23, 2024

SUMMARY

Large organizations like the County of Marin (the County) employ the use of business credit cards for specific purposes. These include the purchasing of goods and services in situations where the expense is a small dollar amount, out of the ordinary, needed under urgent circumstances (e.g. disasters, investigations, etc.), or where there are suppliers/vendors who cannot employ the usual purchase order and invoice payment system used for most of the procurement needs of the County.

Within the County, business credit cards used by employees are known as Purchase Cards and CAL-Cards, and the terms are used on an interchangeable basis (CAL-Cards). CAL-Card purchases historically account for annual expenditures ranging from \$2.9 million to \$3.9 million. The majority of purchases under \$5,000 are made with cards rather than purchase orders (PO's) (i.e. competitively bid, contracted pricing).

Figure 1: Purchase Orders vs CAL-Card use for purchases < \$5,000

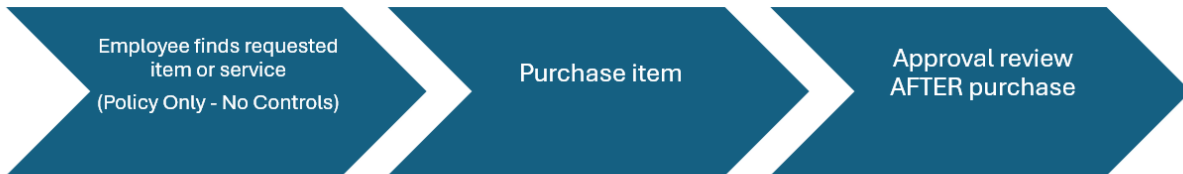


Source: Purchase Card Program Performance Audit Plan, County of Marin Department of Finance, (April 2, 2024)

However, use of CAL-Cards by County employees is not without financial risk. When the purchase order procurement process, with built in controls, is bypassed by use of County issued credit cards, the approval, control, and oversight shifts from before the purchase to after the purchase has been made.

Figure 2: Pre-Purchase Controls: CAL-Card vs Purchase Orders

CalCard Purchase - Few Controls



Purchase Order Process – Controls



Source: Adapted by the 2023-2024 Grand Jury from the County of Marin Procurement Manual and Best Practices Article (April 2, 2024)

This report will explore the use of CAL-Cards by the County. There are a large number of CAL-Cards in use in Marin compared to other counties of similar size. It is often not clear that cardholders are making purchases from suppliers with competitively bid best pricing.

The Marin County Civil Grand Jury (Grand Jury) found considerable variability in the oversight and processing of CAL-Card purchases. This is the result of a structure of joint management by Procurement within the Department of Public Works and the Department of Finance. The Grand Jury is recommending that the Department of Finance assume all administrative, oversight, audit, and training activities for CAL-Cards.

Since CAL-Cards can be subject to misuse, the Grand Jury is recommending tighter approval controls and better training for department leaders and cardholders. The recommendations in this report are intended to standardize the use and oversight of the CAL-Card program in order to mitigate the possibility of misuse and financial risk.

BACKGROUND

Many California local governments participate in the State of California's CAL-Card program. The State has contracted with U.S. Bank NA (U.S. Bank) to provide Visa credit cards to authorized state employees, and the program is available for any local government in California that wishes to participate.

In the County the CAL-Card program is jointly administered by the Procurement Department within the Department of Public Works (DPW) and the Department of Finance (DOF). DPW is responsible for the issuance of cards, the matching of receipts by cardholders to the U.S. Bank invoice, and the preparation of monthly invoices for payment. Once reconciled, the monthly invoice from U.S. Bank is turned over to Accounts Payable within the Department of Finance (DOF) for final review and payment. The current structure with oversight split between DPW and DOF results in significant variability in the administration of CAL-Cards across the county departments.

APPROACH

The Grand Jury began its investigation by developing a plan of action that included interviews, a review of the County's published material, a review of procurement best practices, and internet research. The Grand Jury interviewed department heads and staff. Besides reviewing numerous documents from the County, the Grand Jury also reviewed documents from the State of California Procurement Division. The Grand Jury consulted numerous sources, including the U.S. Bank Procurement Card training video, the City of San Francisco Procurement Manual, spoke with administrative staff in San Mateo and Napa counties, and researched other counties' Grand Jury reports related to the use of CAL-Cards. In addition, the Grand Jury reviewed the Purchase Card Program Performance Audit Plan issued on April 2, 2024 by DOF. Finally, the Grand Jury interviewed for a second time selected personnel to discuss applicable document revisions and policy changes.

This report is based, to a large extent, upon numerous and detailed interviews with many County employees. Throughout the report, information that is not supported by a footnote comes from those interviews.

The Grand Jury concluded this investigation on April 23, 2024.

DISCUSSION

The CAL-Card program is intended to enable designated local government employees to make authorized small dollar purchases of supplies, materials, equipment, and services for the local government, as long as they do not exceed a maximum specified dollar amount. By allowing employees to purchase such items via a credit card, the local government has the ability to streamline the purchasing and payment process.

Advantages of CAL-Card Use

The potential benefits of the CAL-Card program include reducing the administrative burden, elapsed time, and costs associated with traditional methods of payment by decentralizing the procurement function. This speed of transaction can be very useful during natural disasters as well as unusual purchasing situations like those that can arise in the Sheriff's Office during investigations or for the needs of witnesses. The use of CAL-Cards may also benefit the County through detailed spend analytics and card user profiles supplied by U.S. Bank. This bank offers rebates and early payment discounts to large organizations who are using their bank card services. However, it is unclear whether or not the County is taking advantage of these benefits.

Inherent Risks of CAL-Card Use

While the program is an effective way to make governments and their operations more efficient, the CAL-Card program also subjects local governments to inherent risks by decentralizing the purchasing process and allowing a greater number of employees to directly purchase materials and supplies.

Most local governments believe that the savings from simplifying high-volume, small-dollar purchases of materials and supplies justifies the risk of losses. It is important that management is vigilant and that controls are adequate to detect and correct misuse.

There are a number of potential risks that arise when a purchasing card program is instituted. These include card fraud or abuse (e.g., purchasing items for personal use), the purchase of inappropriate supplies or services (e.g., not in compliance with purchasing policy), and the purchase of supplies or services in excess of those needed. Fragmentation of purchases can lead to a potential loss of beneficial rates that may be available through the use of a PO for items or services which have been competitively bid. Overuse of cards can also lead to incomplete information on overall purchases and spending trends.

Control Measures

Currently, the review and approval practices related to the CAL-Card varies among departments. This has the potential to make the audit process difficult and can lead to potential misuse of CAL-Cards.

There are numerous important internal controls concerning purchasing card program(s) that local governments should have in place. These controls include written instructions to employees regarding the appropriate use of purchasing cards, unauthorized transactions, disputes and returns, lost/stolen cards, and card issuance and cancellation.¹ Additionally, it is critical to retrieve cards and document that retrieval when a cardholder's employment status changes.

At the time they receive the card, employees who are entrusted with cards are required to attest that misuse of the card will be subject to disciplinary action. Annual attestations are not currently required or documented.

Strong control measures will enable management to:

- Monitor and curtail credit card fraud or abuse
- Ensure adequate segregation of duties (each person's work acts as a complementary check against another's)
- Ensure that card purchases are in alignment with the county purchasing policies and approved by the responsible department manager
- Standardize and control the issuance and retrieval of cards when there is a cardholder job status change
- Complete timely reconciliation of purchases with cardholder receipts
- Enhance payment oversight and approval by the responsible department manager

Best practices require control measures which provide for adequate monitoring of monthly and per-transaction spending limits per cardholder (including written requests for higher spending limits). Standardized control processes provide the ability to take disciplinary action when cardholders do not follow rules and regulations governing card usage. Best practices also call for periodic audits of card activity and a process for the retention of purchase documentation (including sales receipts). Importantly, standardized systems are needed to ensure that there is ongoing training of all cardholders, approving officials, and managers.²

Policy vs. Current Practices

The County CAL-Card Policy Manual (CAL-Card Manual) was revised in 2013 and again in 2021.³ This manual, taken in conjunction with the County of Marin Procurement Manual, should

¹ County of Marin CAL Card Policy Manual 12-202, <https://rebrand.ly/CalCardPolicyManualPDF>, (accessed 4/24/24); Public Procurement Practice: Developing a Procurement Policy Manual, <https://www.nigp.org/resource/global-best-practices/Developing%20a%20Procurement%20Policy%20Manual%20Best%20Practice.pdf?dl=true>, (accessed 4/24/24).

² County of Marin Procurement Manual, <https://www.marincounty.org/-/media/files/departments/pw/purchasing/procurementmanual-3262021v4.pdf?la=en> (accessed 4/24/24);

³County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF> ,(accessed 4/24/24);

provide a complete framework of policies and practices that comply with County purchasing and contracting practices and the safeguarding of public funds.⁴ There are areas where the policy should be strengthened and instances where the policy is not being followed.

The CAL-Card Manual states that there will be no background checks done on cardholders. This presents a potential risk of card misuse.

The CAL-Card Manual states that cards may be used to make low dollar purchases of items where no pricing advantage can be obtained by getting quotes. However, neither cardholders nor those preparing the U.S. Bank invoices for payment routinely check with the County Purchasing Agent who is charged with the duty to provide oversight in procurement. This check would ascertain if the item or service being purchased is already available within the system at a competitively bid contracted price.⁵

There are instances of large dollar purchases being divided into two payments to circumvent the dollar limit on a single purchase, which is a breach of policy. So called "split payments" are two payments for one item divided so that neither payment exceeds a cardholder's limits. In almost all cases the card purchases were indeed for County business. However, it seems that once issued a card, cardholders resort to CAL-Card use instead of checking with a purchasing agent to see if the desired item or service is already available in the County MUNIS database (the electronic catalog of approved contracted items and services).

The CAL-Card policy states that restrictions on specific "merchants" (providers of goods and services in restricted categories) cannot be removed. However, in a countywide review of CAL-Card purchases from April 2022 to April 2023 conducted by the DOF, it was discovered that there were purchases made from restricted merchants.⁶

Section 6.2.3 of the CAL-Card Manual clearly states that Approving Officials (AOs) are not eligible to apply for a card. However, in a few cases AOs do have cards. This contradicts the premise of segregation of duties that no one person should be responsible for more than one aspect of any transaction.

The tracking and monitoring of cards varies across County departments. There are variable practices employed among various departments to retrieve cards when a cardholder changes job status. Standard practice for tracking cards with the appropriate linkage to the cardholder's assigned duties is an important element of oversight and control. One job assignment may be

⁴Public Procurement Practice: Developing a Procurement Policy Manual, <https://www.nigp.org/resource/global-best-practices/Developing%20a%20Procurement%20Policy%20Manual%20Best%20Practice.pdf?dl=true>, (accessed 4/24/24)

⁵ County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, (accessed 4/24/24).

⁶ County of Marin Department of Finance Performance Audit Proposal Plan: CAL Card Program 1/22-12/23, <https://rebrand.ly/CALCardPerformanceAudit>, (accessed 4/24/24).

suitable for card use while another may not. The manager of the person with a new job status needs to re-evaluate the need for a card and make a new application⁷

Role Clarification for Approving Official (AO)

There is confusion in the County about the role of the Invoice Processor vs. the AO. The AO is defined in the CAL-Card Manual as the person “...who has the authority to authorize payment of purchases made by a cardholder...”⁸ The Invoice Processor is defined as the person who receives the U.S. Bank monthly summary purchases, matches them to the invoices, and then enters supporting documentation in a timely manner so that DOF can pay the U.S. Bank bill.⁹ In practice, AOs are functioning as Invoice Processors in many departments. In some cases, those acting as Invoice Processors do not have the authority as a manager to approve the purchases or intervene with errors or misuse. Some AOs have sufficient authority to approve purchases and warn or discipline cardholders about mistakes or patterns of misuse. Those AOs do not hold cards themselves, consistent with the policy.

What makes this confusion of roles possible is that the CAL-Card Manual is contradictory. The CAL-Card Manual clearly references the segregation of duties, which is a hallmark of good purchasing and payment practices. However, the last line of the definition for Invoice Processor says, “The Invoice Processor is frequently the Approving Official for the department.”¹⁰ This violates the best practice of separating the functions of the Invoice Processor from the AO.

Education and Training

The County CAL-Card program currently has almost 300 outstanding cards being used across every department of the County. It is an important aspect of any CAL-Card Program that all participants be adequately trained in card use and the appropriate procedures to be followed so that the system works as it should. Best practices encourage governmental agencies to develop a customized training program for staff participating in their CAL-Card program.¹¹

The CAL-Card Manual, Section 5.2.1 states “All Cardholders, Approving Officials, and Invoice Processors are required to attend initial training and periodic training...to maintain their CAL-Card status.”¹² There is little evidence of detailed initial training or periodic training. There is

⁷ County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, (accessed 4/24/24).

⁸ County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, p. 2, (accessed 4/24/24).

⁹ County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, p. 3, (accessed 4/24/24).

¹⁰ County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, p. 3, (accessed 4/24/24).

¹¹ Public Procurement Practice: Developing a Procurement Policy Manual, <https://www.nigp.org/resource/global-best-practices/Developing%20a%20Procurement%20Policy%20Manual%20Best%20Practice.pdf?dl=true>, (accessed 4/24/24).

¹² County of Marin CAL Card Policy Manual 12-2021, <https://rebrand.ly/CalCardPolicyManualPDF>, p. 4, (accessed 4/24/24).

minimal training for people in the County CAL-Card system, including both administrators and card users. This is true both initially and in an ongoing manner.

The Grand Jury's investigation revealed that the only training for new card users consists of a direction to read the Marin CAL-Card Manual and watch a video provided by U.S. Bank. There is no verification or documentation which shows that the video was watched or that the Manual was read. The video itself is simplistic and non-specific. It does not contain any dedicated information related to the County or its CAL-Card program. A total of less than 2 minutes of an almost 15 minute video covers specific information for cardholders.¹³

While the first recommendation on the training video calls for the County to create "training and procedures for all end users," the Grand Jury has found no indication that any such training procedures have been developed nor implemented by the County. The video further suggests that the County perform "random monthly audits." The Grand Jury found no evidence that such audits are conducted across the County. The video requires the County to "review reports for program adherence and spending patterns." The Grand Jury again found no evidence that such reviews are conducted in any organized and regular manner across the County departments. Much of this results from a decentralized program where each department is administering their CAL-Card Program in a somewhat unique way and with little oversight.

AOs have no specialized training. The administration of this system is often a very small part of their overall duties for the County, many spending just a few hours per month related to managing the CAL-Card system. Many have not read the CAL-Card Manual more than once and not since it was updated in 2021. There are no specific trainings or regular meetings in which their duties as AOs are discussed. Training is limited to spending a short period of time watching someone else do the job, usually during a time of transition. Some people in these important positions are temporarily filling the spot or are brand new to the position. U.S. Bank currently does not assist with CAL-Card training beyond providing a generic training video.

There is an automated online training program provided through the Department of Human Resources that could be used for cardholders, Invoice Processors, and AOs to complete a standardized training session annually along with an attestation similar to the one initially signed upon the issuance of a card. This program is currently used for all other mandatory county annual training (e.g. ethics, diversity, etc.).

¹³ CAL-Card Training Video, <https://rebrand.ly/Cal-Card-Training-VideoMP4>, Source: U.S. Bank 2001 Training, (accessed 4/24/24)

Oversight and Auditing

The County's CAL-Card Program is currently jointly administered by DOF and DPW. The CAL-Card system is decentralized and as a result there is considerable variability in departmental oversight and administration. There is no evidence that anyone within the departments who has this assignment spends more than a few hours per month on oversight.

The County CAL-Card Manual limits the responsibilities of DOF to monitoring, coordination, and reconciliation of CAL-Card billing statements to corresponding monthly payments to U.S. Bank. DOF's Accounts Payable division ensures that CAL-Card purchases are substantiated and that payments are, in fact, made to U.S. Bank. In addition, DOF's internal audit team is supposed to manage risk by receiving notifications from U.S. Bank in real time pointing out transactions that *look risky*. These include possible split payments, purchases made on weekends or holidays, and purchases in excess of certain limits. Notwithstanding this responsibility, there is no indication that a uniform and considered method of fulfilling this duty is in effect across the departments. There is no clear effort to communicate standards among the departments or take actions to mitigate actual or potential risks.

Currently there is no single entity within the County that is charged with all aspects of administration and oversight of the CAL-Card program. There is no system in place that adequately documents, tracks, and remedies CAL-Card violations.

As a result of its investigation, the Grand Jury makes the following findings and recommendations:

FINDINGS

- F1.** The administration and oversight of the CAL-Card Program in the County of Marin is decentralized and jointly administered by two departments which results in an inconsistent and variable application of oversight and controls. This has led to a lack of clarity and accountability.
- F2.** The integrity of the CAL-Card Program would be more adequately safeguarded if the Department of Finance is given complete authority and responsibility to administer all aspects of the CAL-Card Program.
- F3.** The Department of Finance does not currently have adequate resources to administer all aspects of the CAL-Card Program.
- F4.** Although the CAL-Card Policy Manual requires that no one person should perform more than one part of any purchasing transaction, there are violations of this policy.
- F5.** The County of Marin's initial and continuing training program for CAL-Card users and their supervisors is inadequate.
- F6.** There is no structured process by which the County of Marin is guaranteed preferential government pricing when CAL-Cards are used.
- F7.** There is a lack of rigor in the County of Marin for retrieving and closing cards when there is a change in the job status of the cardholder.
- F8.** There currently is no formal procedure to document and retain records concerning the training of CAL-Card Approving Officials or card users.
- F9.** The County of Marin does not require that employees annually attest to having reviewed the rules of CAL-Card use and that they understand that violations of the policy can lead to disciplinary action.
- F10.** The County of Marin does not exercise consistent oversight to assure that purchases are being made consistent with the CAL-Card Policy Manual and with existing contracts for competitively bid goods and services.

RECOMMENDATIONS

- R1.** By December 31, 2024 the Board of Supervisors should direct the office of the County Executive Officer to transfer the responsibility for the operation, oversight, and training of the CAL-Card system in the County of Marin to the Department of Finance.
- R2.** By December 31, 2024 the Board of Supervisors should direct the office of the Chief Executive Officer to provide the Department of Finance with the appropriate staffing levels and resources to fulfill the administrative responsibilities of Marin County's CAL-Card system.

By March 31, 2025, the Marin County Department of Finance should:

- R3.** Begin using the automated Human Resources system to document all initial and annual training, and attestation for the use of CAL-Cards.
- R4.** Set a timeline for the review and update of the CAL-Card Policy Manual.
- R5.** Create a method to ensure that a preferential governmental price is obtained when CAL-Cards are used for travel.
- R6.** Set up an audit system to monitor travel expenses and adherence to the County travel policy.
- R7.** Implement the "Notice of Non-Compliance", currently being developed, to document, track, and remedy violations in CAL-Card processes.
- R8.** In conjunction with the Department of Human Resources, set up an automatic notice to the appropriate person in the Department of Finance whenever a cardholder's job status changes.

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the Grand Jury requires responses from the following governing bodies within 90 days:

- Marin Board of Supervisors (F1-F10) (R1-R8)

INVITED RESPONSES

- Marin Department of Finance Director (F3-F8, F9-F10) (R3-R8)
- Marin Department of Public Works Director (F1-F2) (R1)
- Marin Department of Human Resources Director (F8) (R3,R8)

Note: At the time this report was prepared information was available at the websites listed.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.