

## For Everything Else There's CAL-Card

16,800 Rolls Two-Ply Toilet Tissue = \$51,597.50

4,660 Economy Storage Files w/Lids = \$6,608

The knowledge your tax dollars are being wisely spent... PRICELESS.

### **Summary**

Santa Cruz County departments rely on a centralized purchasing system to acquire almost \$30 million in goods and services to sustain County functions. The processing of purchases costs the County in excess of \$500,000 annually in administrative costs. These costs are apportioned to individual departments based on the number of purchase orders processed for each department.

Other purchasing options are available to County departments including CAL-Card. CAL-Card is a Visa card offered by U.S. Bank through a contract with the State of California. CAL-Card is used for less than four percent of the total purchases even though it is more efficient, less expensive and provides cash rebates. The numerous restrictions imposed on CAL-Card use, and the cumbersome internal process for billing, dispute resolution, and reconciliation has combined to discourage use of the cards. Restructuring the program could encourage and optimize use of this less expensive purchasing option, and would allow the County to realize substantial savings.

### **Scope**

The Grand Jury sought to analyze the various methods currently used to purchase goods and services with a focus on taking advantage of more efficient purchasing mechanisms to save money.

### **Background**

Santa Cruz County uses three primary methods of purchasing goods and services: CAL-Card, a single-vendor office supply contract, and a purchase order system. CAL-Card is a payment mechanism (Visa card) with no card fees and no interest cost, unless late payment penalties are assessed. It is designed to streamline the procurement process and reduce purchasing costs significantly for purchases of goods and services up to \$100,000 per transaction and is offered by the State of California through a master contract with U.S. Bank. There is currently a single-vendor contract for office supplies with Corporate Express (which was subsequently bought by Staples). Expenditures made under the purchase order system require administrative processing. Purchases made with CAL-Card or through Corporate Express do not require the processing of a purchase order.

### **Definitions**

**Purchasing Division (Purchasing):** The unit of Santa Cruz County General Services Department that serves all other county departments and agencies in purchasing, leasing, lease/purchasing or renting all equipment, materials, and supplies.

**Living Wage Ordinance:** Santa Cruz County Code, Chapter 2.122 provides, “The ‘living wage’ to be paid to employees pursuant to the requirements of this Chapter shall be a minimum hourly wage set by resolution of the Board of Supervisors after consideration of the annual cost of living increase as measured by the San Francisco-Oakland-San Jose area Consumer Price Index.” The County Code that imposes this living wage requirement also applies to outside vendors and contractors hired by county departments.

**Green Purchasing Requirement:** Santa Cruz County Purchasing Manual section 2.8 provides: “The goal of the County is to reduce global warming effects generated by government operations. In this endeavor, terms and conditions of all solicitations shall encourage, whenever possible, services and products that are proven to be beneficial to the environment. Examples of these green standards are Electronic Product Environmental Assessment Tool (EPEAT), Energy Star, EcoLogo, Green Seal and the like.”

## ***Findings***

1. Purchase orders account for the vast majority of county spending but are the most expensive method of acquisition. In 2008 nearly \$28 million in purchases were processed via purchase orders at a cost of over \$500,000.
2. Purchasing indicates that a standard industry goal is to maintain processing costs in the \$60-\$100 range above the cost of goods per purchase order. However, it appears, based on review of the County of Santa Cruz Cost Allocation Plan, that our County’s cost greatly exceeds that range. In 2003-2004, 2,620 purchase orders were processed at a cost of \$184 per order. In 2004-2005, 2,570 purchase orders were processed at a cost of \$196 per order.
3. Purchasing is aware of the standards for controlling the cost of processing purchase orders; however, the department says it is unable to determine whether they are meeting these standards due to limitations imposed by the archaic mainframe computer system on which Purchasing depends.
4. In making purchasing choices the County is subject to many limitations. These include those imposed externally such as provisions of California law (i.e. the Government Code and the Public Contracts Code), spending guidelines for various funds received from the federal and state governments, and restrictions imposed by the numerous grants and special programs. The County has many self-imposed restrictions such as the Living Wage Ordinance, and the Green Purchasing Requirement. The county cites these limitations as justification for some of the County imposed CAL-Card usage restrictions.
5. All CAL-Cards issued to County employees have single purchase limits under \$1,500 and total monthly purchase limits of less than \$10,000. CAL-Card, like any Visa card, can be used for any purchase under these dollar limits unless the category of items is prohibited by CAL-Card or County policy. As these are simply a payment mechanism rather than a supplier, the cards can be used to buy virtually anything from handcuffs and inmate toiletries for the Sheriff’s Office to auto parts and gardening tools for Government Services. The County restricts CAL-Card use by policy, decreeing the cards cannot be used to pay for travel, conference registrations, subscriptions, books,

computer hardware/software, office supplies or services of any kind. The dollar limits imposed by the County further restrict the usefulness of the cards.

6. Purchasing estimates that purchases using CAL-Card cost roughly 25 percent less to process than a county purchase order and CAL-Card provides cash-back rebates. California studies of CAL-Card use have estimated savings ranging from \$25 to \$90 per transaction. Other states and counties have documented savings resulting from implementation of such a purchase card system.
7. The County receives cash rebates up to two percent for purchases made using CAL-Cards. For fiscal year 2007-2008 the rebate amounted to \$6,500. The rebates are awarded to purchasing, not the department whose CAL-Card usage generated the rebate.
8. The paper-intensive process required by the County for reconciling CAL-Card statements and invoices is prohibitively complex and burdensome. Users are individually required to resolve any questioned charges or items, and may be personally held financially responsible for unresolved charges.
9. The County implemented the CAL-Card program in 1996. Since its original implementation the usage of the CAL-Card has declined.

**CAL-Card Usage Statistics since 2001:**

<b>Year</b>	<b>Cards Issued</b>	<b>Transactions</b>	<b>Total Dollars</b>
2001	293	7,148	\$1,594,959
2002	298	7,610	\$1,754,406
2003	281	6,366	\$1,370,683
2004	285	4,839	\$972,993
2005	275	4,424	\$948,976
2006	251	4,719	\$992,597
2007	308	3,861	\$907,599
2008	308	2,937	\$793,712
2009	283	649	\$131,731 (1 <sup>st</sup> Quarter)

10. The somewhat dramatic reduction in CAL-Card use in 2003 and 2004 was a result of the implementation of the single-vendor office supply contract and increased enforcement of its usage requirements.
11. There is no documented case of a county employee being prosecuted or having card privileges revoked for deliberate misuse or abuse of a CAL-Card.
12. U.S. Bank and Visa offer free CAL-Card optimization audits to examine ways the customer can achieve maximum cost savings using the CAL-Card program. The County has never made use of these optimization services.

**Conclusions**

1. The County could realize significant savings through more effective utilization of the CAL-Card program and by reducing reliance on the costly purchase order system.
2. County departments avoid using the CAL-Card system due to spending restrictions and burdensome procedures for processing bills, invoices, and disputes.
3. The County’s adherence to old policies and procedures is limiting its ability to recognize potential savings through expanded use of CAL-Card.
4. The County does not offer any incentive programs to encourage departments to utilize the CAL-Card program, and the departments do not share in the rebates earned.
5. A free optimization audit by Visa and U.S. Bank could provide the County with multiple strategies for increasing the usage of CAL-Card, which could result in significant savings to the County.

**Recommendations**

1. The County should encourage CAL-Card use by re-examining and reducing restrictions to eliminate as many obstacles to card use as is practical.
2. The County should revise and increase card limits for higher-level personnel, with accompanying revisions to “Guidelines for Purchases” and related Purchasing Policy Manual sections.
3. The County should establish a list of pre-approved service vendors that meet Living Wage, Green Purchase, and other requirements and allow those services to be purchased via CAL-Card.
4. The County should simplify the processes of billing, reconciliation, and questioned item resolution for CAL-Card purchases to reduce paperwork and burden on individual users.
5. The County should automate CAL-Card billing and reconciliation to maximize rebates for on-time payments.
6. The County should create incentives, such as recognition and rewards, to encourage employees and departments to promote the use of CAL-Card.
7. The County should request an optimization audit from Visa and U.S. Bank to examine how the savings from use of CAL-Card could be maximized.

**Responses Required**

<b>Respondent</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within / Respond By</b>
County of Santa Cruz Board of Supervisors	2, 5, 7, 12	1-7	60 days September 1, 2009
County of Santa Cruz Auditor Controller	2, 4, 5, 8 12	3, 5, 6	90 days October 1, 2009
County of Santa Cruz Purchasing Department	1-3, 6-7, 9-11	1-5	90 days October 1, 2009

## **Sources**

### ***Tours/Facilities Visits***

Central Stores/County Warehouse

### ***Trainings/Briefings Attended***

County CAL-Card user Training Program

County Purchasing User Group Meeting, November 20, 2008

### ***Publications/Documents***

Living Wage Ordinance, County of Santa Cruz (eff. July 1, 2008)

California Performance Review: *State Needs to Reduce Late Payment Penalties, Increase Early payments*, 2007

Corporate Express/Staples: 2008 Santa Cruz County Government Business Review

CAL-Card 1997 memo to the County of Santa Cruz

Santa Cruz County Publications:

- CAL-Card Program Cardholder Handout

- Cardholder Responsibilities

- CAL-Card forms for county employees

State agreement with U.S. Bank for purchase cards services

CAL-Card program benefits

CAL-Card rebate incentives to agencies

CAL-Card restricted merchant category codes

U.S. Bank CAL-Card Cardholder Guide

U.S. Bank Billing Official Guide

U.S. Bank CAL-Card Program Administrator Guide

U.S. Bank report on county CAL-Card usage for 2001-2008

U.S. Bank Visa, State of California Program optimization Study

Purchase Card Policy, County of Yolo Administrative Policy Manual, section, 2-12, March 25, 2003

Ventura County Grand Jury Report: *Policy and Procedures for Use of Procurement Bank Card*, 1999-2000

### ***Web Sites***

GovPro.com: *Georgia County Streamlines Financial Systems and Procurement Procedures*. Vernon Jones, April 2007

Govtech.com: *When Procurement is Rocket Science*. Steve Townes, July 1998

Accountspayable360.com: *Petty Cash Box Best Practices-If Your Company Insists on Having One*, May 2003

