

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.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY AGREES

Purchasing Division salary and expenditures include more than purchase order tasks. The Purchasing Division work involving contracts account for the vast majority of county spending through the process of bidding, legal review and processing of payments. Purchase orders account for a significant spend, but not the major dollars that contracts represent. Other tasks performed by the Purchasing Division include Living Wage tracking/reporting, Master Contract Agreements and bidding of other department contracts and surplus property disposal.

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.

Response: County of Santa Cruz Auditor-Controller – PARTIALLY DISAGREES

The Purchasing Division has the expertise to determine the standard industry range for purchase orders and on this statement. We do not agree or disagree.

We disagree with the costs provided to process a purchase order and disagree that the Santa Cruz County Cost Allocation Plan (the Plan) is able to provide information to calculate that cost. The Grand Jury based its calculations on information annually

published in the Plan. The Plan's purpose is to accumulate and allocate costs between departments. It does not provide enough information to determine a per unit purchase order cost, because tasks are not broken down in the Plan between processing Purchase Orders versus Contracts, Request for Proposals, or other work the Purchasing Division performs.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY AGREES

Purchasing provided the Grand Jury with the referenced industry standard cost of a purchase order as an industry benchmark, not a goal (this figure was obtained from a study by the Institute of Supply Management). However, current estimates provided by the California Public Purchasing Officers suggests that a purchase order costs generally range between \$50-\$250 depending upon the dollar amount of the purchase and a specific agency's processes associated with the production of a purchase order. The Cost Allocation Plan's purpose is to accumulate and allocate costs between departments. It does not provide the necessary information for determining the per unit purchase order cost, because tasks are not broken down in the plan between processing Purchase Orders, contracts, Requests for Proposals, or other work performed by the Purchasing Department. Additionally, other Purchasing Division work tasks, such as Living Wage reporting, issuing complex requests for proposals, bids, qualifications, negotiations and verifying that orders are done within legal requirements, would need to be removed from an analysis of Purchasing Division expenses in order to find a more accurate figure for the processing of purchase orders.

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.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY DISAGREES

There are different phases of the purchasing order process (see response #2). There are three independent computer systems (APS, FAMIS, ePO) that have limited interface capabilities for producing a purchase order. In addition, code enforcement activities related to Living Wage, green procurement and outsourcing restrictions all contribute to the limitations in reducing costs for the procurement process or to provide a cost/efficiency analysis.

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.

Response: County of Santa Cruz Auditor-Controller – AGREES

We agree that the County has some restrictions related to purchasing. These restrictions have been adopted by the Board of Supervisors and are the same for Purchase Orders, CAL-Card purchases and Contracts.

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.

Response: County of Santa Cruz Auditor-Controller – PARTIALLY AGREES

We agree with the purchase limits listed above and the general summary of spending restrictions. However, exceptions to these limits are allowed on a pre-approval basis including computer hardware/software purchases under \$500.

We disagree that the dollar limits and restrictions imposed by the County make the program less useful. Usefulness must be balanced with risk and cost effectiveness. The cost benefit derived by making purchases using a CAL-Card must be weighed against the cost and control benefit of having purchasing functions performed at the Purchasing or Departmental level where controls can be monitored more closely. For example, by restricting travel and registration payments on CAL-Cards, employees are required to process these items through travel or expenditure claims, therefore giving the appropriate additional oversight over these expenditures as the Department Head must approve the expense before it is paid.

Services are a restricted category of expenditures for CAL-Cards. Services are not appropriate to be paid with a CAL-Card as it does not allow for the capturing of data necessary to complete the IRS 1099 forms. The County must issue a 1099 form to all vendors paid cumulatively more than \$600 in a calendar year.

The fewer controls that are in place, the greater the risk of fraud, waste or the misuse of funds. The General Services Department and Auditor-Controller's Office reviews these controls and revises them periodically.

Response: County of Santa Cruz Board of Supervisors – PARTIALLY AGREES

In any public sector purchasing process, established policies and procedures must balance acceptable risk, cost effectiveness and utility, and be in accordance with the rules and regulations of the auditing function of the specific government entity.

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.

Response: County of Santa Cruz Board of Supervisors – AGREES

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.

Response: County of Santa Cruz Board of Supervisors – AGREES

Purchasing receives all rebates and uses them as an offset to the cost of general program administration. This offset is allocated through the cost allocation plan at a later time. Currently, there is no system in place to allocate the rebates directly to the client departments.

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.

Response: County of Santa Cruz Auditor-Controller – PARTIALLY AGREES

We agree that the reconciliation of the monthly CAL-Card invoice is paper based, the reconciliation requirements are based predominately upon requirements from the CAL-Card sponsoring bank. Departments can file any disputes related to charges online. Additionally, the receipts and supporting documents provided by the vendor when purchases are made with a CAL-Card are paper based.

We disagree that the process is prohibitively complex and burdensome. These requirements are similar to those for reconciling other invoices a department receives; the invoice must have receipts attached and any error on the invoice must be resolved by the department or card holder. We agree that employees may be held personally financially responsible for their purchases and unresolved charges. These controls are necessary to safeguard the County against fraud, waste or abuse.

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:

Year	Cards Issued	Transactions	Total Dollars
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 st Quarter)

Response: County of Santa Cruz Board of Supervisors – AGREES

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.

Response: County of Santa Cruz Board of Supervisors – AGREES

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.

Response: County of Santa Cruz Board of Supervisors – AGREES

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.

Response: County of Santa Cruz Auditor-Controller – AGREES

Response: County of Santa Cruz Board of Supervisors – AGREES

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.

Response: County of Santa Cruz Auditor-Controller – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will re-examine current restrictions and determine if any change in those restrictions is warranted. Any benefits resulting from a change in those controls must be weighed against the risks associated with a lack of controls; fraud, waste and misuse of County funds.

The results of this analysis and any proposed changes will be provided to the Board of Supervisors in December 2009 when the Board is next scheduled to hear updates to the County’s Policy and Procedure Manual.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

Both the Auditor’s Office and the General Services Department will re-examine current policies and procedures, analyze the risk impact of increasing the thresholds, and determine whether any change in those restrictions are warranted. Any benefits resulting from a change in those controls must be weighed against the risks associated with a lack of controls. Results of this effort will be part of the next County Policies and Procedures update at the end of 2009, as necessary.

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.

Response: County of Santa Cruz Auditor-Controller – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will review current card limits and determine if any changes in those restrictions are warranted. Any benefits resulting from a change in those controls must be weighed against the risks associated with a lack of controls; fraud, waste and misuse of County funds.

The results of this analysis and any proposed changes will be provided to the Board of Supervisors in December 2009, when the Board is next scheduled to hear updates to the County's Policy and Procedure Manual.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

Both the Auditor's Office and the General Services Department plan to meet and examine the current policies and procedures, analyze the risk impact of increasing the thresholds, and then formulate a joint recommendation. Results of this effort will be part of the next County Policies and Procedures update at the end of 2009, as necessary.

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.

Response: County of Santa Cruz Auditor-Controller – WILL NOT BE IMPLEMENTED

Service vendors are not appropriate to be paid through the CAL-Card process with limited exceptions. CAL-Card does not have the capability of supporting 1099 reporting required by the IRS. The County must report service payments over \$600 per vendor to the IRS annually. The County cannot capture vendor information from CAL-Card, other than manually, which would be cost prohibitive.

Response: County of Santa Cruz Board of Supervisors – WILL NOT BE IMPLEMENTED

Due to 1099 required reporting, it is not appropriate for pay for service vendors using a CAL-Card. There are limited pre-approved exceptions when the vendor is a corporation and not subject to the County obtaining 1099 information.

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.

Response: County of Santa Cruz Auditor-Controller – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will review the current procedures and determine if simplification is possible. The results of this review and any proposed changes will be provided to the Board of Supervisors in December

2009 when the Board is next scheduled to hear updates to the County's Policy and Procedure Manual.

We currently require the departments to handle their questioned charges and returns, because they are the ones most knowledgeable about the transaction. Although some parts of the reconciliation process may be automated in the future, the department or employee making the purchases will still need to ultimately be responsible for the CAL-Card charges made.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will review the current procedures and determine if simplification is possible. The results of this review and any proposed changes will be provided to the Board of Supervisors in December 2009 when the Board is next scheduled to hear updates to the County's Policy and Procedure Manual. The Auditor-Controller currently requires the departments to handle their questioned charges and returns, because they are the ones most knowledgeable about the transaction. Although some parts of the reconciliation process may be automated in the future, the department or employee making the purchases will still need to ultimately be responsible for the CAL-Card charges made.

5. The County should automate CAL-Card billing and reconciliation to maximize rebates for on-time payments.

Response: County of Santa Cruz Auditor-Controller – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will review the current procedures and determine if any automation or procedural changes are possible to maximize the receipt of available rebates. The results of this review and any proposed changes will be provided to the Board of Supervisors in December 2009, when the Board is next scheduled to hear updates to the County's Policy and Procedure Manual.

Response: County of Santa Cruz Board of Supervisors – REQUIRES FURTHER ANALYSIS

The Auditor-Controller and General Services Director will review the current procedures to determine whether any automation or procedural changes are possible to maximize the receipt of available rebates. The results of this review and any proposed changes will be provided to the Board of Supervisors in December 2009, when the County Policies and Procedures Manual is next updated.

6. The County should create incentives, such as recognition and rewards, to encourage employees and departments to promote the use of CAL-Card.

Response: County of Santa Cruz Auditor-Controller – WILL NOT BE IMPLEMENTED

Expenditures made on behalf of the County should be made according to the procedures established by the County based upon the most cost effective and appropriate method rather than personal incentives which might appear to influence the purchaser’s independence when selecting a vendor or method of payment. CAL-Card already institutes its own reward system by the use of rebates.

Response: County of Santa Cruz Board of Supervisors – WILL NOT BE IMPLEMENTED

Expenditures made on behalf of the County are to be made according to the procedures established by the County based upon the most cost effective and appropriate method rather than personal incentives which might appear to influence the purchaser’s independence when selecting a vendor or method of payment. CAL-Card already institutes its own reward system through the use of rebates.

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.

Response: County of Santa Cruz Board of Supervisors – HAS NOT YET BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE

The Purchasing Division will pursue this effort in their future work plan when staff have sufficient time to provide the necessary information and U.S. Bank’s schedule can accommodate the request.

Responses Required *Note: The responses of the County of Santa Cruz Purchasing Department were incorporated into the responses from the Board of Supervisors and the Board of Supervisors is identified as the respondent.*

Respondent	Findings	Recommendations	Respond Within / Respond By
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

