

STATE OF OKLAHOMA OFFICE OF MANAGEMENT AND
ENTERPRISE SERVICES
DIVISION OF CAPITAL ASSETS MANAGEMENT
AUDIT UNIT
REPORT RELEASED AUGUST 27, 2012

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AUDIT PERFORMED BY

JoRay McCoy, Chief Auditor
Megan Hannabass, Senior Auditor

AUDIT CONCLUSION

Based on our audit of the Oklahoma Board of Medicolegal Investigations' purchase card program, we determined the Agency significantly complied with the following audit objectives:

- Determine if the Agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program, and
- Determine if the Agency's purchase card program is in compliance with the Oklahoma State Purchase Card Procedures and approved internal purchasing procedures as they relate to the acquisition process through the use of purchase cards.

However, there were deficiencies noted during the audit. Some of these deficiencies include non-segregated duties, unencumbered funds and excessive credit limits. The Agency has provided corrective action plans, which we believe will ensure the Agency complies, in all material respects, with the aforementioned requirements.

AUDIT FINDING SUMMARY

FINDING 12-342-03 The Purchase Card Administrator has conflicting responsibilities lacking mitigating controls.

FINDING 12-342-05 The Agency did not pre-encumber funds for a prolonged period.

FINDING 12-342-02 The Agency's purchase card program was not complying with Oklahoma Purchase Card Procedures for Approving Officials.

FINDING 12-342-04 The Agency's card limits were set at unreasonably dollar

The Office of Management and Enterprise Services, Department of Capital Asset Management's, Audit Unit completed an audit of the Oklahoma Board of Medicolegal Investigations, referred to as the "Agency" within the audit report. Our audit was to determine if the Agency's purchase card program for the period December 29, 2010 to May 31, 2012 complied with the audit objectives.



This publication is issued by the Department of Capital Asset Management's Audit Unit, as authorized by the Office of Management and Enterprise Services. Printed copies have not been produced. Electronic copies are available through the Department of Capital Asset Management's website (<http://okiam.ok.gov>). Two printed copies were deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

amounts.

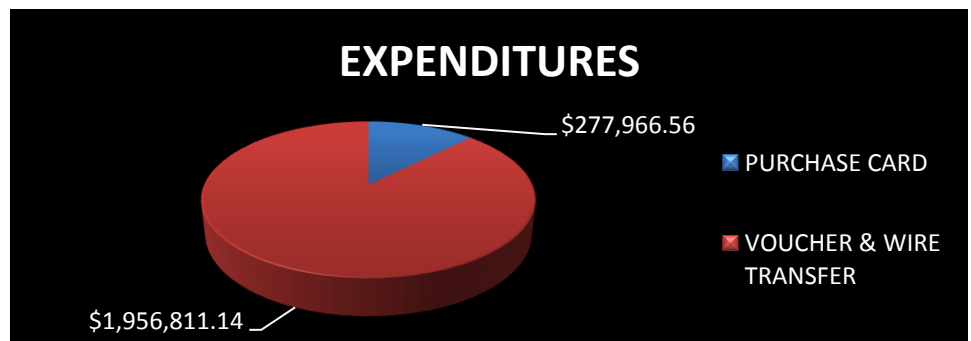
FINDING 12-342-01 The Agency implemented their purchase card program in December of 2010 and has not revised internal purchasing procedures.

FINDING 12-342-06 Of the transactions selected, sixteen were for goods received subsequent to the time of purchase and of these, 4 or 25% of transactions were not supported by a receiving document.

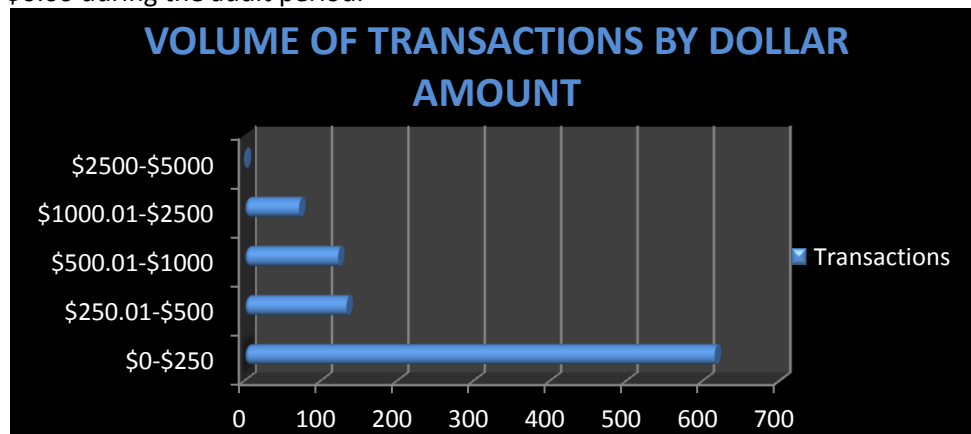
FINDING 12-342-07 We reviewed 100% of the Agency's airline and lodging transactions. We determined that none of the transactions contained the required information in the notes field.

AUDIT OVERVIEW

As of May 31, 2012, the end of the audit period, the Agency had five cardholders and one approving official. The following chart depicts the Agency's expenditures by purchase card and voucher or wire transfer payment methods for the audit period.



Agency primarily utilizes their purchase card program to purchase office or business supplies. The agency had 946 purchase card transactions greater than \$0.00 during the audit period.



This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with Generally Accepted Government Auditing Standards.



Our population for substantive testwork consisted of 976 transactions totaling \$277,966.56. We used the classical variable sampling method with a minimum confidence level of 99.5% and an expected proportion of errors equal to ten. We randomly select twenty-four transactions totaling \$8,291.67 for testwork. In addition, we judgmentally selected twenty-one transactions. These transactions were tested against attributes selected using auditor judgment.

DETAILED FINDINGS

FINDING: 12-342-03 – Segregation of Duties

Criteria: The United States General Accounting Office, GAO/AIMD-00-21.3.1 (November 1999), **Standards for Internal Control in the Federal Government**, states in part:

Key duties and responsibilities need to be divided or segregated among different people to reduce risk of error or fraud. This should include separating the responsibilities for authorizing transaction, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

State of Oklahoma Purchase Card Procedures § 6.8.1 **P/Cardholder responsibility** states in part:

- The P/Cardholder shall generate, from the Issuing Bank's transaction system, an electronic statement after closing of the Bank's monthly billing cycle.

Condition: The Agency's Purchase Card Administrator has the following responsibilities/roles:

- Has access to the Agency's purchase card numbers and information,
- Setup/change Bank of America's WORKS system settings for transaction notifications and cardholder signoff
- Prints the monthly Cardholder Statements
- Purchase Cardholder
- Initiates payment of purchase card bill which is not approved elsewhere within the Agency
- Sets up authority orders and requests change orders
- Maintains inventory listing
- In addition, the Agency does not have a formal process for receiving goods.



Cause: Staff turnover, limited resources, and lack of training all contributed to the Agency's lack of segregated duties.

Effect or Potential Effect: The lack of segregated duties predisposes the Agency to undue fraud risk.

Recommendation: We recommend that the Agency require that cardholders print and reconcile their cardholder statements and that a non-cardholder ensures the reconciled cardholder statements agree to the Agency's total billed amount before payment.

The Agency should reassigning one of the following current duties of the Agency's Purchase Card Administrator or design and implement mitigating controls within current Agency processes:

- Purchase Card Administrator
- Cardholder
- Funding and Payment

The Agency should develop and implement written procedures for receiving goods and tracking inventory. These procedures should include processes for determining what items are inventorial, adding and removing items from inventory, assigning asset tags, and performing inventory counts. The position charged with maintaining the inventory listing should not be a cardholder or a receiving employee and the inventory listing should be secured so that other individuals cannot make changes to the list.

Management's Response- Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: All p-card users will now print off their end of month statements. We have also implemented procedures for receiving goods.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 31, 2012

Corrective Action Planned: P-card Users will print off their own statements and turn in to the Chief Administrative Officer, approve, to ensure the reconciled statements agree to the total billed amount before payment.

FINDING: 12-342-05 – Pre- Encumbrance

Criteria: Oklahoma Purchase Card Procedures § 5.1 Encumbering Funds, states in part:

State Entities shall establish encumbrances as "authority order" purchase orders in the State Purchasing System. Entities are

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required to create an authority order prior to making any P/Card transactions. Change orders to amend the encumbrance(s) may be processed, as necessary.

Please remember to follow the prior encumbrance requirement (sufficient balance implied) to be in compliance with the encumbrance law (62 O.S. § 34.62. - Encumbrance requirements for payment of state funds). The administrative head of a State Entity shall be personally liable for obligations incurred in excess of the authorization [funds encumbered]. Accordingly, the Director of State Finance shall never authorize payment of claims [vouchers under Core] for purchases not supported by an encumbrance and any invoice or claim dated prior to the date of the encumbrance shall be rejected.

Condition: In the audit period, December 28, 2010 to May 31, 2012, we noted that beginning in January 2012 the Agency ran out of pre-encumbered funds and began creating change orders to encumber funds after the end of each billing cycle in order to make the monthly payment. This continued through the remaining months of the audit period. Funds were not available at the time of purchase for \$79,952.57 worth of goods and services.

Cause: Staff turnover at the end of 2011 and lack of training employees for newly assigned duties.

Effect or Potential Effect: The Agency could have had a funding shortfall and been unable to meet its liabilities.

Recommendation: We recommend that the Agency pre-encumber funds by monitoring purchase card usage and processing change orders prior to making expenditures in excess of the Authority order balance. The Agency should ensure that proper training is provided to new employees and existing employees who are assigned new duties.

Management's Response - Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: Any encumbrances that require a change order will be done by the beginning of the month.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 17, 2012

Corrective Action Planned: All P-card funds will be monitored and any necessary change orders will be processed prior to making any

expenditures in excess of the authority order balance.

FINDING: 12-342-02 – Approving Official

Criteria: Oklahoma Purchase Card Procedures § 3.6 State Entity Approving Officials, states in part:

One or more State Entity staff members designated by the State Entity P/Card Administrator to review and approve P/Cardholder transactions. State Entity Approving Officials must be at least one level above the P/Cardholder's position and be current with P/Card training. ...

Oklahoma Purchase Card Procedures § 3.8 Training, states in part:

All State Entity P/Card Program Participants must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued a P/Card. All State Entity P/Card Program Participants must attend initial P/Card training provided by DCS. ...

Condition: We statistically sampled twenty-four purchase card transactions totaling \$8,291.67 and judgmentally selected twenty-one purchase card transactions totaling \$3,298.96 from our audit period December 28, 2010 to May 31, 2012. The transactions selected were from twenty-three different cardholder statements. Of the twenty-three cardholder statements tested ten or 43% were not approved by a purchase card Approving Official. The Agency's Chief Administrative Officer who had not received the required purchase card training signed the statements.

The Agency's Purchase Card Administrator was also the Agency's Approving Official and a Cardholder. Therefore, Agency's Chief Administrative Officer signed off on the Purchase Card Administrator's Monthly Cardholder Statements but, could not rightfully do so because required training had not been received.

In addition, the Agency's Purchase Card Administrator signed off as the Approving Official on the Monthly Cardholder Statements of all other Agency Cardholders; however, was not one level above one of the Agency's Cardholders.

On November 30, 2011 the Chief Administrative Officer attended DCS purchase card training and took over as the Agency's Approving Official.

Cause: The Agency received information that led them to believe that their purchase card program's structure was compliant.

Effect or Potential Effect: An Approving Official that has not received required





training may not have adequate knowledge of purchase card program compliance requirements.

In addition, if the approving official is not at least one level higher than the cardholder within the organizational structure of the Agency, the cardholder could have improper influence and actual authority over the approving official. As a result, the cardholder could skew the approving official's decision making process and increase the risk for transactions to be unauthorized, unsupported, or unallowable. In addition, disputes or unresolved issues may not be properly resolved by the approving official. Accordingly, controls in relation to the proper review and approval process of purchase card expenditures and monthly reconciliations could be weakened.

Recommendation: We recommend the Agency continue with their current purchase card approval structure by implementing procedures to ensure that all Approving officials receive required purchase card training and are at least one level higher than the cardholder that they are approving.

Management's Response- Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer (CAO)

Response: I have received the required training and am one level higher than any of the P-card users.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: Implemented December 2011

Corrective Action Planned: Our CAO attended the required State P-Card Procedures class to become the Agency P-Card Approving Official.

FINDING: 12-342-04 – Card and Transaction Limits

Criteria: Oklahoma Purchase Card Procedures § 6.1.5 P/Card Controls and Limits, states in part:

State Entities are required to establish the following categories of controls and limits on each P/Card. These mandatory limits are required by the Issuing Bank and the card provider, for example MasterCard or Visa. The mandatory categories are:

- Card limit (dollar amount per cycle)
- Single purchase limit (dollar amount per transaction)
- Merchant Category Code Group (MCCG).

Condition: The Agency had both the transaction and card limits for all of their cards set at \$50,000. Upon, analysis of the Agency's transactions for the audit

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period, December 28, 2010 to May 31, 2012, it was discovered that the agency did not have any transactions greater than \$4,000 and the Agency's (all cards combined) largest monthly payment during the period was less than \$24,000.

Cause: The Agency's card limits were set at \$50,000 automatically when they entered the purchase card program and the Agency purchase card administrators were not aware the limits could be reduced.

Effect or Potential Effect: Having the transaction and card limits set in excess of the individual cardholder's needs increases the potential damage that could occur if the card were to be compromised.

Recommendation: We recommend that the Agency evaluate the usage of each purchase card's use. Adjust card and transaction limits as need and temporarily increase the limits if an unusually large purchase is required.

Management's Response- Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: All users limits were lowered.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 17, 2012

Corrective Action Planned: All P-card users card limits were lowered.

FINDING: 12-342-01 – Non-Updated Procedures

Criteria: Oklahoma Purchase Card Procedures § 1.5 Conditions of Participation, states in part:

State Entity P/Card procedures shall be made a part of the State Entity's internal purchasing procedures. State Entities must submit their revised internal purchasing procedures to the DCS Central Purchasing Division within 6 months of completing the P/Card Program implementation process. [See Section **Error! Reference source not found.**] State Entities should review their internal purchasing procedures and p/card procedures annually and make any revisions necessary to be in compliance with any changes in the State of Oklahoma Purchase Card Procedures; The Central Purchasing Act (Title 74 O.S. § 85.1 et. seq.); the DCS Central Purchasing Administrative Rules; or any other applicable statutes or administrative rules. If any changes are made to the State Entity's internal p/card procedures, State Entities must resubmit their internal purchasing procedures and internal Purchase Card procedures to the State Purchasing Director for

approval.

Condition: The Agency implemented their purchase card program in December of 2010 and has not submitted their revised internal purchasing procedures to the DCS Central Purchasing Division. The Agency's last revised internal purchasing procedures were approved in December of 2009.

Cause: The Agency did not realize the requirement.

Effect or Potential Effect: The internal procedures used by the Agency are outdated.

Recommendation: We recommend that the Agency revise their internal purchasing procedures and submit them to the Office of Management and Enterprise Services' Central Purchasing Division and if necessary take additional steps needed in order to gain approval of the new procedures. At a minimum, the Agency can refer to the State Purchase Card Procedures or write internal purchase card procedures.

Management's Response - Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: It is our desire to comply with all rules and regulations.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 17, 2012

Corrective Action Planned: Our internal purchasing procedures are revised and sent to Central Purchasing.

FINDING: 12-342-06 – Missing Receiving Documents

Criteria: Oklahoma Purchase Card Procedures § 6.6.2 Goods or Services Subsequent to the Time of Purchase, states:

The document accompanying the goods or services (such as a packing slip or service order) serves as the receiving document. The receiving document shall be signed and dated by the receiving employee. A carbon copy of the receipt containing the receiving employee signature and date meets this requirement. The itinerary shall serve as the receiving document for airfare (traveler's signature is not required). The receiving document shall be retained by the P/Cardholder for the monthly reconciliation process.

Condition: We statistically sampled twenty-four purchase card transactions totaling \$8,291.67 and judgmentally selected twenty-one totaling \$3,298.96 from our audit period December 28, 2010 to May 31, 2012. Of the transactions selected, sixteen were for goods received subsequent to the time of purchase and of these, 4 or 25% of transactions were not supported by a receiving document.

Cause: The goods were received at an offsite location and the receiving employee failed to return the documentation to the main office.

Effect or Potential Effect: Not obtaining signed and dated receiving documents, creates a lack of accountability in the receiving process.

Recommendation: We recommend that the Agency develop and implement receiving procedures which contain processes for ensuring that all receiving documents, for goods purchased on a purchase card, are signed and dated by the receiving employee and submitted to the cardholder.

Management's Response - Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: It is our desire that all offsite locations are strongly made aware of obtaining the signed and dated receiving documents be sent to the Central Agency.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 31, 2012

Corrective Action Planned: The Agency has developed and implemented a receiving procedure for all offsite locations.

FINDING: 12-342-07 – Airline and Lodging Purchase Notes

Criteria: State of Oklahoma Purchase Card Procedures § 6.8.1.2 Travel Acquisitions, states in part:

- The following information shall be listed in the Bank's transaction system. Some of the information is automatically populated due to Airlines and Lodging Establishments registering as Level 3 vendors; however, the airlines and lodging establishments have 30 days to provide the Level 3 information. Therefore, the P/Cardholder is responsible for ensuring the following information is included and may have to enter all of it in the Description field under "Allocation":
 - Airline purchases: Traveler's name, employee ID number,

itinerary number, date of travel, and purpose of travel; for travelers that are authorized non-state personnel, include the traveler's name; the justification for the travel, to and from destination; and, dates of travel.

- Lodging purchases: Traveler's name, employee ID number, number of nights, City/State, purpose of travel, and room rate stating (1) designated hotel; or, (2) standard GSA lodging rate; or, (3) federal high GSA lodging rate.

Condition: We reviewed 100% of the Agency's nine airline purchases and twenty-four lodging purchases that posted during the audit period, December 28, 2010 to May 31, 2012, in the Bank of America WORKS system. We determined that none of the transactions contained the required information in the notes field. However, transactions did contain Level 3 detail which partially fulfilled the notes requirements.

Cause: The Agency was not aware that lodging and airline purchases required detailed information in the notes field.

Effect or Potential Effect: Lack of public transparency.

Recommendation: We recommend that Agency personnel review the State Purchase Card Procedures and ensure that the required information is documented in the notes field on all future airline and lodging purchases.

Management's Response - Concur

Date: August 17, 2012

Respondent: Chief Administrative Officer

Response: The Agency travel Coordinator will make sure that all required information is entered.

Corrective Action Plan

Contact Person: Administrative Officer

Anticipated Completion Date: August 31, 2012

Corrective Action Planned: All Airline and Lodging purchases will have the appropriate required information documented in the notes field.

APPENDIX

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the purchase card program were documented and evaluated. Purchase card transactions were examined.

- Overall program compliance with the rules related to the audit objectives was evaluated.

EXECUTIVE SUMMARY

Organization

Mission Statement - To protect public health and safety by investigating cases of sudden, violent, or unexpected and suspicious deaths that occur to its residents or to people passing through Oklahoma, and by identifying possible public health hazards.

History and Function - The agency was created in 1961 as the Board of Unexplained Deaths and the Office of the State Medical Examiner. The Oklahoma Legislature in 1972 changed the name to Board of Medicolegal Investigations that appoints the Chief Medical Examiner and supervises and controls the Office of the Chief Medical Examiner.

Personnel - 72 unclassified, 9 temporary, non-merit (per Oklahoma Agencies, Boards, and Commissions, as of September 1, 2010)

Key Staff

(During the Audit Period)

Eric Pfeifer, M.D., Chief Medical Examiner

Amy Elliott, Chief Administrative Officer

Renee Steward, Administrative Officer

DIRECTOR'S TRANSMITTAL LETTER



John W. Morrison
Administrator

Preston L. Doerflinger
Director and Secretary of Finance and Revenue

Mary Fallin
Governor

**STATE OF OKLAHOMA
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES
DIVISION OF CAPITAL ASSETS MANAGEMENT**

August 27, 2012

**TO CHIEF MEDICAL EXAMINER, ERIC PFEIFER, M.D., AND BOARD OF
MEDICOLEGAL INVESTIGATIONS**

With this letter, we transmit the report of the Board of Medicolegal Investigation's purchase card program audit for the period December 29, 2010 to May 31, 2012.

We performed the audit in accordance with professional auditing standards to ensure the Board of Medicolegal Investigation's purchase card program administered by the Office of Management and Enterprise Services, Division of Capital Assets Management is conducted in accordance with laws and regulations.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Office of Management and Enterprise Services website, <http://dcam.ok.gov>.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Morrison", written over a light blue circular scribble.

John W. Morrison
Administrator, Division of Capital Assets Management

"Committed to Quality"

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