

STATE OF OKLAHOMA

Department of Central Services

Audit Unit

**Continuous Monitoring: Purchase Card
Transactions**

for the period May 7, 2010 to August 17, 2010

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OVERVIEW

We performed a review of purchase card transactions of the 89 state agencies that are on the Pathway Net system. (There are two governmental entities that participate in the State of Oklahoma Purchase Card Program but are not part of the Pathway Net System). Our review period was May 7, 2010 to August 17, 2010. During this review period, there were 28,631 purchase card transactions totaling \$13,969,494.31.

We reviewed a total of 126 purchase card transactions with a total dollar spend of \$275,976.49.

We noted transactions that were incompliant with the State of Oklahoma Purchase Card Procedures or Oklahoma State Law.

OVERALL SUMMARY

We noted the following in our review of purchase card transactions for the period May 7, 2010 to August 17, 2010.

- Unreimbursed fraudulent transaction
- Approving official override leading to cardholder suspension
- Equipment totaling \$19,871.00 was not inventoried
- Transaction documentation was not maintained for purchase (receipts)
- Transaction documentation did not have adequate detail
- Travel charge made on individual card
- Prohibited purchase (Rental vehicle)
- Merchant preferences were not complied with
- Compromised purchase card information

Each of these items has been brought to the attention of the purchase card program management of the affected agencies. These agencies have taken action that we believe address issues noted.

CONTINUOUS MONITORING FINDING DETAIL

Findings and outcomes are reported based on significance.

Criteria: **State of Oklahoma Purchase Card Procedures § 6.2.3 Other prohibited purchases** states in part "The P/Card shall NOT be used for the following types of purchases unless a State Entity submits a request for such use to the State P/Card Administrator for approval by the State Purchasing Director in accordance with Section 1.5. (Conditions of Participation):

6.2.3.6 Purchase of any goods or services not for official State use.

Condition: An unknown purchase was made to Emirates Airlines on 5/24/2010 in the amount of \$329.06.

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There was no documentation, including the "State Purchase Card Lost or Stolen Card Notification" form (DCS/Purchasing – Form 031), of the agency's actions taken in response to theft of account information for the purchase card. Pathway Net indicates that the last transaction date for the card was 5/28/2010 and the Bank closed the card on or before 5/28/2010. It is not known or documented when the agency discovered the card info stolen, when the agency requested the account to be closed, who paid for the fraudulent transaction, or if the State received a refund. It is also unknown if the cardholder performed their normal reconciliation procedures for the May 2010 billing cycle or the reconciliation was approved by the approving official. We noted that the agency did not dispute the Emirates Airlines charge at the time of our request. The date we requested to review the support documentation was November 10, 2010.

We later discovered during our review that this fraudulent transaction did not print out on the cardholder monthly memo statement which is the document visually reviewed by the cardholder and approving official at the end of the billing cycle but the amount was included in the agency's invoice total and paid. The only way this transaction was viewable is through the online detail transaction log. This account had been previously closed because the account information was compromised. Fraudulent transactions were discovered and reported by the cardholder.

OUTCOME: As a result from this finding the word "compromised" has been added to the lost and stolen card notification requirements in the State Purchase Card Procedures 6.10.

6.10 Lost, Stolen or Compromised Cards

If a P/Cardholder's P/Card is lost, stolen or compromised, the P/Cardholder shall immediately notify the Issuing Bank at the phone number posted on the DCS website and in Appendix A of these Procedures...

This process provides documentary support that the bank was contacted and additional guidance when the cardholder discovers their purchase card account has been compromised. After our discovery and review of the circumstances, we asked the cardholder to complete the affidavit of credit card fraud. The affidavit was forwarded to the bank and the agency received their refund January 2011.

Criteria: State of Oklahoma Purchase Card Procedures § 6.2.5 Merchant preferences states "P/Card purchases shall comply with the following preferences for certain merchants or types of contracts."

6.2.5.1 State Use Committee. State entities shall make P/Card purchases from merchants on the State Use Committee procurement schedule. State Use Committee statewide contracts are mandatory for use. State entities shall reference the State Use Committee procurement schedule to ensure P/Card purchases are pursuant to 74 O.S. § 3007.

6.2.5.2 Oklahoma Corrections Industries (OCI). State entities shall make purchases from OCI pursuant to 57 O.S., § 549.1, if the vendor is deemed lowest and best. The

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cardholder shall obtain a quote from OCI to substantiate compliance and retain with the monthly transaction documentation.

6.2.5.3 Mandatory statewide contracts. State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.

6.9 Card Security. Use of the Standard P/Card, Travel P/Card and Statewide Contract P/Card is limited to the person whose name is embossed on the card.

Condition: Five purchases were made from sources (The Home Depot, Office Depot, Admiral Express) other than the preferred merchants. The dates of the transactions were 6/2/2010, 6/25/2010, 8/4/2010, 8/6/2010, and 8/13/2010. The amount of the transactions totaled \$878.63. The product "Roundup" may be purchased through SW699 (mandatory). The product "Lysol" may be purchased through SW817 (mandatory). Cleaning supplies in general can be purchased through SW817. Germicides can be purchased through SW015A (non-mandatory). AAA batteries may be purchased through SW817. A desk jet printer may be purchased through SW022 (mandatory/non-mandatory). Toner may be purchased through SW022.

We also noted that on the invoice for the toner purchase, the vendor named someone other than the cardholder as the person who called and placed the order.

Further review revealed the cardholder was overriding the approving official/purchase card administrator's disapproval to purchase. These unapproved purchases were continuously performed. Of the 30 purchases during our review period (excluding credits), 24 of them appeared to have included products that should have been purchased from State Use vendors but were not. Out of these 24 transactions, 17 totaling \$2,515.13 were not approved for purchase by the approving official.

Our detailed request and finding response included 6 transactions from the 17.

OUTCOME: On January 11, the agency disciplined the cardholder and suspended the cardholder's account. DCS Audit recommended that the p/card be suspended for a minimum of three (3) months as well as the cardholder attending State Use training prior to having any purchase card privileges reinstated.

Criteria: Letter **Re: Inventory Threshold** dated April 5, 2010 by the Department of Central Services Director states in part "Effective immediately, the Department of Central Services (DCS) is increasing the reporting threshold of all agencies to \$2,500.00 per item for purposes of tangible asset inventory reports submitted annually by agencies to DCS in accordance with Title 74, Oklahoma Statutes, § 110.1 and Oklahoma Administrative Code (OAC) 580:70-1-3 the Department of Central Services, are added to the entity's inventory schedule..."

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Condition: Equipment purchased on June 25, 2010 was not tagged and added to inventory as of November 18, 2010. The total transaction amount (after discount applied to entire purchase) was \$19,871.00. The individual pieces costing over \$2,500.00 were as follows:

200CX Loader, SN P0200CX051994, \$2,910.00

2720 4-Wheel Drive Tractor, SN LV2720H306642, \$17,439.00

OUTCOME: These items have since been tagged and added to the agency inventory. Agency has reviewed and revised their internal procedures to prevent this oversight from occurring again in the future.

Criteria: State of Oklahoma Purchase Card Procedures § 6.2.5 Merchant preferences states "P/Card purchases shall comply with the following preferences for certain merchants or types of contracts."

...6.2.5.3 Mandatory statewide contracts. State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.

Condition: One purchase was made on 6/19/2010 from a source (Dolese Bros.) other than the preferred merchant. The amount of the transactions totaled \$407.50. Ready mix concrete may be purchased through SW775 (mandatory).

OUTCOME: Cardholder did not verify that the vendor was a vendor on the statewide contract for ready mix concrete. Division Administrator has visited with the cardholder and cardholder will, in the future, diligently check mandatory statewide contracts before purchasing.

Criteria: State of Oklahoma Purchase Card Procedures § 6.1.5.2 Statewide Contract P/Card states in part "...The card is to be used **ONLY** for making purchases from statewide contracts issued by Central Purchasing or contracts designated by the State Purchasing Director as statewide contracts for agency use..."

Condition: We noted that on the Statewide Contract card was used on 7/29/2010 to purchase services from a vendor (Johnson Controls) that has no contract with the State. The amount of the transactions totaled \$547.25.

OUTCOME: Statewide contract card was used in error. This will not happen again as there is only one purchase card now.

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Criteria: **State of Oklahoma Purchase Card Procedures § 6.2.3 Other prohibited purchases** states in part, "...The Standard P/Card, Statewide Contract P/Card, and Travel P/Card shall NOT be used for the following types of purchases unless such use is approved by the State Purchasing Director in accordance with Section 1.5.(Conditions of Participation):

6.2.3.1 Transportation (vehicle rental when purchased through the Statewide Contract for Vehicle Rental, SW771, issued by DCS/Central Purchasing Division, and Airfare when purchased pursuant to 74 O.S. § 85.45k., DCS Central Purchasing Administrative Rules OAC 580:15-6-14, and these P/Card Procedures are not prohibited..."

Condition: The agency rented a truck from Budget Truck Rental on 7/8/2010 for \$86.53.

OUTCOME: The agency used Budget Truck Rental because the statewide contract for vehicle rental is non-mandatory and the agency realized a cost savings by using this vendor.

Criteria: **State of Oklahoma Purchase Card Procedures § 6.4 Receipts for Purchase** states in part, "...The receipt shall give an itemized and detailed description of the purchase and must include at a minimum: (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total..."

Condition: A receipt from On the Border lacked description, unit price, and quantity. The date of the transaction was 6/18/2010. The amount of the transaction was \$329.48

OUTCOME: The agency did not give a management response to the finding. The agency later forwarded receipts for the items to us. The purpose of the transaction was to provide food for a Board meeting.

Criteria: **State of Oklahoma Purchase Card Procedures § 6.1.5.3 Travel P/Card** states in part, "The Travel P/Card shall be used for the purchase of airfare and/or lodging..."

Condition: The standard P/Card was used for the purchase of lodging on July 26, 2010. The vendor was Marriott. The total amount of transactions was \$3,095.00.

OUTCOME: The acquisition was for meeting package for Oklahoma Public Health Leadership Institute training. Meeting package includes lodging, cost of meeting room, all inclusive audio visual, breakfast, lunch, dinner, standard morning and afternoon break service, beverage station and unlimited access to the wellness center.

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Criteria: **State of Oklahoma Purchase Card Procedures § 6.1.5.3 Travel P/Card** states in part, "The Travel P/Card shall be used for the purchase of airfare and/or lodging..."

Condition: The standard P/Card was used for the purchase of lodging on July 26, 2010. The vendor was Cambria Suites-Aurora. The total amount of transactions was \$413.04.

OUTCOME: The agency realized the purchase card was used in error. The agency made attempts to reverse the transaction but was unsuccessful. A transition to the new purchase card system had already taken place.

Criteria: **State of Oklahoma Purchase Card Procedures § 6.2.5 Merchant preferences** states "P/Card purchases shall comply with the following preferences for certain merchants or types of contracts."

6.2.5.1 State Use Committee. State entities shall make P/Card purchases from merchants on the State Use Committee procurement schedule. State Use Committee statewide contracts are mandatory for use. State entities shall reference the State Use Committee procurement schedule to ensure P/Card purchases are pursuant to 74 O.S. § 3007.

6.2.5.2 Oklahoma Corrections Industries (OCI). State entities shall make purchases from OCI pursuant to 57 O.S., § 549.1, if the vendor is deemed lowest and best. The cardholder shall obtain a quote from OCI to substantiate compliance and retain with the monthly transaction documentation.

6.2.5.3 Mandatory statewide contracts. State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.

Condition: A purchase for office supplies was made from a source (Office Depot) other than a preferred merchant. The date of the transaction was 6/29/2010 and the amount was \$19.90. Office supplies may be purchased through SW022.

OUTCOME: Purchase was an emergency acquisition. Rubber bands were on back-order from the State Use vendor.

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COMPROMISED PURCHASE CARDS

Within the sample of transactions reviewed we discovered three of the transactions were made from compromised purchase card information. Two of the transactions were previously found by the agencies. Stolen card information was reported to the bank and refunds were received. These two transactions were \$1,723.11 to Wal-Mart and \$719.02 to International Aids Society.

TRENDS AND OUTLOOK

Trends -

- Increase in compromised purchase card accounts. We noted 2.4% (3/126) of the accounts we reviewed in our questionable transaction sample were made from compromised purchase cards.
- Increase in errors from cardholders using the incorrect purchase card.
- Increase in merchant preferences non-compliances

Outlook –

- The state purchase card program began a new contract with a different vendor as of 01/01/2011. All cards have been deactivated and new cards have been issued under the new state purchase card contract. Switching over all cards should address the compromised purchase card issue.
 - As of 12/14/2010 the State purchase card program converted to a one card system. This will eliminate using the incorrect purchase card for allowable purchases.
 - These errors appeared to be isolated incidents and were handled on an individual basis. Additional awareness will be provided during training courses about the merchant preference purchase card requirements and what products are available.
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Breakdown of the 126 transactions reviewed by MCC code and description is as follows:

MCC Code	MCC Description	Dollar Spend
780	landscaping and horticultural services	\$12,141.00
1711	heating, plumbing, and air conditioning contractors	\$547.25
1731	electrical contractors	\$6,685.54
1771		\$4,221.50

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	contractors, concrete work	
3001		\$50.00
	American Airlines	
3026		\$329.06
	Emirates Airlines	
3501		\$5,759.27
	Holiday Inns	
3503		\$4,780.66
	Sheraton	
3509		\$15,826.20
	Marriott	
3665		\$1,241.07
	Hampton Inns	
3687		\$2,648.40
	Clarion Hotels	
3695		\$4,941.00
	Embassy Suites	
4814		\$1,198.31
	telecommunication services	
5044		\$460.79
	office, photographic, photocopy, and microfilm	
5046		\$36,029.78
	commercial equipment	
5065		\$2,739.00
	electrical parts and equipment	
	construction materials	
5039		\$90,615.05
	petroleum and petroleum products	
5172		\$24,600.00
	home supply warehouse stores	
5200		\$41.41
	grocery stores and supermarkets	
5411		\$8,658.73
	automotive tire stores	
5532		\$45.00
	automotive parts and accessories stores	
5533		\$5,999.88
	boat dealers	
5551		\$167.22
	misc. automotive, aircraft, and farm equipment	
5599		\$1,340.00
	women's ready to wear stores	
5621		\$338.38
	caterers	
5811		\$329.48
	antique shops	
5932		\$162.90
	business services	
7399		\$520.00

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7011	lodging- hotels, motels, resorts	\$2,377.04
	furniture, home furnishings, and equipment	
5712	stores	\$459.43
5199	non-durable goods	\$22,846.25
9399	government services	\$40.00
5812	eating places and restaurants	\$3,151.50
5814	fast food restaurants	\$435.29
5310	discount stores	\$4,470.63
5311	department stores	\$196.79
5331	variety stores	\$4.84
5941	sporting goods stores	\$4,682.63
5942	book stores	\$249.00
5943	stationery, office, and school supply stores	\$396.33
5965	combination catalog and retail merchants	\$1,129.79
5969	direct marketers	\$107.57
5999	miscellaneous and specialty retail stores	\$585.00
7392	management, consulting, and public relations	\$494.60
7513	truck and utility trailer rentals	\$86.53
7922	theatrical producers (except motion pictures)	\$34.00
8699	membership organizations	\$1,594.52
9223	bail and bond payments	\$65.00
5541	service stations	\$9.60
5734	computer software stores	\$99.98
5571	motorcycle dealers	<u>\$43.29</u>
		<u>\$275,976.49</u>