



STATEWIDE PROCUREMENT AUDIT  
CHANGE ORDERS  
JULY 01, 2006 TO JULY 18, 2008

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State of Oklahoma

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Department of Central Services

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Audit Unit

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Report Released July 1, 2010

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**AUDIT PERFORMED BY**

JoRay McCoy, Chief Auditor  
Lisa A. White, Audit Manager

**AUDIT CONCLUSION**

Overall, we have determined state agencies for the State of Oklahoma have complied with the audit objective of assessing the extent of statewide compliance with the Central Purchasing Act and the Oklahoma Department of Central Services Central Purchasing Rules for open-market acquisitions with change orders. Eleven deficiencies were identified in our audit. The identified deficiencies were missing change order and bid solicitation documents. In many instances, the change order(s) increased the total contract amount above an amount requiring new solicitations at the new dollar threshold.

Missing change order and solicitation documents are a result of several factors. These factors include indiscipline on the part of agency procurement personnel; lack of understanding of the statute and rule requirements for change orders; optimization of efficient procurement practices for low dollar contracts; and, administrative cost savings in not rebidding low dollar contracts that exceed dollar thresholds. Of these factors, the lack of understanding of the change order statute and rule appears to be a systemic problem and provides an opportunity to strengthen current policy.

Current statute and rules do not define scope or provide guidance as to how scope relates to the solicitation for goods and services. In the absence of specific guidance, state agencies are tasked with defining scope and the parameters of scope for each change order initiated against contracts in place. State agencies are tasked with the responsibility for determining the appropriate use of a change order that is compliant with the requirements of the Central Purchasing Act and Central Purchasing Rules. Absent of clear and specific guidance, a change order could increase a contract for goods and services beyond the original scope of the contract and circumvent the proper acquisition process for the acquisition. The State Purchasing Director is considering policy clarifications that will address this issue.

It should be noted that contracts with noted deficiencies were for low dollar threshold contracts under \$10,000 with the exception of one contract which

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*The Audit Unit of the Department of Central Services has completed a state-wide procurement audit for change orders. Our audit was to determine if, on a statewide basis, agencies complied with the audit objective for the period July 01, 2006 to July 18, 2008.*



*This publication is issued by the Department of Central Services, as authorized by John Richard, Director of Department of Central Services. Copies have not been printed but are available through the agency website. Two printout copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.*

exceeded \$25,000. The total dollar value for the contracts with noted deficiencies is \$85,246.70 and represents 11% of total contract dollars tested. Total dollar value is only 0.003% of the total contract dollars for the period audited. For the deficiencies noted, each state agency has provided a corrective action plan that we believe will ensure that each state agency will comply, in all material respects, with the aforementioned requirements.

After completion of our work, the Department of Central Services through Central Purchasing issued a Procurement Information Memorandum (PIM) to provide guidance regarding exemptions from competitive bidding. Full discussion of this memorandum is fully discussed under Audit Overview- [Significant Policy Change](#).

### **AUDIT FINDING SUMMARY**

*(Error rates are based on contract files reviewed.)*

#### **SOLICITATION REQUIREMENTS**

**08-020-01: State Board of Public Accountancy**- Documentation for solicitations obtained for temporary IT personnel services could not be provided.

**08-020-02: State Board of Public Accountancy**- Waiver was not obtained from the State Purchasing Director for purchases required to be made from a mandatory statewide contract.

**08-290-01: Oklahoma Employment Security Commission**- Quotes were not obtained for shipping and delivery services.

**08-385-01: Oklahoma Insurance Department**- Quotes were not obtained for shipping and delivery services.

**08-435-01: Oklahoma Lottery Commission**- Quotes were not obtained for shipping and delivery services.

**08-629-01: Oklahoma School of Science and Math**- Quotes were not obtained for trash service.

**08-645-01: Oklahoma Conservation Commission**- Quotes were not obtained for shipping and delivery services.

**08-650-01: Oklahoma Department of Veterans Affairs**- Quotes were not obtained for investigative services.

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**CHANGE ORDER DOCUMENTATION**

**08-040-01: Agriculture Department-** The contract file was missing the approved change order. We could not determine if the change order exceeded the scope of the solicitation.

**08-405-01: Department of Labor-** The contract file was missing approved change orders. We could not determine if the change order exceeded the scope of the solicitation.

**TITLE 18 PROFESSIONAL SERVICES**

**08-345-01: Oklahoma Department of Transportation-** Initial purchase order and subsequent change orders for legal services exceeded \$25,000. Neither the purchase order nor the change orders were submitted to Central Purchasing. With the change orders, the purchase order totaled \$84,425.75.

**08-650-02: Oklahoma Department of Veterans Affairs-** Initial purchase order and subsequent change orders for legal services exceeded \$25,000. Neither the purchase order nor the change orders were submitted to Central Purchasing. With the change order, the purchase order totaled \$113,000.

*(The most significant findings are detailed in the audit report. Detailed information for the remaining findings has been provided to agency management.)*

**AUDIT OVERVIEW**

The scope of our audit was a purchase order with at least one (1) change order for the audit period July 1, 2006 to July 18, 2008 as of August 11, 2008. The following items were excluded from our scope:

- state agencies that do not use PeopleSoft to process their acquisitions and who are subject to the Central Purchasing Act and the Central Purchasing Rules;
- Department of Central Services and the Oklahoma Capital Improvement Authority due to the lack of independence of the DCS Audit Unit;
- And, purchase orders for Title 18 professional services in amounts under \$25,000.

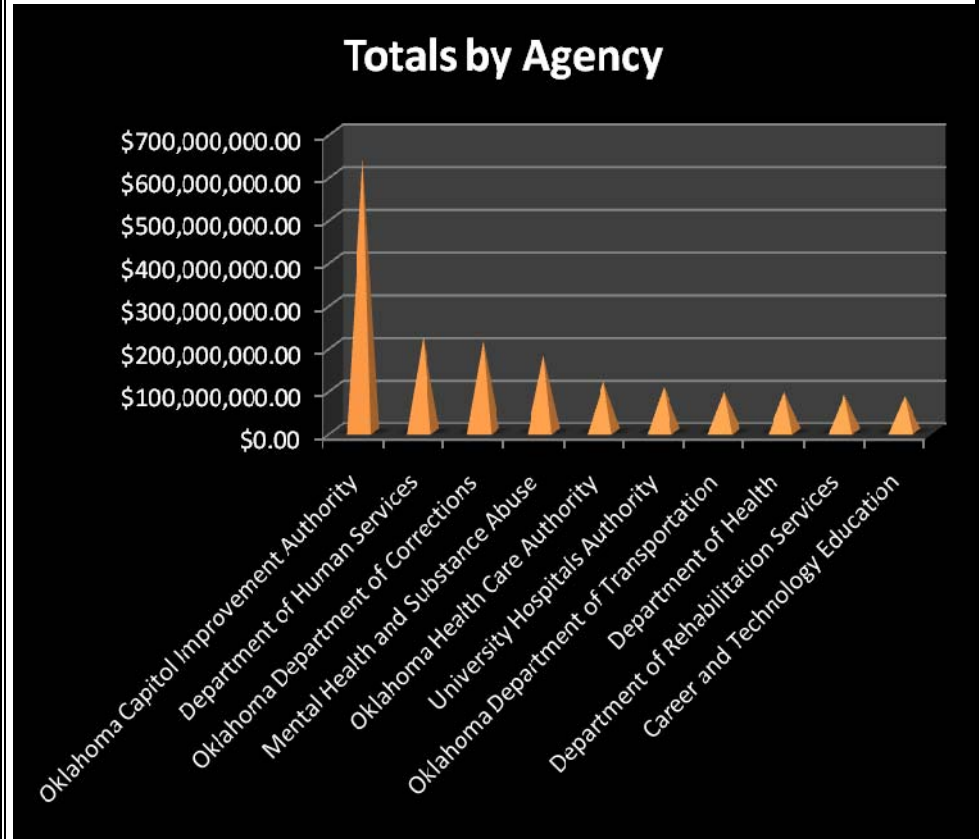
*This audit was performed pursuant to 74 O.S. § 85.5.E. in accordance with generally accepted Government Auditing Standards.*



# STATEWIDE PROCUREMENT AUDIT CHANGE ORDERS JULY 01, 2006 TO JULY 18, 2008



State agencies of the State Oklahoma issued 26,012 purchase orders with change orders for the audit period July 01, 2006 to July 18, 2008. Purchase orders totaled \$2,721,223,534.84. The agencies with the highest purchase order dollars for the audit period before data mining our sample population are shown below.



<u>Agency</u>	<u>Purchase Order Dollars</u>
Oklahoma Capital Improvement Authority	\$640,616,483.80
Department of Human Services	\$222,883,057.41
Oklahoma Department of Corrections	\$212,966,566.46
Oklahoma Mental Health and Substance Abuse	\$178,621,987.07
Oklahoma Health Care Authority	\$117,553,752.87
University Hospitals Authority	\$105,500,249.86
Oklahoma Department of Transportation	\$93,194,859.88
Department of Health	\$92,384,326.73
Department of Rehabilitation Services	\$87,489,053.80
Oklahoma Career and Technology Education	<u>\$83,192,651.51</u>
<b>TOTAL</b>	<u>\$1,834,402,989.39</u>



# STATEWIDE PROCUREMENT AUDIT CHANGE ORDERS JULY 01, 2006 TO JULY 18, 2008



These 10 agencies accounted for 67% (\$1,834,402,989.39) of the total purchase order dollars for the audit period.

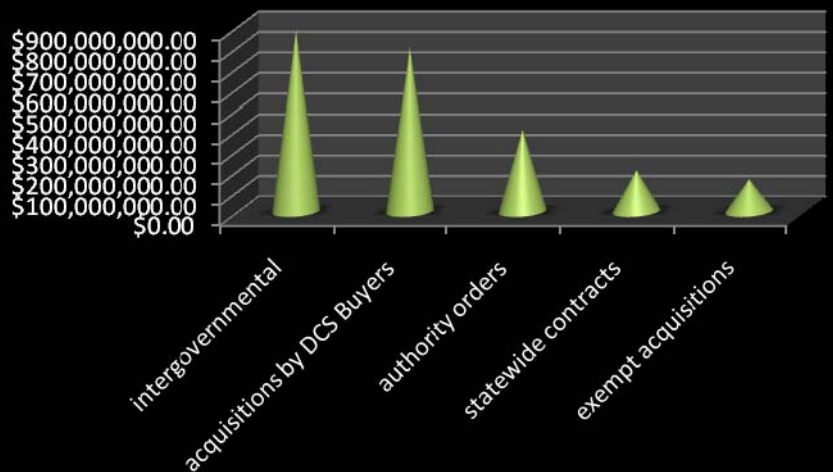
### *Sample population*

The total population of purchase orders with change orders was analyzed to derive a population from which to perform substantive testing. The following categories of acquisitions were automatically excluded as the acquisition was not applicable to the audit objective:

- Releases from statewide contracts
- Acquisitions made by Construction and Properties on behalf of state agencies
- Purchases made by Central Purchasing on behalf of state agencies
- Purchase orders made by state agencies that are under \$2,500 at the time data was obtained

Through data extraction, it was determined that only 1,153 purchase orders (\$13,744,754.13) were applicable to the audit objective. Purchase orders extracted and excluded from the total purchase order population include the purchase orders detailed below.

### **Purchase Orders Excluded by Type**





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<u>Purchase Order Category</u>	<u>Total Purchase Order Dollars</u>
Acquisitions with Governmental Entities	\$882,582,500.80
Acquisitions by Department of Central Services Buyers	\$797,365,112.67
Authority Orders	\$399,842,358.81
Statewide Contracts	\$201,020,665.17
Exempt acquisitions	<u>\$157,334,678.88</u>
<b>TOTAL</b>	<u><b>\$2,438,145,316.33</b></u>

These categories represent 90% of the purchase orders excluded population.

Purchase orders that were determined to be applicable to the audit objective were:

- Open-market acquisitions
- Purchase orders with at least one change order and exceeds \$2,500
- Purchase orders that have a cancelled distribution line
- Purchase orders with a change order for an emergency acquisition that exceed \$35,000

Applicable purchase orders were then divided between the following groups:

- \$2,500.01 to \$10,000 threshold
- \$10,000.01 to \$25,000 threshold
- And, professional services greater than \$25,000

From these groups, a sample for testing was pulled through the use of IDEA Data Analysis Software. The sample tested was 182 purchase orders. Purchase orders totaled \$11,276,198.87.

*Summary of Results*

During our detailed review of the samples extracted, 134 purchase orders did not meet the objective of the audit. Excluded purchase orders were dispersed among the following categories:



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<u>Category</u>	<u>Total Purchase Orders</u>	<u>Total Purchase Orders in Dollars</u>
Exemption from Central Purchasing Act	44	\$7,673,509.82
Negative dollar change order	29	\$1,204,623.62
Sole source/ Fixed rate	15	\$163,542.53
Statewide Contracts	14	\$478,880.68
Non-monetary change order	23	\$620,813.54
Multi-year contract	6	\$119,391.11
Acquisition handled by DCS/ Settlement Agreement	3	\$209,980.82
	<u>134</u>	<u>\$10,470,742.12</u>

We noted the following for the applicable 48 purchase orders (\$805,456.75):

- 73% of the contract files (35 contracts in the total dollar value of \$517,711.75) reviewed was supported by a change order. The change order(s) did not exceed the scope of the original solicitation.
- 27% of the contract files (13 contracts in the total dollar value of \$287,745.00) had a noted exception. The contract file was missing change order documentation, solicitation documentation, or was a Title 18 professional service contract that exceeded \$25,000 and was not submitted to Central Purchasing.

[Significant Policy Change Subsequent to the Audit Period](#)

During calendar year 2009, the Department of Central Services through Central Purchasing issued policy guidance regarding exemptions from competitive bidding. This guidance was issued through PIM #09-01 effective January 13, 2009. The PIM granted agencies with approved internal purchasing procedures and a Certified Procurement Officer the authority to process acquisitions for professional services as defined in Title 18 of the Oklahoma Statutes for unlimited dollar amounts without submission of a requisition to the State Purchasing Director. However, agencies are to report exemptions to competitive bidding within 15 days of completion of the acquisition as required by 74 O.S. §85.7(A)(3)(c).

Included in our sample population were two state agencies whose procurement practices for Title 18 professional services were affected by the policy change. These agencies acquired legal and licensed/ registered pharmacist services. Each contract for professional services exceeded \$25,000. For the audit period, these acquisitions required submission to the State Purchasing Director.

[Conclusion](#)



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DETAILED FINDINGS

SOLICITATION REQUIREMENTS

FINDING 08-020-01: STATE BOARD OF PUBLIC ACCOUNTANCY

**Criteria:** Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation..."

The Oklahoma Central Purchasing Rules 580:15-6-9 **State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00) (effective July 13, 2006)** states in part:

...

(2) **Solicitations.** The state agency shall prepare specifications for a solicitation. The state agency shall solicit bids from a minimum of three (3) suppliers using mail, telephone, facsimile or by means of electronic commerce. The state agency shall notify the suppliers of the state agency's specifications for the acquisition...

**Condition:** A change order in the amount of \$2,500 was completed against an original purchase order to Accel Financial Staffing Specialists. The original purchase amount was \$9,000. Services procured were employment services for a temporary employee in the Agency's IT Department. Details are noted below.

**Purchase Order #0209000264      Accel Financial Staffing Specialists**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	02.12.2007		\$9,000.00
Change Order #1	06.25.2007	\$2,500.00	\$11,500.00

We were unable to determine if the Agency obtained solicitations from multiple vendors as required per Central Purchasing Rules. As such, we are unable to determine if the change order exceeded the scope of the original solicitation. The employee who was in charge of personnel handled this acquisition. This employee has been terminated by the Board of Directors.

**Cause:** Unknown

**Effect or Potential Effect:** By not having documented solicitations received for goods or services procured, it cannot be determined if the change order exceeded the scope of the original solicitation.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. We also recommend the following:





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- Development of an internal process for obtaining and tracking solicitations when required. This process should include documenting responses to solicitations for the acquisition of goods or services.
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.
- A close-out checklist for the contract file. This checklist would ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

***Management's Response- Concur***

**Date:** May 17, 2010

**Respondent:** Interim Executive Director

***Corrective Action Plan***

**Contact Person:** Primary Certified Procurement Officer

**Anticipated Completion Date:** July 30, 2010

**Corrective Action Planned:** A revised Oklahoma Accountancy Board (OAB) Internal Purchasing Policy was effective as the date the Oklahoma Accountancy Board voted to accept the new policy on 12/18/09. On 12/31/09, the OAB was sent written notification from Mr. John Richard, Director of Central Services, that the revised purchasing policy submitted by the OAB had been reviewed and was considered to be compliant with applicable provisions of the Oklahoma Central Purchasing Act and Rules.

All former OAB personnel associated with the above referenced purchase order and change order for Accel Financial Staffing Specialists, are no longer employed by the OAB.

Corrective actions have already been taken in the form and substance of the creation and implementation of a revised and fully compliant internal purchasing policy for the agency. Additionally, it is currently the standard practice of the OAB that when it is identified that the OAB cannot follow the methodology as outlined in Central Purchasing Rules, in the procurement of goods or services, the agency would seek a waiver from the Director of Central Services as prescribed by Central Purchasing Rules 580:165-5.

Furthermore, no later than immediately following the date of the July meeting of the Board, currently scheduled for July 30, 2010, the OAB intends to submit a revised internal policy to the State Purchasing Director which provides for the following:

- Development of an internal process for obtaining and tracking solicitations when required. This process should include documenting responses to solicitations for the acquisition of goods or services.
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.
- A close-out checklist for the contract file. This checklist would ensure that once the contract has ended the

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contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

**FINDING 08-020-02: STATE BOARD OF PUBLIC ACCOUNTANCY**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-5 **Methods State Agencies Use to make Acquisitions (effective July 13, 2006)** (1) Statewide Contracts (A) Mandatory statewide contract states:

The State Purchasing Director may designate a statewide contract for mandatory use. State agencies shall make acquisitions from mandatory statewide contracts regardless of the acquisition purchase price. A state agency may submit a written request to the State Purchasing Director to waive requirements for a state agency's use of a mandatory statewide contract for acquisitions. The State Purchasing Director shall grant exceptions prior to a state agency making the acquisition from another supplier.

The Oklahoma Central Purchasing Act Title 74 § 85.7 **Competitive Bid or Proposal Procedures A.1.** states:

Except as otherwise provided by the Oklahoma Central Purchasing Act, no state agency shall make an acquisition for an amount exceeding Twenty-five Thousand Dollars (\$25,000.00) without submission of supplier's competitive bids or proposals to the State Purchasing Director.

The Oklahoma Central Purchasing Rules 580:15-6-10 **State agency acquisitions the Purchasing Division processes (effective July 13, 2006)** states in part, "... All acquisitions exceeding twenty-five thousand dollars (\$25,000.00) shall be submitted to the State Purchasing Director..."

The Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change orders (1) Acquisitions by a state agency (effective July 13, 2006)** states, "If a change order would increase the total contract dollar amount above the dollar amount requiring the state agency to submit a requisition to the State Purchasing Director, the state agency shall seek approval of the State Purchasing Director prior to issuing the change order."

**Condition:** The Agency procured temporary personnel services through the open-market. The State Purchasing Director has designated a contract for temporary personnel services as mandatory. The individual setting up the purchase order was instructed that the Agency had received a waiver for temporary personnel services. The individual who gave the directive to the employee was subsequently terminated.

The original amount of the purchase order was in the amount of \$17,000. Change order #1 increased the original purchase order by \$9,000 to \$26,000. This new purchase order amount required submission to the State Purchasing Director for review and approval as the Agency's purchasing authority was exceeded. Change order #2 further exceeded the Agency's spending authority by an additional \$7,000. Through change orders, the original purchase order was increased to \$33,000. Details of the purchase order are noted below:

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**PO #0209000260      Ameriresource Group Inc.**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	08.01.2006		\$17,000.00
Change Order #1	01.08.2007	\$9,000.00	\$26,000.00
Change Order #2	05.08.2007	\$7,000.00	\$33,000.00

**Cause:** The Agency did not have a waiver from purchasing from a mandatory statewide contract. The Agency was unsuccessful in locating any bid documentation for this acquisition.

**Effect or Potential Effect:** The Agency has circumvented controls in place to ensure that services procured were obtained at the best value for the State. By circumventing these controls, additional costs to the State may have been incurred. In addition, it cannot be determined if the change order exceeded the scope of the original solicitation.

**Recommendation:** We recommend the Agency develop and implement a process and procedure that will ensure all acquisitions are made in accordance with the method of acquisition as outlined in the Central Purchasing Rules. In instances where the Agency has identified that this methodology cannot be followed, the Agency should seek a waiver from the Director of the Department of Central Services as prescribed by Central Purchasing Rules 580:156-5.

This finding will be forwarded to the State Purchasing Director for further review and consideration.

***Management's Response- Concur***

**Date:** May 17, 2010

**Respondent:** Interim Executive Director

***Corrective Action Plan***

**Contact Person:** Primary Certified Procurement Officer

**Anticipated Completion Date:** July 30, 2010

**Corrective Action Planned:** A revised Oklahoma Accountancy Board (OAB) Internal Purchasing Policy was effective as the date the Oklahoma Accountancy Board voted to accept the new policy on 12/18/09. On 12/31/09, the OAB was sent written notification from Mr. John Richard, Director of Central Services, that the revised purchasing policy submitted by the OAB had been reviewed and was considered to be compliant with applicable provisions of the Oklahoma Central Purchasing Act and Rules.

All former OAB personnel associated with the above referenced purchase order and change order for AmeriResource Group, are no longer employed by the OAB.

Corrective actions have already been taken in the form and substance of the creation and implementation of a revised and fully compliant internal purchasing policy for the agency. Additionally, it is currently the standard practice of the OAB that when it is identified that the OAB cannot follow the methodology as outlined in Central Purchasing Rules,



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in the procurement of goods or services, the agency would seek a waiver from the Director of Central Services as prescribed by Central Purchasing Rules 580:165-5.

Furthermore, no later than immediately following the date of the July meeting of the Board, currently scheduled for July 30, 2010, the OAB intends to submit a revised internal policy to the State Purchasing Director which provides for the following:

- Development of an internal process for obtaining and tracking solicitations when required. This process should include documenting responses to solicitations for the acquisition of goods or services.
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.
- A close-out checklist for the contract file. This checklist would ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

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**Shipping and Delivery Contracts – Findings 08-290-01, 08-385-01, and 08-435-01**

*Audit Response- We noted multiple low dollar contracts for shipping and delivery during our audit that were not competitively bid due to incremental increases to the purchase order throughout the year. We discussed this issue with Central Purchasing and the possibility of analyzing spends for shipping and delivery services on a statewide basis. We recommended different methods of assistance for state agencies to simplify purchasing of shipping and delivery services while maintaining availability of vendors to compete for the services.*

*We received a response from Central Purchasing on June 25, 2010 that a statewide freight contract would be in place before the end of July 2010.*

**FINDING 08-290-01: OKLAHOMA EMPLOYMENT SECURITY COMMISSION**

**Criteria:** Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation..."

The Oklahoma Central Purchasing Rules 580:15-6-8 **State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00) (3) Price quotation (effective July 13, 2006)** states:

The state agency shall solicit price quotations and delivery dates by mail, telephone, facsimile or by means of electronic commerce from a minimum of two suppliers. The state agency shall secure the suppliers' price quotation in writing or document the suppliers' price quotation and delivery dates.



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**Condition:** The Agency procured shipping and handling services. The original amount of the purchase order was \$6,000. Change orders to the purchase order increased the total purchase order amount to \$6,985. The Agency did not solicit quotes from multiple vendors when procuring for the services. Details are noted below.

**PO #2909003952      Federal Express Corporation**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	06.01.2007		\$6,000.00
Change Order #1	03.12.2008	\$500.00	\$6,500.00
Change Order #2	05.22.2008	\$485.00	\$6,985.00

**Cause:** The Agency believed the shipping and handling rates were established for all vendors.

**Effect or Potential Effect:** By not obtaining quotes, there is no assurance that the best prices were paid for the services procured. In addition, it cannot be determined if the change order exceeded the scope of the original solicitation.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. We also recommend the following:

- Procurement officials refer the Central Purchasing Act to determine those acquisitions that are exempt from the Central Purchasing Act;
- Procurement officials consult with Central Purchasing for acquisitions where the Agency has a question regarding the proper acquisition method to be followed in the procuring of the goods or service; and
- Develop a procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.

**Management's Response- Concur**

**Date:** May 14, 2010

**Respondent:** Primary Certified Procurement Officer

**Corrective Action Plan**

**Contact Person:** Primary Certified Procurement Officer

**Anticipated Completion Date:** July 01, 2010

**Corrective Action Planned:** The end users of these types of services simply use the previous provider with no regard for the existence of a PO. Beginning July 01, 2010, we will have a new Purchasing and Asset Manager. She has 12 years with the agency and will provide an oversight in the area of contract management that will insure adherence with Central Purchasing rules.





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**FINDING 08-385-01: OKLAHOMA INSURANCE DEPARTMENT**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation."

The Oklahoma Central Purchasing Rules 580:15-6-7 **State agency open market acquisitions exceeding two thousand five hundred dollars (\$2,500) and not exceeding ten thousand dollars (\$10,000.00) (3) Price quotation (effective July 13, 2006)** states:

The state agency shall solicit price quotations and delivery dates by mail, telephone, facsimile or by means of electronic commerce from a minimum of two suppliers. The state agency shall secure the suppliers' price quotation in writing or document the suppliers' price quotation and delivery dates.

**Condition:** The Agency procured shipping and handling services. The original amount of the purchase order was \$2,000. Change orders to the purchase order increased the total purchase order amount to \$2,850. The Agency did not obtain informal quotes from vendors when procuring for the services. Details are noted below.

**PO #3859001070      DHL Express (USA) Inc**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	08.23.2006		\$2,000.00
Change Order #1	10.26.2006	\$500.00	\$2,500.00
Change Order #2	04.02.2007	\$350.00	\$2,850.00

**Cause:** The Agency was not aware bids were required for shipping and handling charges.

**Effect or Potential Effect:** By not obtaining solicitations for services procured, we cannot determine if the change orders executed exceed the scope of the solicitation. In addition, the competitive bidding process to ensure goods and services are obtained at a fair and reasonable cost is circumvented.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. We recommend the following:

- Procurement personnel refer the Central Purchasing Act to determine those acquisitions that are exempt from the Central Purchasing Act;
- Procurement personnel consult with Central Purchasing for acquisitions where the Agency has a question regarding the proper acquisition method to be followed in the procuring of the goods or service; and
- Develop a procurement checklist for goods and services. Items to include in this checklist are required affi-

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davits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.

***Management's Response- Partially Concur***

**Date:** May 13, 2010

**Respondent:** Budget Manager and Primary CPO

**Response:** The agency concurs with the one "Condition" in the Audit Finding, but not with the "Cause" stated. The situation was not that the agency was unaware of the requirement to solicit bids for shipping and handling charges on open market acquisitions over \$2,500 as stated in the "Cause." As I explained in my first response to this audit request October 9, 2008, agency staff did not anticipate a need for more than \$2,000 in express mail services for the fiscal year. At this threshold, bids were not required. Even when the need arose for more express mail services and the first change order was created increasing the purchase order to \$2,500, the threshold was not exceeded so quotations were still not required. The problem arose when agency staff miscalculated the amount of express services used and over spent the purchase order. Procurement staff was not aware of the overage until an invoice was received from the vendor for the additional \$350 that exceeded the \$2,500 amount of the purchase order. At that point the vendor had to be paid, so the second change order was executed. This was a one-time occurrence and not a general practice of the agency.

***Corrective Action Plan***

**Contact Person:** Budget Manager and Primary CPO

**Anticipated Completion Date:** Corrective action was completed in October 2008.

**Corrective Action Planned:** The agency changed its procedures for tracking vouchers paid against purchase orders, so situations like this would not happen again.

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**FINDING 08-435-01: OKLAHOMA LOTTERY COMMISSION**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation."

The Oklahoma Central Purchasing Rules 580:15-6-7 **State agency open market acquisitions exceeding two thousand five hundred dollars (\$2,500) and not exceeding ten thousand dollars (\$10,000.00) (3) Price quotation (effective July 13, 2006)** states:

The state agency shall solicit price quotations and delivery dates by mail, telephone, facsimile or by means of electronic commerce from a minimum of two suppliers. The state agency shall secure the suppliers' price quotation in writing or document the suppliers' price quotation and delivery dates.

**Condition:** The Agency procured shipping and handling services on the open-market. The original amount of the purchase order was \$2,400. Change orders to the purchase order increased the total purchase order amount to \$3,060.



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The Agency did not obtain informal quotes for the services. Details are noted below.

**PO #4359000208      Federal Express Corporation**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	07.24.2006		\$2,400.00
Change Order #1	12.14.2006	\$600.00	\$3,000.00
Change Order #2	02.27.2007	\$ 60.00	\$3,060.00

**Cause:** The Agency was not aware bids were required for shipping and handling services.

**Effect or Potential Effect:** By not obtaining quotes, there is no assurance that the best prices were paid for the services procured. Additionally, we cannot determine if the scope of the original acquisition has been exceeded through the change order process.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. To be included in this process should be the following:

- Refer the Central Purchasing Act to determine those acquisitions that are exempt from the Central Purchasing Act;
- Consult with Central Purchasing for acquisitions where the Agency has a question regarding the proper acquisition method to be followed in the procuring of the goods or service; and
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.

**Management's Response- Partially Concur**

**Date:** May 7, 2010

**Respondent:** Director of Administration

**Response:** Thank you for your concern. Since these items are more than 3 years old and are very small expenditures, there is no recollection on anyone's part about much of the details. Having barely completed one year in existence at the time we set up this P.O., we had very little to go on regarding what we might be spending for these services. We set up the original P.O. for \$2400 and increased it by \$600 on 12/14/06 and by \$60 on 2/27/07. Since we spent less than \$1500 against the entire P.O. I cannot concur with your condition as stated above. You are correct that we were not aware of the requirement to bid mail delivery services and that is our fault; we have corrected it. I'm pretty sure that we got the best deal we were going to get based on a total expenditure of \$1500 over the course of 12 months. Also, assuming that we spent the entire P.O. of \$2400, what would we have bid out; the additional \$660?

There are two things that you can help us with:

- 1) How does an agency bid out UPS and FedEx type delivery services as you instruct? I'm pretty certain we are not



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going to get a cost break for \$1500 or even \$2500 of spending over a 12 month period.

2) Are you aware of other agencies that do this? If so, unless you have constructive guidance, I would like to know which agencies bid out these types of services in order to contact them and find out what they do.

**Corrective Action Plan**

**Contact Person:** Director of Administration

**Anticipated Completion Date:** May 7, 2010

**Corrective Action Planned:** The Lottery Commission will make every effort to comply with appropriate laws and rules and procedures regarding procurement.

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**FINDING 08-629-01: OKLAHOMA SCHOOL OF SCIENCE AND MATH**

**Criteria:** Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation..."

The Oklahoma Central Purchasing Rules 580:15-6-8 **State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00) (3) Price quotation (effective July 13, 2006)** states:

The state agency shall solicit price quotations and delivery dates by mail, telephone, facsimile or by means of electronic commerce from a minimum of two suppliers. The state agency shall secure the suppliers' price quotation in writing or document the suppliers' price quotation and delivery dates.

**Condition:** The Agency procured trash service through the open-market. The original amount of the purchase order was \$5,100. Change order to the purchase order increased the total purchase order amount to \$5,302.70. The Agency did not solicit quotes from multiple vendors when procuring for the services. Details are noted below.

**PO #6299001096 Waste Management of Oklahoma Inc.**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	07.20.2006		\$5,100.00
Change Order #1	06.11.2007	\$202.70	\$5,302.70

**Cause:** The Agency was not aware trash service was to be bid. Trash service was paid on a month-to-month basis.

**Effect or Potential Effect:** By not obtaining quotes, there is no assurance that the best prices were paid for the services procured. In addition, it cannot be determined if the change order exceeded the scope of the original acquisition.



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**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. To be included in this process should be the following:

- Refer the Central Purchasing Act to determine those acquisitions that are exempt from the Central Purchasing Act;
- Consult with Central Purchasing for acquisitions where the Agency has a question regarding the proper acquisition method to be followed in the procuring of the goods or service; and
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.

**Management's Response- Partially Concur**

**Date:** May 20, 2010

**Respondent:** Controller

**Response:** The Oklahoma School of Science and Mathematics is currently in the midst of a three year service agreement with Waste Management to perform trash removal services for the agency. This service agreement has a termination date of April 2011. It has been duly noted by all parties responsible for the procurement duties of the agency that price quotations need to be solicited from a minimum of two suppliers prior to this termination date to ensure the best pricing is paid for the services and to ensure any future change orders do not exceed the scope of the original solicitation.

**Corrective Action Plan**

**Contact Person:** Controller

**Anticipated Completion Date:** July 2010

**Corrective Action Planned:** It is the intent of The Oklahoma School of Science and Mathematics to have effective procurement processes and procedures implemented which will ensure all documentation necessary to effectuate an acquisition is obtained and retained. To assist in this endeavor, a procurement checklist is currently being created which will ensure all Central Purchasing rules and regulations are adhered to. In addition, we will continue consulting with Central Purchasing whenever questions arise regarding the proper acquisition method to be followed in the procurement of goods and services.

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**[FINDING 08-645-01: OKLAHOMA CONSERVATION COMMISSION](#)**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-6(e) **Additional information (2) Change orders (effective June 25, 2007)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation."





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The Oklahoma Central Purchasing Rules 580:15-6-6 **State agency acquisitions (c) Acquisitions over \$2,500.00 and under \$10,000.00 (effective June 25, 2007)** states in part:

(2) **Supplier selection.** The state agency shall solicit a price quote from a minimum of three suppliers, which may be from the registered supplier list in the appropriate commodity classification compiled by the Purchasing Division and made available to state agencies...

Oklahoma Central Purchasing Act Title 74 §85.45j, **Sole Source or Sole Brand Acquisition 8.** states:

The chief administrative officer of each state agency shall submit to the State Purchasing Director a monthly listing of all sole source and sole brand acquisitions exceeding Two Thousand Five Hundred Dollars (\$2,500.00) executed by the state agency in the preceding month. The report shall indicate whether requisitions for sole source and sole brand acquisitions were disapproved or modified by the State Purchasing Director and information the State Purchasing Director requires.

**Condition:** For the audit period reviewed of July 1, 2006 thru July 18, 2008, the Agency procured shipping services for water samples. The original purchase order was in the amount of \$1,900.00. Change orders were initiated against the purchase order which increased the original purchase order amount to \$3,000. Details are noted below.

**Purchase Order #6459001747 Mail Mart**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	07.18.2007		\$1,900.00
Change Order #1	03.18.2008	\$600.00	\$2,500.00
Change Order #2	06.18.2008	\$500.00	\$3,000.00

There was no documentation included in the file that indicates solicitations were obtained for mailing services. Additionally, the Agency did not complete a sole source affidavit for the acquisition to document the exemption from competitive bidding procedures.

**Cause:** There was no other vendor in Tahlequah to drop off samples for mailing to Oklahoma City. Agency was unaware of the proper documentation process for sole source acquisitions.

**Effect or Potential Effect:** By not properly documenting the acquisition process, it cannot be determined if there were vendors that were able to provide the service requested or if the best value was received for services procured. In addition, it cannot be determined if the scope of the original acquisition has been exceeded.

**Recommendation:** We recommend the Agency obtain solicitations for acquisitions of goods and services that exceed the fair and reasonable dollar threshold of \$5,000.00. For those acquisitions that exceed \$5,000 and are a sole source/sole brand acquisition, the reasons the acquisition is a sole source or sole brand should be documented through the completion of sole source/sole brand affidavit.



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**Management's Response- Concur**

**Date:** May 21, 2010

**Respondent:** Comptroller

**Response:** Procurement staff has been reminded of the need for proper documentation of solicitation efforts and need for sole source / sole brand affidavit.

**Corrective Action Plan**

**Contact Person:** Comptroller

**Anticipated Completion Date:** Effective immediately

**Corrective Action Planned:** All contracts will be closely monitored to ensure \$5,000 threshold and sole source / sole brand requirements are met.

**FINDING 08-650-01: OKLAHOMA DEPARTMENT OF VETERAN AFFAIRS**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-6 (e) **Additional information (2) Change Orders (effective June 25, 2007)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation."

The Oklahoma Central Purchasing Rules 580:15-6-6 **State agency acquisitions (c) Acquisitions over \$2,500.00 and under \$10,000.00 (2) Supplier selection (effective June 25, 2007)** states in part:

The state agency shall solicit price quote from a minimum of three suppliers, which may be from the registered supplier list in the appropriate commodity classification compiled by the Purchasing Division and made available to state agencies...

**Condition:** The Agency procured investigation services through the open-market. The original amount of the purchase order was \$3,500. Change order to the purchase order increased the total purchase order amount to \$4,000. The Agency did not obtain solicitations for procured services. Details are noted below.

**PO #6509013097      Compliance Consultants LLC**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	06.17.2008		\$3,500.00
Change Order #1	07.17.2008	\$500.00	\$4,000.00

**Cause:** Acquisition was for professional services and the contract was awarded based on fair and reasonable criteria.



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**Effect or Potential Effect:** By not obtaining quotes, there is no assurance that the lowest and best value was received for services procured. In addition, it cannot be determined if the change order exceeded the scope of the original acquisition.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to effectuate an acquisition is obtained and retained. To be included in this process should be the following:

- Refer the Central Purchasing Act to determine those acquisitions that are exempt from the Central Purchasing Act;
- Consult with Central Purchasing for acquisitions where the Agency has a question regarding the proper acquisition method to be followed in the procuring of the goods or service; and
- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, & etc.

**Management's Response- NO MANAGEMENT RESPONSE PROVIDED**

Finding was initially sent on May 3, 2010 with a follow-up on May 17, 2010.

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**FINDING 08-040-01: AGRICULTURE DEPARTMENT**

**Criteria:** Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change orders (effective July 13, 2006)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation..."

Oklahoma Central Purchasing Act Title 74 §85.39 **Agency Internal Purchasing Procedures C.** states:

Each state agency shall maintain a document file for each acquisition the state agency makes which include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires be kept.

The Oklahoma Central Purchasing Rules 580:15-6-4 **State agency acquisition records retention (effective June 25, 2007)** states in part:

- (a) **Retention time period.** A state agency shall retain all records relative to acquisitions and contracts for the duration of the contract term and for a period of three (3) years following completion and/ or termination of the acquisition...
- (b) **Records retention location.** A state agency shall retain records and documents in a central location unless a written waiver is provided by the State Purchasing Director.



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- (c) **Records availability.** A state agency shall make acquisition records available to the State Purchasing Director for review and the Department of Central Services Audit staff for audit purposes.
- (d) **Records to be retained.** A state agency shall retain acquisition records to include but not limited to justification for the acquisition, supporting documents, related information, acquisition contract, evaluations, other evidence of contractor performance and written reports.

**Condition:** A change order in the amount of \$644.40 was completed against the original purchase order. The change order increased the original purchase order amount from \$7,550.00 to \$8,214.40. Services procured were printing of plastic bags for a special event of the Agency. Details are noted below.

**Purchase Order #0409008671                      Bags, Inc.**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	04.30.2007		\$7,550.00
Change Order #1	06.11.2007	\$664.40	\$8,214.40

The file was missing the approved change order.

**Cause:** The change order was not included with the supporting documentation.

**Effect or Potential Effect:** By not having the original, approved change order in the file, it cannot be determined if the change order to the purchase order was properly completed and processed or if the change order exceeded the scope of the original solicitation.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to support the full cycle of an acquisition be obtained and retained. We also recommend the following:

- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, change orders, & etc.
- A close-out checklist for the contract file. This checklist would ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

**Management's Response - NO MANAGEMENT RESPONSE PROVIDED.**

Finding was initially sent on May 3, 2010 with a follow-up on May 17, 2010.



**FINDING 08-405-01: DEPARTMENT OF LABOR**

**Criteria:** The Oklahoma Central Purchasing Rules 580:15-6-11 **Additional purchasing information (c) Change Orders (effective July 2005)** states in part, "... All other contracts may be increased only if the change order does not exceed the scope of the original solicitation."

Oklahoma Central Purchasing Act Title 74 §85.39 **Agency Internal Purchasing Procedures C.** states:

Each state agency shall maintain a document file for each acquisition the state agency makes which include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires be kept.

The Oklahoma Central Purchasing Rules 580:15-6-4 **State agency acquisition records retention (effective July 2005)** states in part:

- (a) **Retention time period.** A state agency shall retain all records relative to acquisitions and contracts for the duration of the contract term and for a period of three (3) years following completion and/ or termination of the acquisition...
- (b) **Records retention location.** A state agency shall retain records and documents in a central location unless a written waiver is provided by the State Purchasing Director.
- (c) **Records availability.** A state agency shall make acquisition records available to the State Purchasing Director for review and the Department of Central Services Audit staff for audit purposes.
- (d) **Records to be retained.** A state agency shall retain acquisition records to include but not limited to justification for the acquisition, supporting documents, related information, acquisition contract, evaluations, other evidence of contractor performance and written reports.

**Condition:** For the audit period July 1, 2006 through July 18, 2008, we reviewed a purchase order with four (4) change orders associated with the purchase order. Two of the four (50%) change orders could not be located by the Agency. Details are noted below.



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**Purchase Order #4059001735 RACO Industries**

<u>Action</u>	<u>Purchase Order Date</u>	<u>Change Order Amount</u>	<u>Purchase Order Total</u>
Original Purchase Order Amount	07.01.2006		\$7,140.47
Change Order #1	07.28.2006	\$153.26	\$7,323.73
Change Order #2			
Change Order #3			
Change Order #4	06.22.2007	\$10.87	\$7,334.60

**Cause:** The change order was not included with the supporting documentation.

**Effect or Potential Effect:** By not having the original, approved change order in the file, it cannot be determined if the change order was properly completed and processed or if the change order exceeded the scope of the original solicitation.

**Recommendation:** We recommend the Agency develop and implement processes and procedures that will ensure all documentation necessary to support the full cycle of an acquisition be obtained and retained. We also recommend the following:

- A procurement checklist for goods and services. Items to include in this checklist are required affidavits have been obtained, developed specifications, bid tabulation sheet, bid evaluation sheet, change orders, & etc.
- A close-out checklist for the contract file. This checklist would ensure that once the contract has ended the contract file contains all relevant documentation pertaining to the acquisition. Close-out checklist should then be provided to the central repository, as part of their documentation, for record retention.

**Management's Response- Partially Concur**

**Date:** May 7, 2010

**Respondent:** Deputy Commissioner

**Response:** Department of Central Services audit for the period of July 1, 2006 through January 1, 2008. Audit Unit Report released December 19, 2008.

These factors were identified and management response at that time indicated that a corrective action for change order implementation was in place prior to the audit completion. The corrective action was being implemented, but was not yet formalized in internal procedures.

In the referenced findings one and four, the bid itself was not changed. The correction was related to shipping costs. We have changed our procedures to incorporate shipping costs into a formalized change order mechanism. The referenced expenditure, in fact, came in below bid costs. In two instances where change orders could not be identified, we recognize that was a problem. It was corrected during the internal procedures change identified in 2008.

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*Corrective Action Plan*

**Contact Person:** Deputy Commissioner and Primary Certified Procurement Officer

**Anticipated Completion Date:** Completed

**Corrective Action Planned:** Corrective actions were implemented during 2008. Any purchase order that requires a change order is reviewed for completeness and compliance with internal procedures and state requirements. The file includes a procurement check list with all required affidavits, bid tabulation sheets, bid evaluation sheets, and change order where appropriate. The purchase order also includes the close out check list for the file and insures all relevant documentation. This documentation is then placed in a central depository where it is available for review.

The ODOL maintains a document file for each acquisition, with full justification, supporting documentation, and any other information required by state purchasing director.

All records are, and shall continue to be, maintained for three years following the termination and/or completion of the acquisition.

We appreciate your review of our action plan and look forward to any further recommendation.

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**APPENDIX**

**DIRECTOR'S TRANSMITTAL LETTER**

JOHN S. RICHARD  
Director



BRAD HENRY  
Governor

STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

July 01, 2010

**TO THE STATE AGENCIES OF OKLAHOMA**

With this letter, we transmit the report for the Statewide Change Order Audit for the audit period July 1, 2006 to July 18, 2008.

We performed our audit in accordance with professional auditing standards to ensure that purchasing under the authority of the Department of Central Services through Central Purchasing is conducted in accordance with applicable laws and regulations and programs are administered in an ethical, effective and efficient manner while limiting exposure to fraud, waste, mismanagement, or abuse.

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 Department of Central Services website, [www.dcs.ok.gov](http://www.dcs.ok.gov).

Sincerely,

John S. Richard  
Director of the Department of Central Services

*"Committed to Quality"*

Administration, Will Rogers Office Building (2401 N. Lincoln) Suite 206 / P.O. Box 53218 · Oklahoma City, OK 73152-3218  
Telephone 405/521-2121, Fax 405/521-6403, [www.dcs.state.ok.us](http://www.dcs.state.ok.us)



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### **METHODOLOGY**

A private query was created within PeopleSoft by the Audit Manager of the Audit Unit to identify all purchase orders with a change order for the audit period July 01, 2006 to July 18, 2008 as of August 18, 2008. Purchase orders were sorted into categories to exclude purchase orders that did not fall within the scope of the project. Upon determination of the final population, the population was sorted by dollar threshold (\$2,500.01 - \$10,000; \$10,000.01 - \$25,000; and \$25,000.01 and greater) and by specific acquisition type (Title 18 professional services). Classical random sampling and stratified random sampling were used to derive a sample in which to test.

The purchase order population for the audit period was 26,012 purchase orders in a dollar total of \$2,721,223,534.84. After data extractions were performed, the purchase order population from which samples were drawn was 1,153 purchase orders in a dollar total of \$13,744,754.13. Sample for Title 18 professional services was 44 purchase orders in a dollar total of \$8,104,245.90. Sample for dollar threshold in total was 137 purchase orders in a total dollar total of \$2,369,964.93.

We would like to note that the data obtained is dynamic. Any changes made to the purchase order after the date data was obtained will not be reflected in the data pulled. Data obtained as of August 18, 2008 will not be the same data obtained as of the current date. All change orders associated with the purchase order as of the date the data was obtained were included in the population to be sampled and tested.