

**OKLAHOMA
DEPARTMENT OF CENTRAL
SERVICES**

AUDIT UNIT

**OKLAHOMA HISTORICAL SOCIETY
PROCUREMENT PROGRAM**

**COMPLIANCE FOLLOW-UP AUDIT
Report Released
October 5, 2010**

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services, Auditing Unit has completed a follow-up on previous audits of the Oklahoma Historical Society (the "Agency"). The scope of the audit was March 01, 2009 to April 30, 2010. This report communicates the results of our follow-up.

The objective was to verify if the Agency has followed through with previous corrective actions, the actions are operating effectively, the current actions are relevant, and the findings have been adequately and appropriately addressed. Our objective includes providing a recommendation to modify the Agency's delegated purchasing authority based upon current management controls and compliance with statute and rules.

BACKGROUND

This project is a follow-up to the purchase card audit and the procurement compliance audit completed in fiscal year 2006 and fiscal year 2007, respectively. Based on the results of the procurement compliance audit, the Agency's spending authority was reduced to \$2,500 inclusive of the purchase card program. The reports for these audits can be viewed via the internet at www.dcs.ok.gov under the Auditing tab. The purchase card report was published June 23, 2006 and the procurement compliance report was published September 27, 2007.

OVERALL CONCLUSION

We have determined the Oklahoma Historical Society is in compliance with the objective of the follow-up. However, we noted some deficiencies while performing follow-up work for the Agency's procurement and purchase card programs.

OVERALL RECOMMENDATION

We recommend the Oklahoma Historical Society procurement dollar threshold be temporarily increased to full purchasing authority. We also recommend the awarding of permanent full purchasing authority contingent upon the Agency completing the outlined corrective action plans:

- Hire by December 1, 2010 an additional individual in the Purchasing Division;
- update internal purchasing procedures by November 1, 2010;
- and, complete training in inventory control management by November 1, 2010.

We further recommend the Primary Certified Procurement Officer, individuals with purchasing responsibilities and management in the Agency meet with the State Purchasing Director to discuss the importance of following responsible purchasing

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practices and the consequences related to the act of subverting management controls in place for purchasing activities.

In final, we recommend imposing a January 31, 2011 deadline for the completion of the corrective action plans and meeting with the State Purchasing Director.

CORRECTED FINDINGS

Follow-up work was completed for the following purchase card and procurement program findings. Agency implemented corrective actions to address previously noted deficient areas.

Purchase Card Program

- **Previous Finding: 05-350-03 (Purchase Card Administrator)** - Since the previous audit, the Agency hired a new primary CPO on February 02, 2009. The previous primary CPO left the Agency on February 28, 2010.
- **Previous Finding: 05-350-10 (Encumbering Funds)**
- **Previous Finding: 05-350-08 (Merchant Preferences)**
- **Previous Finding: 05-350-09 (Timely Payments)**

Procurement Program

- **Previous Finding 07-350-12: Split Purchasing**
 - **Previous Finding 07-350-07: Delivery Documents**
 - **Previous Finding 07-350-06: General Procurement**
 - **Previous Finding 07-350-02: Internal Purchasing Procedures**
 - **Previous Finding 07-350-08: General Procurement**
-

FINDINGS STATUTE OR PROCEDURE NO LONGER APPLIES

Purchase Card Program

- **Previous Finding: 05-350-07 (Transaction Logs)** - The January 16, 2008 revision to the State Purchase Card Procedures removed the requirement of the transaction log to document transactions for the monthly billing cycle.

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Procurement Program

The Agency's purchasing authority was reduced to \$2,500 on February 20, 2008. As such, compliance with certain statutes and administrative rules could not be verified.

- Previous Finding 07-350-09: Solicitation Requirements
- Previous Finding 07-350-10: Solicitation Requirements
- Previous Finding 07-350-12: Sole Source
- Previous Finding 07-350-04: Suspension and Debarment
- Previous Finding 07-350-05: Sales Tax Permit

UNCORRECTED & PARTIALLY CORRECTED PREVIOUS FINDINGS

Purchase Card Program

Previous Finding: 05-350-04 (Receipts for Purchases)

Current Results: Specific attribute tested - The receipt was itemized or detailed to include: vendor, date of purchase, description, unit price and quantity, and transaction total. (State of Oklahoma Purchase Card Procedures § 6.4)

There were eight exceptions out of fifty seven (8/57, 14% error rate) transactions tested for this attribute. All transactions were supported by at least a credit card charge receipt or similar document; however there were eight receipts that didn't provide the required details of the purchase.

One acquisition reviewed from cardholder (ending in 4898) was from Altus Motorsports in the amount of \$1,081.50 on 5/23/09. The credit card charge authorization receipt was the only document provided with the words "rear bagger" handwritten on it. No detailed receipt from the vendor was provided. We were able to contact the vendor and obtain the detailed receipt, which revealed that a lawn mower was purchased and not a rear bagger. We also learned during our review that the cardholder purchased the same model mower for himself a short time before from the same vendor. After we obtained this information, a physical verification was performed to determine the mower was on site.

On August 30, 2010, we asked for the pre-approval documents for this transaction from the approving official. The approving official said that she approved the purchase of a rear bagger and that the pre-approval would have been in the form of an email received from the cardholder. The approving official stated that they don't keep the pre-approval documents. The agency sent us a p-card transaction approval log with an approval number assigned. The log has a signature and date block at the bottom and is signed and dated 8/26/2010 by the approving official. We also noted during our review that all other receipts from the cardholder during the billing cycle were not detailed or itemized. The supporting receipts were only the purchase card authorization receipt.

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The cardholder did not purchase a rear bagger but purchased a lawnmower. This information was concealed from agency officials throughout the purchasing and inventorying process. The agency is currently showing a rear bagger on the inventory schedule and all supporting documentation.

Due to the cardholder's actions and the possibility of misappropriated state assets, we recommend the cardholder to be suspended from the state purchase card program.

The approving official is also responsible for reviewing, monitoring and approving purchase card purchases. It is the approving official's responsibility to verify receipts provide complete and detailed information. It is also the approving official's responsibility to verify inventory items are adequately documented and verified.

Due to the approving official's lack of proper review and approval of purchase card purchases, we recommend the agency's internal monitoring function to closely review supporting documentation approved by the approving official to determine proper documentation is obtained and the purchase card was used properly. If lack of proper review and approval persist, we recommend the approving official to receive disciplinary action and possible removal from the purchase card program.

New corrective action:

***Responding Official:* Primary Certified Procurement Officer**

Corrective Action Plan: The individual identified above is no longer part of the Purchase Card Program due to budget cuts in certain programs. The cardholder's account has been closed and is locked.

We respectfully request that the information contained on page 3 of the follow-up be removed. Research of the Manufacturer and the Model Number for the equipment in question revealed that a "Rear Bagger" is indeed a type of lawnmower, and that the name merely indicates the location of the bagger/mulcher. Please refer to the information below from <http://www.hondapowerequipment.com/products/lawnmowers/>:

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HRC216K3HXA



Hover over image to zoom in
HRC216K3HXA

- 21" commercial rear bagger/mulcher
- Self-propelled, hydrostatic Cruise Control
- Shaft drive (no belts)
- Easy to start commercial 160cc engine
- Roto-Stop® blade control
- MicroCut™ Twin Blades
- Front bumper and edge guards to protect deck

MSRP \$1,249.00

Effectively immediately, the OHS's internal monitoring function will closely review all supporting documentation approved by the cardholders and approving officials to determine proper documentation has been obtained and that the purchase card was used properly. The OHS will strictly enforce the itemized detailed receipt requirement. Continue to re-enforce the need to obtain an itemized detailed receipt for all Purchase Card transactions.

Current Target Completion Date: September 27, 2010 and on-going.

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P-card # 65-09-34

Altus Motorsports
2116 E Broadway
Altus, OK 73521
580.477.1600

Merchant: 23917635
Date: 5/23/2009 3:23:0

Account #: xxxxxxxxxxxx4898
Card Type: MC

Source ID: 27648
LS ID: 688
Auth #: 082933

Amount:

\$1,081.50

real 6/12/09


WHITE COPY-BUSINESS YELLOW COPY-CUSTOMER

near bagger

Previous Finding: 05-350-02 (Inventory)

Current Results: Agency did not acquire asset tracking software. Agency used a 3rd party vendor to perform physical inventory.

During our current testwork we noted 10 exceptions out of 11 transactions reviewed. **A 91% error rate.** The specific test was to check that items exceeding \$500.00 were added to the agency's inventory listing. (State of Oklahoma Purchase Card Procedures § 6.3)

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We did not find the following purchase card transactions on the agency inventory list.

<u>Transaction Date</u>	<u>Amount</u>	<u>Merchant</u>	<u>Description</u>
9/3/2009	\$4,089.60	DMI* DELL K-12/GOVT	Private 4 computers
4/4/2009	\$4,375.43	DMI* DELL K-12/GOVT	Dell computer equipment
7/10/2009	\$9,646.75	DMI* DELL K-12/GOVT	Private funds, speakers and UPS
4/28/2009	\$11,905.09	DMI* DELL K-12/GOVT	Rock n Roll exhibit computers, projectors
3/17/2009	\$561.00	FIRST CASH AUTO PAWN	One guitar with amplifier, one bass guitar with amplifier
12/23/2009	\$992.70	B&H PHOTO-VIDEO-MO/T	Two wireless cameras and video recorders
11/9/2009	\$2,029.18	THE KEYSAN CATALOG	Two metal cabinets
3/2/2009	\$829.80	WWW.NEWEGG.COM	EXTHD 4TILACIE 301359 UR
7/8/2009	\$1,862.40	GOVCNCTN*#44837991	Creative production software
1/7/2010	\$2,537.50	GEXPRO	Projector lamps
	<u>\$38,829.45</u>		

We believe that the agency has a process for identifying and tracking fixed assets, but the process is not being followed. Here is a summary of the process from our study of internal controls. All items needing to be added to the inventory are reported to the Agency's Inventory Control Officer. Internally, the Agency adds anything valued at /over \$50 to the inventory; however, the inventory list that is given to DCS contains all items valued at /over \$500. Inventory tags are used and contain the number assigned to the item. Finance gets a copy and enters the information into a spreadsheet.

We believe the reason why not everything is getting reported is due to the Inventory Control Officer relying on cardholders to advise as to any fixed asset purchases they have made. We recommend the identification of fixed assets be a step performed at the time of pre approval. Approving officials should inform the inventory manager of possible fixed asset purchases before the purchase is made. The inventory manager should check agency purchasing records to see if these items were received, then tag and add the item to the list. Alternatively the agency could designate one cardholder to make all purchases above \$2,500.00. It would be that cardholder's responsibility to make sure all fixed asset purchases get properly identified and tracked.

New corrective action

Responding Official: Comptroller and Deputy Director

Current Corrective Action Plan: Comptroller - The OHS did acquire asset tracking software with a barcode printer. The initial inventory was performed by a third party vendor. Currently the Inventory Control Officer receives a printout of all p-card related fixed asset purchases and makes a

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copy of all vouchers associated with fixed asset purchases as she prepares the vouchers for processing by OSF. The respective departments making the purchases are supposed to fill out an agency inventory control form with all necessary data to add the item(s) to the master inventory list. It is the Inventory Control Officer's job to ensure that the inventory forms are received in a timely manner. Currently, the Inventory Control Officer's time is being split between Human Resources and the Inventory Control position within the Finance division along with finance related duties as well. Due to budget cuts the agency has had to cross-train individuals to help fill in gaps for positions the agency cannot afford to fill. The agency intends to review the amount of time necessary to complete the inventory control functions in a complete and efficient manner and reallocate duties as necessary.

Deputy Director

Additionally, in order to ensure total compliance, the agency will provide the necessary training in inventory control management. The agency will also initiate disciplinary action for all personnel who fail to adhere to the inventory requirements, once proper training has been provided.

Current Target Completion Date: November 1, 2010

Previous Finding: 05-350-05 (Cardholder Duties)

As part of our study of internal controls during our follow-up procedures, we noted that a cardholder is also the receiving department/mailroom supervisor. A cardholder who is also the receiving department/ mailroom supervisor creates a concern due to the conflicting duties performed. With the cardholder serving in both capacities, the individual is purchasing goods as well as supervising the primary receiving location for the agency. The current process creates a lack of independent verification. The agency may not be able to adequately reconcile and verify all items purchased. Individuals with the primary duties of receiving goods for the agency should not be able to purchase items for the agency.

We recommend the agency to relinquish purchasing from this individual.

New corrective action:

Responding Official: Comptroller

Corrective Action Plan: The agency is in the process of hiring an additional person for the purchasing division. This new person will be making all of the agency p-card acquisitions that were previously being made by the receiving department / mailroom supervisor.

Current Target Completion Date: December 1, 2010

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Previous Finding: 05-350-06 (Receiving Documentation)

Current Results: Specific attributes tested - The receiving document for the purchase contains the cardholder's signature and date. (State of Oklahoma Purchase Card Procedures § 6.6.1 - Received at the time of purchase), the receiving document was signed and dated, and annotated 'Received' by the receiving employee for goods and services received subsequent to the time of purchase. (State of Oklahoma Purchase Card Procedures § 6.6.2 - Received subsequent to the time of purchase.)

There were 12 exceptions out of 57 (21% error rate) transactions that we. There were 9 instances of no receiving document in the file, one instance of the receiving document not annotated, and two instances of the receipt not signed by cardholder.

New corrective action:

Responding Official: Primary Certified Procurement Officer

Corrective Action Plan: Total compliance with the State of Oklahoma Purchase Card Program. Continue to re-enforce to the cardholders, with the assistance of the agency's approving officials, the importance of signing and annotated the receiving document(s).

Current Target Completion Date: September 27, 2010 and on-going.

Previous Finding: 05-350-01 (Internal Purchasing Procedures)

Conditions: We noted during our internal control test work the Oklahoma Historical Society internal purchasing procedures were last approved by the Department of Central Services on January 4, 1999. This date was before the purchase card program was created. The agency has not submitted to the Department of Central Services revised internal purchasing procedures to include the p/card procedures.

Corrective Action Plan:

Anticipated Completion Date: 07/01/2006

Corrective Action Planned: Submit copy of internal purchasing procedures to DCS.

Current Results: The original audit revealed that there was no copy of internal procedures on file with DCS. The agency responded that it only had an electronic copy. Since then, the agency has updated its procedures and submitted them to DCS for approval. The procedures the agency was using at the time of the follow

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up project was dated August 2008. The agency now must submit a new copy of its Internal Purchasing procedures to comply with the latest version of the State Purchase Card Procedures.

Follow-up Results: Partially corrected

New corrective action

Responding Official: Primary Certified Procurement Officer

Current Corrective Action Plan: Revise OHS IPP. Based on the OHS's current spending authority, the CPO and the agency's key personnel concluded that this deadline did not apply to the OHS. The newest legislation, 74 O.S. § 85.5., indicates that state agencies shall make acquisitions not exceeding Five Thousand Dollars (\$5,000.00), provided the acquisition process is fair and reasonable and is conducted pursuant to rules authorized pursuant to this section. Additionally, after the Primary CPO was informed via email that the new threshold did not apply to the OHs, the agency further concluded that the revised IPP would be completed and submitted once the Audit Procurement Follow-up was complete. The OHS is fully aware of the most recent changes to the Oklahoma Central Purchasing Act is in the process of completing the necessary revisions to the IPP.

Current Target Completion Date: November 1, 2010

Procurement Program

Previous Finding: 07-350-01- Acquisition Documentation

Condition: The Agency did not provide supporting acquisition documentation for:

- 1 of 11 (9%) - \$0 - \$2,500 (\$158.75)
- 4 of 18 (22%) - \$2,500-\$10,000. (\$25,080.92)
- 1 of 12 (8%) - \$10,000-\$25,000. (\$10,950.00)

The total questionable purchasing amount for the three categories above is \$36,189.67 and the extrapolated amount is \$142,403.47.

- 2 of 10 (20%) professional service acquisitions reviewed did not contain any acquisition documentation. (\$2,900.00)

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The total questionable purchasing amount for professional services is \$2,900.00 and the extrapolated amount is \$3,456.04.

- 13 of 13 (100%) intergovernmental acquisitions reviewed did not contain any acquisition documentation. (\$304,174.70)

The total questionable purchasing amount for intergovernmental acquisitions is \$304,174.70 and the extrapolated amount is \$949,429.24. This condition will be forwarded to the Attorney General's official.

- 1 of 8 (13%) statewide contract acquisitions reviewed did not contain any acquisition documentation. (\$1,045.75)

The total questionable purchasing amount for the three statewide contracts is \$1,045.75 and the extrapolated amount is \$21,319.52.

Previous Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

Current Status/Results of Current Testing: Since the previous audit, the Agency hired a new primary CPO on February 02, 2009. The previous primary CPO left the Agency on February 28, 2010. They also sent a member of each major division to CPO training to be certified; however, they do not have purchasing approval or signature authority. These individuals are: Accounting Supervisor, Administrative Programs Officer I, Administrative Assistant, and Deputy Director. The Agency has developed an electronic file called File Maker. This system is used to generate requisitions for all purchases made. All reviews and approvals are done here. The Agency has also implemented a file checklist to ensure all required purchasing documents are present.

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All contract files with purchase orders had acquisition documentation. Contract files were reviewed for the following categories:

- **Intergovernmental:** 14 sample units + \$27,226.86
- **Professional services:** 10 sample units + \$14,879.08
- **\$2,500.01 & greater and purchase orders submitted to Central Purchasing:** 13 sample units + \$239,129.11
- **\$2,500 and under:** 38 sample units + \$24,853.35

Non-PO ids (expenditures without a purchase order number) were also reviewed to determine what type of goods or services were acquired and if these acquisitions were exempt from the Central Purchasing Act and/ or Central Purchasing Rules. Non- PO id expenditures are detailed below.

VENDOR	DATE	AMOUNT	COMMENTS
Maria Brearly	08.26.2009	\$174.00	Site attendant
Maria Brearly	09.15.2009	\$174.00	Site attendant
Maria Brearly	10.07.2009	\$406.00	Site attendant
Michael Wallis	08.26.2009	\$174.00	Speaker- honorarium
Michael Wallis	06.01.2009	\$200.00	Speaker- honorarium
Sheraton Hotel OKC	06.01.2009	\$1,091.10	Original PO cancelled
Wallpaper Hanging by Becky	03.31.2009	\$2,447.00	Wallpaper @ George Murrell Home
Pawhuska Pest Control	03.25.2010	\$40.00	Pest control
Pawhuska Pest Control	06.22.2009	\$40.00	Pest Control
Pawhuska Pest Control	03.09.2010	\$40.00	Pest Control
Osage Nation	08.20.2009	\$1,500.00	Grocery rations
Vicky Gardner	04.19.2010	\$200.00	Transcription services
Alco Discount Stores	12.31.2009	\$29.98	Video cable & modulator
Stuart Lutz Historic Documents, Inc	06.22.2009	\$157.00	Historical docs
Rayman Americana	05.15.2009	\$215.00	Historical docs
American Elevator Co, Inc.	04.19.2010	\$130.00	Elevator service
John Dunning	04.27.2009	\$499.00	Historical items
Culinary Concepts	04.01.2009	\$116.31	Business lunches
United Parcel Service	07.29.2009	\$27.54	Shipping
		<u>\$7,660.83</u>	

In discussion with the Comptroller of the Agency, the above expenditures are private fund expenditures. Traditionally, the Agency has not paid everything encumbered from private funds under \$2,500. Vouchers for private funds expenditures are not sent to the Office of State Finance. The practice of handling private funds in this manner started prior to the Comptroller's employment with the Agency.

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All of the above non-PO ID expenditures were supported by an internal requisition form. The internal requisition form was properly approved by the division head, finance chief where applicable, and the executive director or deputy director. The primary Certified Procurement Officer was not included in the approval process per the Agency's internal purchasing procedures. All of the above expenditures should have been paid under a purchase order or an authority order. State statute (§62-34.62) requires that all agreements for the purchase of goods and services requires an encumbrance document. The encumbrance document can either be a contract, purchase order, or an authority order.

FOLLOW-UP RESULTS

Conclusion: Partially Corrected

New Corrective Action Plan

Responding Official: Primary Certified Procurement Officer

Corrective Action Plan: Total compliance with 62 O.S. §34.62
Encumbrance Requirements for Payments from Funds of State.

Targeted Completion Date: August 30, 2010

Previous Finding: 07-350-15- Inventory

Conditions:

1. The agency inventory control officer reported suffering fixed asset losses in 2003 in one of the agency divisions. However, he did not receive documentation from the division and therefore no documentation was submitted to the state inventory control officer as of the date of this audit.
2. Based on statements received from the Agency Finance Division, the master inventory list is not being maintained.
3. 14 randomly selected items identified as a fixed asset was selected for review. The following was noted:
 - 10 of the 14 (71%) units tested indicated the CPO did not identify the purchase orders of identified fixed assets purchased with a notation identifying the purchase as a fixed asset.
 - 2 of the 2 (100%) applicable files regarding fixed assets transfers from one historical site to another were not supported by a Fixed Asset Transfer Slip.

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Previous Corrective Action Plan

Anticipated Completion Date: November 30, 2007

Corrective Action Planned: The OHS will take whatever actions necessary to bring the fixed asset listing up to date. If the inventory cannot be brought up to date using internal staff then the OHS may contract with a private company which specializes in fixed asset inventories. The OHS Finance division is adding an additional staff person and one of this positions duties is to review all paid vouchers inclusive of p-cards for fixed asset items and then to follow up with the respective division to complete the fixed asset forms and add the item to the fixed asset list.

Current Status/Results of Current Testing: The Agency contracted with Asset Verification, Inc in 2007 to perform a physical inventory. The contractual agreement was to bring the Agency's inventory database current. The contractor did not issue a report related to the work completed or performed.

Substantive testing was performed in the area of inventory on July 15, 2010. Items meeting the criteria (1) exceeding \$500 and (2) appearing to be an inventoriable were selected for review. Total of four items were identified. Only one of the four (25%) items was able to be traced to the inventory schedule. We were able to locate an item (65" high definition plasma display) from purchasing documentation to the floor to the inventory schedule. Another item (two storage servers) was located on the floor that was supposed to be what was purchased. Item was not listed on the Agency's inventory schedule. Total dollar amounts for the items are:

<u>Purchase Order #</u>	<u>Purchase Order Date</u>	<u>Vendor</u>	<u>Amount</u>	<u>Description</u>
3509001813	02.26.2010	Dell Marketing LLC	\$78,999.60	2 storage servers @ \$39,499.80 each
3509001827	03.12.2010	Dell Marketing LLC	<u>\$ 4,826.56</u>	65" high definition plasma display and wall mount
			<u>\$83,826.16</u>	

Physical inventory has not been performed since 2007. As part of the process of reviewing the Agency's physical inventory, the inventory schedule was reviewed. In review of the inventory schedule, the schedule does not include all fixed asset additions [See preceding paragraph.]. Inventory Control Officer is dependent upon satellite locations and divisions to report asset purchases so that the items can be added to the

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schedule. We did not complete any further work in this area as the documentation to be relied on is incomplete.

This finding will be forwarded to the Office of the State Auditor and Inspector for further consideration.

FOLLOW-UP RESULTS

Conclusion: Not corrected

New Corrective Action Plan:

Responding Official: Comptroller & Deputy Director

Corrective Action Plan: The OHS did acquire asset tracking software with a barcode printer. The initial inventory was performed by a third party vendor. Currently the Inventory Control Officer receives a printout of all p-card related fixed asset purchases and makes a copy of all vouchers associated with fixed asset purchases as she prepares the vouchers for processing by OSF. The respective departments making the purchases are supposed to fill out an agency inventory control form with all necessary data to add the item(s) to the master inventory list. It is the Inventory Control Officer's job to ensure that the inventory forms are received in a timely manner. Currently, the Inventory Control Officer's time is being split between Human Resources and the Inventory Control position within the Finance division along with finance related duties as well. Due to budget cuts the agency has had to cross-train individuals to help fill in gaps for positions the agency cannot afford to fill. The agency intends to review the amount of time necessary to complete the inventory control functions in a complete and efficient manner and reallocate duties as necessary.

Additionally, in order to ensure total compliance, the agency will provide the necessary training in inventory control management. The agency will also initiate disciplinary action for all personnel who fail to adhere to the inventory requirements, once proper training has been provided.

Targeted Completion Date: November 1, 2010 and on-going.

Previous Finding: 07-350-14 - Inventory

Conditions: During review of the agency's controls related to fixed asset reporting and testing fixed assets reporting requirements we noted the following:

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- The agency has not reported all tangible assets owned by the agency to the Oklahoma Department of Central Services inventory control officer. Omissions include livestock inventory and living history costumes and props.
- The inventory list submitted to the state inventory control officer in 2006 was not current based upon statements from staff with the responsibility of ensuring the master inventory list is up-to-date.

14 fixed asset items identified from randomly chosen procurement documentation were selected for review. Based upon our review, we noted the following:

- 14 of 14 (100%) of the units tested could not be traced from the acquisition document to the Fixed Asset Inventory Master list. Total unreported fixed assets amount is \$25,072.23.

32 fixed asset items were visually observed at the historical site location where the items physically reside. We noted the following:

- 16 of 32 (50%) of the units tested could not be traced from its physical location to the Fixed Asset Inventory Master list.
- 1 of the remaining 16 (6%) units had an asset tag that identified a different fixed asset.

Previous Corrective Action Plan

Anticipated Completion Date: November 30, 2007

Corrective Action Planned: The OHS will take whatever actions necessary to bring the fixed asset listing up to date. If the inventory cannot be brought up to date using internal staff then the OHS may contract with a private company which specializes in fixed asset inventories. The OHS Finance division is adding an additional staff person and one of this positions duties is to review all paid vouchers inclusive of p-cards for fixed asset items and then to follow up with the respective division to complete the fixed asset forms and add the item to the fixed asset list.

Current Status/Results of Current Testing: The Agency contracted with Asset Verification, Inc in 2007 to perform a physical inventory. The contractual agreement was to bring the Agency's inventory database current. The contractor did not issue a report related to the work completed or performed.

Substantive testing was performed in the area of inventory on July 15, 2010. Items meeting the criteria (1) exceeding \$500 and (2) appearing to be inventoriable were selected for review. Total of four items were identified. Only one of the four (25%) items

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was able to be traced to the inventory schedule. We were able to locate an item (65" high definition plasma display) from purchasing documentation to the floor to the inventory schedule. Another item (two storage servers) was located on the floor that was supposed to be what was purchased. Item was not listed on the Agency's inventory schedule.

Physical inventory has not been performed since 2007. In review of the inventory schedule, the schedule is not current. Inventory Control Officer is dependent upon satellite locations and divisions to report asset purchases so that the items can be added to the schedule. No further work was performed or completed in this area.

FOLLOW-UP RESULTS

Conclusion: Not corrected

New Corrective Action Plan:

Responding Official: Comptroller & Deputy Director

Corrective Action Plan: The OHS did acquire asset tracking software with a barcode printer. The initial inventory was performed by a third party vendor. Currently the Inventory Control Officer receives a printout of all p-card related fixed asset purchases and makes a copy of all vouchers associated with fixed asset purchases as she prepares the vouchers for processing by OSF. The respective departments making the purchases are supposed to fill out an agency inventory control form with all necessary data to add the item(s) to the master inventory list. It is the Inventory Control Officer's job to ensure that the inventory forms are received in a timely manner. Currently, the Inventory Control Officer's time is being split between Human Resources and the Inventory Control position within the Finance division along with finance related duties as well. Due to budget cuts the agency has had to cross-train individuals to help fill in gaps for positions the agency cannot afford to fill. The agency intends to review the amount of time necessary to complete the inventory control functions in a complete and efficient manner and reallocate duties as necessary.

Additionally, in order to ensure total compliance, the agency will provide the necessary training in inventory control management. The agency will also initiate disciplinary action for all personnel who fail to adhere to the inventory requirements, once proper training has been provided.

Targeted Completion Date: November 1, 2010 and on-going.

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Previous Finding: 07-350-11 - Professional Services

Conditions: We reviewed 10 professional service contracts totaling \$1,400,106.15 out of the Agency's 46 contracts totaling \$1,668,588.83 made between July 1, 2005 through June 30, 2006. Of the 10 acquisitions, 1 was processed by the Department of Central Services, and the remaining 9 were open market acquisitions performed by the Agency. Based upon our review, we noted the following:

1. 5 of 10 (50%) acquisition files reviewed did not contain the appropriate service requisition justification signed by the agency's chief administrative officer (CAO).
2. 9 of the 9 (100%) of the acquisition files reviewed did not contain a performance evaluation, therefore, it could not be determined the vendor quality of service or if there were any deficiencies present in the supplier's services.
3. 3 of 3 (100%) of the professional acquisition files tested during Internal Control review did not contain performance evaluations.
4. 7 of the 9 (78%) of the acquisition files reviewed did not contain documentation that indicated the professional service contract was monitored.
5. 4 of the 9 (44%) of the acquisition files reviewed did not contain an audit clause in the contract for professional services.
6. 5 of the 9 (55%) of the acquisition files reviewed did not contain sufficient documentation to determine if travel expenses were paid in an amount over the bid amount.

Previous Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

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Current Status/Results of Testing: Since the previous audit, the Agency hired a new primary CPO on February 02, 2009. The previous primary CPO left the Agency on February 28, 2010. They also sent a member of each major division to CPO training to be certified; however, they do not have purchasing approval or signature authority. These individuals are: Accounting Supervisor, Administrative Programs Officer I, Administrative Assistant, and Deputy Director. The Agency has developed an electronic file called File Maker. This system is used to generate requisitions for all purchases made. All reviews and approvals are done here. The Agency has also implemented a file checklist to ensure all required purchasing documents are present.

Ten professional service contract purchase orders were sampled for substantive testing. Of these professional service contract purchase orders, seven professional service acquisitions were miscoded and two professional service acquisitions were for temporary personnel at museums. There was only one (1) professional service purchase order that was an actual professional service (**PO #3509001602 12.22.2009 Pawnee Veterinary Hospital \$220.00**). This professional service contract was not supported by the following:

- Service requisition justification signed by Chief Administrative Officer
- Original performance evaluation
- Documentation of the monitoring/ auditing of the professional service contract
- Audit clause

FOLLOW-UP RESULTS

Conclusion: Not corrected

New Corrective Action Plan:

Responding Official: Primary Certified Procurement Officer

Corrective Action Plan: Ensure that all future purchase orders are coded correctly and that the agency adheres to DCS Forms 017, 018, and 021, for all professional service contracts (515000) at or above \$2500.00, which are predominantly mental or intellectual in character rather than physical or manual and which do not involve the supplying of products. The purchase from Pawnee Veterinary Hospital in the amount of \$220.00 (515530) was processed under an A/O in order to quickly process the claim and reduce cost. The acquisition was predominantly physical or manual in character and involved the supplying of veterinary meds/products. Because of the minimal amount of the purchase (veterinarian cost \$25.00), the agency processed the request under an A/O and thereby required no additional supporting documents.

Targeted Completion Date: September 30, 2010

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Previous Finding: 07-350-03 - CPO Duties

Conditions: During the review of the agency's internal controls related to procurement, we noted the following:

- The designated certified procurement officer (CPO) does not retain a copy of the approved internal purchasing procedures for reference. Also the designated CPO did not know if the revised internal purchasing procedures had been submitted to Department of Central Services (DCS) or if they have been approved.
- The designated CPO could not identify whether the agency performed services or provided products to other state agencies.
- The agency's management does not have consistent methods of reviewing procurement activities and provides minimal oversight regarding procurement activities of division staff and designated CPO.
- The agency's designated CPO stated he was not aware of the penalties for procurement improprieties, he was not aware of any disciplinary actions by management, and he had not implemented any disciplinary actions.

A review of 4 randomly selected service acquisitions for labor indicated:

- the required forms were missing and could not be located;
- the acquisitions were not bid as required;
- the approving official's signatures were either missing or by an unauthorized individual;
- original documentation could not be located;
- required affidavits were not properly executed.
- Service evaluations were not performed.

Previous Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing

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procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

The OHS internal purchasing procedures will be revised once the reorganization of duties and responsibilities of agency staff have been completed.

Current Status/Results of Current Testing: Since the previous audit, the Agency hired a new primary CPO on February 02, 2009. The previous primary CPO left the Agency on February 28, 2010. They also sent a member of each major division to CPO training to be certified; however, they do not have purchasing approval or signature authority. These individuals are: Accounting Supervisor, Administrative Programs Officer I, Administrative Assistant, and Deputy Director. The Agency has developed an electronic file called File Maker. This system is used to generate requisitions for all purchases made. All reviews and approvals are done here. The Agency has also implemented a file checklist to ensure all required purchasing documents are present.

The Agency's most recent approved internal purchasing procedures are dated August 5, 2008. The Agency's internal purchasing procedures have not been updated to reflect the most recent changes in the Central Purchasing Act or the Central Purchasing Rules.

FOLLOW-UP RESULTS

Conclusion: Partially completed - Internal purchasing procedures have been updated; however, there have been changes to the Central Purchasing and Central Purchasing Rules. Agency did not meet the 12.31.2009 deadline for submitting updated internal purchasing procedures to Central Purchasing for review and approval.

New Corrective Action Plan:

Responding Official: Primary Certified Procurement Officer

Corrective Action Plan: Based on the OHS's current spending authority, the CPO and the agency's key personnel concluded that this deadline did not apply to the OHS. The newest legislation, 74 O.S. § 85.5., indicates that state agencies shall make acquisitions not exceeding Five Thousand Dollars (\$5,000.00), provided the acquisition

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process is fair and reasonable and is conducted pursuant to rules authorized pursuant to this section. Additionally, after the Primary CPO was informed via email that the new threshold did not apply to the OHs, the agency further concluded that the revised IPP would be completed and submitted once the Audit Procurement Follow-up was complete. The OHS is fully aware of the most recent changes to the Oklahoma Central Purchasing Act is in the process of completing the necessary revisions to the IPP.

Targeted Completion Date: November 1, 2010

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the procurement program were documented and evaluated.
- Procurement transactions were examined.
- Overall program compliance with the rules related to the audit objectives was evaluated.

EXECUTIVE SUMMARY

Organization

The mission of the Oklahoma Historical Society is to preserve and perpetuate the history of Oklahoma and its people by collecting, interpreting, and disseminating knowledge of Oklahoma and the Southwest.

As of September 1, 2009, the Oklahoma Historical Society was made up of 156 classified and 12 unclassified staff members. At the time of the review, there were four Certified Procurement Officers (CPO).

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Key Staff:

Bob Blackburn, PhD, Executive Director & State Historic Preservation Officer
Tim Zwink, PhD, Deputy Executive Director
Kathy Dickson, Museums and Sites Director
Whit Edwards, Special Projects Director
Melvena Heisch, Deputy State Historic Preservation Officer
Terry Howard, Comptroller
Geneva Little, Executive Secretary
Dan Provo, Director, Oklahoma Museum of History
William Welge, Research Division Director
Debbie Williams, Art in Public Places Director
Joyce Ballet, Primary Certified Procurement Officer