

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

March 5, 2007

**TO ALBERT ASHWOOD, DIRECTOR OF OKLAHOMA EMERGENCY
MANAGEMENT SERVICES**

With this letter, we transmit the report of the Oklahoma Emergency Management Services procurement audit for state fiscal year 2005.

We performed our audit in accordance with professional auditing standards to ensure that programs administered by the Department of Central Services are conducted in accordance with the laws and regulations and used in an ethical, effective and efficient manner.

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.

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Richard".

John S. Richard
Director of the Department of Central Services

"Committed to Quality"



DEPARTMENT OF CENTRAL SERVICES

AUDIT UNIT

Oklahoma Emergency Management Services

Procurement Audit

For the period July 1, 2004 thru June 30, 2005

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services, Audit Unit has completed an audit of Oklahoma Emergency Management Services, hereinafter referred to as the "Agency", procurement program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the agency is in compliance with provisions of the Oklahoma Central Purchasing Act;
- determine if the agency is in compliance with rules promulgated by the Department of Central Services pursuant to the Oklahoma Central Purchasing Act;
- determine if the agency is in compliance with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee;
- determine if the agency is in compliance with approved internal purchasing procedures;
- make recommendations for improvements.

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

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 Department of Emergency Management (OEM) is to minimize the effects of all disasters and emergencies upon the people of Oklahoma through preparedness, response, recovery and mitigation. The mission is accomplished by focusing on the accomplishment of three major strategic goals: Protect lives and prevent the loss of property from all hazards; reduce human suffering and assist in the recovery of communities after disaster strikes; and, ensure that our customers are served in a timely and effective manner. The Department also assists by preparing, implementing and exercising preparedness plans, assists local jurisdictions with training for and mitigation of disasters, and by coordinating actual disaster response and recovery operations.

In addition to the preparation and implementation of disaster response and recovery plans, the Department is responsible for supervising and administering the annual Emergency Management Performance Grant, a joint federal, state and local government disaster aid and preparedness program. OEM also provides professional assistance and information for, and maintains liaison with all State agencies, federal agencies, American Red Cross, Civil Air Patrol, local governments, the private sector and the general public in accordance with the State Emergency Operations Plan

As of June 30, 2005, the Oklahoma Emergency Management Services was made up of 20 classified and 5 unclassified staff members. At the time of the review, there were three Certified Procurement Officers (CPO).

Key Staff:

Albert Ashwood, Director
Fred Liebe, Deputy Director
Barbara Taylor, Executive Secretary
Dale Magnin, Planning, Training and Exercise Manager
Michelann Ooten, Public Information Officer
Jack Pesnell, Finance Officer
Linda Soos-Davis, Human Services Manager
Jeff Chalmers, EOC Manager
Garrett Thornton, Field Services Manager
Bill Penka, State Hazard Mitigation Officer
Kathleen Shingledecker, State Public Assistance Officer
Margaret Barnard, CPO

AUDIT RESULTS

Questioned Costs: During our audit, we noted the following questioned cost:

- a questionable purchase amount of [\\$770,013.47](#) for using improper purchasing methods. **Finding 05-309-08.**
- a questionable purchase amount of [\\$179,745.25](#) for not obtaining quotes or bids for training services provided. **Finding 05-309-12.**
- a questioned cost of [\\$3,000](#) and an extrapolated questioned cost in the amount of [\\$21,442.13](#) for acquisitions of professional service contracts that did not contain any information regarding the procurement process. In addition to the \$3,000, we noted a questionable purchase amount of [\\$41,118.50](#) and an extrapolated questionable purchase amount of [\\$293,889.37](#) due to the improper purchasing methods used by the Agency. **Finding 05-309-07.**
- an unauthorized purchase amount of [\\$8,700.35](#) for using prohibited credit cards. **Finding 05-309-09**
- a total unauthorized purchase amount of [\\$700,089.79](#) was procured during CPO suspended status. **Finding 05-309-01.**
- a questionable purchase amount of [\\$44,106.00](#) and the projected questionable purchase amount of [\\$59,106.00](#) for acquisitions that did not contain any evidence of the required number of bid solicitations. **Finding 05-309-05.**
- a questionable purchase amount of [\\$7,744.56](#) and the projected questionable purchase amount of [\\$41,919.09](#) for acquisitions without any evidence of price quotes and / or delivery dates from two (2) or more vendors. **Finding 05-309-04.**
- a questioned cost of [\\$43,806.00](#) and an extrapolated questioned cost in the amount of [\\$54,922.59](#) for acquisitions that did not contain any documentation to document the acquisition. **Finding 05-309-03.**
- A total dollar amount related to the required Request for Purchase Form is [\\$192,357.16](#). **Finding 05-309-03.**
- an additional cost to the State in the amount of [\\$26.00](#) due to use of a prohibited credit card to make the purchase instead of purchasing through the mandatory statewide contract and State Use requirements. **Finding 05-309-11.**

Audit Finding Summary:

(Error rates are based only on transactions reviewed.)

Procurement

- The services were rendered or the product was received for 47 acquisitions reviewed prior to the requisition date, date approved, date Certified Procurement Officer processed and the contract approval date. [Finding 05-309-10](#)
- An insufficient segregation of duties regarding procurement activities. [Finding 05-309-02](#)
- The Agency paid 45 reservists at a standard rate for a total of \$587,479.43 without an approved fixed rate contract. [Finding 05-309-08](#)
- The Agency paid 15 individuals to perform Community Emergency Response Team (CERT) training at a standard rate for a total of \$182,534.04 without an approved fixed rate contract. [Finding 05-309-08](#).
- 15 instances purchase orders issued to more than one individual in collective amounts for CERT training that required these acquisition to obtain quotes or bids. A total questionable purchase amount of \$179,745.25 was noted. [Finding 05-309-12](#)
- 2 of the 34 (6%) acquisitions did not contain any information regarding the procurement process involved in the purchase of professional services. [Finding 05-309-07](#)
- 34 of the 34 (100%) files reviewed did not contain the appropriate service requisition justification signed by the agency's chief administrative officer (CAO) that included terms and conditions stated in the cited statute. [Finding 05-309-07](#)
- 34 of the 34 (100%) files reviewed did not contain an original performance evaluation. [Finding 05-309-07](#)
- 34 of the 34 (100%) files reviewed did not contain an audit clause in the contract for professional services. [Finding 05-309-07](#)
- 34 of the 34 (100%) files reviewed did not contain a signed affidavit certifying the persons who developed the contract would not also perform the contract. [Finding 05-309-07](#)
- The Agency had four (4) prohibited charge cards. [Finding 05-309-09](#)
- The Agency incurred late chargers to the account of prohibited credit cards for three consecutive months. [Finding 05-309-09](#)

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- The Agency made purchases on prohibited credit cards prior to encumbrance of funds, review of the availability of funds, approval prior to the purchase date or approval from agency director. [Finding 05-309-09](#)
- Acquisitions identified with Code of Federal Domestic Assistance (CFDA) numbers may be affected because of non-compliance with the same policies and procedures used to procure from non-Federal funds. [Finding 05-309-06](#).
- All Agency Certified Procurement Officers (CPO) did not complete the required 18 hours of continuing professional education requirements for the year ending December 31, 2005 and were placed in suspended status. [Finding 05-309-01](#)
- While in “suspended” status, the Agency’s continued to issue purchase orders over the \$2,500 authority limit in the amount of \$700,089.79. [Finding 05-309-01](#)
- 1 of the 3 (33%) acquisitions reviewed did not contain written specifications for the solicitation. [Finding 05-309-05](#)
- 3 of the 3 (100%) acquisitions reviewed did not contain any evidence of the required number of bid solicitations. [Finding 05-309-05](#)
- 2 of the 2 (100%) acquisitions reviewed for professional or nonprofessional services did not contain a signed service requisition justification. [Finding 05-309-05](#)
- 100% of the acquisitions (1 of 1) reviewed was not supported by documentation that the contracted vendor had a valid Sales Tax permit or has not been suspended or debarred by the Oklahoma Tax Commission or the State Purchasing Director (2 out of 2). [Finding 05-309-05](#)
- 3 of the 3 (100%) acquisitions reviewed did not contain a documented bid evaluation. [Finding 05-309-05](#)
- 3 of the 3 (100%) acquisitions reviewed did not contain documentation that indicated the lowest or best bid or bid providing the best value to the state agency had been awarded. [Finding 05-309-05](#)
- 2 of the 3 (67%) acquisitions reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor. [Finding 05-309-05](#)
- 1 of the 1 (100%) acquisitions files reviewed did not contain a delivery document from the supplier. [Finding 05-309-05](#)
- 1 of the 1 (100%) acquisitions reviewed did not contain documentation that the contracted vendor was not suspended or debarred. [Finding 05-309-04](#)
- 2 of the 2 (100%) files reviewed did not contain any evidence of price quotes and / or delivery dates from two (2) or more vendors. [Finding 05-309-04](#)

- 2 of the 2 (100%) files reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor. [Finding 05-309-04](#)
- 1 of the 2 (50%) files reviewed did not contain a delivery document from the supplier. [Finding 05-309-04](#)
- 2 of 50 (4%) acquisitions reviewed did not contain any documentation to document the acquisition. [Finding 05-309-03](#)
- 28 of the remaining 48 (50-2) (58%) acquisitions reviewed did not contain the minimum documentation required. [Finding 05-309-03](#)
- 10 of the 59 (17%) acquisitions reviewed did not contain sufficient documentation to determine if the Agency paid for items after purchases were received or after services were rendered. [Finding 05-309-03](#)
- 1 of the 1 (100%) sample units reviewed was applicable to mandatory statewide contracts and State Use rules did not comply with mandatory statewide contract and State Use requirements. [Finding 05-309-11](#)

Internal Purchasing Procedures

- The Agency's Certified Procurement Officer does not submit to the Director of the Agency, a summary of weekly acquisitions. [Finding 05-309-02](#)
 - 15 of the 50 (30%) files reviewed did not contain a Request for Purchase form. [Finding 05-309-03](#)
 - 20 of the remaining 35 (50-15) (57%) acquisitions reviewed did not contain a Request for Purchase form that was properly authorized. [Finding 05-309-03](#)
-

Audit Finding Details

FINDING 05-309-10

Criteria: The Oklahoma Central Purchasing Act 74 § 85.15. **Strict Conformity – Penalties** states in part, “All persons, agents, officers and employees of the state included within the provisions of this act are required to conform strictly to the provisions of this act,…”

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Condition: A general review of the Agency's acquisitions was performed within a random sample of 76 acquisitions (16%) of the Agency's 462 total acquisitions from July 1, 2004 through June 30, 2005. We compared date of service or date product was received to the requisition date, date approved, date Certified Procurement Officer processed and the contract approval date. We noted 47 exceptions related to the timing of the procurement process or purchasing documents. The services were rendered or the product was received for all 47 acquisitions prior to the requisition date, date approved, date Certified Procurement Officer processed and the contract approval date. Of the 47 exceptions, 44 were for services. A majority of the services were for Community Emergency Response Team (CERT) training.

The procurement process was conducted after the services were rendered or the product was received, for a majority of the acquisitions reviewed. Documentation was completed after the product or service has been received by the Agency.

Cause: Procurement controls were overridden.

Effect: The procurement process is performed after the acquisition has occurred. An unauthorized commitment was made by the state agency.

Recommendation: We recommend the Agency use the State's procurement process to procure services and products in accordance with the requirements. The procurement policy and procedures should be used to purchase the product or service.

Management's Response:

Date: 2/23/07

Response: Concur

Agency Grant Managers attempted to comply with Federal grants in training CERT trainers and citizens to prepare for and react to emergency disasters without realizing that State laws require a strict chronological sequence of events in performing their duties, starting with presenting an authorized Request for Purchase to the CPO with proper specifications and a list of likely contractors. As soon as it was brought to their attention, Agency Management ordered the Grant Managers to stop the deviant practice (and the program).

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Direct the Grant Managers involved in procuring and directing contracted services to: (1) submit a Request for Purchase for the desired services or products to the CPO and a suggested vendor list to DCS; (2) have DCS put it out for bid; (3) evaluate the bids to engage contractors to perform the services required; and (4) make payments to the contractor trainers per the Purchase Order. Also, in obtaining products and/or publicly available services, follow Agency Purchasing Procedures in: (1) submitting a Request for Purchase to the CPO; (2) have the CPO prepare a Purchase Order; (3) obtain all necessary documentation (Non-collusion Affidavit, etc.); (4) have CPO purchase the item(s).

FINDING 05-309-02

Criteria #1: The Codification of Statements on Auditing Standards AU § 319.110 (9) states in part,

Segregation of duties. Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets are intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

The United States General Accounting Office, GAO/AIMD-00-21.3.1, Internal Control Standards, **Segregation of Duties** states:

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

The Oklahoma Emergency Management Services Internal Controls – Page 2, **Monitoring** states:

The Certified Procurement Officer submits to the Director of the Agency a summary of weekly acquisitions. This summary includes: total dollar amount of acquisitions encumbered for the week, funding source, type of contract, statewide, authority, open market, etc.

Condition:

1. The Agency has a control deficiency relating to segregation of duties within the procurement program based upon the following:

One individual within the Agency has the responsibility of, access to and/or performs the following:

- processing and maintaining purchase requisitions,
- issuing purchase orders,
- reconciling purchase orders,
- maintaining the purchase orders through PeopleSoft,
- maintaining the document files,
- approving invoices for payments,
- recording the funding and object codes for the purchases,
- receiving goods ordered

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2. The Agency's Certified Procurement Officer does not submit to the Director of the Agency, a summary of weekly acquisitions.

Cause:

1. The Agency is a small; therefore, dividing or segregate duties is more difficult. The Agency has not put a high priority on segregating duties in relation to the procurement program.
2. The certified procurement officer charged with the majority of the procurement duties stated, "they do not have adequate time to document and prepare the weekly summary of purchases to present to the Agency's Director."

Effect:

1. One individual can control all key aspects of a procurement transaction which could result in abuse. Errors or abuse may occur and go undetected if there is inadequate segregation of duties.
2. The absence of a weekly acquisition report inhibits management's ability to oversee the agency's purchasing.

Recommendation:

1. The proper segregation of duties can be achieved in many different ways. Even if the entity is small, segregation of duties can always be obtained. Our recommendation includes, but is not limited to, the following:
 - The individual responsible for ordering goods and/or services should not be the same individual responsible for receiving and documenting those goods and services received.
 - The individual responsible for processing or maintaining the purchasing requisitions and purchase orders should not be responsible for reviewing invoices and approving for payment.

The duties of processing and recording should be separated from authorization. We also recommend the agency managers to continuously monitor and improve the effectiveness of management controls associated with the segregation of duties.

2. We recommend the Agency's Director create and implement a process that ensure a specific member of the agency's staff be assigned the responsibility to prepare the weekly purchase summary report to be submitted to the Agency's Director. If the weekly summary report is no longer needed, the Agency should take steps to update the agency's internal purchasing procedures and submit to the Department of Central Services for approval.

Management's Response

Date: 1/5/07

Response: Partially Concur

This agency is small (25 FTE's) and has one person, the CPO, in the Purchasing Department. Internal controls using separation of duties in Purchasing are simply not possible so we use independent intermediate authorizations (review and approval) at several steps in the purchasing process. The Deputy Director must sign the Purchase Request form and the Purchase Order to allow the purchase to be made. The Accounts Payable person checks the invoice to ensure the required documentation is attached and signed; enters the voucher information into the CORE Accounts Payable system; and submits the voucher and supporting documentation to the Comptroller for signature and review approving the payment. OSF will not print a warrant without the Comptroller's signature. When the warrants are received from OSF, payments are mailed by an Accounts Payable person that is not the same one that created the voucher. We believe the above procedure ensures adequate internal control of the purchasing process. We concur in the CPO not having submitted a weekly list of purchases to the Director. (This was done routinely in the past and discontinued.)

Corrective Action Plan:

Anticipated Completion Date: 3/31/07

Corrective Action Planned: Submit a required list of weekly purchases to the Director until the Agency can revise the Purchasing Procedure.

Auditor's Response:

Segregation of procurement duties is not preclusive to the size of the agency. Mitigating controls can be used in a small agency to ensure purchasing, receiving and fixed asset documentation have adequate over site. However, the independent intermediate authorizations (review and approval) mentioned in management's response are not being utilized effectively since the required purchase requisition form and the approval signature are often obtained after the product has been ordered and the services have been performed. [See Finding 05-309-03](#). The corrective action planned does not address segregating duties.

FINDING 05-309-08

Criteria: The Oklahoma Central Purchasing Act, 74 O.S, § 85.7.A.11, **Competitive bid or proposal procedures** states in part:

- a. Any acquisition of a service which the Department of Central Services has approved as qualifying for a fixed and uniform rate shall be made pursuant to provisions of this paragraph.

- c. Fixed and uniform rate contracts authorized by this paragraph shall be limited to contracts for those services furnished to persons directly benefiting from such

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services and shall not be used by a state agency to employ consultants or to make other acquisitions.

- d. Any state agency desiring to have a service qualified for a fixed and uniform rate shall make a request for service qualification to the Department of Central Services and submit documentation to support the request. ...No contracts shall be entered into by the state agency until the rate has been approved by the state agency in a public hearing. The proposed rate shall be clearly and separately identified in the agenda of the state agency for the hearing and shall be openly and separately discussed during the hearing. ...The state agency shall notify the Director of the Department of Central Services of its pending consideration of the proposed rate at least thirty (30) days before the state agency is to meet on the proposed rate....The state agency shall deliver to the Director of the Department of Central services a copy of the agenda items concerning the proposed rate with supporting documentation...

The Oklahoma Administrative Code OAC 580:15-6-1, **Purpose** states:

The purpose of this subchapter is to provide state agencies and certified procurement officers information to make acquisitions for state agencies. State agencies and certified procurement officers shall comply with provisions of the Oklahoma Central Purchasing Act, State Use Committee, other statutory provisions and rules of the Purchasing Division for state agency acquisitions. State agencies may submit questions regarding rules of the Purchasing Division to the State Purchasing Director.

Condition: The Agency did not have any approved fixed rate contracts from July 1, 2004 through June 30, 2005. We performed data mining procedures to review the Agency's acquisitions for services that appeared to be paid at a fixed rate. We discovered 45 reservists were paid at a fixed rate of \$17.50 per hour for a total of \$587,479.43. Total expenditures for reservists represent 54% of the Agency's state fiscal year 2005 acquisitions (\$1,093,595.12). (We noted a fixed rate contract was approved by the Department of Central Services effective September, 2005 for reservist services.)

The Agency also paid 15 individuals to perform Community Emergency Response Team (CERT) training at a fixed rate of \$46.68 per hour for a total of \$182,534.04. Total expenditures for CERT training represent 17% of the Agency's state fiscal year 2005 acquisitions.

The total questionable purchase amount is \$770,013.47. This amount represents 70% of the Agency's acquisitions for state fiscal year 2005.

Cause: Individuals within the Agency stated that they could not bid out the services due to the variables related to the services provided.

Effect: The basic fundamentals of the procurement process are not operating effectively. Agency contracts are not open to competition and vendors are not

adequately solicited or given the opportunity to competitively compete for the state agency's contracts. An increased risk of collusion and split-purchasing occurs when non-bidding practices are used and / or unauthorized informal fixed rates not subject to public hearing are used by the Agency.

Recommendations: We recommend the Agency procure services in accordance with the competitive bid and proposal procedures of the Oklahoma Central Purchasing Act. Since the Agency does not have an approved fixed rate contract for the CERT services to be provided, the services should be procured in accordance with Oklahoma Central Purchasing Act and the Central Purchasing rules for State Agency Provisions stated at OAC 580:15-6. If the Agency has need of a fixed rate for CERT training services for FY 06, a request for an approved fixed rate contract should be requested and approved by the Department of Central Services.

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

Management's Response:

Date: 2/23/07

Response: Partially Concur

Fixed-rate contracts were utilized for the 60 contractors, but bids were not solicited because special training was required, nor was a public hearing held. A Public Hearing was held to set a fixed rate for reservist contracts on August 2, 2005. The CERT contractors could not be solicited by bidding due to the special training required to perform the CERT training. No future CERT training is anticipated as future CERT training will be outsourced.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Outsource all CERT training. All professional services will be procured in accordance with OCPA rules.

FINDING 05-309-12

Criteria: The Oklahoma Central Purchase Act 74, O.S. § 85.2, Definitions states in part, "**Split purchase**" means dividing a known quantity or failing to consolidate a known quantity of an acquisition for the purpose of evading a competitive bidding requirement."

The Oklahoma Central Purchase Act 74, O.S. § 85.7.(A).(2).(a) states, "Split purchasing for the purpose of evading the requirement of competitive bidding shall be a felony."

The Oklahoma Administrative Code (OAC) 580:15-6-11(a), **Split purchases**, states in part, "A state agency shall not make split purchases for the purpose of evading the state

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agency's dollar amount threshold for competitive bids. Conviction for making an acquisition by split purchase is a felony pursuant to 74 O.S. § 85.7."

Condition: The Agency Community Emergency Response Team (CERT) training expenditures for fiscal year 2004 was \$229,967.00 and \$179,745.25 for fiscal year 2005.

In fiscal year 2005, there were 15 instances when purchase orders for CERT training were issued to more than one individual in collective amounts that required the acquisition of these services to obtain quotes or to acquire bids. The Agency did not obtain quotes or obtain bids for any of the CERT training during the audit period. A total questionable purchase amount of \$179,745.25 was noted.

Cause: The Agency appears to be complacent in following both state statutes and the Agency's internal purchasing procedures.

Effect: The basic fundamentals of the procurement process are not operating effectively. Agency contracts are not open to competition and vendors are not adequately solicited or given the opportunity to competitively compete for the state agency's contracts. An increased risk of collusion and split-purchasing occurs when non-bidding is practiced.

Recommendation: We recommend the Agency procure CERT services in accordance with the competitive bid and proposal procedures of the Oklahoma Central Purchasing Act.

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

Management's Response:

Date: 2/23/07

Response: Non-Concur

The Agency did not know how many CERT training sessions would be required or which CERT trainers (contractors) would be selected to perform the services. Thus, payment was on an individual training session basis, not on a series of sessions. No split purchase was intended or contemplated. No bids were solicited because special CERT training was required in order to conduct CERT training classes.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: None: all CERT training is intended to be outsourced. Competitive bids will be employed and evaluated.

Auditor Response:

As reflected in the finding condition, the Agency Community Emergency Response Team (CERT) training acquisitions for fiscal year 2004 was [\\$229,967.00](#) and [\\$179,745.25](#) for fiscal year 2005. Since this is a recurring expenditure, appropriate procedures should have been in place to ensure all CERT training acquisitions were in

compliance with proper procurement procedures. In addition, during Fiscal Year 2005, there were [15](#) instances when purchase orders for CERT training were issued to more than one individual in collective amounts that required the acquisition of these services to obtain quotes or to acquire bids.

FINDING 05-309-07

Criteria #1: The Oklahoma Central Purchasing Act, 74 O.S. § 85.39.C, states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall 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.

Criteria #2: The Oklahoma Central Purchasing Act, 74 O.S. Section 85.4(E)(1), states in part:

A contract that results from a requisition required by this section for nonprofessional services or professional services whether or not such services are exempt from the competitive bidding requirements of this section or pursuant to Section 85.7 of this title shall be signed by the chief administrative officer of the state agency or the chief administrative officer of the requisitioning unit of the state agency certifying that:

- a. No employee of the state agency is able and available to perform the services to be provided pursuant to the contract,
- b. The state agency shall receive, review and accept a detailed work plan from the supplier for performance pursuant to the contract if requested by the State Purchasing Director,
- c. The state agency has developed, and fully intends to implement, a written plan providing for the assignment of specific state agency personnel to:
 1. Monitoring and auditing supplier performance,
 2. The periodic review of interim reports, or other indications of performance, and
 3. If requested by the State Purchasing Director, the ultimate utilization of the final product of the nonprofessional or professional services..."
- d. the work to be performed under the contract is necessary to the state agency's responsibilities, and there is statutory authority to enter into the contract,
- e. the contract will not establish an employment relationship between the state or the state agency and any persons performing under the contract,
- f. no current state employee will engage in the performance of the contract, unless specifically approved by the State Purchasing Director,

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- g. the purchase of the nonprofessional or professional services is justified, and
- h. the contract contains provisions that are required by Section 85.41 of this title.

Criteria #3: The Oklahoma Central Purchasing Act, 74, O.S. Section 85.41, **Professional Services Contracts** states:

- (A) A state agency that acquires professional service shall comply with the provisions of this section.
- (B) The state agency shall evaluate the performance of the professional services provided pursuant to a professional services contract. The performance evaluation shall indicate the quality of service or work product of the supplier. The state agency shall retain the evaluation in the document file the state agency maintains for the acquisition pursuant of Section 85.39 of this title.
- (E) A professional services contract shall include an audit clause which provides that all items of the supplier that relate to the professional services are subject to examination by the state agency, the State Auditor and Inspector and the State Purchasing Director.
- (F) If the final product of the professional service contract is a written proposal, report, or study, the professional services contract shall require the supplier to sign a sworn statement certifying that the supplier has not previously provided the state agency or another state agency with a final product that is a substantial duplication of the final product of the proposed contract.

The Emergency Management Services Internal Purchasing Procedures – **Professional Services Contract Requirements**, Page 3 states:

A state agency shall administer, monitor and audit the professional service contract provided pursuant to a professional service contract. The performance evaluation shall indicate the quality of service or work product of the supplier. The state agency shall send a copy of the evaluation to the State Purchasing Director and retain evaluation in the document file the state agency maintains for the acquisition pursuant to Section 85.39 of this title.

Criteria #4: Title 74, O.S. Section 85.42(B), **One Year limitation on entering contracts with certain persons-Exceptions** states:

Each contract entered into by any person or firm with the State of Oklahoma shall include an affidavit certifying that no person who has been involved in any manner in the development of that contract while employed by the State of Oklahoma shall be employed to fulfill any of the services provided for under said contract.

Condition: We reviewed 21% (38 acquisitions) of the Agency's 179 total acquisitions made between July 1, 2004 through June 30, 2005 and 24% (\$90,293.50) of the agency's total dollar amount of \$372,756.50 for professional services contracts. Of the

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38 acquisitions, 34 were open market acquisitions performed by the Agency. Based upon our review, we noted the following:

1. 2 of the 34 (6%) acquisitions sampled to review did not contain any information regarding the procurement process involved in the purchase of professional services. We noted a questioned cost of \$3,000 for the 2 acquisitions and an extrapolated questioned cost in the amount of \$21,442.13.
2. 34 of the 34 (100%) files reviewed for this attribute did not contain the appropriate service requisition justification signed by the agency's chief administrative officer (CAO) that included terms and conditions stated in the cited statute.
3. 34 of the 34 (100%) files reviewed did not contain an original 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.

34 of the 34 (100%) files reviewed did not contain an audit clause in the contract for professional services.

4. 34 of the 34 (100%) files reviewed did not contain a signed affidavit certifying the persons who developed the contract would not also perform the contract.

In addition to the questioned cost noted in Condition #1, we also noted a questionable purchase amount of \$41,118.50 and an extrapolated questionable purchase amount of \$293,889.37 due to the exceptions noted in finding [05-309-10](#).

Cause: In all conditions, the absence of the required documentation is due to one or more of the following:

- not implementing approved internal purchasing procedures,
- inadequate file maintenance,
- lack of operating controls that ensure the proper documentation is obtained, or
- the procedure was not performed by the Agency.

Effect: The Agency is not administering, monitoring or reviewing professional service contracts, pursuant to the requirements. Professional service contracts are not conducted in accordance with the Oklahoma Central Purchasing Act.

Recommendation: We recommend the Agency develop specific procedures to ensure the procurement requirements, as mandated by the State, are adhered to. This can be achieved by installing a series of controls and assigning specific agency members to be responsible for obtaining the required documentation for each acquisition. In addition, controls and procedures should be immediately implemented to assign the record retention responsibilities to an individual or unit. The acquisition files must contain the minimum documentation required to be compliant and adequately document the procurement process of each contract approved. We also recommend monitoring to be performed by someone other than the responsible individual to review professional service contract files to determine all compliance requirements are being followed by the Agency.

This finding will be forwarded to the State Purchasing Director for further review and evaluation of the Agency's procurement practices.

Management's Response:

Date: 2/23/07

Response: Concur

In developing and letting CERT contracts, the Agency failed to comply with regulations in writing professional service contracts. As soon as the matter was brought to Management's attention, these contractual activities were stopped.

Corrective Action Plan:

Anticipated Completion Date: 5/31/07

Corrective Action Planned: Follow purchasing procedures and utilize a checklist to write professional service contracts. Checklist will include the signed service requisition justification; an original performance evaluation; provision for subsequent evaluations; an audit clause; and a signed affidavit certifying the persons who developed the contract would not also perform the contract. Also, the CPO will monitor the above to ensure compliance and that record retention is practiced; the Deputy Director will be the responsible party for preparing the contracts.

FINDING 05-309-09

Criteria: The State of Oklahoma, Department of Central Services, Procurement Information Memorandum (Number 02-01-Revised), **Charge Accounts and Charge Cards** states in part:

- a. The state purchase card. ...
- b. The automated fleet management system card. ...
- c. The government travel system card...
- d. The telephone card provided through the Office of State Finance...
- e. Agreement previously approved by the State Purchasing Director.

State agencies shall immediately terminate all charge accounts and charge card agreements other than those listed in a. through e. above unless otherwise provided by law. Agencies shall destroy all cards associated with these terminated agreements.

Condition: During the review of the Agency's acquisitions, we noted the following:

- The Agency had four (4) prohibited charge cards (Home Depot, Sam's Club Direct, Wal-Mart, and Office Depot) that were still active during the time of testwork. We also noted purchases made prior to the purchase order and for one statement reviewed we noted late chargers were added to the account for

three consecutive months. We immediately notified the Agency of the non-compliance.

- The Agency made purchases on prohibited credit cards prior to encumbrance of funds, review of the availability of funds, approval prior to the purchase date or approval from agency director. Total unauthorized purchase amount is \$8,700.35.

Cause: The Agency's Certified Procurement Officer (CPO) stated they were not aware charge accounts and charge cards were permitted.

Effect: The Agency created an unauthorized obligation to the State by purchasing on credit and incurring late fees.

Recommendation: We recommend the Agency immediately terminate all charge accounts and charge cards other than those mandated by Procurement Information Memorandum (Number 02-01-Revised). We also recommend the Agency properly authorize and encumber funds prior to the acquisition of products and/or services.

Management's Response:

Date: 2/23/07

Response: Partially Concur

The Agency was not aware of not being authorized to use charge cards. The Agency will comply with instructions on charge cards, and will obtain a P-Card for expenses in addition to the P-Card for travel it currently holds.

Corrective Action Plan:

Anticipated Completion Date: 6/30/07

Corrective Action Planned: Use a P-Card for expenses. This requires formal training on P-Card procedures which are scheduled in Spring, 2007. The charge cards have been collected and will be destroyed.

FINDING 05-309-06

Criteria: The Oklahoma Central Purchasing Act 74 O.S. § 85.14. **Federal Laws To Govern** states, "Notwithstanding any provision of this act to the contrary, in all cases where federal granted funds are involved, the federal laws, rules and regulations thereto shall govern to the extent necessary to insure the benefit of such funds to the State of Oklahoma."

The Code of Federal Regulations 44CFR13.36-- Sec. 13.36, **Procurement** states in part, "(a) States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. ..."

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Condition: General procurement requirements related to federal funds are to comply with the same policies and procedures used to purchase from the Agency's non-Federal funds. The Agency is required to comply with the Oklahoma Central Purchasing Act and Central Purchasing Rules to make purchases with non-Federal funds. We noted acquisitions related to expenditures that were tagged in the CORE system with Code of Federal Domestic Assistance (CFDA) numbers. Federal funding may be affected by not complying with the same policies and procedures used to procure from non-Federal funds. These amounts with the corresponding CFDA numbers are listed below:

CFDA_	AMOUNT_SUM
207030000	\$300.00
835520000	\$6,535.82
970390000	\$5,529.66
970420000	\$241,244.71
970470000	\$80.00
970510000	\$20,546.69
970520000	\$18.00
970530000	\$7,081.65
970540000	\$404,156.78
Total	\$685,493.31

Cause: Not complying with the same policies and procedures used to procure from non-Federal funds may be due to one or more of the following:

- not implementing approved internal purchasing procedures,
- inadequate file maintenance,
- lack of operating controls that ensure the proper documentation is obtained, or
- the procedure was not performed by the Agency.

Effect: A possible reduction or loss of federal funding to the State.

Recommendation: We recommend the Agency comply with the Oklahoma Central Purchasing Act and the Central Purchasing Rules.

This finding may be forwarded to the audit entity that performed the **OMB Circular A-133**, Audits of States, Local Governments, and Non-Profit Organizations.

Management's Response:

Date: 2/23/07

Response: Partially Concur

All of the discrepancies found are correctable by using a checklist to ensure the proper procurement procedures and minimum documentation exists for each expenditure. Employing such will ensure the State procedures are satisfied,

which, in turn, satisfies the Federal procurement procedures as well. Also, we found some transactions to be not in error.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Comply with the State OCPA regulations when making Federal funds purchases as outlined on the checklist to be developed.

FINDING 05-309-01

Criteria: The State of Oklahoma Department of Central Services Procurement Information Memorandum (Number 00-1-Revised), **Annual Revalidation of Status as a Certified Procurement Officer (CPO)**, states in part:

As of July 26, 2001, continuing professional education is required to retain the status of a CPO and this requirement is met by completing a minimum of 18 classroom hours (3 classroom days) of instruction in approved courses within each calendar year.

Immediately upon completion of the required 18 classroom hours (but not later than December 31 of each year), each CPO shall document the CPO has met the continuing professional education requirement.

Suspension: If 18 qualified hours are not met by December 31 of each calendar year, CPO's will be placed in "suspended" status until the hours are met. While in "suspended" status, your purchasing authority will be lowered to \$2,500.00 and you will not receive any notifications, etc.

Condition: During the review of the Agency's continuing professional education requirements, we noted the following:

All three of the Agency's Certified Procurement Officers (CPO) did not complete the required 18 hours of continuing professional education requirements for the year ending December 31, 2005 and were placed in suspended status until the hours were met or March 31, 2006.

While in "suspended" status, the Agency's purchasing authority was lowered to \$2,500.00. However, the Agency continued to issue purchase orders over the \$2,500 authority limit. The Agency exceeded its purchasing authority by making purchases over the \$2,500 limit when all the Agency's Certified Procurement Officers were in suspended status between January 1, 2006 and March 9, 2006. We noted 8 acquisitions made during this time totaling \$700,089.79 that should have been submitted to Central Purchasing for processing.

Cause: Individuals at the Agency stated, “they were extremely busy with the wildfires and emergencies throughout the State of Oklahoma during 2005. The CPO’s have not had the time to attend the required continued professional education classes.”

The Agency did not receive notice and continued to issue purchase orders based upon pre-suspended status authority limits.

Effect: The Agency exceeded its delegated purchasing authority.

Recommendation: We recommend the Agency not to exceed its delegated purchasing authority. We also recommend the Agency’s Certified Procurement Officers maintain the required continuing education hours and submit to the Department of Central Services by December 31st of each year.

This finding will be forwarded to the State Purchasing Director.

Management’s Response:

Date: 1/05/07

Response: Partially Concur

The primary CPO performing the purchasing function believed she had completed the requisite 18 hours of CPE due to her having more CPE hours from the prior year that she believed would carry over to the current year.

All three CPO’s completed the total 18 hours of CPE by the end of March, 2006. The CPO issuing PO’s continued to issue PO’s in excess of \$2,500 each during the suspended-status period.

Corrective Action Plan:

Anticipated Completion Date: March of 2006

Corrective Action Planned: All three CPO’s promptly cured the CPE deficiency as soon as accredited courses were offered by DCS – by March 31, 2006.

FINDING 05-309-05

Criteria: The Oklahoma Administrative Code (OAC), 580:15-6-9 states in part:

State agencies with a certified procurement officer CPO and approved internal purchasing procedures pursuant to the requirement of Sections 580:15-6-2 and 580:15-6-3 shall make acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-Five Thousand Dollars (\$25,000.00) pursuant to this section.

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1. 580: 15-6-9,(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, and facsimile or by means of electronic commerce. The state agency shall notify the suppliers of the state agency's specifications for the acquisition.

2. 580: 15-6-9,(6). **Service requisition requirements.** If the state agency requisitions professional or non-professional services, the state agency shall submit a requisition or contract signed by the agency's chief administrative officer... certifying to each requirement of 74 O.S. § 85.4(E)(1).

3. 580: 15-6-9,(7). **Award to Supplier.** ...(A) Prior to awarding a contract exceeding Two Thousand Five Hundred Dollars (\$2,500.00), the awarding agency must verify that the vendor has obtained a sales tax permit in accordance with the laws of Oklahoma.

580:15-6-9,(7)(C). **Documentation.** Verification of the sales tax permit must be documented in the acquisition file.

580: 15-6-9,(1). **Supplier selection.** ...State agencies shall not select a supplier that is suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission....

4. 580: 15-6-9,(5). **Bid Evaluation.** The state agency shall make a written bid evaluation. The state agency shall select the lowest and best bid or bid providing the best value to the state agency.

5. 580: 15-6-9,(8). **Contract Non-collusion affidavit.** If the state agency and the supplier execute a contract for the acquisition, the supplier shall submit a notarized, sworn statement of non-collusion pursuant to 74 O.S., Section 85.23.

6. 580: 15-6-9,(9). **Delivery document from supplier.** The state agency shall receive a delivery document from the supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, and a description of the acquisition. The state agency shall note the delivery date and person receiving the acquisition on the delivery document.

The Oklahoma Central Purchasing Act, 74 O.S. §85.39,(C), states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall 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.

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Condition: We reviewed 82% (18 acquisitions) of the Agency's 22 total acquisitions made between July 1, 2004 and June 30, 2005 within the \$10,000.01 - \$25,000 dollar threshold. Sample selected is \$278,155.00 which is 79% of the acquisition total of the population \$350,105.67. Of the 18 acquisitions reviewed, 3 of the acquisitions tested were open market acquisitions performed by the Agency. We noted the following:

1. 1 of the 3 (33%) acquisitions reviewed did not contain written specifications for the solicitation.

3 of the 3 (100%) acquisitions reviewed did not contain any evidence of the required number of bid solicitations. The questionable purchase amount is \$44,106.00 and the projected questionable purchase amount is \$59,106.00.
2. 2 of the 2 (100%) acquisitions reviewed for professional or nonprofessional services did not contain a signed service requisition justification.
3. 100% of the acquisitions (1 of 1) reviewed was not supported by documentation that the contracted vendor had a valid Sales Tax permit or has not been suspended or debarred by the Oklahoma Tax Commission or the State Purchasing Director (2 out of 2).
4. 3 of the 3 (100%) acquisitions reviewed did not contain a documented bid evaluation.

3 of the 3 (100%) acquisitions reviewed did not contain documentation that indicated the lowest or best bid or bid providing the best value to the state agency had been awarded.
5. 2 of the 3 (67%) acquisitions reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor.
6. 1 of the 1 (100%) acquisitions files reviewed did not contain a delivery document from the supplier.

Cause: In all cases, the absence of the required documentation is due to one or more of the following:

- not implementing approved internal purchasing procedures,
- inadequate file maintenance,
- lack of operating controls that ensure the proper documentation is obtained, or
- the procedure was not performed by the Agency.

Effect: The basic fundamentals of the procurement process are not operating effectively. Agency contracts are not open to competition and vendors are not adequately solicited or given the opportunity to competitively compete for the state agency's contracts. There is created an increased risk of collusion, use of a vendor who has been suspended or debarred, unmonitored supplier performance and increased liability to the State.

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Recommendation: We recommend in all conditions that specific personnel on a supervisory level oversee the procurement activities to ensure all required documentation is present prior to approval of the acquisition by approving officials. A check list can be developed for each type of acquisition to ensure all required documentation and procedures are performed and documented. Other specific recommendations are:

1. Prior to awarding a contract, develop a check list to document all bid evaluations and retain in the contract file. Document in each contract file the process as to how the contract was awarded and document the lowest and best bid or (if contract not awarded to the lowest and best bid) why the bid was awarded to the best value to the state agency and why it was considered best value.
2. Develop and implement procedures that ensure the bid evaluation is performed correctly and documented in the acquisition file.
3. Delegate a staff member of the agency to ensure that the sales tax permit of the contracting vendor is verified as valid prior to contracting with a vendor. Results of the inquiry should be documented in the contract file.
4. Document all bid solicitations and results. Documentation is to be maintained in the contract file.
5. Obtain a notarized, sworn statement of non-collusion before awarding the contract and maintain the statements in the acquisition file.
6. Obtain all delivery documents for all item received from the supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, a description of the items received and the receiving document should be signed and dated by the person receiving the items. This documentation should be maintained by an assigned individual responsible for monitoring the acquisition file.
7. Maintain and review each purchasing file to ensure that all the documentation required is present within the file at all times.

This finding will be forwarded to the State Purchasing Director for further review and evaluation of the Agency's procurement practices.

Management's Response:

Date: 2/23/07

Response: Concur

Corrective Action Plan:

Anticipated Completion Date: April 30, 2007

Corrective Action Planned: The Agency will develop and employ a checklist to make certain that each acquisition has written specification; has three bids and an evaluation; contains a signed service requisition justification (when required); valid Sales Tax permit; note that vendor has not been suspended or debarred; documented bid evaluation; documented lowest and best bid or best value; non-collusion affidavit; and signed delivery document. Also, maintain files to document progress and payments. Also, maintain a separate contract file with ACCO type fasteners for each contract.

FINDING 05-309-04

Criteria: The Oklahoma Administrative Code (OAC), 580:15-6-8 states in part:

State agencies with a certified procurement officer CPO and approved internal purchasing procedures pursuant to the requirement of Sections 580:15-6-2 and 580:15-6-3 shall make open market acquisitions not exceeding Two Thousand Five Hundred Dollars (\$2,500.00) pursuant to this section. State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000) pursuant to this section.

1. 580:15-6-8(1). **Supplier Selection.** ...State agencies shall not select a supplier that is suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission or ...by the federal government if federal funds are being used in the acquisition.
2. 580: 15-6-8(3). **Price Quotation.** The state agency shall solicit price quotations and delivery dates by mail, telephone, and 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 quotations and delivery dates.
3. 580:15-6-8(5). **Contracts.** If the state agency and the supplier execute a contract for the acquisition, the supplier shall provide a notarized, sworn statement of non-collusion pursuant to 74 O.S. § 85.23.
4. 580: 15-6-8(6). **Delivery document from supplier.** When the state agency takes possession of the acquisition, the state agency shall obtain a delivery document from the supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, and a description of the acquisition. The state agency shall note the delivery date and the person receiving the acquisition on the delivery document.

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580: 15-6-8(7). **Supplier payment:** the state agency shall pay the supplier following receipt, inspection and acceptance of the acquisition by the state agency.

Condition: We sampled 24% (7 acquisitions) of the Agency's 27 acquisitions made between July 1, 2004 to June 30, 2005 within the \$2,500.01 - \$10,000.00 dollar threshold. Our sample represents 26% (\$27,134.31) of the Agency's total acquisition amount of \$112,787.21. Within the 7 transactions reviewed, 2 of the acquisitions tested were open market and 1 was Sole Source. We noted the following:

1. 1 of the 1 (100%) acquisitions reviewed did not contain documentation that the contracted vendor was not suspended or debarred.
2. 2 of the 2 (100%) files reviewed did not contain any evidence of price quotes and / or delivery dates from two (2) or more vendors. The questionable purchase amount is \$7,744.56 and the projected questionable purchase amount is \$41,919.09.
3. 2 of the 2 (100%) files reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor.
4. 1 of the 2 (50%) files reviewed did not contain a delivery document from the supplier.

Cause: The absence of the required documentation to be kept in the file is a lack of implementation of approved internal purchasing procedures, inadequate file maintenance and lack of operating controls that ensure the proper documentation is obtained and retained in contract or procurement files. A cause may also be due to the procedure was not performed by the Agency.

Effect:

1. Award a contract to a vendor that has been disbarred or suspended.
2. Failure to ensure the state agency obtains the best and lowest prices for goods and services.
3. Non-compliance with state procurement rules and circumvents liability of a vendor who may become involved in collusion activities.
4. There is no verification that goods and / or services were actually received by the Agency. Controls are weakened that prevent misuse and decreases the Agency ability to tag, trace and safeguard assets.

Recommendation: We recommend that the Agency:

1. Verify and document the vendor has not been debarred or suspended in accordance with the rules.

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2. Obtain the required number of price quotations from vendors and document each vendor's quote in the file prior to awarding the contract. This can be achieved by requiring the CPO or other designated employee to document the bid quotes in the procurement file by keeping the hard copies of the quotes and documenting the process of used to obtain the quotes.
3. A Non-Collusion Affidavit is required for each contract within the threshold stated. The Agency should verify the minimum required purchasing documents and obtain them prior to letting the contract. This may be accomplished by creating a check list that includes all the minimum required purchasing documents. The purchasing checklist would be completed prior to letting the contract.
4. A delivery document is obtained at the time of delivery from each and every supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, a description of the acquisition, delivery date and the person receiving the goods or service on the delivery document. The Agency may assign an employee to be primarily responsible for incoming deliveries and ensuring the required information on the delivery document is present.

Designate a specific agency employee the responsibilities to maintain the acquisitions files to ensure that all the documentation required is present within the file and initiate payment only after the service has been performed or goods have been received and documented.

Management's Response:

Date: 2/23/07

Response: Partially Concur

The Agency was not aware of the requirement to maintain the original signed non-collusion affidavit or document if a vendor has been debarred or suspended in the Purchase Order and Voucher files. In the case of the hotel bills without competitive quotes, one was for a meeting at a State approved hotel and the other was a designated hotel for a convention that was being held. The missing delivery document was an unsigned hotel bill which was to serve as a receipt. All hotel bills are inspected and agreed to as valid by a third Agency party before procurement receives them.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Develop and employ a checklist both for the procurement and payment processes. This will ensure that the original signed non-collusion document and attestation of the vendor's good standing will be included in the file as well as the required quotes and delivery documents.

FINDING 05-309-03

Criteria:

1. The Oklahoma Central Purchasing Act, 74 O.S. § 85.39.C, **Agency Internal Purchasing Procedures** states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall 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.

2. The Oklahoma Central Purchasing Act, 74 O.S. § 85.44.B, **Payment for Goods or Services Pursuant to Contract** states:

Payment for products or services pursuant to a contract executed by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, Section 85.1 et seq. of this title, shall be made only after products have been provided or services rendered. This section shall not prohibit the payment for subscriptions to magazines, periodicals, or books or for payment to vendors providing subscription services.

3. The Oklahoma Civil Emergency Management Internal Purchasing Procedures, **Request for Purchase Form** states in part, "The agency uses the Request for Purchase Form for all internal agency product acquisitions and service acquisitions."
4. The Oklahoma Civil Emergency Management Internal Purchasing Procedures, **Request for Purchase Form** states in part:

The requesting division within the agency shall complete the request for Purchase Form. The form includes the goods or services requested, the requestors signature, his supervisor's signature, and the Operations Support Chief signature. The Certified Procurement Officer verifies that funding is available...and returns to requester for second signature and approval. The Request for Purchase Form is then routed to the Grant Manager for final signature....

Condition: We reviewed 16% (72 acquisitions) of the Agency's 462 total acquisitions from July 1, 2004 through June 30, 2005. Our sample represents 56% (\$609,177.76) of the Agency's total procurement amount of \$1,093,595.12. Within the 72 transactions reviewed, 50 acquisitions were open market, 9 acquisitions were State Use, Statewide Contract or Sole Source and 13 acquisitions were not applicable to the Central Purchasing Act. Based upon our review we noted the following:

Condition #1:

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- 2 of 50 (4%) acquisitions reviewed did not contain any documentation to document the acquisition. We noted a questioned cost of \$43,806.00 and an extrapolated questioned cost in the amount of \$54,922.59.
- 28 of the remaining 48 (50-2) (58%) acquisitions reviewed did not contain the minimum documentation required.

Condition #2: 10 of the 59 (17%) acquisitions reviewed did not contain sufficient documentation to determine if the Agency paid for items after purchases were received or after services were rendered.

Condition # 3: 15 of the 50 (30%) files reviewed did not contain a Request for Purchase form.

Condition # 4: 20 of the remaining 35 (50-15) (57%) acquisitions reviewed did not contain a Request for Purchase form that was properly authorized.

A total error rate related to the Request for Purchase form was 70% (35/50). The total dollar amount related to the error rate is \$192,357.16.

Cause:

- 1 & 2. The Agency has not implemented adequate controls or assigned individual tasks to review and maintain the documentation for Agency acquisitions. Components of the acquisition file are maintained in multiple departments and no one is charged with making certain the acquisition documentation is complete.
- 3 & 4. Agency management allows services and products to be ordered without the required Request for Purchase Form that should begin the procurement process.

Effect:

1. Agency acquisitions were not supported.
2. The Agency could be paying for products and services prior to receiving them.
3. By not using the Request for Purchase Form, management planned controls are weakened and management's ability to pre-determine if acquisitions are appropriate, funds are available, and pre-approve is inhibited.
4. All purchases were not properly authorized in accordance with the Agency's internal purchasing procedures.

Recommendation: We recommend the Agency:

1. designate staff members with the responsibility and duties of ensuring all required documentation is collected and maintained for each acquisition. On a periodic basis, management should perform audits to ensure acquisition files are complete.

2. develop and implement procedures for the documenting of the receipt of goods or service before payment is made.

3. & 4. adhere to the internal purchasing procedures as designed by the Agency's management. We further recommend the Agency create and implement a process that ensures all internal purchase requests are properly completed and approved prior to the acquisition of a product or service.

We also recommend the Agency review and evaluate their internal purchasing procedures to determine if the completion of the Request for Purchase form is a necessary, efficient and effective internal purchasing process. If at the completion of the review and evaluation of the Agency's internal purchasing procedures revisions are necessary, the revisions should be submitted to the Department of Central Services for approval.

Management's Response:

Date: 2/23/07

Response: Partially Concur

The Agency agrees that insufficient documentation was included in either the Purchase Order or Voucher file. The Agency has no checklist for accumulating the proper documents in each file, nor in sequencing the purchasing events. The Agency found fewer occurrences of missing documents, and offers the substitution of a worksheet of recurring monthly, quarterly, and annual expenses for individual Request for Purchase documents by the Comptroller to the CPO each year.

Agency personnel failed to follow Purchasing Procedures as promulgated by the Agency. Practically all exceptions listed were the result of CERT transactions which have been halted as soon as this was brought to the Agency's attention. The remainder of the exceptions was caused by inadequate filing of required documentation or the purchases were made prior to submitting a Purchase Request.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Outsource the CERT training; develop a procurement checklist for required documentation; and instruct all Agency personnel in purchasing procedures using the Purchasing Procedure guideline.

FINDING 05- 390-11

Criteria: The State of Oklahoma Administrative Code 580:15-6-5, **Methods State Agencies Use to Make Acquisitions** states in part:

State agencies shall make acquisitions using a method of acquisition in this section.

(1) **Statewide Contracts.** The State Purchasing Director shall designate statewide contracts as mandatory or nonmandatory.

(A) **Mandatory statewide contract.** 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. ...

(2) **State Use Committee.** ...State Use Committee statewide contracts are mandatory statewide contracts. State agencies shall reference the Stat Use Committee procurement schedule to ensure all acquisitions are pursuant to 74 O.S., Section 3007. ...

Condition: We reviewed 18% (73 acquisitions) of the Agency's 409 total acquisitions made between July 1, 2004 and June 30, 2005. Our sample dollar represents 56% (\$612,793.31) of the acquisition amount of \$1,093,595.12. Only 1 of the 73 sample units reviewed was applicable to mandatory statewide contracts and State Use rules.

Based upon our review of this transaction, we noted the transaction did not comply with mandatory statewide contract and State Use requirements. The exception noted was for supplies purchased from purchase order 3099000774 dated 9/3/04. A 100% error rate and an additional cost to the State in the amount of \$26.00 were noted. Also, the Agency used a prohibited credit card to make the purchase.

Cause: Unknown.

Effect: By not making purchases according to mandatory statewide contracts and the State Use Committee, controls are circumvented that ensures prices paid for goods and services are fair and reasonable for the State of Oklahoma and that approved products from qualified nonprofit agencies for the severely handicapped are purchased.

Recommendation: We recommend the Agency establish procedures to ensure that services and products available on mandatory statewide contracts are purchased.

Management's Response:

Date: 2/23/07

Response: Partially Concur

At the time of purchase, the Agency was not aware that credit cards were prohibited. In the future, supplies will be purchased on statewide contracts or state use (handicapped firms) suppliers unless the product or service cannot be supplied in a timely manner, as in this case.

Corrective Action Plan:

Anticipated Completion Date: 4/30/07

Corrective Action Planned: Use Statewide contracts or state use to make purchases. In order to ensure this is done, the Agency will establish a procedure to verify if items to be purchased are available through statewide contracts or state use.

OVERALL CONCLUSION

Based upon the procedures performed to achieve the audit objectives, the results as documented in our audit report supports our conclusion that the Agency was not materially compliant with the provisions of the Oklahoma Central Purchasing Act, the Central Purchasing Rules, provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee or the agency's approved internal purchasing procedures.

OVERALL RECOMMENDATION

Based upon our audit findings of the agency's procurement activities, we recommend a consultation between the Agency and Central Purchasing to address all concerns noted in the audit. We also recommend the Director of the Department of Central Services require retraining of the Agency's purchasing staff and a reduction of the Agency's purchasing authority limits. In addition, we recommend any state purchase cards that may be issued to this agency to reflect a reduced purchasing transaction limit.

OVERALL MANAGEMENT'S RESPONSE

(See attached Management's Response Letter)

ALBERT ASHWOOD
STATE DIRECTOR



BRAD HENRY
GOVERNOR

STATE OF OKLAHOMA
DEPARTMENT OF EMERGENCY MANAGEMENT

March 12, 2007

Mr. JoRay McCoy, Chief Auditor
Department of Central Services
2401 N. Lincoln Blvd. Suite 212-2
Oklahoma City, OK 73105

Dear Mr. JoRay McCoy:

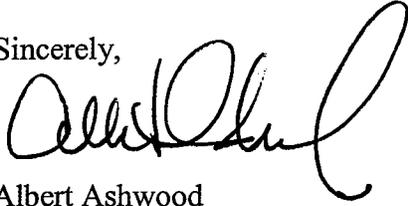
Subject: Management's Response to the Department of Central Services Procurement
Audit

1. During the audit exit interview conducted on Tuesday, March 6, 2007 attended by DCS auditors and staff from the Oklahoma Department of Emergency Management (OEM), an action that is required to finalize the audit is a "management response" to the audit findings. That response follows.
2. The audit findings include 12 significant findings related to improper internal controls, improper competitive bid or proposal procedures, non-conformance to requirements of the Oklahoma Administrative Code and the Central Purchasing Act, improper use of credit cards, and lack of training of Certified Procurement Officers. We have developed a spreadsheet that identifies each of the findings and the actions that OEM will take to correct those findings. That spread sheet has already been provided to you in separate correspondence, and it is attached to this letter as well.
3. OEM concurs with the 12 audit findings; maintains that the findings are extremely significant for the proper operation and internal control procedures of this office and the State of Oklahoma; realizes the importance of following procurement laws, regulations and procedures; and, has initiated corrective actions to fix these deficiencies as well as to keep deficiencies from occurring in the future. A key element for initiating corrective actions in this instance is to educate all OEM staff about proper procurement procedures. That education process is already underway and it will continue.



4. If additional information is needed please contact Jack Pesnell at phone: (405) 521-2481 or e-mail: jack.pesnell@oem.ok.gov; or Fred Liebe at phone: (405) 590-0114 or e-mail: fred.liebe@oem.ok.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'Albert Ashwood', written in a cursive style.

Albert Ashwood
Director

Enclosure

Replies to Audit Findings			Anticipated Completion Date
Finding	Condition	Corrective Action Plan	
1	1. CPO's did not complete the required 18 hours of CPE.	1-1. Have CPO's qualify by acquiring requisite CPE credit by attending qualifying courses. Will monitor CPO CPE more closely in the future.	3/31/06
2	1. Segregation of duties deficiency	2-1. Having only one person, the CPO, in the Purchasing Department, we utilize the two accounts payable personnel to verify that the necessary documentation is included in both the PO folder and voucher backup detail. 2-2. Resume submitting a weekly list of purchases to the Director.	2/23/07 1/5/07
3	1. Lack of minimum documentation 2. Could not determine if payment was made before product or 3. Request for Purchase missing 4. Request for Purchase not properly authorized	3.1. Develop a checklist for ensuring the minimum required documentation and signatures are included. 3.2. Include approval of receipt of goods or services per checklist. 3.3. Include on checklist as required documentation before other action. 3.4. Include on checklist as required documentation before other action.	2/23/07 1/5/07 1/5/07 1/5/07
4	1. No document to verify if vendor was not suspended or debarred 2. State Agency shall document the specifications for bids. 3. Price quotes and/or delivery dates not included in PO file 4. Original signed Non-collusion Affidavit not included in PO file. 5. No delivery document in file	4.1 Include on checklist as required documentation. 4.2 Include on checklist as required documentation. 4.3 Include on checklist as required documentation. 4.4 Include on checklist as required documentation. 4.5 Include on checklist as required documentation.	2/23/07 2/23/07 2/23/07 1/5/07 1/5/07
5	1. a. Lack of written specifications for solicitation b. Minimum 3 bids not present in purchase of 10-25K 2. No signed service requisition justification 3. Lack of documentation of sales tax permit, or suspended or debarred 4. a. Lack of documented bid evaluation b. No documentation indicating lowest or best bid or best value was awarded 5. Lack of original signed non-collusion affidavit 6. Lack of delivery document	5.1.a Include on checklist as required documentation. 5.1.b Third year of a 3-year statewide contract (BMI) 5.2 Include on checklist as required documentation. 5.3 Include on checklist as required documentation. 5.4.a Include on checklist as required documentation. 5.4.b Include on checklist as required documentation. 5.5 Include on checklist as required documentation. 5.6 Include on checklist as required documentation.	2/23/07 2/23/07 2/23/07 2/23/07 2/23/07 1/5/07 2/23/07 2/23/07
6	1. General procurement requirement related to Federal funds are to comply with State OCPA regulations	6. Comply with State OCPA regulations when making Federal funds purchases as outlined on the checklist.	2/23/07
7	1. No information regarding procurement process involved in the purchase of professional services (CERT) 2. No service requisition justification - not signed and did not contain terms and conditions in the cited statute	7.1 Comply with the quotes or bidding process when purchasing professional services, including evaluation and reasons for selection of party awarded contract. 7.2 Comply with the quotes or bidding process when purchasing professional services, including service requisition justification.	2/23/07 2/23/07

Replies to Audit Findings			
Finding	Condition	Corrective Action Plan	Anticipated Completion Date
	3. a. No original performance criteria	7.3.a Comply with the quotes or bidding process when purchasing professional services, including original performance criteria.	2/23/07
	b. No audit clause in the contract for professional services	7.3.b Comply with the quotes or bidding process when purchasing professional services, including audit clause.	2/23/07
	4. No signed affidavit certifying person who developed contract would not perform contract	7.4 Comply with the quotes or bidding process when purchasing professional services, including a signed affidavit certifying the person who developed the contract will not perform the contract.	2/23/07
8	1. Lack of fixed rate contract approved by DCS	8.1 A fixed rate contract hearing for reservists was held on August 2, 2005. At the inception of the Reservist program in the 1990's, we collaborated with DCS to do this properly, but a fixed rate contract was not mentioned. However, when we were informed of the need of a fixed rate hearing, we complied. In the future, all professional services will be procured in accordance with OCPA rules.	8/2/05
9	1. a. Used prohibited charge cards b. Made purchases on charge cards prior to encumbrance of funds	9.1.a All charge cards have been collected and will not be used. 9.1.b The Agency is in the process of acquiring a P-Card for expenses and using an authority order to encumber funds prior to purchasing.	12/31/06
10	1. Lack of conformity to rules - purchases made prior to requisition (CERT)	10.1 Include on a checklist to sequence events to ensure strict conformity with Act 74 Sec. 85.15, and include proper filing of documentation.	6/30/07
11	1. Statewide contract not used	11.1 Include on checklist to verify purchases are available on a Statewide contract.	2/23/07
12	1. a. Did not obtain quotes for professional services b. Split purchase - CERT trainers were issued numerous PO's instead of using a large Incumbrance on single PO's	12.1.a Comply with the quotes or bidding process when purchasing professional services, including obtaining the requisite number of bids. 12.1 Include on a checklist a sequence of events to ensure strict conformity with Act 74 Sec. 85.15, and include proper filing of documentation.	2/23/07 2/23/07