

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

June 30, 2006

TO SCOTT MEACHAM, OKLAHOMA STATE TREASURER

With this letter, we transmit the report of the Oklahoma State Treasurer purchase card program audit for state fiscal year 2005.

We performed our review in accordance with professional auditing standards to ensure that the State's resources, procurement processes, and procedures are used in an ethical, effective, and efficient manner.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

Sincerely,

A handwritten signature in cursive script, appearing to read "Delmas Ford".

Delmas Ford
Chief of Staff
Department of Central Services

"Committed to Quality"

OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES AUDITING UNIT



OKLAHOMA STATE TREASURER

Purchase Card Audit

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

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed a review of the Office of State Treasurer, hereinafter referred to as the "Agency", purchase card program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the review.

The objective of this review was to:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program;
- determine the relative cost benefits the purchase card program had on the agency;
- and, make recommendations for improvements.

This review was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- Transactions from the active cardholders were examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

ORGANIZATION

The Oklahoma State Treasurer provides for the safe and efficient operation of state government through effective banking, investment, and cash management. The position of State Treasurer is held by Scott Meacham, who took office on June 1, 2005. Prior to that, the position of State Treasurer was held by Robert Butkin.

The State Treasurer has the following specific statutory and constitutional responsibilities:

1. Receiving, depositing, and disbursing all state funds;
2. Investing temporary surplus funds;
3. Investing specific funds for other state agencies where authorized;
4. Requiring banks to furnish collateral sufficient to secure deposits of state and other public funds;
5. Paying of interest on the state's bonded debt and the redeeming of the debt at maturity;
6. Maintaining a safekeeping operation for securities owned by various state agencies, and those securities pledged as collateral to other state agencies;
7. Processing and distributing all State checks (known as warrants);
8. Administering the Business Link and Agricultural Link Programs; and
9. Administering the Unclaimed Property Program.

More than \$10 billion dollars is deposited each year at the State Treasurer's office. This includes state tax revenues, such as income tax and gross production tax receipts; federal funds, such as matching funds for highway construction; and other tax revenues, such as the motor fuel tax, which are collected by the state but then apportioned to the counties and cities.

The Treasurer has no power to impose taxes or set tax rates. Rather, the Treasurer's job is to make sure all the public's money is properly accounted for once it has been collected or distributed.

The Treasurer processes approximately 8.4 million state warrants each year. All warrants are reviewed by the State Treasurer when they are presented to the State of Oklahoma for payment to insure that only those warrants that are proper to pay are authorized for payment. In addition, the State Treasurer Processes approximately 3.1 million electronic fund transfers.

To earn additional revenue for Oklahoma, the Treasurer invests money which is not immediately needed to fund government operations. The office has an average of \$4 billion of taxpayers money in its investment portfolio. The Treasurer's investments are strictly governed by Oklahoma statutes and the Treasurer's investment policy.

AGENCY

The Agency is made up of 73 unclassified and one (1) temporary employee as of September 1, 2004. At the time of the review, there were two (2) purchase cardholders in the agency.

Key Staff:

Robert Butkin, Oklahoma State Treasurer (resigned effective 6/1/05)
Scott Meacham, Oklahoma State Treasurer (sworn-in on 6/1/05)
Ken King, Deputy State Treasurer/Chief of Staff
Jerry Scribner, Assistant State Treasurer for Operations
Travis Monroe, Budget Director/Purchase Card Administrator
Susan Nicewander, Internal Auditor
Alan Bodine, Certified Procurement Officer (CPO)
Betty Johnson, Accounts Payable

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$2,754.69 during state fiscal year 2005. This is 6.9% (\$2,754.69 estimated savings / \$39,907.93 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$15.39 per transaction for the Agency. A majority of the savings was contributable to the cost associated with the time saved by using the purchase card rather than traditional governmental purchasing methods. Additional savings include the purchase card rebate and transaction fees. The Agency stated that purchases have been made with the purchase card that was formerly not available through the use of a purchase order.

Questioned Costs - We noted a net extrapolated additional questioned cost of [\\$1,495.09](#) in relation to mandatory statewide contracts.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

Finding No: 05-740-06

Criteria:

1. Office of the State Treasurer (OST) Internal Purchasing Procedures § (h), **Responsibility upon Termination of Employment or Transfer to a Different Position** state in part, "When a cardholder's employment with OST is terminated or the cardholder transfers to a different position within OST, the P-Card must be immediately returned to the P-Card Administrator or Deputy Treasurer... The P-Card Administrator or Deputy Treasurer shall notify the P-Card Vendor by telephone or fax that the P-Card

is to be canceled within two business days of the employee's termination. The P-Card Administrator shall destroy the P-Card and document that the card was destroyed."

2. State of Oklahoma Purchase Card Procedures § 3.5, **State Entity P/Card Administrator** states, "This (P/Card Administrator) and any designated back-up are the only employees authorized with Bank One to designate or change cardholder and card limits for their state entity."

Condition: During our internal control testwork, we noted the following:

1. After retrieving the purchase card from a terminated employee, the P/Card Administrator locked the card in a vault located on-site. Access to the vault was limited to key personnel. The terminated employee's card wasn't canceled in Pathway Net until December 2004, though the employee was terminated in March 2004.
2. A terminated employee's purchase card was canceled, which included the lowering of the credit limits, by an employee who was neither the P/Card Administrator nor designated backup.
3. The Agency's two cardholders have the same level of access in Pathway Net as the P/Card Administrator. This access allows them to make changes to all agency cards and cardholder limits, including their own. Such changes include single purchase limits, monthly transaction limits, monthly credit limits, and reviewing cardholder personal data, etc.

Cause:

1. The entity P/Card Administrator indicated that sufficient controls were in place to secure the purchase card without destroying it. The agency did not immediately recognize the need to cancel the terminated employee's purchase card in Pathway Net.
2. and 3. The Agency was unaware that cardholders had the ability to make card limit changes for all agency cardholders

Effect:

1. There exists a risk that the canceled card may be compromised and used to make unauthorized purchases.
2. and 3. Unauthorized card or cardholder maintenance may occur without the knowledge of the P/Card Administrator.

Recommendation: We recommend the agency to immediately destroy all previously canceled cards currently held by the Agency. We further recommend, the agency should implement procedures to ensure that purchase cards are destroyed by the P/Card Administrator upon employee termination and canceled within two business days of the employee's termination as per the Agency's internal purchasing procedures. Also, the agency should establish procedures to monitor card and cardholder maintenance to ensure that no employee other than the P/Card Administrator or designated backup makes such changes. Finally, we recommend that the access in Pathway Net for the Agency cardholders, who are neither the P/Card Administrator

nor designated backup, should be limited to only the access necessary for them to perform their job functions.

Management's Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Partially Concur - OST controls over cards and cardholders exceed published guidelines. Cardholders are limited to administrative staff. Line or program staff are never assigned cards. OST's practice has prevented abuse. The instance cited in this finding did occur, but due to the controls used by OST, the likelihood of losses from misuse of a canceled card that should have been destroyed was negligible since the canceled card was locked in a vault.

Corrective Action Plan:

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 20, 2006

Corrective Action Planned: There have been no cardholder terminations since June 30, 2005. All future cardholder terminations and card destruction will be handled in a manner which will continue to limit risk to OST and to the State.

Finding No: 05-740-03

Additional Net Extrapolated Questioned Costs: \$1,495.09

Criteria: The State Purchase Card Procedures § 6.2.5, Merchant preferences, states in part, "P/Card purchases shall comply with the following preferences for certain merchants or types of contracts." The following are listed in the order of preference: State Use Committee, Oklahoma Corrections Industries (OCI), and mandatory statewide contracts.

The Purchase Card Employee Agreement, point #6, states, "I understand that the use of the p/card does not exempt me from requirements to obtain certain supplies from required sources as set forth in statutes and p/card procedures."

The Oklahoma Administrative Code 580:15-6-5 (1) (A), Mandatory statewide contract, states in part, "State agencies shall make acquisitions from mandatory statewide contracts regardless of the acquisition price... The State Purchasing Director shall grant exemptions prior to a state agency making the acquisition from another supplier."

Condition: We statistically selected 37 transactions totaling \$6,411.03 to review out of 179 transactions totaling \$39,907.93. Based upon our review of the 37 transactions, we noted 5 of 37 (5 errors / 37 transactions = 14% error rate) transactions were purchases made for office supplies to a merchant, Prime Office Products, that was not listed as a preferred vendor. These supplies should have been purchased through mandatory statewide contracts. The agency did not have approved exemptions by the State Purchasing Director on file for these purchases.

STATE OF OKLAHOMA
OKLAHOMA STATE TREASURER
PURCHASE CARD AUDIT
JUNE 30, 2006

Post Date	Item Description	\$ Amt Paid	Contract #	\$ Contract Amt	\$ Diff Over Contract	\$ Diff Under Contract
10/18/2004	Correction tape	\$35.64	SW22/135	\$28.20	\$7.44	-
10/18/2004	Office duster cleaner	\$56.48	SW22/135	\$32.80	\$23.68	-
3/04/2005	Pencils, erasers, lead	\$19.44	SW911	\$8.56	\$10.88	-
7/19/2004	Antiseptic towels	\$4.54	SW22/135	\$7.70		\$3.16
7/19/2004	Post It flags	\$3.84	SW22/135	\$3.50	\$.34	
7/19/2004	staples	\$3.50	SW22/135	\$22.50	-	\$19.00
7/19/2004	Binders	\$48.96	SW22/464	\$52.56		\$3.60
4/20/2005	Scotch tape	\$60.00	SW22/464	\$26.00	\$34.00	-
1/17/2005	Folders	\$421.60	SW22/135	\$232.00	\$189.60	
Subtotal					\$265.94	\$25.76
Net Questioned Cost					\$240.18	
Net Extrapolated Questioned Costs					<u>\$1,495.09</u>	

Cause: The Office of State Treasurer made an exception to the purchase requirements due to the readily availability of product and timeliness of the delivery of product as compared between preferred merchants and local vendors.

Effect: By not making purchases according to merchant preferences, 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. The agency would have saved an estimated \$1495.09 by using the preferred state use merchant.

Recommendation: We recommend the Agency should establish procedures to ensure that cardholders utilize preferred vendors when purchasing goods available on statewide mandatory contracts. All cardholders of the agency should be informed and required to make purchases in accordance with the statutory preferences.

Management's Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Partially Concur - We disagree with your findings and their extrapolation. In FY 2005 the purchase card was not available for use in connection with many State Use vendors. Consequently, purchase orders were utilized for all OST purchases from State Use vendors during FY 2005. For this reason, we believe the indicated error rate does not appropriately reflect OST's efforts to purchase office supplies from State Use Vendors. Additionally, of the five (5) transactions mentioned, OST received verbal

direction on two occasions (10/18/2004 and 3/04/2005) from the State Use vendor to make purchases from alternate vendors. In connection with a third transaction (1/17/2005) the State Use vendor was unable to determine whether they could provide the item specified or its equivalent. A fourth transaction (7/19/2004) was completed at the beginning of the fiscal year when PO's had not been issued (OST was awaiting budget approval). The final transaction involving the purchase of tape and resulting in \$34.00 of additional cost (4/20/2005) was overlooked by the purchasing agent and should have been made from the statewide contract with the State Use vendor.

OST purchasing is professionally administered and every effort is made to follow State Use statutes, even when this pursuit results in greater expense.

Corrective Action Plan:

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 20, 2006

Corrective Action Planned: OST will continue to utilize State Use vendors whenever possible. When items are not available from State Use vendors, OST will request written exemption from DCS.

Auditor Response: The statistical sample selected from the total population of purchase card transactions is based on a 95% confidence level. We are 95% confident the remaining population contains the same amount of errors; therefore, we extrapolated the errors across the population to determine a total additional net extrapolated questioned cost.

Finding No: 05-740-02

Criteria: State Purchase Card Procedures § 5.8, Records retention, states in part:

State entity p/card records shall be maintained in a central location as referenced in State entity p/card procedures... Records shall be maintained for seven (7) fiscal years, provided all audits have been completed and all applicable audit reports have been accepted and resolved by all federal and state agencies and no legal actions are pending.

Condition: The Agency's P/Card Administrator stated that all accounts payable records, including p/card purchase documentation, are retained for three years prior to destruction. Office of State Treasurer (OST) Internal Purchasing Procedures § 12 (c) File Retention states, "Accounts payable shall retain the files for three (3) years from purchase completion, or for three (3) years following completion of an audit or protest action, in an area designated by the Budget Director."

Cause: The Agency was unaware of the requirement to retain files for a longer period than what was spelled out in the OST procedures.

Effect: Purchase card documentation is not maintained for the required amount of time before being destroyed.

Recommendation: We recommend the agency to retain purchase card documentation for the required amount of time as stated in the State Purchase Card Procedures and to amend the Agency's internal purchasing policy in relation to retaining procurement records.

Management's Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Partially Concur - OST has in its possession every P-Card purchase record received and generated since the inception of the program. All documentation on every P-Card purchase remains in the possession of the agency.

OST was not aware that DCS had adopted a record retention period for P-Card that was different from what is in the General Schedule published by the State Archives Commission for all state agencies.

Corrective Action Plan:

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 30, 2006

Corrective Action Planned: OST will amend its policy document regarding record retention for P-Card activity to comply with the applicable DCS rules. OST suggests DCS consider bringing its rules in line with the time periods specified in the General Schedule published by the State Archives Commission.

Auditor's Response: The Criteria was quoted from the State of Oklahoma Purchase Card Procedures version March 28, 2001. The records retention rule has not changed since this version of the procedures.

Archives and Records Commission Consolidated General Records Disposition Schedule § 2-101, State Purchase Card (P/Card), states:

Description: State entity State Purchase Card (P/Card), statewide contract p/card and travel p/card records required to be maintained by the State of Oklahoma Purchase Card Procedures, which include but are not limited to paper copies and/or electronic records of transaction receipts and logs, dispute documents, Cardholder and State Entity Approving Official approval records, and any other pertinent documents. The agency copy is the state office of record copy.

Disposition: Retain in office for seven (7) years, then destroy records after all audits have been completed and all applicable audit reports have been accepted and resolved by all applicable federal and state agencies, provided no legal actions are pending. If legal action is pending, destroy two (2) years after exhaustion of all legal remedies, provided records meet all stipulated retention requirements.

Finding No: 05-740-01

Criteria: Standard business practice suggests that monthly credit limits should be based on the expected maximum monthly purchases on the purchase card.

Condition: We analyzed the spending trends for the agency's two cardholders. One cardholder made one purchase for \$31.20 with her card during the audit period of one year. The cardholder's monthly credit limit is \$25,000.00. According to the State Entity P/Card Administrator, this card is only available for use as a backup if the main cardholder is unavailable to make a purchase. The second cardholder made 178 purchases with his purchase card during the audit period. The average transaction amount was \$224.00. During the 12-month period, the cardholder had a monthly average of \$3325.58 in charges. However, his monthly credit limit in Pathway Net is \$200,000.00.

Cause: The P/Card Administrator kept the limits high to ensure that cardholder credit needs would be met, and to eliminate the possibility of the card being declined due to insufficient credit limit.

Effect: Unnecessarily high credit limits increase the risk of purchase card misuse or abuse. Excessive credit limits may encourage inappropriate use of the purchase card.

Recommendation: We recommend the Office of State Treasurer should evaluate the credit needs of agency cardholders on a periodic basis and adjust the credit limits accordingly.

Management's Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Concur - The credit limits referenced above were established during a previous administration. The audit period specified above occurred during a previous administration. The Treasurer has directed that credit limits be reduced. OST will continue to limit the number of cardholders to one primary and one backup. OST will continue to utilize the Purchase Card as a payment option and as an opportunity to generate savings for the State (1% savings on P-Card purchases and as an administrative cost reduction to the primary state purchasing process.)

Corrective Action Plan:

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 30, 2006

Corrective Action Planned: OST will review actual and potential monthly purchases and reduce the limits, accordingly.

Finding No: 05-740-05

Criteria:

1. State Purchase Card Procedures § 6.9.1, **Cardholder responsibility**, states in part, "After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make those purchases.
2. State Purchase Card Procedures § 6.9.2, **Entity approving official(s) responsibility**, states in part, "To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the statement..."

Condition: We statistically selected 37 transactions totaling \$6,411.03 to review out of 179 transactions totaling \$39,907.93. Based upon our review of the 37 transactions, we noted:

- Twelve out of twelve (100%) instances where the approving official did not sign nor date the cardholder's memo statement. The approving official signed the transaction log rather than the memo statement.

- Three of twelve (25%) transaction logs were not signed by the cardholder.

Cause: Absence of signatures on the memo statement and transaction log was an oversight by both the cardholder and approving official. The approving official was signing the transaction log rather than the memo statement. The approving official indicated that his signature on the transaction log appeared to be sufficient.

Effect: In the absence of cardholder's or approving official's signatures, there is no indication that the cardholder verified they have made the purchases or that the transaction log and memo statement have been reconciled.

Recommendation: We recommend the agency cardholders to sign and date the transaction logs and memo statements. We also recommend the agency approving officials to sign and date the memo statements.

Management's Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Partially Concur - OST found the multiple reports redundant and our verification process was sufficient with the multiple checks, signatures and initials. It is our understanding that the transaction log will not be required in the future; the OST approving officer will sign the memo statement from this point forward.

Corrective Action Plan:

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 20, 2006

Corrective Action Planned: OST will obtain all necessary signatures.

Finding No: 05-740-04

Criteria:

1. State Purchase Card Procedures § 6.5, Receipts for purchase, states:

Receipts shall be obtained for purchases. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation or confirmation number should be obtained... If a receipt is lost, the cardholder shall note the loss on the transaction log and complete a Lost Receipt Report. The Lost Receipt Report shall be included in the cardholder's reconciliation submission.

2. State Purchase Card Procedures § 6.7.1, Goods or services received at the time of purchase, states in part, “The receipt for purchase also serves as the receiving document. It should be annotated “Received” and signed and dated by the receiving employee.”

Condition:

1. During review of internal controls and subsequent testing a cardholder purchased three classified advertisements with a newspaper vendor but did not receive a receipt nor order confirmation. No Lost Receipt Report was reported for these purchases.
2. During substantive testing, 9 of 37 (24%) receipts reviewed were either not signed, dated, or annotated ‘received.’

Cause:

1. Required supporting documentation for purchases was overlooked. The agency included with the transaction log a copy of verbiage to be used for the advertisement, with the understanding that this would be sufficient documentation of the transaction.
2. The agency was unaware of the requirement to sign the receipt. Rather, the receiving employee initialed the receipt.

Effect:

1. The absence of adequate supporting documentation makes it difficult to determine if purchases for goods and services are for legitimate agency need.
2. Without adequate support, it is difficult to determine when and if goods or services purchased on the p/card were actually received by the agency.

Recommendation: We recommend the agency to ensure that an original receipt or confirmation information supports all purchases for goods and services. In the absence of an original receipt or confirmation number, the vendor should be contacted and a copy of the receipt shall be obtained. If no supporting documentation can be obtained, Lost Receipt Report should be completed at the time the receipt is found to be missing. Further, the Agency should implement procedures to ensure that all receiving documents are signed, dated, and annotated ‘received’ by the receiving employee.

Management’s Response:

Date: June 20, 2006

Respondent: Travis Monroe, Budget Director/Purchase Card Administrator

Response: Partially Concur - OST does confirm that ads are published in all instances where ads are placed. OST does not agree that requiring signatures instead of initials adds any material value to the process. It should be noted that initials have been an acceptable practice for documentation, including invoices attached to vouchers filed with the Office of State Finance for many years.

Corrective Action Plan

Contact Person: Travis Monroe, Budget Director/Purchase Card Administrator

Anticipated Completion Date: June 20, 2006

Corrective Action Planned: OST will document its files with copies of the ads and dates published in the future. OST will advise its Receiving Agent to sign documents versus just initialing them.

OVERALL CONCLUSION

In our opinion, the Oklahoma State Treasurer has materially complied with the requirements of the State of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, some exceptions were noted. These exceptions included high credit limits, record retention, purchases from preferred merchants, receipts for purchase, memo statement reconciliation, and terminated cardholders. The Oklahoma State Treasurer has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.