

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

June 27, 2006

TO MAJOR GENERAL HARRY M. "BUD" WYATT III, ADJUTANT GENERAL

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

We performed our audit 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 black ink, appearing to read "John S. Richard".

John S. Richard
Director of Central Services

"Committed to Quality"

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OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES AUDITING UNIT



OKLAHOMA MILITARY DEPARTMENT

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 an audit of the Oklahoma Military Department, 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 audit.

The objective of this audit 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 audit 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

Initiated by the U.S. Congress in 1890 when it authorized one regiment of organized militia for Oklahoma Territory, the Territorial Legislature passed a law, in 1895, providing for the organization and development of the Volunteer Militia, the "Oklahoma National Guard." The Oklahoma Military Department was established in 1951 and serves as the administrative agency for all matters concerning the Oklahoma National Guard and other military organizations. The Governor, as Commander-in-Chief of the National Guard, appoints the Adjutant General, the executive and administrative officer. The Army National Guard operates with 7,385 personnel in 120 units statewide. Its main components are the 45th Infantry Brigade, 90th Troop Command, and the 45th Field Artillery Brigade. The Air National Guard has 2,570 personnel operating from bases in Oklahoma City and Tulsa.

The National Guard has three missions: (1) to provide trained units and individuals available for active duty during war or national emergency; (2) to provide units organized, equipped, and trained to function efficiently in the protection of life and property and preservation of peace, order, and public safety under competent orders of federal or state authorities; and (3) to participate in local, state, and national programs which add value to America.

AGENCY

The Agency had 183 classified, 134 unclassified, and 24 temporary employees as of September 1, 2004. At the time of the audit, there were 39 purchase cardholders in the Agency.

Key Staff:

Major General Harry M. "Bud" Wyatt III, Adjutant General
Lisa Smith, Comptroller
Pat Mooney, Federal Cooperative Agreement Manager/Secondary P/Card Administrator
Mary Fowler, Admin Programs Officer/P/Card Administrator

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$38,216.34 during state fiscal year 2005. This is 3.8% (\$38,216.34 estimated savings / \$997,254.59 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$9.78 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 the purchase card program was a faster process for acquiring goods and services, and some vendors accept purchase cards but not purchase orders; therefore, the Agency is able to purchase products with the purchase card previously not available due to merchant rejection of purchase orders.

Questioned Costs - We noted questioned cost of \$2,677.51 for not having detailed receipt documentation and an understated inventory amount of \$7,774.39 for not including required purchase card purchases on the inventory schedule during the audit period.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

Finding No: 05-025-001

Criteria: State of Oklahoma Purchase Card Procedures, **§ 3.11 Employee status**, "Personnel serving as Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must be a full time or permanent part time (not temporary) employee of a state entity."

Condition: The Agency has five (5) Approving Officials that are federal employees.

Cause: The Agency does not have a state employee within the cardholders division that is one level above the cardholder.

Effect: Five non-state employees are responsible for confirming state purchases acquired in accordance with the State of Oklahoma purchasing rules and regulations. A non-state employee may not be held liable or responsible for reviewing and approving cardholders' purchases.

Recommendation: We recommend the Agency immediately reassign these cardholders an approving official who is a state employee, one position higher than the given cardholder, and has received the required training. The Agency may request a written exemption from the State Purchasing Director in relation to employee status of the five individuals. The agency may also re-evaluate these cardholders to determine their need for the purchase card.

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Management's Response:

Date: 16 June 2006

Respondent: Pat Mooney, Federal Cooperative Agreement Manager/
 Secondary P/Card Administrator

Response: Partially Concur - When program was initially set up, it was explained to DCS that we had federal employees supervising state employees and they said that was OK. We sent those federal employees to the pcard class so they could be administrators. Federal law will not allow state employees to obligate federal funds. This is another reason that federal employees are signing off on state employee purchases.

Corrective Action Plan

Contact Person: Pat Mooney, Federal Cooperative Agreement Manager/
 Secondary P/Card Administrator

Anticipated Completion Date: 16 June 2006

Corrective Action Planned: A request for exemption has been approved by Betty Cairns, DCS Purchasing Director, with the condition that a state approving official will sign off after the federal approving official. That will be Lisa Smith, Comptroller of our agency.

Finding No: 05-025-004

Undervalued Inventory Amount: \$7,774.39

Criteria: State of Oklahoma Purchase Card Procedures § 5.6 Inventory states, "State entities shall establish procedures to ensure that items acquired using the p/card and exceeding \$500 in cost, or a different amount if approved by the Director of Central Purchasing, are added to the inventory schedule pursuant to 74 O.S. § 110.1."

Condition: We statistically selected 131 transactions totaling \$73,606.24 for review out of 3,909 transactions totaling \$997,254.59. Out of the 131 transactions reviewed, six (6) transactions contained an item exceeding \$500 in cost. Based upon our testwork, we noted six (6) out of six (6) items reviewed exceeding \$500 were not reported on the Agency's inventory schedule.

Date Acquired	Item	Acquisition Cost
7/28/04	Expansion Board	2 @ \$628.14 = \$1,256.28
8/7/04	HP Scanjet 8250 scanner	\$742.00
8/25/04	Welder	\$702.00
9/8/04	Projector	\$2,056.16
4/5/05	Training CD	\$2,500.00
5/4/05	Air Conditioner	\$517.95
	TOTAL	\$7,774.39

Cause: We were informed that an employee was transferred to the Inventory Division about a year and a half ago to get the Agency's inventory schedule up-to-date. Agency management was aware that the inventory schedule was not current and did not contain all inventoriable items. After his transfer to the Inventory Division, the employee experienced some health problems that slowed down the process of the update.

Effect: By not consistently reporting inventory purchases exceeding \$500, inventory cannot be properly tracked, the total value of inventory is understated, and the Agency does not have an accurate reporting of assets owned.

Recommendation: We recommend that the Agency tags and records the noted items on the inventory schedule. We further recommend that the Agency reviews all purchases during the audit period to ensure all inventoriable items are properly tagged and recorded on the inventory schedule. In final, we recommend that the Agency review its current process and procedures for receiving, tagging, and recording items that shall be inventoried by the Agency.

This finding will be forwarded to Larry Smith, Department of Central Services Inventory Control Officer.

Management's Response:

Date: 16 June 2006

Respondent: Paul Edgemon, Inventory Division

Response: Concur - The items listed shall be researched thru the pcard logs to find what location these items were bought for and will be listed on the inventory report due DCS 15 August 2006.

Corrective Action Plan

Contact Person: Paul Edgemon, Inventory Division

Anticipated Completion Date: 15 August 2006

Corrective Action Planned: Agency SOP has been changed so that accounts payable makes a copy of invoices paid on pcard over \$500 and sends to inventory coordinator in order that the item can be put on the state property books.

Finding No: 05-025-002

Criteria: State Purchase Card Procedures § 5.1, **Encumbering funds**, states in part, "State entities shall establish encumbrances as "authority order" purchase orders in the State Purchasing System...Change orders to amend these encumbrances may be processed as necessary."

Oklahoma Constitution Article 10 § 23, **Balanced budget**, states in part, "The state shall never create or authorize the creation of any debt or obligation, or fund or pay any deficit, against the state, or any department, institution or agency thereof, regardless of its form or the source of money from which it is to be paid ..."

Office of State Finance Procedures Manual Chapter 200, **Prior Approval and Encumbrance Before Purchase-Executive Summary**, states in part:

Except as otherwise provided, state statutes require that whenever any agency enters into an agreement for the purchase of goods, wares, merchandise, contractual services, or construction projects for which labor and material must be furnished by outside vendors, such agreement shall be evidenced by written contracts or purchase orders encumbered by the agency within a reasonable time as determined by the Director of State Finance against the proper agency funds and accounts... Written contracts or purchase orders encumbered after thirty days must be justified by a letter for the delay.

Condition: For the months of July 2004 through December 2004, the Agency issued an authority order monthly to cover the prior month's purchase card expenditures. For the months of January 2005 through June 2005, the Agency issued a change order monthly to cover the prior month's purchase card expenditures. The total amount of purchase card expenditures for the audit period was \$997,254.59.

Cause: The Agency was unaware that their payment method for the purchase card was incorrect.

Effect: The Agency's payment method could have made obligations in excess of the unencumbered cash balance on hand.

Recommendation: We recommend the Agency to create a process to ensure funds are timely encumbered for each type of purchase card.

Management's Response:

Date: 16 June 2006

Respondent: Lisa Smith, Comptroller

Response: Concur - We waited until the end of the month to make sure we obligated the exact amount. We have a number of funds and departments and we didn't want the CPO to have to make several change orders.

Corrective Action Plan

Contact Person: Lisa Smith, Comptroller

Anticipated Completion Date: 1 July 2006

Corrective Action Planned: Beginning 1 July we will estimate and encumber funds at the beginning of the month.

Finding No: 05-025-007

Questioned Costs: \$2,677.51

Criteria: State of Oklahoma Purchase Card Procedures § 6.5 **Receipts for purchase** states in part, "Receipts shall be obtained for purchases. The receipt shall give an itemized and detailed description of the purchase..."

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Condition: We statistically selected 131 purchase card transactions totaling \$73,606.24 for review out of 3,909 purchase card transactions totaling \$997,254.59. Based upon our testwork, we noted 2.3% (three (3) out of (131) transactions) of the transactions reviewed did not have a detailed receipt to support the purchase.

Post Date	Merchant	Amount
11/5/2004	Arrow Machinery	\$114.00
2/10/2005	The Trane Company	\$2,344.25
4/27/2005	Stone Sales Corporation	\$219.26
	TOTAL	\$2,677.51

Questioned costs: [\\$2,677.51](#)

Cause: The cardholder did not obtain adequate supporting documentation for the purchases made with the purchase card, or the vendor did not provide a receipt that gave an itemized and detailed description of the purchase.

Effect: By not providing adequate documentation to support a purchase, we were unable to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid governmental purposes. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

Recommendation: We recommend that the Agency ensure all purchases are supported with an itemized and detailed receipt. If the vendor does not provide an itemized and detailed receipt, we recommend that cardholders utilize a different vendor for future purchases.

Management's Response:

Date: 16 June 2006

Respondent: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Response: Partially Concur - In the past, employees have complained that they could not get the vendors to send them a receipt. They were then instructed to complete a lost receipt form. Every effort is made to get a receipt from the vendor before they complete the lost receipt form (which does not fulfill the requirement of an itemized and detailed description of purchase.)

Corrective Action Plan

Contact Person: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Anticipated Completion Date: 31 August 2006

Corrective Action Planned: Hold an in-house purchasing class to reinforce purchase card rules and inform employees of audit findings. Will instruct employees to not use vendors that will not provide an itemized receipt.

Finding No: 05-025-005

Criteria: State of Oklahoma Purchase Card Procedures § 6.7.1, **Goods or services received at the time of purchase** states, "The receipt for purchase also serves as the receiving document. The receiving document should be annotated "Received" and signed and dated by the receiving employee".

State of Oklahoma Purchase Card Procedures § 6.7.2, **Goods or services received subsequent to the time of purchase** states, "The document accompanying the goods or services (such as packing slip or service order) serves as the receiving document and is processed as described in 6.7.1. above."

Condition: We statistically selected 131 transactions totaling \$73,606.24 for review out of 3,909 transactions totaling \$997,254.59. During testwork, we noted 35.88% (47 errors / 131 receiving documents) of the receiving documents reviewed were not annotated "Received", signed, and dated by the receiving employee.

Cause: The Agency's receiving employees are not ensuring that all receiving documents are annotated "Received", signed, and dated.

Effect: If the receiving employee does not perform all required tasks related to the receiving document, there is no verification that goods and/or services were actually received.

Recommendation: We recommend the Agency inform all receiving employees that each receiving document should be annotated "Received", signed, and dated.

Management's Response:

Date: 16 June 2006

Respondent: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Response: Concur

Corrective Action Plan

Contact Person: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Anticipated Completion Date: 31 August 2006

Corrective Action Planned: Hold an in-house purchasing class to reinforce purchase card rules and inform employees of audit findings.

Finding No: 05-025-003

Criteria: The Oklahoma Military Department's Internal Purchasing Procedures approved by the Department of Central Services states the following:

Procedure for purchases not exceeding \$2,500

1. State Use Committee

a. If a product or service you need to purchase is included in the State Use Committee procurement schedule, you shall secure the product or service from a qualified nonprofit agency providing employment to people with severe disabilities, if a product or service is available within the period required (see 74 O.S., Section 3001 et seq.). **A requisition form is required.**

2. Statewide contracts

a. If the product or service you require is on a **mandatory** statewide contract, you shall purchase the product or service from that contract regardless of price. The department may submit a written request to the State Purchasing Director to waive requirements to use a mandatory statewide contract. This request shall be given to the certified procurement officer to document and process. No purchases off statewide contracts will be allowed prior to a waiver issued by the State Purchasing Director. **A requisition form is required.**

b. If the product or service you require is on a **non mandatory** statewide contract, you may purchase the product or service from the contract, but it is not required. **A requisition form is required for statewide contracts.** Employees should check the state contract price with other vendor prices to insure they are purchasing the lowest priced product or service.

c. If the product or service you require is on a **mandatory/non mandatory** statewide contract, you shall purchase the product or service from the mandatory portion of the contract. **A requisition form is required.** The vendors on the mandatory portion are from the State Use Committee.

Condition: The cardholders are not consistently completing requisition forms for purchases made with the purchase card from the State Use Committee and Statewide Contracts.

Cause: Program management informed us that the above procedure is directed towards the purchase order process.

Effect: The Agency is not complying with their own internal purchasing procedures.

Recommendation: We recommend the Agency either abide by their internal purchasing procedures or make appropriate changes as needed.

Management's Response:

Date: 16 June 2006

Respondent: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Response: Concur - Requisition forms were meant to be used for purchase orders issued by CPO.

Corrective Action Plan

Contact Person: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Anticipated Completion Date: 31 August 2006

Corrective Action Planned: CPO instructed to change internal purchasing procedures and get approval from DCS.

Finding No: 05-025-006

Criteria: State of Oklahoma Purchase Card Procedures § 6.7.2, **Goods or services received subsequent to the time of purchase** states, "The document accompanying the goods or services (such as packing slip or service order) serves as the receiving document..."

Condition: We statistically selected 131 transactions totaling \$73,606.24 for review out of 3,909 transactions totaling \$997,254.59. Based upon our testwork, we noted 3.82% (5 errors / 131 transactions reviewed) of the purchase card transactions in which goods or services were received subsequent to the time of purchase did not include a proper receiving document.

Cause: The cardholder may have either failed to obtain the receiving document or did not attach the receiving document with the supporting documentation.

Effect: By not requiring cardholders to maintain receiving documents, there is no verification that goods and/or services were actually received.

Recommendation: We recommend that the Agency establish a process to ensure all goods or services received subsequent to the time of purchase are supported by adequate receiving documentation. Also, management should inform all cardholders that goods or services received subsequent to the time of purchase must be supported with a proper receiving document such as a packing slip or service order.

Management's Response:

Date: 16 June 2006

Respondent: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Response: Concur

Corrective Action Plan

Contact Person: Pat Mooney, Federal Cooperative Agreement Manager/
Secondary P/Card Administrator

Anticipated Completion Date: 31 August 2006

Corrective Action Planned: Hold an in-house purchasing class to reinforce purchase card rules and inform employees of audit findings.

OVERALL CONCLUSION

In our opinion, the Oklahoma Military Department has materially complied with the requirements of the State of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, some exceptions were noted. Exceptions include, but are not limited to, employee status, inventory and encumbering. The Oklahoma Military Department has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.