

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

October 10, 2006

**TO LINDA PARKER, DIRECTOR AND TO THE OKLAHOMA DEPARTMENT OF
REHABILITATION SERVICES BOARD MEMBERS**

With this letter, we transmit the report of the Oklahoma Department of Rehabilitation Services purchase card program audit for the period of March 1, 2005 through February 28, 2006.

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.

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,



John S. Richard, Director
Department of Central Services

"Committed to Quality"

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OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES Auditing Unit

DEPARTMENT OF REHABILITATION SERVICES

Purchase Card Audit

For the period March 1, 2005
thru February 28, 2006

TABLE OF CONTENTS

<u>PURPOSE, OBJECTIVE AND SCOPE</u>	<u>1</u>
<u>METHODOLOGY</u>	<u>1</u>
<u>EXECUTIVE SUMMARY</u>	<u>2</u>
<u>AUDIT RESULTS</u>	<u>3</u>
<u>OVERALL CONCLUSION</u>	<u>18</u>

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Department of Rehabilitative Services, hereinafter referred to as the "Agency", purchase card program for the period of March 1, 2005 through February 28, 2006. The purpose of this report is to communicate the results of the audit.

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;
- 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 Department's staff members.
- Internal controls over the p/card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

The Department of Rehabilitation Services is dedicated to disability services in the State of Oklahoma. The agency offers a wide range of programs to approximately 87,000 individuals each year. It helps employers recruit qualified employees who really want to work. It assists students, parents and educational staff in public schools, as well as those attending the agency's residential schools. The agency also determines medical eligibility for Social Security disability benefits and operates dozens of programs that help Oklahomans lead more important, productive lives.

AGENCY

The Agency is made up of 721 classified and 134 unclassified employees as of September 1, 2005. At the time of the review, there were 73 purchase cardholders in the agency.

Commission Members:

Ben White – Chair (current)
John Orr - Chair (during audit period)
David Pittman - Vice Chair
Ray Kirk

Key Staff:

Linda Parker - Director
Eddie Lee - P/Card Administrator
Kevin Statham - Financial Manager/Comptroller

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Department an estimated net savings of \$101,468.26 during the audit period March 1, 2005 through February 28, 2006. This is 8.1% (\$101,468.26 / \$1,250,114.30 total expenditures) of the total dollars expended using the purchase card. 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.

Questioned Costs - We noted a total questioned cost of \$36,433.77 ([\\$35,496.42](#) + [\\$937.35](#)) for not having a receipt to support the purchase. Based upon this questioned cost we calculated an extrapolated questioned cost of [\\$345,635.38](#). We also noted a net additional cost of [\\$66.26](#) to the State in relation to not using the mandatory statewide contracts. Based upon this net additional cost we calculated an extrapolated net additional cost to the State in the amount of [\\$23,882.40](#). In final we noted [\\$162,465.92](#) of unencumbered purchase card expenditures during the audit period.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

Finding No: 05-805-04

QUESTIONED COSTS: [\\$35,496.42](#)

EXTRAPOLATED QUESTIONED COSTS: [\\$345,635.38](#)

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility**, states in part:

Regular p/card, Statewide Contract p/card, and Travel p/card holders shall obtain an electronically generated memo statement upon closing of the bank's monthly billing cycle from the Pathway Net System. The memo statement shall be reconciled by the cardholder and submitted to the cardholder's designated State Entity Approving Official. In reconciling the statement, cardholders should use appropriate documents (i.e., transaction log, purchase receipts, receiving documents, credit receipts) to verify that purchases and returns are accurately listed on the memo statement. After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall sign and date the memo statement verifying that the transaction log and memo statement have been reconciled.

2. State of Oklahoma Purchase Card Procedures § 6.9.2 **Entity approving official(s) responsibility**, states in part:

**STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006**

The State Entity Approving Official(s) shall review the p/card or Statewide Contract p/card holder's reconciled memo statement and supporting documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, these procedures and sound business practice... To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.

Condition: We statistically selected 72 and judgmentally selected 31 purchase card transactions totaling \$135,214.95 for review out of 3730 purchase card transactions totaling \$1,250,214.95. Based upon our substantive testing, we noted:

1. 5 of 103 (5%) transactions reviewed did not have a receipt to support the purchase. These transactions totaled \$32,427.79 in questioned cost. The extrapolated questioned cost is \$315,755.55.
2. 4 of 72 (6%) occasions in which the cardholder's memo statement, transaction log, and supporting documentation could not be located for testing. These transactions totaled \$3068.63 in questioned cost. The extrapolated question cost is \$29,879.83.
3. 8 of 68 (72 - 4 = 68) occasions in which the cardholder's memo statement was not provided with the supporting documentation for testing. A 12% (8 / 68) error rate was noted.
4. 15 of 60 (72 - 4 - 8 = 60) memo statements were not signed and dated by the cardholder. A 25% (15 / 60) error rate was noted.
5. 31 of 72 (43%) reconciliations reviewed the transaction log did not reconcile to the memo statement.
6. signatures for two approving officials and one cardholder were stamped rather than signed.
7. one occasion the cardholder's transaction log was signed by somebody other than the cardholder.

Cause: To some extent the Agency has a breakdown in management controls on the part of the cardholder, approving official and agency management to ensure that each involved individual adheres to all applicable statutes, rules and procedures.

Effect: Governmental purchases are not adequately supported and verified. Also, without adequate documentation and oversight of purchase card activity, inaccurate or unauthorized charges may occur and go undetected. The agency may miss the opportunity to dispute such a transaction and/or prevent any additional inaccurate or unauthorized charges from being made on the affected purchase card.

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

Recommendation: We recommend that the agency communicate to all agency cardholders the importance of reconciling the cardholder's statements each cycle and signing the documentation that indicates these procedures were performed by the cardholder. We also recommend the Agency to notify all approving officials of the requirements each cardholder is to perform and the approving officials' responsibility to determine the requirements have been followed. We also recommend that the purchase card program management verify and monitor the progress of performing and documenting the reconciliation requirements. We further recommend that cardholders and approving officials discontinue use of signature stamps to sign purchase card supporting documentation.

If the Agency determines cardholders or approving officials continuously do not comply with the purchase card rules, program officials should appropriately discipline the offender.

Overall Recommendation for All Findings: The Agency may consider providing an in-house refresher training to all cardholders and approving officials that addresses the areas of concern noted during this audit.

Management's Response:

Date: October 2, 2006

Response: Concur

Corrective Action Planned:

DRS will communicate to all cardholders the importance of reconciling the cardholder's statements each cycle and signing the documentation that indicates these procedures were performed by the cardholder. We also notified all approving officials of the requirements each cardholder is to perform and the approving officials' responsibility to determine the requirements have been followed. We also notified cardholders and approving officials to discontinue use of signature stamps and to sign purchase card supporting documentation

*This was communicated via email to all employees Friday, **September 29, 2006**. It will be addressed again October 25, 2006 at the VR/VS Annual Conference. DRS conducts an orientation for each cardholder after the card holder attends DCS P-Card Training. At this orientation this topic is discussed then the p-card is issued to the cardholder.*

DRS will create procedures to supplement the DCS Procedures Manual. We will address the monitoring activities that will review the supporting documentation to determine continuance compliance with the purchase card receiving requirements and the process for returning receiving documentation to the cardholder to properly support the product or service was received. We will also address that original signatures are required on purchase card supporting documentation; that the use of signature stamps is prohibited. We will establish procedure that if cardholders or approving officials continuously do not comply with the purchase card rules that the offender will be disciplined and the manner of discipline.

*DRS will have Procedures Manual created by **December 1, 2006**. After review by DCS and upon DCS approval, DRS will distribute the Procedures Manual to all DRS cardholders.*

*Effective with the **July 2006** P-Card cycle, DRS implemented a policy of 100% audit of all p-cards that have activity in the cycle. As a result of this audit by DCS, DRS now know what to*

look for in our monthly audits. In **October 2006** the monthly audits will be in a database that will be on-line utilizing SharePoint and will be available for cardholders, approving officials and management to look at.

Finally, DRS has contacted the State Purchase Card Administrator at DCS, and asked if she would provide in-house refresher training to all cardholders and approving officials. She agreed in principle, we will have to work out a date that is acceptable to her and DRS.

Finding No: 05-805-03

Criteria:

1. State of Oklahoma Purchase Card Procedures § 3.9 **Training**, states “Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties...”

State of Oklahoma Purchase Card Procedures § 3.10 **Purchase Card Employee Agreement**, states “Entity P/Card Administrators, Approving Officials, and Cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards.”

2. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility**, states in part, “All cardholders (including Entity P/Card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.”

3. State of Oklahoma Purchase Card Procedures § 6.9.2 **Entity approving official(s) responsibility**, states in part:

State Entity Approving Official(s) shall review the regular p/card, or Travel p/card holder’s reconciled memo statement and supporting documentation for accuracy, completeness, appropriateness of the purchase and whether the transaction were conducted according to State statutes, rules, these procedures, and sound business practice... To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.”

Condition: We statistically sampled 72 and judgmentally selected 31 purchase card transactions totaling \$135,214.95 for review out of 3730 purchase card transactions totaling \$1,250,214.95. Within this sample there were 72 memo statements reviewed. Based upon our substantive testing, we noted the following:

1. For 4 of 103 (4%) transactions, the approving official who approved the cardholder’s purchases had not yet attended the mandatory State of Oklahoma Purchase Card Procedures

**STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006**

training and did not have a signed Purchase Card Employee Agreement form on file.

2. For 4 of 72 (6%) memo statements the approving official who approved the cardholder's reconciliation was not one level higher in the Agency's organizational chart.
3. There were 25 instances out of 72 (35%) memo statements in which the cardholder's approving official did not sign or date the cardholder's memo statement to indicate concurrence with the reconciled statement.

We noted a total error rate of 68% (49 errors / 72 memo statements) related to the purchase card approving official requirements. Sixteen errors within the total error rate is based on lack of properly signing the memo statements or no memo statement at all.

During a review of internal controls, we noted the following:

4. One of four (25%) memo statements reviewed was not signed by the cardholder's approving official.

Cause: There is a lack of oversight on behalf of agency management to ensure that approving officials receive and review the cardholder's monthly purchase card information and appropriately sign and date memo statements indicating review of the cardholder's reconciliation.

Effect:

1. By not having received the required training, approving officials may not be fully aware of their duties and responsibilities as an approving official.
2. If the approving official is not at least one level higher than the cardholder within the organizational structure of the Agency, the cardholder could have improper influence and actual authority over the approving official. As a result, the cardholder could skew the approving official's decision making process and an increased risk for transactions to be unauthorized, unsupported, or unallowable could occur and go undetected. In addition, disputes or unresolved issues may not be properly resolved by the approving official. Accordingly, controls in relation to the proper review and approval process of purchase card expenditures and monthly reconciliations could be weakened.

3 and 4. Without an approving official signature on cardholder memo statements it cannot be determined if the cardholder's purchase documentation was sufficiently reviewed and approved.

Recommendation:

We recommend to the Agency to implement procedures to ensure that an approving official attend the mandatory State of Oklahoma Purchase Card Procedures training prior to assuming duties. All current approving officials who have not yet attended the purchase card procedures training should be provided the training prior to continuing their duties as approving officials.

We recommend the approving officials noted in the finding that are lower in the organization that the cardholder be replaced by an approving official at least one level higher within the organization. Further, the P/Card Administrator or his designated backups should regularly

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

review the agency's organizational chart to make certain that approving officials are at least one level higher than cardholders whose statements they review and approve. This review could also be included as part of the process for evaluating and assigning new approving officials.

We also recommend the agency to inform all approving of their duties and responsibilities as an approving official. In final, we recommend that periodic reviews of cardholder memo statements be performed to ensure that the approving official has properly signed and dated the memo statement.

Management's Response:

Date: October 2, 2006

Response: Concur

Corrective Action Planned:

Upon receipt of the preliminary audit findings, DRS suspended all approving officials if they had not attended the mandatory State of Oklahoma Purchase Card Procedures training and made arrangements for appropriate officials to perform the approval duties. As of the August mandatory State of Oklahoma Purchase Card Procedures training class, all DRS approving officials had attended the mandatory State of Oklahoma Purchase Card Procedures training class.

DRS will communicate: to all approving of their duties and responsibilities as an approving official.

*This was communicated via email to all employees Friday, **September 29, 2006**. It will be addressed again October 25, 2006 at the VR/VS Annual Conference. DRS conducts an orientation for each cardholder and their approving official after the card holder attends DCS P-Card Training. At this orientation this topic is discussed then the p-card is issued to the cardholder.*

DRS will create procedures to supplement the DCS Procedures Manual. We will address that the approving official will attend the mandatory State of Oklahoma Purchase Card Procedures training prior to assuming duties. We will also address the regular review of the agency's organizational chart to make certain that approving officials are at least one level higher than cardholders whose statements they review and approve.

*DRS will have Procedures Manual created by **December 1, 2006**. After review by DCS and upon DCS approval, DRS will distribute the Procedures Manual to all DRS cardholders.*

*Effective with the **July 2006** P-Card cycle, DRS implemented a policy of 100% audit of all p-cards that have activity in the cycle. As a result of this audit by DCS, DRS now know what to look for in our monthly audits. In **October 2006** the monthly audits will be in a database that will be on-line utilizing SharePoint and will be available for cardholders, approving officials and management to look at.*

Finding No: 05-805-06

QUESTIONED COST: [\\$937.35](#)

Criteria:

1. State of Oklahoma Purchase Card Procedures 8.0 List of Attachments, Attachment 7, Office of State Finance procedures manual section 319.L, **Advance (Pre-) Payments** states:

Past Attorney General's opinions have held that payment to a claimant (vendor) prior to the actual performance of work or receipt of product for which contract, constitutes lending of credit or monies by the state, and therefore, violates the provisions of Article 10, § 15, of the Oklahoma Constitution. In addition, pursuant to Title 74 O.S., Sec. 85.44B, payment of goods and services by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, shall be made only after products have been provided or services rendered.

2. State of Oklahoma Purchase Card Procedures § 6.8.1, **Processing returns, credits, and disputes** states in part:

If an item needs to be returned for any reason, return the goods to the merchant in the manner agreed upon. The merchant should issue a credit for items that are returned. This credit will appear on a subsequent memo statement. Documentation of the credit receipt should be issued by the merchant. Keep on file all documentation pertaining to return, credit, or disputed transactions on the Transaction Log and attach copies of the documentation.

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."

3. State of Oklahoma Purchase Card Procedures § 6.2.2, **Split purchases** states, "Split purchases are prohibited and shall not be made.

State of Oklahoma Purchase Card Procedures § 2.0, **Definitions** states, "'Split Purchasing' means the dividing of a known quantity or failing to consolidate a known quantity of goods or services with the intent of and for the purpose of evading (1) the p/card statutory single transaction limit of \$2500.00. and/or (2) limit(s) established for an individual p/card and/or (3) a competitive bidding requirement."

4. 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."

**STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006**

Condition: During our audit, we noted the following:

1. An agency cardholder (card # ending in 380054) purchased two sofas and two loveseats on 6/21/05 (in the total amount of \$2,432.04) with the state purchase card from a retailer to be delivered within a week's time. However, the cardholder cancelled the order before the goods were delivered but did not receive a credit on the card. Rather, the retailer recorded the transaction as a store credit. We obtained an Accounts Receivable Ledger Inquiry document from the retailer. This document indicates that the agency has a store credit with the retailer since June 23, 2005. During the audit we notified the Agency of the store credit in the amount of \$2,872.38 and the Agency requested and received the credit on the purchase card on June 12, 2006.

The product was not received before the payment was made. In addition to the error a credit was not requested or issued against the card once the items were known not to be delivered.

2. Two agency cardholders (with account numbers ending in 380054 and 848849) from the same facility made numerous purchases with a furniture retailer utilizing the store credit. Four purchases were made utilizing store credit from the cancelled transaction described in Condition #1 above. A portion of the store credit was applied to each purchase, and a purchase card was used to make up the difference between the sales price and the applied store credit.

For one of the retailer's invoice paid by the store credit an agency cardholder did not submit the invoice for the purchase in the amount of \$937.95 dated 8/2/05 to their approving official or to the agency Finance department. Invoices paid with a store credit from the retailer are addressed to the Agency and not to an individual; therefore, we are unable to determine who used the store credit. The purchase was for a loveseat and a store credit was used for the purchase. We were unable to find an entry made on a cardholder's transaction log for this purchase. We are unable to determine where the items were delivered, or if the items were included on the agency's inventory list.

Questioned Cost: \$937.35

3. Two agency cardholders (with account numbers ending in 380054 and 848849), who work at the same facility, purchased many pieces of furniture on the same day of March 7, 2005, from the same vendor in Oklahoma City, and with assistance from the same salesperson. The purchase documents were time stamped three minutes apart at 1:47 pm and 1:50 pm. The same make and model of some of the furniture was purchased by both cardholders. Specifically, the same furniture items purchased were a '3, 2, 1 drawer chest' and a 'baker's rack.' The transactions amounts from each cardholder were \$2,002.79 and \$2,447.87, respectively. The total amount charged to the purchase cards in the amount of \$4,450.66 is higher than the \$2500 single purchase transaction limit.

It appears that the dividing of a known quantity or failing to consolidate a known quantity of goods with the intent of and for the purpose of evading the p/card statutory single transaction limit of \$2,500.00 and/or limit(s) established for an individual p/card has occurred. Also one of these cardholders is the approving official for the other cardholder; therefore, weakening segregation of duties controls to lines of authority and circumventing the purchase card rules.

**STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006**

The two cardholders made purchases totaling \$7,476.14 to the same furniture retailer from 6/21/05 to 6/27/05. This total amount includes the \$2,872.38 store credit noted in condition #1.

4. Two pieces of furniture (costing \$783.95 each) were purchased by a cardholder (account ending in 380054) in June 2005. They were not reported in the agency inventory schedule at the time of the audit. Since we have brought these items to the attention of the agency inventory clerk in May 2006, the items have been added into the inventory schedule.

Cause:

1,2 and 3. The cardholders were careless in their responsibilities to adhere to applicable procedures.

4. The cardholder did not provide pertinent information in a timely manner to the inventory clerk to make certain the furniture was included with the agency's inventory.

Effect:

1 and 2. There is a reduction in control over state funds once they are converted to store credit. Additionally, there is the increased potential for an individual to utilize a store credit to make a purchase of goods for personal use and go undetected by anyone monitoring purchase card activity. Also, when an Agency has a store credit they are able to extend elapsing funds beyond fiscal years.

3. The circumvention of the single transaction limit can result in an increased potential for cardholder misuse or abuse to occur without management knowledge. Excessive amounts of spending at or close to fiscal year end when spilt purchasing may be involved gives the appearance that cardholders may be spending excessive amounts to avoid the expiration of funds.

4. The agency's inventory at the end of fiscal year 2005 was understated by \$1567.90.

Recommendation: We recommend the Agency to contact Office of State Finance to determine the proper method for accounting and using the state fiscal year 2005 refund that was refunded in state fiscal year 2006.

We recommend the Agency to review and evaluate the circumstances related to the purchase methods used by the cardholders noted in the finding. We also recommend the Agency to verify all furniture purchased from the retailer including purchases with store credits was received and properly inventoried by the Agency. In final, we recommend the agency to implement a disciplinary action plan for the cardholders noted in the finding.

This finding with the disciplinary action plan will be forwarded to the appropriate officials within DCS for further review. We recommend these officials to determine if any additional disciplinary action not addressed by the Agency management maybe necessary.

Management's Response:

Date: October 2, 2006

Response: Concur

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

Corrective Action Planned:

DRS Finance and Budget Unit will contact Office of State Finance to determine the proper method for accounting and using the state fiscal year 2005 refund that was refunded in state fiscal year 2006.

*DRS Central Departmental Services, Materials Management will verify all furniture purchased from the retailer including purchases with store credits was received and properly inventoried by the DRS. Since **July 1, 2006**, Materials Management has conducted a 100% audit of p-card documentation on a quarterly basis to insure that all qualifying equipment is captured by the Inventory System.*

DRS recommends the following disciplinary action plan for the following cardholders (with account numbers ending in 380054 and 848849) and the purchasing functions for the Oklahoma School for the Deaf (OSD).

The p-cards for the two cardholders will be suspended for one year. After one year, the cardholders will be allowed to reapply for p-cards. Upon successful completion of DCS P-Card training, they may obtain new p-cards.

As these two cardholders are also the approving officials for the remaining four p-cards at OSD, DRS will also make the following changes. The Director of DRS will become the approving official for these four p-cards. The OSD Superintendent will sign all p-card documentation to signify budgetary approval and that appropriate purchasing practices were followed. All logs, statements and supporting documentation will be reviewed by Central Departmental Services, Contracts & Purchasing before being submitted to the Director. These materials will be faxed to the State Entity Purchase Card Administrator on the first day after the P-Card Cycle ends (usually the 28th of the month).

Beyond the p-card program, Central Departmental Services, Contracts & Purchasing will be performing monthly monitoring for one year on all purchasing activity at OSD. Because the CPO class presented by DCS has already occurred for this year, we will require the Business Manager to re-attend the CPO class DCS will have in 2007.

Finding No: 05-805-02

NET ADDITIONAL COSTS: [\\$66.26](#)

NET EXTRAPOLATED ADDITIONAL COSTS: [\\$23,882.40](#)

Criteria: State of Oklahoma 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 preferences:

- **6.2.5.1. State Use Committee.** ... State Use Committee statewide contracts are mandatory for use. State entities shall reference the State Use Committee procurement schedule to ensure p/card purchases are pursuant to 74 O.S. §3007.

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

- **6.2.5.2. Oklahoma Correctional Industries (OCI).** State entities shall make purchases from OCI pursuant to 57 O.S. § 549.1, if the vendor is deemed lowest and best.

- **6.2.5.3. Mandatory statewide contracts.** State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless State Purchasing Director has issued a waiver to the entity.

Condition: We statistically sampled 72 and judgmentally selected 31 purchase card transactions totaling \$135,214.95 for review out of 3,730 purchase card transactions totaling \$1,250,214.95. Based upon our substantive testing, we noted the following:

Thirty-six of a total of 103 purchases tested required merchant preferences. Five of the 36 (14%) purchases did not comply with merchant preferences

Transaction Date	Item Description	\$ Amt Paid	Contract #	\$ Contract Amt	\$ Diff Over Contract	\$ Diff Under Contract
3/18/2005	IBM Infoprint toner cartridge	\$1,060.00	SW124	\$1,073.60	-	\$13.60
10/6/2005	Post-It Notes	\$129.75	SW22/464	\$50.00	\$79.75	-
9/15/2005	Wall clocks	\$20.00	SW908/438	\$37.80	-	\$17.80
12/2/2005	Mechanical pencils	\$47.88	SW911/466	\$30.00	\$17.88	-
5/9/2005	Binders	\$16.17	SW22/439	\$16.14	\$0.03	-
Subtotal					\$97.66	\$31.40
Total Net Difference					\$66.26	
Net Extrapolated Additional Questioned Costs					\$23,882.40	

Cause: The cardholders 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: The States purchasing volume has been decreased and some approved products from qualified nonprofit agencies for the severely handicapped were not purchased. The agency would have saved an estimated \$23,882.40 by using the merchant preferences.

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

Recommendation: We recommend the Agency to establish procedures and a process that educates and trains cardholders for the proper utilization of mandatory statewide contracts when purchasing goods and services with the purchase card.

These procedures may also include monitoring cardholders purchasing activity to determine purchases are made in accordance with merchant preferences. The Agency may also consider incorporating the internal audit function as part of these procedures to monitor cardholder purchase activities.

In final, we recommend the agency to inform all cardholders of the merchant preference requirements and any changes to the Agency purchasing procedures or processes as a result of this finding.

Management's Response

Date: October 2, 2006

Response: Concur

Corrective Action Planned:

DRS will communicate to cardholders of the merchant preference requirements

*This was communicated via email to all employees Friday, **September 29, 2006**. It will be addressed again October 25, 2006 at the VR/VS Annual Conference. DRS conducts an orientation for each cardholder after the card holder attends DCS P-Card Training. At this orientation this topic is discussed then the p-card is issued to the cardholder.*

DRS will create procedures to supplement the DCS Procedures Manual. We will address a process that educates and trains cardholders for the proper utilization of mandatory statewide contracts when purchasing goods and services with the purchase card. We will also include monitoring cardholders purchasing activity to determine purchases are made in accordance with merchant preferences and incorporating the internal audit function as part of these procedures.

*DRS will have Procedures Manual created by **December 1, 2006**. After review by DCS and upon DCS approval, DRS will distribute the Procedures Manual to all DRS cardholders.*

*Effective with the **July 2006** P-Card cycle, DRS implemented a policy of 100% audit of all p-cards that have activity in the cycle. As a result of this audit by DCS, DRS now know what to look for in our monthly audits. In **October 2006** the monthly audits will be in a database that will be on-line utilizing SharePoint and will be available for cardholders, approving officials and management to look at.*

Finding No: 05-805-01

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.5 **Receipts for purchase**, states "Receipts shall be obtained for purchases... 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 of Oklahoma 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."
3. 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... serves as the receiving document and is processed as described in 6.7.1 above".

Condition:

During a review of internal controls we noted the following:

1. Two of three (66.7%) receiving documents reviewed were not signed by the cardholder or any other employee.

During our substantive testwork we statistically sampled 72 and judgmentally selected 31 purchase card transactions totaling \$135,214.95 for review out of 3,730 purchase card transactions totaling \$1,250,214.95. Based upon our substantive testing, we noted the following:

2. Nine of one hundred three (9/103 = 9%) transactions reviewed did not have a receiving document with the supporting documentation.
3. Forty-two of ninety-four (42/94 = 45%) receiving documents reviewed did not meet all the requirements by the receiving employee of signing, dating and annotating 'received'.

We noted a total error rate of 50% (51 errors / 103 sample units) related to the purchase card receiving documentation requirements.

Cause: Some cardholders did not perform their due diligence to ensure compliance with the receiving documents requirements of the state purchase card procedures, specifically the requirement to sign, date and annotate 'received' on receiving documents, and include all supporting documentation with the monthly memo statement.

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

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

Recommendation: We recommend that the Agency develop, implement and communicate:

- to all cardholders the importance of collecting and maintaining receiving documentation,
- to all anticipated receiving employees a process to ensure that receiving employees sign, date, and annotate “received” on the receiving document.

We also recommend the Agency review its process for returning receiving documentation to the cardholder to properly support the product or service was received.

In final, we recommend the agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continuance compliance with the purchase card receiving requirements.

Management’s Response

Date: October 2, 2006

Response: Concur

Corrective Action Planned:

DRS will communicate: to all cardholders the importance of collecting and maintaining receiving documentation; to all anticipated receiving employees a process to ensure that receiving employees sign, date, and annotate “received” on the receiving document.

*This was communicated via email to all employees Friday, **September 29, 2006**. It will be addressed again October 25, 2006 at the VR/VS Annual Conference. DRS conducts an orientation for each cardholder after the card holder attends DCS P-Card Training. At this orientation this topic is discussed then the p-card is issued to the cardholder.*

DRS will create procedures to supplement the DCS Procedures Manual. We will address the monitoring activities that will review the supporting documentation to determine continuance compliance with the purchase card receiving requirements and the process for returning receiving documentation to the cardholder to properly support the product or service was received.

*DRS will have Procedures Manual created by **December 1, 2006**. After review by DCS and upon DCS approval, DRS will distribute the Procedures Manual to all DRS cardholders.*

*Effective with the **July 2006** P-Card cycle, DRS implemented a policy of 100% audit of all p-cards that have activity in the cycle. As a result of this audit by DCS, DRS now know what to look for in our monthly audits. In **October 2006** the monthly audits will be in a database that will be on-line utilizing SharePoint and will be available for cardholders, approving officials and management to look at.*

Finding No: 05-805-05

UNENCUMBERED EXPENDITURES: [\\$162,465.92](#)

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

STATE OF OKLAHOMA
DEPARTMENT OF REHABILITATION SERVICES
PURCHASE CARD AUDIT
OCTOBER 10, 2006

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 ...”

Condition: We noted during our substantive testwork the Agency did not encumber funds prior to the expenditure for 23 of 53 statewide contract card transactions during the periods of July 4, 2005 through July 26, 2005, October 7, 2005 through November 2, 2005 and January 16, 2006 through January 30, 2006. We also noted the Agency did not encumber funds prior to the expenditure for 110 of 3192 regular purchase card purchases during the period of July 1, 2005 through July 11, 2005. The total dollar amount of expenditures that were not properly encumbered during the audit period totaled \$120,804.97 for the statewide card and \$41,660.95 for regular purchase card. Total unencumbered purchase card expenditures is \$162,465.92.

Cause: The lack of adequate encumbrances was an oversight by management.

Effect: The agency created an unauthorized obligation for the State in the amount of \$162,465.92.

Recommendation: We recommend the Agency to continue establishing encumbrances using an authority order as prescribed by the rules and regulations. We further recommend, the Agency to implement procedures to monitor available encumbered fund balances to ensure the timely creation of change orders as necessary.

Management’s Response:

Date: September 27, 2006

Response: Concur

At the onset of this audit, DRS reviewed audit findings at other Agencies. DRS recognized this potential finding as one that could be applied to one of our similar practices of waiting to increase the encumbrance until after the close of the cycle. While some Divisions were monitoring the purchases to avoid over spending their budgetary authority, the methodology in place didn’t adjust the encumbrance in the PeopleSoft System until after the cycle closed. Initially the technology to monitor purchases during the cycle was far less sophisticated and procedures were established that didn’t compensate well for spikes in spending patterns.

Corrective Action Plan:

Anticipated Completion Date: September 30, 2006

Corrective Action Planned:

Finance will use the Pathway reports to monitor all activity regarding expenditures compared to Purchase Order balances and increase the encumbrance as warranted. Additional forecasting of expense data will also be used as a catalyst to adjust the P.O. and alleviate the reoccurrence of this finding. The statewide card purchases have a narrower scope of use and the encumbrance will be adjusted at the point of purchase.

OVERALL CONCLUSION

In our opinion, the Department of Rehabilitation Services has materially complied with the objectives reviewed; however, there were notable exceptions. Some of these notable exceptions were related to the purchases not supported by a receipt, memo statements, approving official's responsibilities and purchase card split purchasing. The Department of Rehabilitation Services has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.