

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

October 5, 2006

**TO BETTY PRICE, EXECUTIVE DIRECTOR, OKLAHOMA ARTS COUNCIL AND
OKLAHOMA ARTS COUNCIL MEMBERS**

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

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 "Delmas Ford".

Delmas Ford, Chief of Staff
Department of Central Services

"Committed to Quality"



OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES Auditing Unit

OKLAHOMA ARTS COUNCIL

Purchase Card Audit

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

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma Arts Council, hereinafter referred to as the "Agency", purchase card program for the period March 1, 2005 through February 28, 2006. 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;
- 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.
- A statistical sample of transactions from active cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

Created by the Legislature in 1965 to encourage and stimulate all forms of artistic endeavors, the Oklahoma Arts Council receives appropriations from the State Legislature and the National Endowment for the Arts. Their mission statement is to nurture and support a thriving arts environment that is essential to quality of life, education, and economic vitality for all Oklahomans.

Oklahoma Arts Council

The Agency is made up of 17 unclassified, non-merit employees as of September 1, 2005. At the time of the review, there were 3 purchase cardholders and 1 approving official in the agency.

Key Staff:

Betty Price, Executive Director
Suzanne Tate, Deputy Director
Joe Turner, Finance Director
Kim Baker, Assistant Director
Paulette Black, Arts Education Director
Ann Dee Lee, Public Relations Director

Council Members:

Jim Tolbert III, Chair, Oklahoma City
Dr. Clarence Hedge, Vice Chair, Coyle
Billie Barnett, Tulsa
Jennifer MacIvor Dunning, Oklahoma City
Saundra Evans, Oklahoma City
Martha Griffin, Muskogee
Dr. Jan Henry, Oklahoma City
Susan McCalmont, Oklahoma City
Harvey Pratt, Guthrie
Jean Richardson, Oklahoma City
Ira Schlezinger, Oklahoma City
Kym Koch Thompson, Oklahoma City
Mary Jane Wade, Elk City
Wanda Westheimer, Ardmore
Maxine Zarrow, Tulsa
*Megan Clement, Shawnee
*Leanne Helmerich, Tulsa
*Gayle Semtner, Oklahoma City

(*Term expired on June 30, 2005)

AUDIT RESULTS

Purchase Card Program Economy Results

The purchase card program saved the Agency an estimated net savings of \$1,135.92 during period of March 1, 2005 thru February 28, 2006. This is 5.43% (\$1,135.92 / \$20,905.41 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. The Agency stated that the program saves them time by not having to create a purchase order and there are not any aspects of the program which limits or hinders the purchasing process.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

Finding No: 05-055-03

Criteria:

1. The State of Oklahoma Purchase Card Procedures § 3.9, **Training** states in part, "Entity P/Card Administrators and designated backups, Authorized Signers, Approving Officials, and Cardholders must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued p/cards..."
2. The State of Oklahoma Purchase Card Procedures § 3.10, **Purchase Card Employee Agreement** states in part, "Entity P/Card Administrators and designated back-ups, Authorized Signers, 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..."

The State of Oklahoma Purchase Card Procedures § 6.1.3, **Employee p/card agreement** states in part, "The Entity P/Card Administrator shall maintain the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement. A copy of the signed agreement shall be provided to the employee..."

3. State of Oklahoma Purchase Card Procedures, § 6.9.2, **Entity approving official 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:

1. The Agency has one approving official. The individual acting as the approving official did not complete the required purchase card training before assuming his/her duties as an approving official.
2. The Purchase Card Employee Agreement Form was not signed by the individual acting as the approving official for the Agency's purchase card program.
3. 100% of the 18 memo statements reviewed did not have the signature and date of an authorized approving official indicating concurrence with the reconciled statement.

Cause:

1. The Agency was not aware that Approving Officials were required to successfully complete the training prescribed by the State Purchasing Director.
2. The Agency was unaware the Purchase Card Employee Agreement Forms were to be signed by Approving Officials.
3. The individual acting as the approving official had not attended the training or completed the Purchase Card Employee Agreement Form prior to assuming their duties.

Effect:

1. and 3. An individual posing as a purchase card approving official who has not received the required training may not be fully aware of the approving official's duties and responsibilities. They also would not have adequate knowledge of the program requirements.
2. Without signing the Purchase Card Employee Agreement Form, we are unable to verify that the approving official was made aware of the terms and conditions of the responsibilities entrusted to an approving official.

Recommendation: We recommend:

1. The Agency approving official who has not previously attended purchase card training, attend the first available training. We also recommend the Agency develop a process that ensures all required individuals attend the purchase card training prior to assuming their duties.
2. The Agency approving official complete the Purchase Card Employee Agreement Form. We also recommend the Agency implement a process that would ensure future purchase card agreements are completed and maintained by the Entity P/Card Administrator.
3. A trained and authorized approving official sign and date the memo statements to indicate concurrence with the reconciled statements and supporting documentation.

Management's Response

Date: September 27, 2006
Respondent: Suzanne Tate, Deputy Director
Response: Concur

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director

Anticipated Completion Date:

1. October 26, 2006
2. October 26, 2006
3. October 26, 2006

Corrective Action Planned:

1. Betty Price, Executive Director has enrolled in the October 26, 2006 P-card training. All agency P-cardholders and the P-Card Administrator have completed training. Any future P-card holders or changes in the approving official or P-Card Administrator will complete training prior to assuming their duties.
2. Betty Price, Executive Director, will sign an employee agreement at the completion of training.
3. Betty Price, Executive Director, will sign and date the memo statements to indicate concurrence with the reconciled statement and supporting documentation.

Finding No: 05-055-02

Criteria:

1. The State of Oklahoma Purchase Card Procedures § 1.6 **Conditions of participation**, states in part, "...State entity p/card procedures shall be made a part of their internal purchasing procedures."
2. The State of Oklahoma Purchase Card Procedures § 6.10, **Card Security**, states in part, "...The cardholders shall assure that the card is kept in a secure manner and that the p/card account number on the card is not posted or left in a conspicuous place..."
3. Oklahoma Purchase Card Procedures § 6.9.1, **Cardholder responsibility** states in part:

The memo statement shall be reconciled by the cardholder and submitted to the cardholders' 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 the cardholder did make the purchases. The

cardholder shall also sign and date the memo statement verifying the transaction log and the memo statement have been reconciled.”

Condition:

1. The Agency last submitted its internal purchasing procedures to the State Purchasing Director on October 4, 1999. There have been no subsequent revisions to include the state entity purchase card procedures.
2. The purchase card account information is unsecured in the Purchase Card Administrator's office. Unauthorized individuals within the Agency have access to the information.
3. The cardholders are not performing the reconciliation between the transaction log and memo statement. The Agency Purchase Card Administrator is performing the reconciliation and then having the cardholder sign and date the memo statement.

Cause:

1. Agency was unaware they had to incorporate the State Entity Purchase Card Procedures into their own Internal Purchasing Procedures.
2. The Agency was unaware the purchase card information was at risk.
3. The Purchase Card Administrator considered that as the Purchase Card Administrator, it would create a better control if he performed the reconciliation.

Effect:

1. The Agency's internal purchasing procedures are not in compliance with the State Purchase Card Procedures.
2. Unauthorized individuals within the agency have access to the purchase card account information. Purchase card information may be obtained by unauthorized individuals and improperly used.
3. By not requiring the cardholder to reconcile the supporting documentation to the memo statement for purchases made, cardholders are not properly verifying in detail that purchases made are accurate and that all purchases were made by the cardholder. This prevents the cardholder from fully assuming their duties and responsibilities as a purchase cardholder.

Recommendation: We recommend:

1. The Agency revise and submit their Internal Purchasing Procedures to the Department of Central Services for approval.
2. The Agency maintain the purchase cards and purchase card information in a secure manner at all times. This information should not be left unattended or in an insecure area that allows access by unauthorized individuals.

3. The Agency require cardholders to perform the purchase card reconciliation. Once the reconciliation is performed, the cardholder should forward the reconciliation and supporting documentation to the approving official for review. The Agency Purchase Card Administrator can also review the reconciliation, if determined necessary by the administrator.

Management's Response

Date: September 27, 2006

Respondent: Suzanne Tate, Deputy Director

Response: Concur

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director

Anticipated Completion Date:

1. November 1, 2006
2. Action completed
3. Action will be implemented with the September 2006 P-card statement.

Corrective Action Planned:

1. Jose Pose, Finance Director will update the Agency's Internal Purchasing Procedure to include purchase card procedure and submit the revision to the Department of Central Services for approval.
2. Purchase cards and Purchase card account information has been secured. The Purchase card holders, Scott Cowan and Suzanne Tate, secure their P-cards in a locked compartment of their desk, to which only they have access. Purchase Card Administrator, Jose Posa, has secured P-card account information in a locked compartment in his office, to which only he and the Deputy Director have access.
3. Purchase card holders will perform the purchase card reconciliation and then forward the reconciliation and supporting documentation to approving official Betty Price for review and approval. After approval the documentation will be forwarded to Jose Posa, Purchase Card Administrator.

Finding No: 05-055-04

Criteria: 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. The combination purchase receipt/receiving document shall be attached to the transaction log."

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 38 purchase card transactions totaling \$9,360.16 for review out of 88 purchase card transactions totaling \$20,905.41. Based upon our testwork, we noted the following:

- 9 purchases did not have a receiving document attached,
- 27 purchases the receiving employee did not perform all the tasks required of them relating to the receiving document. The required tasks are annotating “Received”, signing and dating the receiving document, and
- 1 purchase did not have a receipt or receiving document.

We noted a total error rate of 97% (37 errors / 38 sample units) related to the purchase card receiving documentation requirements.

Cause: The Agency was not aware the receiving employee was to be annotating “Received”, signing and dating the receiving document. Also the approving official either is not aware of the requirements or is not adequately reviewing supporting documentation for accuracy and completeness which is one of the responsibilities of the approving official.

Effect: By not requiring receiving employees to sign and date receiving documents or not collecting receiving documentation, there is no verification that goods and/or services were actually received.

Recommendation: We recommend the Agency communicate to all cardholders the importance of collecting and maintaining receiving documentation and 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 that was received. Finally, we recommend the Agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continuing compliance with the purchase card requirements.

Management’s Response

Date: September 27, 2006
Respondent: Suzanne Tate, Deputy Director
Response: Concur

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director
Anticipated Completion Date: Development of procedures, October 15, 2006. Staff training completed by November 1, 2006

Corrective Action Planned:

Internal Purchasing Procedures are being developed by the Finance Director, which will be presented in a training session to all agency staff. The procedures will include instructions for the process of receiving delivered goods and the required signature, date and "received" annotation. Because of the size and number of employees at the agency, all agency employees will be trained in these procedures. The necessity of forwarding the receiving documentation to the proper person will be included in the training.

The Deputy Director and the Finance Director will monitor the documentation to determine compliance with the p-card requirements.

Finding No: 05-055-01

Criteria: The State of Oklahoma Purchase Card Procedures § 4.2, **Implementation submissions** states in part, "State entities are to prepare and submit the following documents.

Document	Signed by	Submitted to	Notes
Letter appointing Agency P/Card Administrator	Entity Chief Administrative Officer (Agency Head)	Original to appointee Copy to State P/Card Administrator (Central Purchasing)	

Condition: The Agency did not provide a letter signed by the Executive Director appointing the Agency Purchase Card Administrator to the State Purchase Card Administrator at the time of appointment.

Cause: The Agency stated they had notified the Purchase Card Administrator of the State Entity Purchase Card Administrator but they were not aware they had to send a formal letter from the Agency Director appointing the Purchase Card Administrator.

Effect: The individual responsible for the agency's purchase card program has not received the proper authority to act as the agency's Purchase Card Administrator.

Recommendation: We recommend the Agency submit the letter appointing the Purchase Card Administrator to the Department of Central Services.

Management's Response

Date: September 27, 2006
Respondent: Suzanne Tate, Deputy Director
Response: Concur

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director
Anticipated Completion Date: October 2, 2006

STATE OF OKLAHOMA
OKLAHOMA ARTS COUNCIL
PURCHASE CARD AUDIT
OCTOBER 5, 2006

Corrective Action Planned: A letter signed by Betty Price, Executive Director, appointing Jose Posa, Finance Director, as the P-card administrator will be issued to Keith Gentry, Central Purchasing, DCS.

Finding No: 05-055-05

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..."

Condition: We statistically selected 38 purchase card transactions totaling \$9,360.16 for review out of 88 purchase card transactions totaling \$20,905.41. During our testwork, we noted 2.63% (one (1) out of thirty eight (38) transactions) of the transactions reviewed did not have a receipt to support the purchase.

Trans. Date	Merchant	Amount
10/20/2005	Office Max	\$699.00
	TOTAL	\$699.00

Cause: The cardholder did not obtain adequate supporting documentation for the purchase made with the purchase card.

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 make a reasonable attempt of retrieving the receipt for the purchase noted in the condition from the vendor or bank and verify the goods were received. We also recommend the Agency ensure all purchases are supported with an itemized and detailed receipt. We further recommend the approving official review the supporting documentation for completeness during their review.

Management's Response

Date: September 27, 2006

Respondent: Suzanne Tate, Deputy Director

Response: Concur - The item purchased is an HP 3550n printer. This printer is located in the offices of the agency, is listed on the agency inventory and has an inventory tag. A copy of the invoice has been sent by Office Max.

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director

Anticipated Completion Date: Copy of invoice was faxed to DCS Auditor on September 27, 2006.

Corrective Action Planned: Cardholders will ensure that all purchases are supported with an itemized receipt and the approving official will review all documentation.

Finding No: 05-055-06

Criteria:

1. State of Oklahoma Purchase Card Procedures, § 6.4 **Transaction logs**, states in part, "Cardholders shall maintain a transaction log of all p/card purchases, returns, credits, and disputed transactions as the transactions are made..."
2. State of Oklahoma Purchase Card Procedures § 6.9.1, **Cardholder Responsibility**, states in part, "...The memo statement should be reconciled by the cardholder and submitted to the cardholder's designated State Entity Approving Official...The cardholder shall also sign and date the memo statement verifying the transaction log and the memo statement have been reconciled..."

Condition:

1. We noted 11.11% (2 of 18) of transaction logs did not include all of the cardholder's transactions. This indicates that the reconciliation was not performed between the transaction log and the memo statement. Because transactions were not included on the transaction log, the auditor was unable to perform an independent reconciliation. Receipts were provided after testwork was completed but were not attached to the transaction log.
2. We noted 1 of 18 (5.56%) of the memo statements were not signed and dated by the cardholder verifying the memo statement and transaction log had been reconciled.

Cause:

1. Two transactions were reported on the previous transaction log. One transaction was mistakenly left off the transaction log.
2. Instance appeared to be cardholder oversight.

Effect:

1. By not including all transactions on the transaction log and reconciling to the memo statement, there is a potential for unauthorized charges to occur and go undetected.
2. The Agency would not have confirmation that the cardholder performed the reconciliation.

Recommendation: We recommend:

1. The Agency ensure that cardholders are adequately reporting the transaction on the transaction logs and performing the reconciliation between the transaction log and the memo statement to ensure that transactions are not incorrectly charged to the purchase card.
2. Cardholders sign memo statements indicating the completion of the reconciliation.

Management's Response

Date: September 27, 2006

Respondent: Suzanne Tate, Deputy Director

Response: Partially Concur - It is possible, depending on the closing date of the statement that transactions may appear on the previous month's transaction log. This is because closing dates may differ month to month.

Corrective Action Plan

Contact Person: Suzanne Tate, Deputy Director

Anticipated Completion Date: September 27, 2006

Corrective Action Planned: Cardholders will make certain that transactions are posted to the transaction log that will be reconciled with the statement. In addition, cardholders will sign memo statements indicating the completion of the reconciliation.

OVERALL CONCLUSION

In our opinion, the Oklahoma Arts Council has materially complied with the requirements of the State of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, there were notable exceptions. These notable exceptions are related to appropriate cardholder and approving official participation and receipt of purchase procedures. The Oklahoma Arts Council has begun implementing corrective action, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.