

OKLAHOMA

Department of Central Services



Department of Central Services

Purchase Card Review

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

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PURPOSE, OBJECTIVE AND SCOPE

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

The objective of this review was to assess the efficiency and effectiveness of the purchase card program and compliance with state statutes, promulgated rules, State Purchase Card Procedures, the Agency's internal purchasing procedures and to make recommendations for improvements.

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

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the purchase card program were documented and evaluated.
- A sample of transactions from each of the 17 active cardholders was examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures, the Central Purchasing Act and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

74 O.S. § 61.2 created in the Executive Department, a Department of Central Services, under the administrative control of the Director of Central Services. The mission of the Department of Central Services enables effective and efficient state government through the provision of critical services to state agencies, boards, and commissions including strategic sourcing, facilities management, leasing, construction, fleet management, property reutilization, risk management, printing and distribution, financial and administrative support to the OCIA, and oversight of fifty-eight boards and commissions. The Governor shall appoint a Director of Central Services, by and with the advice and consent of the Senate, who shall hold office at the pleasure of the Governor and shall continue to serve until his successor is duly appointed and qualified.

Department of Central Services

The Agency is made up of 221 classified, 55 unclassified and 12 temporary employees. At the time of this review, there were 17 cardholders in the Department. Each cardholder reports to an approving official. The Director has appointed one individual to be the agency purchase card administrator, who is responsible for overseeing the agency purchase card program.

Key Staff:

John Richard, Executive Director
Delmas Ford, Chief of Staff
Keith Hicks, CPO, P/Card Administrator

AUDIT RESULTS

Purchase Card Program Economy Results

The purchase card program saved the Agency an estimated net savings of \$14,326.89 during state fiscal year 2005. This is 5.6 % ($\$14,326.89 \text{ Savings} / \$253,843.66 \text{ Total Expenditures}$) 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. Additional savings include the purchase card rebate and transaction fees. The agency stated 20% of purchases made during the audit period would not have been possible without the purchase card.

Total questioned and extrapolated additional cost noted during our audit is \$214.17.

Findings and Recommendations

Finding No: 05-580-01

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.10 states, "State entities shall establish an internal procedure to ensure that a p/card held by a terminated employee is promptly provided to the State Entity P/Card Administrator".
2. State of Oklahoma Purchase Card Procedures § 6.2.5 states, "P/card purchases shall comply with the following preferences for certain merchants or types of contracts. The following are listed in order of preference: state use committee, Oklahoma Corrections Industries (OCI), and mandatory statewide contracts".

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

3. State of Oklahoma Purchase Card Procedures § 3.9 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 and prior to being issued p/cards".

Condition: During the review of the agency's internal controls, we noted the following:

1. Current internal procedures for Department of Central Services (DCS) do not include a procedure for returning a purchase card held by a terminated employee.

2. One purchase out of twenty purchases reviewed appeared to be made outside of state use and state contract preferences. The exception noted cost the State an additional \$7.40. The purchase for address labels was made on 09/16/2004 in the amount of \$17.90.
3. An approving official assumed their duties four months prior to receiving required Purchase Card Training. The approving official attended mandatory training on 06/30/2005.

Cause:

1. The Department was not aware a procedure regarding retrieving purchase cards from terminated employees needed to be developed.
2. The Department made an exception to the purchase requirements due to the readily availability of product and timeliness of the delivery of product.
3. The Department did not place a high priority on mandatory training for the approving official.

Effect:

1. The purchase card may not be retrieved from a terminated employee in a timely manner upon termination. The Purchase Card Program Administrator may not be aware of cardholders who have terminated employment. As a result, purchase cards may not be cancelled in a timely manner. In addition, the opportunity for the occurrence of unauthorized transactions is created.
2. The Department is not in compliance with the State of Oklahoma Purchase Card Procedures § 6.2.5 and State of Oklahoma Employee Card Agreement form.
3. Individuals who have assumed their duties and responsibilities prior to receiving mandatory training may not possess the requisite knowledge for understanding the specifics of their role. This lack of knowledge creates an opportunity for lapse in established management controls.

Recommendation: We recommend the following:

1. The Department should update their internal procedures to include a procedure for the retrieval of the purchase card from terminated employees.
2. The Department should inform cardholders that purchases are to be made in accordance with the statutory preferences.
3. The Department should ensure all approving officials have received the required p/card training prior to assumption of duties as prescribed by State of Oklahoma Purchase Card Procedures § 3.9.

Management's Response

1. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - A procedure should be developed in order to insure the timely receipt and cancellation of p-cards for DCS employees separating their employment relationship with the agency. A more practical area for the procedure would be within the Human Resources Division. I have had previous discussions with the current and former HR Administrators regarding this matter. There should be a standard out-processing checklist for certain program and supervisory personnel to sign off to insure all items, including p-cards, are accounted for prior to an employee's official release from the agency. The agency CPO currently has three items of interest affected by this process, or lack of, in this case.

1. P-Card,
2. Letter of Revocation for delegated purchasing authority, and
3. De-activation of agency user access to the PeopleSoft system.

Corrective Action Planned: The agency p-card administrator will follow up with the Human Resources Administrator to discuss implementing a plan to insure timely communication on all employees leaving the agency. The plan shall be documented in writing and include a checklist for all pertinent programs and divisions to be involved in out-processing DCS personnel.

2. Respondent: Keith Hicks, P/Card Administrator

Response: Partially Concur - On the date this purchase was completed, the statewide contract/state use vendor did not supply new OEM toner cartridges as specified for this transaction. The machine this cartridge was used in was new, under warranty. Use of a remanufactured or recycled toner cartridge could have voided the machine's warranty; therefore, an alternate vendor was used for the purchase.

The transaction documents should have been annotated to further clarify circumstances affecting the decision to purchase from a source other than the preference specified in section 6.2.5 of the State of Oklahoma Purchase Card Procedures.

The inkjet address labels are a violation of the merchant preference. This item was available as specified from the mandatory SW contract/state use vendor on the date this transaction was completed.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials.

3. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - Cardholders who were placed under new supervision due to reorganization of the agency should be have suspended their card usage until the new approving official attended training as required in section 3.9 of the State of Oklahoma Purchase Card Procedures.

Corrective Action Planned: This particular instance was corrected on November 30, 2005 as stated in the finding. For future instances that may occur, all cards will be suspended until a new approving official can be designated and trained or a designee can be appointed to serve as the approving official on an interim basis.

Finding No: 05-580-02

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.5 Receipts for purchase states in part, "... If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation or confirmation number should be obtained."
2. 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: During the review of the agency's internal controls, we noted the following:

1. We reviewed three phone orders during our internal control review in the month of March 2005. One of three phone orders selected was not properly supported by documentation.
2. We reviewed thirty-five transaction logs during the month of July 2004, August 2004 and January 2005. We noted three of four purchases exceeding \$500.00 that were not listed on the Department's inventory schedule.

Cause:

1. The cardholder may have either misplaced the confirmation order or did not request a confirmation order number.
2. The Inventory position for the Department was vacant for an extended period of time during state fiscal year 2005.

Effect:

1. By not having supporting documentation for purchases made, it cannot be determined what was purchased, at what cost, or if purchase was for a valid business purpose.

2. By not accurately reporting inventory purchases, the total value of inventory is understated, inventory cannot be properly tracked and the Department does not have an accurate reporting of assets owned.

Recommendation:

1. The Department should ensure that a receipt, confirmation order, or confirmation order number supports all purchases made.
2. The Department should review their current processes to ensure that purchases exceeding \$500 are being recorded on the Department's inventory schedule.

Management's Response

1. Respondent: Keith Hicks, P/Card Administrator

Response: Non-Concur - The original procedures, and Revisions 1 through 4, state "If neither a receipt nor confirmation information is available, the transaction log entry shall serve as a receipt." This language was recently changed in Revision 5, dated September 6, 2005. Cardholders activated prior to Revision 5 would still be following the same instructions they received when they were given their cards. All of the transactions reviewed in this audit were completed prior to the effective date of Revision 5.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials.

2. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - Department of Central Services Policy No. 924 titled "Inventory Management Policy" provides for adherence and strict conformity to requirements set forth in 74 O.S., Section 110.1. Section II of the policy establishes "Inventory Management Procedures" for agency personnel to follow in order to comply with this policy. Inventory items are defined in Section II, Part A, Item 1 as "all equipment acquired...regardless of the source or funding."

The agency's existing Inventory Management Policy does not exclude p-card acquisitions from these requirements. P-cardholders as well as approving officials are expected to comply with the procedures. An e-mail dated May 9, 2001 was sent to all DCS cardholders and approving officials advising that p-card acquisitions are subject to the state's inventory requirements the same as any other acquisition. This issue is also discussed with each new cardholder and approving official when cards are issued.

Corrective Action Planned: Recommend expanding the definition of an inventory item as stated in DCS Policy No. 924. The suggested amendment should state in part "... regardless of the source, funding or method of acquisition." This matter will be addressed as a training issue with all DCS cardholders and approving officials. Also, additional steps will be implemented in the Finance Division to insure all inventory items are recorded on the agency's inventory schedule.

- The agency p-card administrator will provide the inventory control officer with access to the Pathway Net report platform for view and query purposes.
- A reporting tool will be developed to transmit this information from cardholders to the inventory control officer.
- A business process will be created to include the inventory control officer in the payment process.

Finding No: 05-580-03

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.9.1 Cardholder Responsibility states:

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

State of Oklahoma Purchase Card Procedures § 6.9.2 Entity Approving Official(s) Responsibility states:

... 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.

2. State of Oklahoma Purchase Card Procedures § 6.10 Card Security states:

Use of the p/card and Statewide Contract p/card is limited to the person whose name is embossed on the card. The card shall not be loaned to another person...The cardholder 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. State of Oklahoma Purchase Card Procedures § 6.9.1 Cardholder responsibility states: "...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating the cardholder did make the purchases."

Condition:

1. The cardholder's transaction log and memo statement did not reconcile in nine out of seventy-eight (11.54%) transaction logs reviewed. Of the nine instances, three transactions were omitted from the transaction log totaling \$168.68. The remaining six transactions were due to either transposition errors or the omission of credit transactions on the transaction log totaling \$282.05. None of these transactions were disputed transactions or carried over to the next billing cycle.
2. In three instances, a person other than the cardholder signed the authorization line on the credit card receipt. All three purchases were manually entered indicating that these purchases were phone authorizations.
3. In five instances, vendor erroneously charged telephone purchases made by a cardholder to another cardholder's account.

Cause:

1. Cardholders are not ensuring that their memo statement and transaction log are properly reconciled before submission to their designated approving official.
2. The receiving employee inadvertently signed the authorization line on the credit card receipt.
3. The Department did not consider these transactions as disputed transactions. The merchant was not contacted to reverse and correct transactions.

Effect:

1. Inaccurate reconciliation of the transaction log to memo statement creates the possibility of omissions of transactions, understatement or overstatement of purchase activity and unexplained transactions may occur.
2. A signature on the authorization line of credit card receipt other than the cardholder's signature appears the card or card number has been loaned to another individual. This creates a potential for misuse and abuse of the purchase card.
3. The failure to dispute erroneous charges indicates the cardholder is accepting responsibility for charges that could be made outside of State Purchase Card Procedures requirements.

Recommendation:

1. Cardholders should ensure that their transaction log and memo statement are properly and accurately reconciled before submission to their designated approving official.
2. Receiving employees for good and/ or services should be instructed not to sign the authorization line on the credit card receipt.

3. Erroneous charges on cardholder account should be considered as a disputed transaction. Vendor should be contacted immediately to correct charges. If no resolution can be reached, the bank should be contacted in addition to the completion of the Dispute Form.

Management's Response

1. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - The samples tested in this finding clearly demonstrate a need for additional training in two areas.

1. Documenting transactions occurring in one cycle and posting (or billing) in another, and
2. Defining the approving officials role in the approval/reconciliation process.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials. Also, the agency's p-card transaction log is currently being revised to accommodate additional requirements and information that will facilitate better record keeping for the cardholder. The transaction log will be modified to automatically calculate the cost of each entry. This change should eliminate most of the reconciliation errors cited in this finding.

2. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - These instances appear to be exceptions caused by external factors. The cardholder could have taken steps to prevent the appearance of any impropriety in these transactions by annotating the documents to further clarify what transpired. The best practice is to ask the merchant to make a notation on the signature authorization line that states "Telephone Order". Assuming the merchant complies with the cardholder's request, this step will prevent receivers from inadvertently signing the transaction authorization receipt.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials. An emphasis will be placed on the role of the approving official as a method to provide sufficient checks and balances in the reconciliation process.

3. Respondent: Keith Hicks, P/Card Administrator

Response: Non-Concur - While the charges were erroneous to the cardholder account, the order in itself was not because it was received in its entirety by the agency. The vendor was contacted immediately and advised to obtain valid cardholder account information from the appropriate cardholder for each p-card order. Both cardholders reviewed the misdirected charges to determine if all charges were accurate and all items were accounted for. All charges and receipts were reconciled and annotated on the appropriate cardholder's transaction log.

A dispute form was not completed. To do so would have only cost more time and effort with the same results.

Corrective Action Planned: None. This was an isolated incident that was corrected immediately.

Finding No: 05-580-04

Extrapolated Additional Cost: \$214.17

Criteria:

1. 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."

2. State of Oklahoma Purchase Card Procedures § 6.2.5 Merchant Preferences, states:

P/card purchases shall comply with the following preferences for certain merchants or types of contracts. The following are listed in order of preference: State Use Committee, Oklahoma Corrections Industries (OCI), and Mandatory statewide contracts.

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

3. 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. It should be annotated "Received" and signed and dated by the receiving employee."

Condition:

1. Purchases of goods in excess of \$500 are not being consistently reported on the Department's inventory schedule. Six out of ten (60%) purchase card transactions for goods exceeding \$500 were not reported on the inventory schedule.

Date Acquired	Item	Acquisition Cost
08.13.04	Compressed Air Dryer	\$1,238.40
11.18.04	Acme DTT Trans	\$725.00
01.03.05	Compressor- 2	\$1,610.00
04.26.05	Time stamps- 2	\$1,306.97
04.21.05	Duplicator	\$699.00
06.27.05	Digital Recorder	<u>\$915.00</u>
		<u>\$6,494.37</u>

2. Thirty purchases eligible for merchant preference were reviewed out of 133 sample units. Ten (33.3%) of these purchases were made outside of merchant preference (i.e., state use, OCI, and mandatory statewide contract). Seven of the ten (70%) exceptions noted were from one cardholder (#015110). The exceptions noted cost the State an additional \$35.38. The extrapolated additional cost to the State is \$214.17.
3. We reviewed 133 transactions to ensure receipts were signed and dated by the receiving employee. We noted where twenty-eight receipts (21.05%) were not dated by the receiving employee and sixteen receipts (12.03%) were neither dated nor signed by the receiving employee.

Cause:

1. The Inventory position for the Department was vacant for an extended period of time during state fiscal year 2005.
2. The Department may have made an exception to the purchase requirements due to availability and timeliness of the delivery of the product.
3. Cardholders were not aware that receipts should have been signed and dated if the cardholder was also the receiving employee.

Effect:

1. By not consistently reporting inventory purchases exceeding \$500, inventory cannot be properly tracked, the total value of inventory is understated, and the Department does not have an accurate reporting of assets owned.
2. By not making purchases from required merchant preferences, the control to ensure prices paid were fair and reasonable is circumvented.
3. By not requiring cardholders to sign and date receipts, there is no verification that goods and/ or services were actually received.

Recommendation:

1. The agency should record all inventory items found during the audit in the Department's inventory listing. The Department should also review purchases during the time the process was not operating effectively to determine that all required items have been placed in the inventory listing. The Department should also review their current processes to ensure that purchases exceeding \$500 are being recorded in the Department's inventory schedule.
2. Cardholders should be advised of merchant preferences regarding purchases of goods from required vendors, i.e. state use and mandatory state contract. Management should also consider addressing cardholders who do not make purchases in accordance with the merchant preferences.
3. Cardholders should be reminded that all receipts are to be dated and signed by the receiving employee.

Management's Response

1. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - As stated in response to audit finding #05-580-02, item 2, the Department of Central Services has established Policy and Procedures (No. 924) for inventory management purposes. Part B, Item 1 of Section II describes a control process intended to prevent items from being excluded from the agency's inventory schedule. The procedure states "The Finance Division shall not remit payment on an invoice without a properly completed inventory control form on all inventory items."

Presumably, these checks and balances failed due to a position vacancy within the Finance Division and/or the lump sum payment process the state uses for p-card purchases. A single transaction cannot be withheld for non-payment without holding up the entire amount for all agency cardholders. However, neither the cardholder nor approving official should have submitted the billing statement without the appropriate inventory form attached to the transaction log.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials. Also, additional steps will be implemented in the Finance Division to insure all inventory items are recorded on the agency's inventory schedule.

- The agency p-card administrator will provide the inventory control officer with access to the Pathway Net report platform for view and query purposes.
- A reporting tool will be developed to transmit this information from cardholders to the inventory control officer.
- A business process will be created to include the inventory control officer in the payment process.

The six items listed in this finding will be researched and added to the agency's inventory schedule by the Finance Division.

2. Respondent: Keith Hicks, P/Card Administrator

Response: Partially Concur - Two of the ten samples tested clearly are a violation of the State Use/SW contract mandatory preference. One appears to have been completed at a time when Oklahoma League for the Blind was having performance issues and the remaining seven are for items with specific characteristics or requirements excluding them from the statewide contract or state use procurement schedule.

It many instances, office supply items are purchased on the open market because it is not clear to the buyer at what level of detail they are, or are not, available from the SW contract.

In any case, the transaction documents should have been annotated to further clarify other circumstances affecting the decision to purchase from a source other than the preference specified in section 6.2.5 of the State Oklahoma Purchase Card Procedures.

Extrapolated cost cited in this finding have not taken in to consideration other factors indirectly associated with price. Time and effort dedicated to insuring compliance with these requirements should be considered in determining fiscal impact of these types of procurement violations.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials.

Auditor Response:

The items noted below were purchased outside of merchant preference but similar or identical items were found in the statewide contract for office supplies. OAC 580:15-6-5 (1)(A) allows state agencies a waiver from purchasing from mandatory statewide contract if a written request is submitted to the State Purchasing Director. The exception will be granted prior to the agency making the acquisition from another supplier. For the items noted below, no waiver was requested or granted.

Date	Item	Contract #	Line #
11.30.04	Folder, end rcyl	SW 022	34
11.29.04	Legal, expansion file pocket	SW 022	20
11.29.04	Letter, file jacket	SW 022	17
12.07.04	4 x 6, Post-It Notes	SW 022	58
01.25.05	Electric staple cartridge	SW 022	84
03.30.05	'Sign here' tape flags	SW 022	150
06.15.05	Letter file folders	SW 022	114
06.15.05	Legal expandable file pockets	SW 022	11

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

3. Respondent: Keith Hicks, P/Card Administrator

Response: Concur - State of Oklahoma Purchase Card Procedures Revision 2, dated January 31, 2005 amended section 6.7.1. This change, in addition to a migration from PVS Net to Pathway Net, prompted the agency p-card administrator to schedule a training session for all DCS cardholders on May 24, 2005.

This issue was discussed in detail during this training session. The agency p-card administrator has continually advised cardholders to sign and date all documents they attach to their transaction logs. The cardholder and approving official should not have submitted the monthly billing statements for payment unless all documentation requirements had been fulfilled.

Corrective Action Planned: This matter will be addressed as a training issue with all DCS cardholders and approving officials. An emphasis will be placed on the role of the approving official as a method to provide sufficient checks and balances in the reconciliation process.

Finding No: 05-580-05

Criteria: The 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. ...6.2.5.1 State Use Committee."

The Oklahoma state statute 74 O.S. § 3004 states:

The Committee shall designate by regulation a schedule, hereinafter referred to as the procurement schedule, of the products directly manufactured, produced, processed or assembled or services directly performed, offered or provided by any severely disabled person or qualified nonprofit agency for the severely disabled, as defined by this act, which the Committee determines are suitable for procurement by the state. No state agency shall purchase, pursuant to Section 3007 of this title, products or services purporting to be made by severely disabled persons in workshops, which are not certified by the Committee or by severely disabled individuals who are not certified by the Committee.

The Oklahoma state statute 74 O.S. § 3007 states in part:

A. Whenever the State of Oklahoma or any of its agencies intends to procure any product or service included in the procurement schedule, that entity shall secure the product or service from a qualified nonprofit agency providing employment to people with severe disabilities at the fair market price

determined by the Committee if the product or service is available within the period required by the entity.

B. An agency of this state shall not evade the intent and meaning of this section by slight variations from standards adopted by the Department of Central Services.

The Oklahoma state statute 74 O.S. § 3005 states: "The Committee shall determine the fair market price of all products and services included in the procurement schedule and shall revise such prices in accordance with changing market conditions; ..."

The Oklahoma state statute 74 O.S. § 3004.1 states is part, "A one-percent fee of any contract for products or services or the severely disabled shall be assessed against the qualified organization..."

The Oklahoma Administrative Code 304:10-1-3 (a) states, "**Qualification by Committee.** To ensure compliance with the Act, the Committee shall qualify individuals and nonprofit agencies prior to contract award."

Condition: During our review of the purchase card program at the agency, we were unable to determine if certain acquisitions were in accordance with State Use merchant preferences. These items were listed on the State Use Procurement Schedule and were not included in a statewide contract. The following factors were contributable to our determination:

1. The agency is required by law to purchase products from the State Use Procurement Schedule, unless the product or service is not available within the period required by the entity. Some products and services listed on the State Use Procurement Schedule are vague and may be difficult for the agency to determine the product or service the State Use Vendor is providing. In addition, the State Use Procurement Schedule does not include the fair market price approved by the State Use Committee for the products and services provided by the State Use Vendors. Examples include: bookcases, shelves, leather products, boxes, small wood products, manufacture metal signs, other specialty items, furniture, signage, awards, health and safety products, valve caps, computer training, clerical, administrative, small parts, paper, assembly work, grounds maintenance, promotional items, personal care items, bags, landscaping, packaging, labeling and supplies.
2. The Department of Central Services does not have a contract with State Use vendors for products and services not covered under a statewide contract.
3. We requested a schedule of fair market prices approved by the State Use Committee for the products and services listed on the State Use Procurement Schedule that are not otherwise in a statewide contract. The Department of Central Service (DCS) stated that the information was not readily available and would have to be gathered from all previous State Use Committee meeting minutes. The agency stated this process would take up to three to four weeks to compile.

4. The State Use Contracting Officer is granting exemptions for products and services listed on the State Use procurement schedule that are not on a statewide contract. It appears the State Use Contracting Officer may not have the authority by law to grant exemptions for products and services listed on the State Procurement schedule that are covered in a statewide contract.

Cause:

- 1 and 3. The agency followed past precedent.
2. We were unable to determine the cause.
4. The authority to provide State Use exemptions for items on the procurement schedule that are not on a statewide contract was assumed under the Oklahoma Central Purchasing Act.

Effect:

1. The agency may not be able to determine if they are in compliance with the State Use regulations. When the agency is to procure a product or service, they may not be able to determine if a similar product or service is listed on the State Use procurement schedule.
2. The state may not have a legal agreement between parties for State Use products and services purchased by State agencies.
3. The State Use fair market price for products and services approved by the State Use Committee may not be readily available for review.
4. The agency may exceed its authority by granting exemptions from procuring State Use products or services as outlined by state law.

Recommendation: We recommend:

- 1 and 3. the Department of Central Services provide and publish the fair market price and detailed information for the products and services approved by the State Use Committee.
2. the Department of Central Services create and maintain a contract with all approved State Use vendors.
4. the State Use Contracting Officer discontinue granting exemptions for the products and services on the State Use procurement schedule that are not on statewide contract until such authority has been granted by law.

This audit finding will also be forwarded to the State Use Committee for further review.

Management's Response

1. Respondent: Steve Hagar, Deputy Director of Central Purchasing
Response: Partially Concur - The Procurement Schedule has historically been a tool to identify State Use suppliers and a general description of the products and or services that are suitable for procurement (Title 74 Chapter 48 section 3004). The State Use Contracting Officer will revise the procurement schedule to include specific products and services for which fair market values have been established. This historic procurement schedule will be removed from our web site and re-implemented as a State Use Vendor List.

Corrective Action Planned: What was listed on the DCS website as the procurement schedule has now been identified as the vendor list. Specific products or services that are offered by State Use suppliers will be listed in a State Use catalog that will be compiled, printed and distributed to State agencies by July of 2006. As fair market pricing constantly evolving, it will not be part of the procurement schedule but a separate document that is maintained by the State Use contracting officer. This list will be available by the end of January, 2006.

2. Respondent: Steve Hagar, Deputy Director of Central Purchasing
Response: Partially Concur - We currently have 57 Use suppliers that have meet the legal requirements and have been approved by the Use Committee. Of the 57 suppliers, 53 have either a statewide contract or purchase order (which is also a contract). The remaining four suppliers are approved by the Use Committee but have yet to be awarded a purchase order or contract. There are some products and services offered by State Use suppliers that are inherently unique in nature and therefore need to be purchased on an as needed basis. The actual purchase could be made utilizing purchase order, statewide contract or p-card.

Corrective Action Planned: We are partially concurring because it is correct that some State Use suppliers do not have contracts. There is no corrective action required, as this condition is inherent to the process of becoming a State Use supplier. Your concerns for the State's potential liability are addressed contract or purchase order when any purchase is made.

Auditor Response: Based upon managements response and the stated corrective action planned, this issue will be forwarded to the Director of Department of Central Services for further review.

3. Respondent: Steve Hagar, Deputy Director of Central Purchasing
Response: Partially Concur - The Central Purchasing Rules state that "State agencies shall make acquisitions from suppliers on the State Use Committee procurement schedule regardless of acquisition purchase price if the supplier's delivery date meets the state agency need" OAC 580: 15-6-5 (2). Although Oklahoma State Statutes do not specifically require pricing be included in the procurement schedule, inclusion would provide a more user-friendly tool. The State Use Contracting Officer will compile a list of specific products and services complete with individual pricing (as established by the Use Committee) which will be identified as the Procurement Schedule.

Corrective Action Planned: This fair market price list will be available by the end of January 2006.

4. Respondent: Steve Hagar, Deputy Director of Central Purchasing
Response: Partially Concur - The Central Purchasing Rules OAC 580: 15-6-5 (2) provides the State Use contracting officer authority to waive the requirement for agencies to purchase products from the procurement schedule. This waiver is not providing exemption to the State Use rule but more specifically confirming that State Use cannot provide the requested product or service in the form or time frame that is required by the agency.

Corrective Action Planned: There are inconsistencies among the State Statutes, the Central Purchasing, and the laws governing the State Use. The State Use Committee will address these inconsistencies and the legislative changes required will be identified by January of 2006.

Auditor Response: #3 and 4 The Oklahoma Administrative Code (OAC) Title 580 chapter 15 relates to Central Purchasing. The Oklahoma Administrative Code for State Use is at OAC Title 304 chapter 10.

OVERALL CONCLUSION

In our opinion, the Department of Central Services 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 compliance with merchant preference, State Use, and inventory reporting. The Department of Central Services has begun implementing corrective action, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.