

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

June 13, 2006

**TO MARK HODGES, EXECUTIVE DIRECTOR AND OKLAHOMA WHEAT
COMMISSION BOARD**

With this letter, we transmit the report of the Oklahoma Wheat Commission procurement audit for state fiscal year 2005.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Richard".

John S. Richard
Director of Central Services

"Committed to Quality"

OKLAHOMA

Department of Central Services Auditing Unit



OKLAHOMA WHEAT COMMISSION

Procurement Audit

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

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services, Auditing Unit has completed an audit of Oklahoma Wheat Commission, hereinafter referred to as the "Agency", procurement program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the agency is in compliance with provisions of the Oklahoma Central Purchasing Act;
- determine if the agency is in compliance with rules promulgated by the Department of Central Services pursuant to the Oklahoma Central Purchasing Act;
- determine if the agency is in compliance with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee;
- determine if the agency is in compliance with the State of Oklahoma Purchase Card Procedures;
- determine if the agency is in compliance with approved internal purchasing procedures;
- determine the relative cost benefits the purchase card program had on the agency; and
- make recommendations for improvements.

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

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the procurement program (including the purchase card program) were documented and evaluated.
- Procurement transactions (including purchase card transaction from the active cardholders) were examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the rules related to the audit objectives was evaluated.

EXECUTIVE SUMMARY

Organization

In 1965, the Oklahoma Wheat Resources Act established the Oklahoma Wheat Commission, and with it a framework for Oklahoma wheat producers to invest in the promotion of their product, hard red winter wheat. The mission of the Oklahoma Wheat Commission is to promote and further develop the marketability and utilization of Oklahoma wheat through international and domestic market development, research and education. Much effort is directed toward foreign markets since 80 per cent of the State's wheat is exported. The efforts of the Oklahoma Wheat Commission are funded entirely by producer contributions through a fee system.

The Oklahoma Wheat Commission works to educate the public about wheat production and industry operations through educational programs such as the Junior Wheat Show, the Wheatheart Bread Baking Contest, and the Oklahoma Farm Show.

The Oklahoma Wheat Commission is entirely producer-controlled. The Oklahoma Wheat Commission is governed by a Board of Commissioners. The Oklahoma wheat producers elect their fellow producers to serve as commissioners in district elections. Each district has an opportunity to elect a commissioner every 5 years. Once selected, commissioners are appointed by the Governor of Oklahoma to serve a 5-year term. Five Oklahoma wheat producers make up the board of commissioners.

Commissioner responsibilities include:

- Developing policy and programs
- Overseeing the implementation of policy and programs
- Approving budget expenditures
- Directing the funding of research, market development, and education
- Representing district producer interests
- Promoting Oklahoma wheat

Agency

The Agency is made up of 5 unclassified, non-merit staff members as of September 1, 2005. At the time of the review, there was one certified procurement officer and three purchase card holders in the agency.

Key Staff:

Mark Hodges, Executive Director
Judi Williams, Assistant Director

AUDIT RESULTS

Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$1,783.09 during state fiscal year 2005. This is 26.05% (\$1,783.09 estimated savings / \$6,842.95 total expenditures) of the total dollars expended using the procurement. This is an average estimated savings of \$17.83 per transaction for the Agency. A majority of the savings was contributable to the cost associated with the time saved by using the purchase card rather than traditional governmental purchasing methods. Additional savings include the procurement rebate and transaction fees. The Agency stated that the use of the purchase card has made purchasing more convenient.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

FINDING 05-875-02: Purchase Card

Criteria: State 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."

State Purchase Card Procedures § 6.9.1, Cardholder Responsibility, states in part:

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 memo statement shall be reconciled by the cardholder and submitted to the cardholder's designated State Entity Approving Official... 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.

Condition: Based on our internal control and substantive testwork, we noted the following:

1. The Purchase Card Administrator for the Agency maintains all transaction logs for each cardholder and reconciles the transaction logs to the memo statements at the end of each billing cycle.
2. While cardholders are obtaining the appropriate supporting documentation for purchases, cardholders were not allowed to maintain these receipts. P/Card Administrator maintains all receipts for all purchases made by all cardholders for the agency.

3. Twenty of the twenty-five (80%) memo statements reviewed during substantive testing were not signed and dated by an approving official one position level higher than the cardholder.

4. The Assistant Director of the agency approved the purchase card reconciliations of the Executive Director who was one level higher than the Assistant Director. Also, the P/Card Administrator approved purchase card reconciliations for cardholders who were at the same authority level as the P/Card Administrator.

Cause:

1, 2 and 3. P/Card Administrator maintains and reconciles transaction logs and memo statements for easier maintenance of purchase card program for the Agency.

4. There is not another individual within the Agency who is one position level higher than the Executive Director who is able and available to approve the Executive Director's purchase card reconciliations.

Effect:

1. By the cardholder not maintaining a transaction log, an individual could create unauthorized transactions through the use of the cardholder's account number without the knowledge of the cardholder. Misuse of the purchase card could also occur and be undetected by the Agency. Furthermore, there is an inappropriate segregation of duties when the approving official who maintains individual cardholder transaction logs also maintains custody of cardholder purchasing information

2. By not allowing cardholders to maintain supporting documentation and to reconcile their own receipts to the memo statement for purchases made, cardholders are not verifying that purchases made are accurate. This prevents the cardholder from fully assuming their duties and responsibilities as a purchase cardholder.

3. By not having a designated approving official one position level above the cardholder's position, the Agency has an inadequate segregation of duties and responsibilities regarding approving cardholder reconciliations and effective oversight. There is no confirmation that there was independent verification of documentation for accuracy, completeness, and appropriateness for purchase card activity in accordance with State Statutes and promulgated rules.

4. By not having a designated approving official one level above the cardholder's position, the Agency does not have effective oversight of cardholder duties and responsibilities within the purchase card program.

Recommendation: We recommend to the Agency:

1. Each cardholder maintain a transaction log and perform reconciliation of transaction log to memo statement and all related supporting documentation.

2. Cardholders maintain all supporting documentation for all purchase card transactions made.
3. An individual one level above the cardholder's position who has received the mandatory purchase card training approve the cardholder reconciliation.
4. The cardholder voluntarily relinquished their purchase card when informed of noncompliance with State Purchase Card Procedures. There is no further recommendation made at this time.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: As a result of this finding, all cardholders will maintain their own supporting documentation in order to perform a reconciliation of their own memo statement and transaction log. In addition, each cardholder will prepare their own transaction log. The Executive Director continues to approve all cardholder reconciliations; however, he has relinquished his purchase card duties and deactivated his purchase card.

FINDING 05-875-01: Procurement

Criteria: Title 74, O.S. Section 85.41, Professional Services Contracts, states in part:

(B) The state agency shall evaluate the performance of the professional services provided pursuant to a professional services contract. The performance evaluation shall indicate the quality of service or work product of the supplier. The state agency shall retain the evaluation in the document file the state agency maintains for the acquisition pursuant of Section 85.39 of this title.

Condition: We statistically selected 9 professional service acquisitions totaling \$579,151.00 out of 30 acquisitions totaling \$639, 398.62 to test. Of the nine, two of the acquisitions were applicable to the following requirements.

- One of the two (50%) files reviewed did not contain a professional service contract affidavit (74 OS. §85.41.F)
- Two of the two (100%) files reviewed did not contain an original performance evaluation; therefore, we could not determine the quality of service provided by the vendor or if any deficiencies existed which would require the evaluation to be filed with the Central Purchasing Director.

Cause:

- A clerical omission caused the professional service contract affidavit to be omitted from the contract file.
- The agency indicated they were not aware the performance evaluation was to be completed for each professional service vendor.

Effect:

- Failure to perform a performance evaluation prevents a state agency from identifying substandard quality of service in vendors who offer to perform professional services for state agencies and result in additional costs or liability to the state.
- Failure to notify the Department of Central Services of substandard quality of service of professional vendors limits the agency's ability to control the quality of vendors registered to do business with state agencies and notify other state agencies of vendor deficiencies

Recommendation: We recommend the Agency:

- Ensure that every professional service contract for a written proposal, report, or study, has a sworn statement signed by the vendor certifying that the supplier has not previously provided the state agency or another state agency with a final product that is a substantial duplication of the final product of the proposed contract.
- An evaluation of the performance of every professional service provided should be performed which indicates the quality of service or work product of the supplier. The state agency should retain the original evaluation in the document file the state agency maintains for the acquisition pursuant of Section 85.39 of this title. Any vendor inadequacies should be filed with the Department of Central Purchasing director.

Management's Response: Concur

Date: June 9, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding. In the future, we will complete performance evaluations for all contracts awarded for professional services upon completion of the contract. We will also complete a professional service contract affidavit as required in Title 74 of the Oklahoma Statutes.

Corrective Action Plan

Contact Person: Kathy Stevenson, Business Manager

Anticipated Completion Date: Effective Immediately

Corrective Action Planned: See response above.

FINDING 05-875-02: Internal Purchasing Procedures

Criteria: The Oklahoma Wheat Commission Internal Purchasing Procedures - Needs Assessment, states in part:

All employees may request any supplies or services they feel will assist them in doing their job. These requests are put on a form designed for this purpose and an explanation of need is included. This form must be signed by the employee's supervisor attesting to the need for the purchase.

Condition: The Agency is not completing a request form for supplies or services as stated in the Oklahoma Wheat Commission internal purchasing procedures.

Cause: The policy is outdated and the current procedures and processes used by the Agency to approve various types of acquisitions have changed.

Effect: The Agency is not following internal purchasing procedures.

Recommendation: The Agency should review its internal purchasing procedures to determine if completion of the form is a necessary business process and revise accordingly. If the Agency revises their internal purchasing procedures, the revision should be submitted to the Department of Central Services for approval.

Management's Response: Concur

Date: June 9, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: The Oklahoma Wheat Commission will amend and/or revise their internal purchasing policies to better fit the operating needs of the Agency in relation to the purchasing rules and regulations.

FINDING 05-875-03: Internal Purchasing Procedures

Criteria: Oklahoma Wheat Commission Internal Purchasing Procedures, Agency Purchases point #2, states in part:

The actual purchasing of goods and services shall be done by a designee of the Executive Director. This designee must be a Certified Procurement Officer. The method of procurement will be the responsibility of the Certified Procurement Officer.

Condition: During the audit period July 1, 2004 through June 30, 2005, the Agency had five purchase card cardholders. Of these purchase card cardholders, only two purchase card cardholders were a Certified Procurement Officer (CPO) during the audit period.

Cause: Use of the purchase card was seen as a payment process and not as an act of procurement.

Effect: The Agency is incompliant with their internal purchasing procedures.

Recommendation: We recommend the Agency amend their internal purchasing procedures to better meet the operating needs of the agency as it relates to the purchase card program.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: The Oklahoma Wheat Commission will amend and/ or revise their internal purchasing policies to better fit the operating needs of the Agency in relation to the purchase card program.

FINDING 05-875-06: Purchase Card

Criteria:

1. State Purchase Card Procedures § 6.7.1, Goods or services received at the time of purchase, states in part, "The receipt for purchase also serves as the receiving document. It should be annotated "Received" and signed and dated by the receiving employee."
2. Oklahoma Wheat Commission Internal Purchasing Procedures, Agency Purchases point #3, states in part, "All items arriving at the office must be checked in by the Business Manager/CPO OR Administrative Assistant/CPO AND one other Oklahoma Wheat Commission employee. The receipt/ receiving ticket must be signed certifying that all items have been received that are on the receiving ticket."

Condition: Based on our internal control and substantive testwork, we noted the following:

1. Two of forty-three (4.7%) individually receipted purchase card transactions were not signed and dated by the receiving employee.
2. During our internal control testwork, a sample of receipts for goods purchased was reviewed. These receipts were not signed by an individual apart from the cardholder. During substantive testwork, there were 43 individually receipted purchase card transactions reviewed for the period July 1, 2004 through June 30,

2005. None of these receipted transactions were signed by an individual indicating certification that all items have been received other than the purchase card cardholder.

Cause:

1. The Agency was unaware the receipts were not signed and dated.
2. The signature of the purchase card cardholder was believed sufficient certification of items received were on the receiving ticket.

Effect:

1. & 2. In the absence of signature and date on the receiving document, there is no verification that the goods have been properly received.

Recommendation:

We recommend the Agency:

1. Ensure all purchase card receipts are signed and dated by the receiving employee.
2. Ensure all items and receiving tickets arriving at the office of the Agency are certified by the appropriate individuals that the items were received.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: In the future, all purchase card receipts will be signed and dated by the cardholder. In addition if a receiving ticket is issued separately, the appropriate employee will sign and date when the goods or services are received.

FINDING 05-875-05: Purchase Card

Criteria: State Purchase Card Procedures § 6.5, Receipts for purchase, states in part, "Receipts shall be obtained for purchases."

Purchase Card Employee Agreement Form point #11 states, "I understand that I am personally responsible for obtaining all purchases and credit documents and submitting them in accordance with State p/card procedures."

Condition: We statistically sampled 43 out of 100 purchase card transactions to review. Out of the 43 transactions reviewed, we noted 3 (3 errors / 43 sample units = 7% error rate) transactions that were not adequately supported by a detailed receipt. In one instance, a packing slip was used that did not include an invoice charge. In another

instance, a credit charge receipt without detailed information was used as supporting documentation for purchase. In the final instance, a customer service report, which indicated an incorrect amount to be credited, was used as supporting documentation.

Cause: The Agency was unaware that packing slips, credit charge receipt, and customer service report were insufficient documentation for support of purchase card transactions.

Effect: By not having sufficient receipt documentation, it is difficult to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid governmental purpose. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

Recommendation: We recommend the Agency ensure that all cardholders obtain detailed receipt documentation for all purchase card purchases.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: In the future, all documentation to evidence purchase card transactions will be evidenced with a detailed receipt.

FINDING 05-875-04: Purchase Card

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

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

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

Condition: We statistically sampled 43 out of 100 purchase card transactions to review. Of the 43 purchase card transactions, two (4.7%) of the purchases were applicable to merchant preference requirements. Of these two purchases, one (50%) purchase was not made in accordance with merchant preference requirements.

Cause: The Agency made an exception to merchant preference requirements due to the ready availability of product and timeliness of delivery.

Effect: Products and services were not purchased from the statewide contract that traditionally reduces cost to the State as a whole.

Recommendation: We recommend the Agency continue informing cardholders and approving officials of the products and services required to be purchased through statewide mandatory contracts.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: All cardholders have been directed by the Executive Director to obtain approval for purchase card transactions prior to purchase through the Agency CPO.

FINDING 05-875-01: Purchase Card

Criteria: State 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."

Condition: Three of the five (60%) cardholders of the agency completed the Purchase Card Employee Agreement twelve months after receipt of purchase card. Two of the five (40%) cardholders terminated their employment with the Agency before a Purchase Card Employee Agreement form could be completed. One cardholder, who also serves as the Agency's designated approving official, has not completed a Purchase Card Employee Agreement form as the approving official.

Cause: The agency was unaware that cardholders and approving officials should complete Purchase Card Employee Agreement forms prior to issuance of purchase card and assumption of duties.

Effect: By not having signed Purchase Card Employee Agreement forms for participants in the purchase card program, participants may not understand their duties and responsibilities as it relates to the purchase card program or be cognizant of specific limitations to their individual purchase cards.

Recommendation: We recommend all cardholders and designated approving official for the Agency complete a Purchase Card Agreement form prior to issuance of purchase card and assumption of duties.

Management's Response: Concur

Date: May 31, 2006

Respondent: Mark Hodges, Executive Director

Response: We agree with this finding.

Corrective Action: In the future, a purchase card agreement will be signed by each cardholder prior to issuance of a purchase card.

OVERALL CONCLUSION

In our opinion, Oklahoma Wheat Commission has materially complied with the objectives reviewed; however, some exceptions were noted. Oklahoma Wheat Commission has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.