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STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

May 22, 2006

**TO TERRY MCCULLAR, PRESIDENT/CEO AND THE BOARD OF MANAGERS**

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

We performed our review 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"*

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# OKLAHOMA

## Department of Central Services Auditing Unit



### COMPSOURCE OKLAHOMA

#### Purchase Card Audit

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

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## **PURPOSE, OBJECTIVE AND SCOPE**

The Department of Central Services has completed a review of CompSource Oklahoma, 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:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program;
- determine the relative cost benefits the purchase card program had on the agency;
- and, make recommendations for improvements.

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

## **METHODOLOGY**

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- Transactions from the active cardholders were examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

## EXECUTIVE SUMMARY

### ORGANIZATION

CompSource Oklahoma was created in 1933 to provide a consistent, viable market for Oklahoma employers to obtain coverage that was both affordable and service-driven. Over the years that purpose has remained the same. CompSource Oklahoma continues as a non-profit, self-supporting, insurance company for Oklahoma employers, large and small.

CompSource Oklahoma is governed by a Board of Managers. The President and CEO, appointed by the Board, is responsible for the overall operation of CompSource Oklahoma.

Currently, CompSource Oklahoma is one of the largest workers' compensation insurance carriers in the state, serving more than 29,000 businesses and government agencies. CompSource Oklahoma insures thousands of Oklahoma companies and provides coverage benefits for tens of thousands of Oklahoma employees.

Manufacturing, natural resources, trucking, wheat and cattle are Oklahoma's primary economic staples. CompSource Oklahoma provides coverage for these risks as well as many others.

### AGENCY

The Agency is made up of 215 classified, 135 unclassified, and 42 temporary employees as of September 1, 2004. At the time of the review, there were 13 purchase cardholders in the agency.

Key Staff:

Terry McCullar, President/CEO  
Lisa Blodgett, Vice President of Administrative Services  
Christa Elmore, Director of Purchasing/Purchase Card Administrator  
Jacky Deviney, Assistant Purchase Card Administrator

## AUDIT RESULTS

### Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$20,409.21 during state fiscal year 2005. This is 16.4% (\$20,409.21 estimated savings / \$124,674.98 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$49.06 per transaction for the Agency. A majority of the savings was contributable to the cost associated with the time saved by using the purchase card rather than traditional governmental purchasing methods. Additional savings include the purchase card rebate and transaction fees. The Agency stated that purchases have been made with the purchase card that was formerly not available through the use of a purchase order.

Questioned Costs - We noted a total extrapolated questioned cost of \$7,906.45 for insufficient receipt documentation and an undervalued inventory amount of \$1,142.00 for not including a purchase on the inventory schedule during the audit period.

### Findings and Recommendations

*Findings and recommendations are reported based on audit significance.*

#### Finding No: 05-390-003

**Extrapolated Questioned Costs:** \$7,906.45

**Criteria:** State of Oklahoma Purchase Card Procedures § 6.5 Receipts for purchase, "Receipts shall be obtained for purchases. The receipt shall give an itemized and detailed description of the purchase. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation, confirmation number, or packing slip should be obtained..."

**Condition:** We statistically selected 79 transactions out of 416 transactions for review. Based upon our testwork, we noted 4% (three (3) out of seventy-nine (79) transactions) of the transactions reviewed did not have supporting documentation to support the purchase, and 4% (three (3) out of seventy-nine (79) transactions) of the transactions reviewed did not have a confirmation to support the purchase. All six (6) of the purchase card transactions were made by the same cardholder (\*\*\*\*\*847115) for classified advertisement. This individual is no longer a cardholder for the Agency. See transactions below:

<u>Post Date</u>	<u>Merchant</u>	<u>Amount</u>
7/19/2004	The Oklahoman Classifieds	\$476.67
7/30/2004	The Oklahoman Classifieds	\$845.57
10/25/2004	The Oklahoman Classifieds	\$464.69
11/5/2004	Tulsa World	\$198.64
12/6/2004	Tulsa World	\$209.90
12/10/2004	Tulsa World	\$417.04
	TOTAL	<b>\$2,612.51</b>

Questioned costs: \$2,612.51

Extrapolated Questioned costs: \$7,906.45

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

**Effect:** By not providing adequate documentation to support a purchase or by not requesting an order confirmation from the merchant. We were unable to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid government purposes in accordance with the Agency's mission. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

**Recommendation:** We recommend that the Agency ensure all purchases are supported with an adequate receipt, order confirmation, or confirmation number to support all purchases made by the Agency. Reviewing the cardholder's reconciliations and determining transactions are adequately supported is a portion of the designated approving official's responsibilities. The Agency may consider reviewing this cardholder's approving official to determine if they are performing their duties and responsibilities in accordance with the requirements of the purchase card program.

**Management's Response**

**Date:** 5/9/06

**Respondent:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Response:** Concur - CompSource believes this finding has been corrected through utilization of a compliance officer to check monthly transactions for compliance with Pcard procedures and follow up if indicated.

**Corrective Action Plan**

**Contact Person:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Anticipated Completion Date:** Began January 2005, and continuing

**Corrective Action Planned:**

- 1) Pcard compliance officer reviews all purchases for adherence to current Pcard procedures.

**Finding No: 05-390-004**

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

**Condition:** Based upon our testwork, we noted 6.3% (5 errors out of 79 transactions reviewed) of the purchase card transactions in which goods or services received subsequent to the time of purchase did not include a proper receiving document to support the purchase.

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

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

**Recommendation:** We recommend that the Agency ensure all cardholders are aware that goods or services received subsequent to the time of purchase must be supported with a proper receiving document such as a packing slip or service order. The receiving document must accompany the supporting documentation. In addition, we recommend that the Agency establish a process to ensure all goods or services received subsequent to the time of purchase is supported by adequate receiving documentation.

**Management's Response**

**Date:** 5/9/06

**Respondent:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Response:** Concur - In some instances packing slips were not available with purchase documents. However, in the past, employees indicated on receipts that the items were received and noted dates of receipt in many of these transactions. CompSource has taken additional steps to improve documentation of receipt of items as outlined below.

**Corrective Action Plan**

**Contact Person:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Anticipated Completion Date:** Meeting with Pcard holders on or before May 31, 2006, monthly compliance reviews ongoing

**Corrective Action Planned:**

- 1) CompSource will meet with current Pcard holders and approving officials to reinforce the necessity and importance of providing packing slips with items received subsequent to the date of purchase.
- 2) Since March 2006 and continuing, CompSource's compliance officer reviews for packing slips and receipts to ensure compliance.

**Finding No: 05-390-002**

**Undervalued Inventory Amount:** \$1,142.00

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

**Condition:** Based upon our testwork, we noted one (1) out of four (4) items (25% error rate) reviewed exceeding \$500 was not reported on the Agency's inventory schedule.

Date Acquired	Item	Acquisition Cost
09.01.04	Foot Pump Lift	\$1,142.00

**Cause:** The cardholder did not code the item with the correct object code; therefore, the Financial Services Department did not identify the item as inventoriable and subsequently failed to add the item to the inventory schedule

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

**Recommendation:** We recommend the agency to process and record the noted item on the Agency's inventory schedule. We also recommend the Agency review its current process for tracking, reporting and verifying items purchased above \$500 with the purchase card are reported on the inventory schedule.

**Management's Response**

**Date:** 5/9/06

**Respondent:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Response:** Concur - CompSource has inventoried the noted item and has implemented the corrective measures outlined below.

**Corrective Action Plan**

**Contact Person:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Anticipated Completion Date:** Items 1 & 2 have been in place since August 2005, inventoriable item was added to CompSource's inventory list May 9, 2006.

**Corrective Action Planned:**

- 1) CompSource's compliance officer reviews all expenditures to ensure correct object of expenditure codes are used. This is completed after the current billing cycle ends, but prior to the information from the Pathway Net website being downloaded into PeopleSoft.
- 2) CompSource's Pcard holders are required to itemize separately on the Pathway website any item purchased that is over \$500.00.  
**Note:** This is called "splitting the purchase" on the Pathway website and refers to the ability to apply different object codes and descriptions to different items purchased. These steps will help ensure items are correctly coded and inventoried.
- 3) Foot pump lift has been added to CompSource's inventory list.

**Finding No: 05-390-001**

**Criteria:** State of Oklahoma Purchase Card Procedures § 5.3, **P/Card payment** states, "Each state entity shall make **one**, single monthly payment to the appropriate P/Card vendor to satisfy all transactions listed for the billing cycle..."

**Condition:** The Agency made fifty (50) separate payments to the bank for purchase card transactions for billing cycles July 2004 through January 2005.

**Cause:** The Agency created a separate payment voucher for each cardholder's purchase card transactions during the billing cycle.

**Effect:** Reduces the efficiency of the payment process.

**Recommendation:** We recommend that the Agency to continue making one, single monthly payment to the bank to satisfy all purchase card transaction listed for the billing cycle.

**Management's Response**

**Date:** 5/9/06

**Respondent:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Response:** Partially Concur - We agree CompSource made multiple monthly payments to the Office of State Finance (OSF) from July 2004 through January 2005. The Pcard procedures in effect during this time did not mandate a single monthly payment by the agency. Revision 2 of the Pcard procedures dated January 31, 2005 does mandate a single monthly payment by the agency. CompSource has complied with the single monthly payment requisite beginning with the February 2005 payment cycle and we continue to do so.

**Corrective Action Plan**

**Contact Person:** Christa Elmore, Director of Purchasing & Pcard Administrator

**Corrective Action Planned:** None needed.

**Auditor's Response**

State of Oklahoma Purchase Card Procedures (Version 1, 3/28/01) § 5.4 State entity reimbursement of OSF states in part, "Each State Entity P/Card Administrator will receive a separate memo statement from Bank One reflecting the amount due from said Entity and the Entity shall use this memo statement as the basis for payment to OSF.... Claims filed representing payment to OSF for p/card transactions shall include a copy of the state entity memo statement only and an invoice number."

## OVERALL CONCLUSION

In our opinion, CompSource Oklahoma has materially complied with the requirements of the State of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, some exceptions were noted. CompSource Oklahoma has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.