

JOHN S. RICHARD  
Director



BRAD HENRY  
Governor

STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

April 19, 2006

**TO CLAUDIA SAN PEDRO, DIRECTOR OF OFFICE OF STATE FINANCE**

With this letter, we transmit the report of the Office of State Finance purchase card program review 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 "J. S. Richard", written over the typed name and title.

John S. Richard  
Director of Central Services

*"Committed to Quality"*

Administration, Will Rogers Office Building (2401 N. Lincoln) Suite 206 / P.O. Box 53218 · Oklahoma City, OK 73152-3218  
Telephone 405/521-2121, Fax 405/521-6403, [www.dcs.state.ok.us](http://www.dcs.state.ok.us)

# OKLAHOMA

## Department of Central Services

---

---



## OFFICE OF STATE FINANCE

### Purchase Card Review

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

**TABLE OF CONTENTS**

<b>PURPOSE, OBJECTIVE AND SCOPE</b>	<b>1</b>
<b>METHODOLOGY</b>	<b>1</b>
<b>EXECUTIVE SUMMARY</b>	<b>2</b>
<b>AUDIT RESULTS</b>	<b>3</b>
<b>OVERALL CONCLUSION</b>	<b>13</b>

## PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed a review of the Office of State Finance, 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

Established by the Oklahoma Budget Law of 1947, the Office of State Finance is charged with preparing the Governor's budget document; making field studies of governmental agencies; making allotments to control expenditures; making transfers of lawful appropriations; preparing and maintaining uniform budget and accounting classifications for State Agencies; settling claims payable by the State; keeping central budget and proprietary accounts of State government; preparing and issuing financial reports; establishing and maintaining a pre-audit system of settling claims; reviewing and recommending annual budgets for state agencies; aiding the Governor in management of the State; developing financial systems software for automating office duties; and coordinating a central communications system for the state, including the coordination of long-term data processing plans and the establishment of minimum standards in the area of data processing and communications.

### AGENCY

The Agency is made up of 68 classified, 62 unclassified, and four temporary employees as of September 1, 2004. At the time of the review, there were three purchase card cardholders in the agency.

#### Key Staff:

Claudia San Pedro, Director  
Tony Hutchison, Executive Director  
Brenda Bolander, State Comptroller  
Riley Shaull, CPA, Finance Officer and P-Card Administrator

## AUDIT RESULTS

### Purchase Card Program Economy Results

The purchase card program saved the Agency an estimated net savings of \$2,926.11 during state fiscal year 2005. This is 11.2% (\$2,926.11 estimated savings / \$26,146.40 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$20.61 per transaction for the Agency. A majority of the savings was attributable 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.

We noted a total extrapolated additional cost of \$117.68 to the State for the Agency not purchasing all office supplies from the mandatory statewide contract. We also noted a total extrapolated questioned cost of \$2,888.19 for insufficient receipt documentation and an undervalued inventory amount of \$707.48 for not including a purchase on the inventory schedule.

### Findings and Recommendations

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

#### **Finding No: 05-090-01**

**Criteria:** 74 O.S. § 85.39 A, Agency internal purchasing procedures, states in part:

1. Each state agency shall develop internal purchasing procedures for acquisitions by the state agency...Following development, the state agency shall submit the procedures to the State Purchasing Director.
3. The Director of the Department of Central Services shall, within fifteen days after the procedures are submitted, notify the state agency that the procedures are in compliance or indicate revisions necessary to bring the procedures into compliance.

The Oklahoma Administrative Code 580:15-6-3, State agency purchasing procedures, states in part:

- (a) Development. State agencies shall develop internal purchasing procedures for acquisitions by the state agency.
- (b) Submission to state Purchasing Director. The state agency shall submit a copy of the procedures to the State Purchasing Director.

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."

**Condition:** During our internal control testwork, we noted Office of State Finance does not have approved internal purchasing procedures that have made the purchase card procedures part of the entities purchasing procedures. The last approved purchasing procedures are dated December 17, 1998. Revised internal purchasing procedures dated February 4, 2004 was submitted to the Department of Central Services for review and approval. These procedures were found to be non-compliant due to the lack of minimum requirements per 74 O.S. § 85.39 A.1. The statute states, "At a minimum, internal purchasing procedures shall contain provisions for the state agency's needs assessment, funding, routing, review, audits, monitoring, and evaluations."

**Cause:** The Agency has not timely updated and received approval for internal purchasing procedures.

**Effect:** The Agency internal purchasing policy and procedures are not current and do not include all required information for the Agency to inform agency employees of internal purchasing methods.

**Recommendation:** We recommend the Agency revise internal purchasing procedures to include minimum statutory requirements and submit to the Department of Central Services for approval.

***Management's Response***

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Non-Concur - The Office of State Finance has internal purchasing procedures revised 2-09-2004 with a time stamp of received by Department of Central Services 2-11-04. Additionally, these procedures were faxed to OSF on 7-21-2004 from Department of Central Services. These procedures contain PCard procedures. The agency was unaware that the purchasing procedures were not approved.

***Corrective Action Plan***

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** None

***Auditor's Response***

The Agency has not received a notice of compliance from the Director of the Department of Central Services for the Agency's February 9, 2004 revised internal purchasing policy and procedures. The last notice of compliance received by the Agency from the Director of the Department of Central Services was dated December 17, 1998. Since, the Agency has elected to participate in the state purchase card procedures. As a result, internal purchasing policy and procedures are to be updated to include p/card procedures. As of April 11, 2006, the Agency's internal purchasing policy and procedures have not been approved by the Department of Central Services.

**Finding No: 05-090-03**

**Undervalued Inventory Amount:** \$707.48

**Criteria:** The 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:** We noted the following during our review of internal controls and substantive testwork:

1. Agency has not established procedures for placing items in excess of \$500 on the Agency's inventory schedule.
2. We statistically sampled 80 purchase card transactions during the audit period. Only one of the eighty transactions reviewed included a purchase item exceeding \$500. An April 2005 purchase of software in the amount of \$707.48 was not included in the agency inventory listing.

**Cause:**

1. Agency was not aware that procedures should be developed to ensure inventoriable items are properly recorded on the inventory schedule.
2. The software was in the process of being evaluated and has not been placed in production.

**Effect:** By not having procedures in place to record inventoriable items, 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 following to the Agency:

1. Develop procedures that ensure all inventoriable items are properly recorded.
2. All purchases exceeding \$500 be reported on the inventory schedule of the Agency.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** July 1, 2006

**Corrective Action Planned:** Office of State Finance will develop procedures to include purchases greater than \$500 on inventory.

**Finding No: 05-090-08**

**Extrapolated Additional Cost:** \$117.68

**Criteria:** The 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: § 6.2.5.1 State Use Committee, § 6.2.5.2 Oklahoma Corrections Industries (OCI), and § 6.2.5.3 Mandatory statewide contracts.

The State of Oklahoma 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."

**Condition:** During our testwork, we noted 18.8% (3 errors in 16 merchant preference purchases) of the merchant preference purchases were not made in accordance with merchant preference requirements. Additional cost to the State for purchases made outside of merchant preference requirements total \$66.30. Extrapolating this additional cost across all purchase card transactions for the agency brings us to a total additional cost to the state of \$117.68.

**Cause:** The Agency may have made an exception to the purchase requirements due to availability and timeliness of the delivery of the product.

**Effect:** By not making purchases from required merchant preferences, the control to ensure prices paid were fair and reasonable is circumvented.

**Recommendation:** We recommend the Agency advise and train cardholders of merchant preference requirements for purchases of goods and services from required vendors, i.e. state use and mandatory statewide contract. Management should also consider addressing cardholders who do not make purchases in accordance with the merchant preferences.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** The Office of State Finance will train and advise all cardholders of merchant preference requirements for purchase of goods and services.

**Finding No:** 05-090-11

**Extrapolated Questioned Cost:** \$2,888.19

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

**Condition:** During our testwork, we noted one transaction (1 out of 80 purchase card transactions) in the amount of \$127.15 that was not supported by a receipt. We also noted two transactions (2 out of 80 transactions) in the total amount of \$1,627.15 that were not supported by an itemized or detailed receipt. Credit card authorization slips were submitted as supporting documentation for these transactions. The total questioned cost for the three transactions is \$1,627.15. The total questioned extrapolated cost is \$2,888.19.

**Cause:** The Agency was unaware that credit slips and order form were not sufficient receipting documentation for purchases of goods.

**Effect:** By not having sufficient receipting documentation for purchases, it is difficult 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 the Agency obtain detailed receipts to support all purchases of goods and services. As part of the designated Approving Official's duties in reviewing cardholder's reconciliation, the designated Approving Official should verify adequate supporting documentation has been obtained for each purchase.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** The Office of State Finance (OSF) will comply with this procedure. OSF will require all cardholders to obtain receipts, or an order confirmation or confirmation number that will be verified by the Approving Official for each cardholder.

**Finding No:** 05-090-07

**Criteria:** The State of Oklahoma Purchase Card Procedures § 6.9.1, Cardholder Responsibility, states in part:

... All cardholders (including Entity P/card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.

**Condition:** During our testwork, we noted 11.1% (3 errors in 27 memo statements) of the memo statements reviewed did not have the reconciliation approved by an approving official one level higher than their position. A one hundred percent error rate was noted for one cardholder (#544655) within the agency.

**Cause:** The Office of State Finance was not aware that cardholders were required to have a designated approving official one level above the cardholder's position.

**Effect:** By not having a designated approving official one level above the cardholder's position, there does not exist effective oversight of cardholder duties and responsibilities within the purchase card program. This improper oversight could cause the agency to have inadequate segregation of duties within the purchase card program.

**Recommendation:** We recommend the agency designate approving officials for all cardholders that are at least one position level above the cardholders.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** The Office of State Finance has designated approving officials for all cardholders that are at least one position level above the cardholders.

**Finding No: 05-090-06**

**Criteria:** The State of Oklahoma Purchase Card Procedures § 6.7.1, Goods or services received at the time of purchase, states in part, "The receipt for purchase also serves as the receiving document. It should be annotated "Received" and signed and dated by the receiving employee."

**Condition:** During our testwork, we noted 42.5% (34 errors in 80 sample transactions) of the transactions reviewed did not have one of the following: the receiving document annotated as "received", signed, and/ or dated by the receiving employee.

**Cause:** The Office of State Finance was not aware that the receiving document had to be annotated "received" and signed and dated by the receiving employee when the cardholder was also the receiving employee.

**Effect:** By not requiring cardholders to sign and date receipts, there is no verification that goods and/ or services were actually received.

**Recommendation:** We recommend to the Agency that all receipts be annotated "received" and signed and dated by the receiving employee inclusive of cardholders who are in receipt of goods and/ or services.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Non-Concur - Office of State Finance does not agree with this finding.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** The Purchase Card Log Sheet, which is required to be submitted and signed by the cardholder, contains the following statement, 'I hereby certify that the items listed hereon have been received and properly accounted for and approved for payment'. OSF feels that annotating each receipt would be a duplication of effort for each cardholder.

**Auditor's Response**

The inclusion of the certification statement on the Agency's Purchase Card Log Sheet is not a substitute for the receiving requirements as outlined in the State Purchase Card Procedures §6.7.1, Goods or services received at the time of purchase. As a condition of participation, the Agency agreed to abide by the terms of the State Purchase Card Procedures unless a written exception is requested of and approved by the State Purchasing Director per State Purchase Card Procedures § 1.6, Conditions of participation.

**Finding No: 05-090-04**

**Criteria:** The State of Oklahoma Purchase Card Procedures § 6.9.2, Entity Approving Official Responsibility, states in part, "...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement..."

**Condition:** We noted during our testwork that 63% (17 errors / 27 memo statements) of the memo statements reviewed were not signed and dated by a designated entity Approving Official. Signature and date of the designated entity Approving Official indicates a review of the reconciliation and supporting documentation was performed.

**Cause:** The approving official was not aware of the requirement to sign and date the memo statement to indicate concurrence with the reconciliation of the memo statement.

**Effect:** By not signing and dating the memo statement, there is no documentation that the cardholder's reconciliation has been reviewed for accuracy, completeness, and appropriateness.

**Recommendation:** We recommend the Agency instruct all designated Approving Officials sign and date cardholder memo statements as part of the review of each cardholder's reconciliation.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** Office of State Finance has instructed all Approving Officials to sign and date cardholder memo statements as part of the review of each cardholder's reconciliation.

**Finding No: 05-090-05**

**Criteria:** The State of Oklahoma Purchase Card Procedures § 6.9.1, Cardholder Responsibility, states in part:

...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying the transaction log and memo statement has been reconciled...

**Condition:** We noted during our testwork, 63% (17 errors / 27 memo statements) of memo statements reviewed did not have the cardholder's signature on the memo statement verifying the transaction log and the memo statement had been reconciled by the cardholder.

**Cause:** The cardholder was not aware that the transaction log and the memo statement had to be signed and dated.

**Effect:** By not signing and dating the transaction log and the memo statement, there is no indication that the cardholder verified the accuracy of purchases listed on the memo statement or performed a reconciliation.

**Recommendation:** We recommend the Agency instruct all cardholders to sign and date both the transaction log and memo statement as part of their reconciliation process.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply. OSF's procedure has been to review and reconcile the information on the transaction log and memo statement the cardholder failed to sign verifying that this had been done.

***Corrective Action Plan***

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** Office of State Finance will instruct all cardholders to sign and date both the transaction log and memo statements as part of their reconciliation process.

**Finding No: 05-090-02**

**Criteria:** The State of Oklahoma Purchase Card Procedures § 3.10, Purchase Card Employee Agreement, states, "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:** We noted during our internal control testwork that the Purchase Card Employee Agreement form for one cardholder was signed and dated on August 22, 2005. This date was almost two years after the issuance of the purchase card. This cardholder was the sole active cardholder for the agency during the audit period.

**Cause:** Not completing the Purchase Card Employee Agreement form before the purchase card issuance was an oversight by the agency.

**Effect:** By not having the cardholder sign a Purchase Card Employee Agreement form, there is no written documentation available attesting to the cardholder's understanding of their duties and responsibilities as they relate to the purchase card program.

**Recommendation:** We recommend the Agency create and implement procedures that would ensure the Agency's cardholders complete the Purchase Card Employee Agreement form at the time of card issuance.

***Management's Response***

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Non-Concur - It has always been the procedure of The Office of State Finance (OSF) to require PCard Holders to sign the State of Oklahoma PCard Agreement. In this instance, the cardholder did sign the agreement but the paper copy was misplaced. During our review of OSF files in preparation of the audit it was discovered that the paper copy was misplaced and we asked the cardholder to re-sign the agreement to complete our files. OSF has reviewed its files and now has signature pages for all PCard Holders, Administrators, and Approving Officials.

***Corrective Action Plan***

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** All PCard Administrators, Cardholders, authorized signers, and approving officials have or will sign State of Oklahoma Purchase Card Employee Agreement prior to assuming their duties and issued pcards.

**Finding No:** 05-090-09

**Criteria:** The State of Oklahoma Purchase Card Procedures § 3.10, Purchase Card Employee Agreement, states, "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:** During our testwork, we noted an individual who assumed the role as a designated Approving Official for the agency but had not signed a Purchase Card Employee Agreement form.

**Cause:** Agency was not aware that approving officials are required to sign a Purchase Card Employee Agreement form.

**Effect:** There is no available written documentation attesting to the understanding by the approving official of their duties and responsibilities as it relates to the purchase card program.

**Recommendation:** We recommend the Agency require all approving officials sign a Purchase Card Employee Agreement form.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Concur - Office of State Finance is reviewing the procedures and will take necessary action to comply.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** The Office of State Finance has designated approving officials for all cardholders that are at least one position level above the cardholders. Office of State Finance has also required all approving officials to sign Purchase Card Employee Agreement form.

**Finding No:** 05-090-13

**Criteria:** The State of Oklahoma Purchase Card Employee Agreement form point #14, states:

I understand that failure to follow any of the above listed terms & conditions or if found to have misused the p/card in any manner may result in (a) revocation of the privilege to use the card, (b) disciplinary action, (c) termination of employment, and/ or criminal charges being filed with the appropriate authority.

I hereby accept the above terms & conditions and acknowledge receipt of the p/card(s) identified below.

**Condition:** The Office of State Finance does not have established penalties for purchase card violations and do not appear to be aware of the penalties outlined in State Purchase Card Employee Agreement form.

**Cause:** The Agency has not had an incidence of an inappropriate use of a purchase card. As such, a formal process and/ or policy has not been developed to address purchase card violations.

**Effect:** By not having formal penalties established for purchase card violations, unequal treatment for purchase card violations may occur between purchase cardholders and purchase card violations may escape reprimand.

**Recommendation:** The Office of State Finance should familiarize themselves with State Purchase Card penalties for purchase card violations and review internal purchasing procedures to determine if additional procedures are necessary.

**Management's Response**

**Date:** March 27, 2006

**Respondent:** Tony Hutchison, Deputy Director

**Response:** Non-Concur - Office of State Finance (OSF) does not concur with this finding. OSF feels that the language in point#14 of the State of Oklahoma Purchase Card Employee Agreement is sufficient.

**Corrective Action Plan**

**Contact Person:** Riley Shaull, CPA, Finance Officer

**Anticipated Completion Date:** March 27, 2006

**Corrective Action Planned:** None

## OVERALL CONCLUSION

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