

OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES AUDIT UNIT



COMMISSION ON MARGINALLY PRODUCING OIL AND GAS WELLS

Purchase Card Program Audit

*Report Released
August 16, 2007*

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

August 16, 2007

**TO THE EXECUTIVE DIRECTOR, ROY V. EDWARDS, JR. AND COMMISSION ON
MARGINALLY PRODUCING OIL AND GAS WELLS**

With this letter, we transmit the report of the Commission on Marginally Producing Oil and Gas Wells purchase card program audit for the period May 28, 2006 through May 28, 2007.

We performed our audit in accordance with professional auditing standards to ensure that programs administered by the Department of Central Services are conducted in accordance with the laws and regulations and used in an ethical, effective and efficient manner.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Department of Central Services website, www.dcs.ok.gov.

Sincerely,

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

John S. Richard
Director of the Department of Central Services

"SERVICE. QUALITY. INTEGRITY"

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PURPOSE, OBJECTIVE, AND SCOPE

The Department of Central Services' Audit Unit has completed an audit of the Commission on Marginally Producing Oil and Gas Wells, hereinafter referred to as the "Agency", purchase card program for the period May 28, 2006 through May 28, 2007. The purpose of this report is to communicate the results of the audit.

The objectives of this audit were to:

- 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 if the Agency's purchase card program is in compliance with laws and regulations promulgated by the Department of Central Services; and
- 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.

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 purchase card program were documented and evaluated.
- Purchase card transactions of active purchase card cardholders were examined.
- Overall compliance with the rules related to the audit objectives was evaluated.

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EXECUTIVE SUMMARY

Organization

The Commission on Marginally Producing Oil and Gas Wells is vital to the economy and security of the State of Oklahoma and the nation. The Marginal Well Commission is funded by the oil and natural gas industry, with the purpose of protecting and promoting our Oklahoma's production of crude oil and natural gas. The Marginal Well Commission serves operators with technology transfer programs; serves the state by making sure that its most vital resource is continuously produced and not prematurely abandoned; and, serves the public as an information source regarding the importance of the oil and gas industry to their lives and the state in which they live.

The mission of the Agency is to serve the Governor, Legislators, and oil and gas industry and public by defining, identifying, and evaluating the economic and operational factors of marginally producing oil and gas wells, and to assure that appropriate efforts are made to extend the life of these wells so energy can be economically provided to all citizens of the State of Oklahoma.

Agency

The Agency is made up of 5 unclassified employees as of August 16, 2007. At the time of the audit, there were two purchase card cardholders and one approving official for the Agency.

Board Members

David Moore, Chairman
David Guest, Vice Chairman
Hearne Williford, Secretary
Paul Bruce, Commissioner
James Beyl, Commissioner
Chuck Davis, Commissioner
Tom Dunlap, Commissioner
Bill Gifford, Commissioner
Stan Noble, Commissioner

Key Personnel

Roy V. Edwards, Jr., Executive Director
Brian Lindley, Deputy Administrator
Toni Kitchell, Director of Operations
Regina Finney, Technology Transfer Coordinator
Carolyn Goodwin, Administrative Assistant

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Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated \$4,641.75 for the period May 28, 2006 through May 28, 2007. This is approximately 26% (\$4,641.75 / \$17,970.05) of the total dollars expended through the use of the purchase card. This is an average estimated savings of \$69.28 per transaction for the Agency. Per the Agency, a majority of the savings was contributable to the ability to make purchases on-line when needed.

AUDIT RESULTS

Audit Finding Summary

- 4 of 27 (15%) purchase card transactions were not supported by an internal Acquisitions form. [Finding 07-446-05](#)
- A cardholder's purchase card account was placed in closed status 51 days after the purchase card was returned to the Agency's Purchase Card Administrator. [Finding 07-446-06](#)
- One (50%) of two cardholders was not familiar with how to report a lost or stolen purchase card. [Finding 07-446-02](#)
- One (50%) of two cardholders does not perform a complete reconciliation of their memo statement. [Finding 07-446-02](#)
- Agency's designated approving official attended mandatory purchase card training 4.5 months after hire date with Agency. [Finding 07-446-04](#)
- Agency's designated approving official has not signed a Purchase Card Employee Agreement form. [Finding 07-446-04](#)
- The Agency does not have on file an original letter appointing the Agency P-Card Administrator. [Finding 07-446-01](#)
- The Agency does not have approved internal purchasing procedures that include the Agency's purchase card procedures. [Finding 07-446-01](#)

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Audit Finding Details

[Finding 07-446-05](#): Internal Purchasing Procedures

Criteria: Commission on Marginally Producing Oil & Gas Wells Internal Purchasing Procedures Section 7. **Acquisition Procedure (a) Form** states, "All acquisitions shall be presented to procurement officer on an approved *Acquisitions* form."

Condition: For the audit period May 28, 2006 to May 28, 2007, the Agency had a total of 67 purchase card transactions in the amount of \$17,970.05. Based on statistical analysis, we performed substantive testing for 27 (40%) purchase card transactions in the total amount of \$4,611.92 (26%). During our testwork, we noted:

- 4 of 27 (15%) purchase card transactions were not supported by an Acquisitions form.

Cause: Only verbal approval was obtained for the purchases.

Effect or Potential Effect: In the absence of an Acquisition form, an unauthorized and/ or inappropriate purchase could be made.

Recommendation: We recommend the Agency review with and provide training for all cardholders and approving officials the acquisition requirements of the Agency as outlined in the Agency's internal purchasing procedures. We also recommend the Agency review its internal purchasing procedures to determine if the completion of an Acquisition form is applicable to purchase card transactions. If revisions to the internal purchasing procedures are warranted, revised internal purchasing procedures should be submitted to the Department of Central Services for approval.

Management's Response

Date: August 13, 2007

Response: Concur

Corrective Action Plan

Anticipated Completion Date: August 20, 2007

Corrective Action Planned: The Director of Operations will hold an in-house training session on August 20, 2007 during the weekly staff meeting to go over and make sure all staff knows the MWC's Internal Purchasing Procedures that has been approved by DCS.

[Finding 07-446-06](#): Internal Controls

Criteria: GAO/AIMD-00-21.3.1 (11/99) Internal Control Standards **Control Activities Specific for Information Systems- General Control** states in part:

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... Access security control protects the systems and network from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel. Specific control activities include frequent changes of dial-up numbers; use of dial-back access; restrictions on users to allow access only to system functions that they need; software and hardware "firewalls" to restrict access to assets, computers, networks by external persons; and frequent changes of passwords and deactivation of former employees' passwords...

Condition: During our review of the Agency's internal controls, we noted a cardholder's purchase card account was placed in T2 status (Closed Account) 51 days after the card was returned to the Agency's Purchase Card Administrator. The purchase card was returned to the Purchase Card Administrator on 04.14.2006 and the account was closed on 10.01.2006.

Cause: During the time period the purchase card was returned to the Purchase Card Administrator, the Agency was without three FTEs and the Purchase Card Administrator was acting in the capacity of Director. The work to be completed for the Agency during this time period hindered the timely closing of the cardholder's account.

Effect or Potential Effect: Absent a process for the timely closing of cardholder's account, there is the opportunity for unauthorized transactions to occur on the cardholder's account and creating a liability for the Agency.

Recommendation: We recommend the Agency create a process that ensures cardholder accounts are appropriately and timely closed. As part of this process, the Agency should create and follow a list of actions that delineate specific tasks to be completed. List of tasks to be completed include: retrieving purchase card from the cardholder; accessing Pathway Net system to close the cardholder account; and, documenting when the purchase card was retrieved from the cardholder and when the account was closed in Pathway Net system.

Management's Response

Date: August 13, 2007

Response: Concur

Corrective Action Plan

Anticipated Completion Date: August 13, 2007

Corrective Action Planned: Director of Operations has created a P-card Tracking Check List to ensure all steps and procedures are followed which include: date training class taken; date employee agreement signed, date administrator and back-up administrator was added and deleted and forms submitted, date authorized signer forms was added and deleted and forms were submitted, date purchase card accounts were locked, date cardholder forms were added and deleted and forms submitted, date cards were cut-up and returned to DCS, date appointment letter was submitted to DCS, date purchase cards were turned in to purchase card administrators.

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Finding 07-446-02: Cardholder Responsibilities

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.11 **Lost or stolen cards** states in part:

If a cardholder's p/card is lost or stolen, the cardholder shall immediately notify JPMorgan Chase... The cardholder shall record the date and time JPMorgan Chase was notified as well as the name of the JPMorgan Chase customer service representative contacted. Next, the cardholder shall complete a Stolen Notification form and provide it by the fastest possible means to the State Entity P/Card Administrator with a copy to the appropriate State Entity Approving Official...

2. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states in part:

... The memo statement shall be reconciled by the cardholder and submitted to the 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 reports) to verify the purchases and returns are accurately listed on the memo statement. After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. 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 § 6.9.1 **Cardholder responsibility** states in part, "... Regular p/card, Statewide Contract p/card, and Travel p/card holders shall obtain an electronically generated memo statement upon closing of the bank's monthly billing cycle from Pathway Net System..."

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

1. One of two cardholders (50%) for the Agency was not familiar with the proper procedure for reporting a lost or stolen purchase card. Cardholder indicated the reporting of a lost or stolen card would be to the Agency's Purchase Card Administrator and an outside agency.
2. One of two cardholders (50%) for the Agency does not perform a complete reconciliation of their memo statement. Receipts and transaction log are reconciled and submitted to the Purchase Card Administrator for reconciliation to the memo statement. A username and password has not been created in Pathway Net to allow the cardholder to view their purchase card transactions in real time and print their memo statement.

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Cause:

1. The cardholder secures her purchase card in the office safe and uses her purchase card minimally.
2. The cardholder does not have access to Pathway Net to download monthly memo statement. After the provider stopped mailing memo statements to cardholders, the Agency did not create a username and password for the cardholder in Pathway Net.

Effect or Potential Effect:

1. By not being aware of the proper reporting requirements for a lost or stolen purchase card, the Agency is liable for all purchases made until the bank is notified.
2. By the cardholder not performing a complete reconciliation, the cardholder's ability to ensure purchases made are accurately reported and unauthorized purchases are not made against their account is hindered. By limiting the access of the cardholders to the Pathway Net system, the cardholder is not provided the opportunity to monitor their transactions and cardholder account. Such restrictions reduce segregation of duties and the ability of the cardholder to be responsible and accountable for their purchase card activities.

Recommendation: We recommend the Agency:

1. Provide update training to the cardholder related to the proper procedure for reporting a lost or stolen purchase card.
2. Provide training to the cardholder regarding the reconciliation process of the memo statement, transaction log, and supporting documentation. Training should address the cardholder's responsibility for reconciling their memo statement and the process to verify that transactions on the memo statement are accurate.

Provide the cardholder with inquiry only access to the Pathway Net system. Inquiry only access provides the cardholder access to their purchase card account to provide the opportunity to monitor purchase card transactions. Cardholders should also be enrolled in a training session regarding the use of Pathway Net system.

Management's Response

Date: August 13, 2007

Response: Concur

Corrective Action Plan

Anticipated Completion Date: August 30, 2007

Corrective Action Planned:

1. The cardholder and Director of Operations, the only two cardholders, will attend refresher P-Card Training on November 15, 2007. This is the earliest date available due to Commission Meeting and Annual Marginal Well Commission

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Oklahoma Oil and Gas Trade Expo. In the meantime, an in-house training session on lost or stolen card procedures with all staff currently handling P-Card tasks will take place on August 20, 2007 after weekly staff meeting.

2. The Director of Operations will hold an In-house training for the cardholder on Pathway Net System giving Inquiry Access only to allow for downloading of memo statement for reconciling monthly transaction logs at the end of the month. Also, Deputy Administrator is scheduled to attend the P216 P-Card Course on August 30, 2007 as the Agency's Back-up P-Card Administrator.
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Finding 07-446-04: Approving Official

Criteria:

1. State of Oklahoma Purchase Card Procedures § 3.9 **Training** states in part, "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..."
2. State of Oklahoma Purchase Card Procedures § 3.6 **State Entity Approving Officials** states, "One or more agency staff members designated by the State Entity P/Card Administrator to review and approve cardholder transactions."

State of Oklahoma Purchase Card Procedures § 3.10 **Purchase Card Employee Agreement** states in part, "Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards..."

Condition: During substantive testing, we noted:

1. The designated Approving Official for the Agency attended DCS mandatory purchase card training 4.5 months after hire date with the Agency.
2. The Approving Official has not signed a Purchase Card Employee Agreement form.

Cause:

1. The Approving Official was hired as the Executive Director for the Agency and was learning the workings of the organization.
2. The P-Card Administrator thought only cardholders signed the Purchase Card Employee Agreement form.

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Effect or Potential Effect:

1. By not receiving the required training in a timely manner, the approving official may not be cognizant of their duties and responsibilities in their role as an approving official.
2. Paper documentation for the designation of the Agency's approving official is incomplete.

Recommendation: We recommend the approving official sign a Purchase Card Employee Agreement form and the Agency devise and implement a process whereby individuals who are identified as participants in the Agency's purchase card program are tracked to ensure training has been attended and paperwork completed prior to assuming duties and/ or receiving a purchase card.

Management's Response

Date: August 13, 2007

Response: Concur

Corrective Action Plan

Anticipated Completion Date: August 13, 2007

Corrective Action Planned:

1. The Executive Director, approving official, and Deputy Administrator, Agency's Back-up P-Card Administrator, has signed the State of Oklahoma Purchase Card Employee Agreement and a copy has been giving to each of them, and a copy has been put in their employee file.
2. The Director of Operations has created a P-Card Tracking Check List to ensure all steps and procedures are followed in a timely fashion in regards to any staff member handling P-Cards Administration.

Finding 07-446-01: Purchase Card Implementation

Criteria: State of Oklahoma Purchase Card Procedures § 4.2 **Implementation submissions (v 03.01.2001)** states in part, "State entities are to prepare and submit the following documents..."

Document	Signed By	Submitted To
Letter appointing Agency P/card Administrator & Back-up P/Card Administrator	Entity Chief Administrative Officer (Agency Head)	Original to appointee. Copy to State P/Card Administrator (Central Purchasing)
Entity P/Card Procedures	Process per Central Purchasing Codified Rules (580:15-6-3)	Chief, Audit & Training Branch, Central Purchasing Division (DCS)

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State of Oklahoma Purchase Card Procedures § 1.6 **Conditions of participation (v 03.01.2001)** states in part, "... State entity p-card procedures shall be made a part of the purchasing procedures."

Condition: In review of the Agency's internal controls, we noted:

1. The Agency did not have the original letter appointing the Agency P-Card Administrator on file.
2. The Agency does not have approved internal purchasing procedures which include state entity purchase card procedures.

Cause:

1. At the beginning of the P-Card program many agencies only submitted the appointment form and not the official letter to the State P-Card Administrator. The State P-Card Administrator accepted the form as the letter appointing the Agency's Purchase Card Administrator.
2. During this time frame the agency experienced the loss of the Executive Director and the P-Card Administrator was the interim acting director. The additional workload and lack of staff prevented the agency from completing a timely submission of revised internal purchasing procedures to the Department of Central Purchases.

Effect or Potential Effect:

1. By not providing formal documentation to support the appointment of the Agency P-Card Administrator, there may be difficulty in identifying the individual responsible for administering the Agency's purchase card program.
2. The Agency's internal purchasing procedures do not include the state purchase card procedures.

Recommendation: We recommend the Agency:

1. Submit the appropriate appointment letter to the State Purchase Card Administrator signed by the Executive Director.
2. Submit to the Department of Central Purchasing revised internal purchasing procedures that include the Agency's purchase card procedures.

Management's Response

Date: August 13, 2007

Response: Concur

Corrective Action Plan

Anticipated Completion Date: August 13, 2007

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Corrective Action Planned:

1. The Executive Director, on August 13, 2007, submitted letter appointing Director of Operations as Agency P-Card Administrator, and the Deputy Administrator as Agency Back-up P-Card Administrator. Even though the Commercial Card Company Record Form (State of Oklahoma – Corp 2053) was submitted to DCS on June 27, 2006 appointing the Director of Operations as Agency P-Card Administrator.
2. MWC submitted to DCS revised Internal Purchasing Procedures on April 17, 2006, dated December 5, 2005. On July 18, 2006 DCS replied back with suggested changes. Internal Purchasing Procedures was revised on February 2, 2007 but failed to be resubmitted for final approval to DCS. Submitted for Approval on August 9, 2007 to DCS by e-mail, and are waiting to hear if they are approved.

OVERALL CONCLUSION

Based upon our audit, we have determined the Commission on Marginally Producing Oil and Gas Wells has materially complied with the audit objectives. However, there were some exceptions noted. These exceptions include: non-adherence to Agency's internal purchasing procedures, delay in locking former cardholder's purchase card account, and cardholder did not have access to Pathway Net System. The Commission on Marginally Producing Oil and Gas Wells has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.