



STATE OF OKLAHOMA

Department of Central Services

Audit Unit

OKLAHOMA STATE BUREAU
OF INVESTIGATION
Purchase Card Audit

Report Released
JUNE 11, 2007

STATE OF OKLAHOMA
OKLAHOMA STATE BUREAU OF INVESTIGATION
PURCHASE CARD AUDIT
FOR THE PERIOD JULY 28, 2005 THROUGH JULY 27, 2006

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OKLAHOMA STATE BUREAU OF INVESTIGATION
PURCHASE CARD AUDIT
FOR THE PERIOD JULY 28, 2005 THROUGH JULY 27, 2006**

PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma State Bureau of Investigation, hereinafter referred to as the "Agency", purchase card program for the period July 28, 2005 through July 27, 2006. The purpose of this report is to communicate the results of the audit.

The objective of this audit 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; and
- determine the relative cost benefits the purchase card program has on the agency.

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 p/card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

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EXECUTIVE SUMMARY

Organization

The Oklahoma State Bureau of Investigation (OSBI) is the general investigative agency of Oklahoma and provides services in support of law enforcement throughout the state. Its statutory duties are to: (1) maintain scientific laboratories to assist all law enforcement agencies in the discovery and detection of criminal activity; (2) maintain fingerprint and other identification files; (3) operate teletype, mobile and fixed radio and other communication systems; (4) conduct schools and training programs for the agents, peace officers and technicians of the state charged with the enforcement of law and order and the investigation and detection of crime; (5) assist all law enforcement officers and district attorneys when such assistance is requested, and according to policy determined by the OSBI Commission; (6) Investigate and detect criminal activity as directed by the governor; (7) maintain a Uniform Crime Reporting system; collect and correlate information; compile statistics on the volume and nature of crime and the administration of criminal justice within the state.

AGENCY NAME

The Agency is made up of 280 classified, 27 unclassified and 7 temporary employees as of September 1, 2006. At the time of the audit, there were 196 purchase cardholders and 47 approving officials in the agency.

Board Members:

Ted Fariss, Chairman
Stanley Glanz, Vice Chairman
Russell Noble
Don Humphreys
Mickey Perry
Rob Hudson
Anne Holzberlien

Key Staff:

A. DeWade Langley, Director
Tom Jordan, Deputy Director
Darrel Wilkins, Director-Criminalistic Services Division
Dave Page, Director-Investigative Services Division
Rusty Featherstone, Director-Information Services Division
Glenda Fogleman, Director-Administrative Services Division
Ben Gherezgiher, Director-Management of Information Systems Division
Jimmy Bunn, Chief Legal Counsel
Jessica Brown, Public Information Officer
Patty Dunagan, Purchase Card Administrator (prior to February 2006)
Mary Reznicek, Purchase Card Administrator (since February 2006)

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AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$91,275.56 during for the period July 28, 2005 through July 27, 2006. This is 29.45% (\$91,275.56/ \$309,947.88) of the total dollars expended using the purchase card. This is an average estimated savings of \$ 68.99 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. Agency management stated that specific purchases made during the audit period would not have been possible without the purchase card.

Audit Finding Summary

(Error rates are based on transactions and memo statements reviewed.)

Internal Purchasing Procedures

- 20 of 85 (24%) purchases were not supported by a justification form. [Finding 06-308-05](#)
- Of the 65 (85 - 20) purchases in which a justification form was present, 24 of the 65 (37%) were not signed by either the Director or the Procurement and Facilities Manager to indicate approval. [Finding 06-308-05](#)
- The total error rate for purchases in which proper justification was not obtained is 52% (44 of 85). [Finding 06-308-05](#)
- 1 of 65 (1.5%) justification forms provided was not completed. Justification for the purchase was not documented on the form. [Finding 06-308-05](#)
- 7 of 85 (8%) purchases were not supported by an Internal Purchase Request form. Six of the seven purchases referenced were airfare purchases which were not accompanied by travel request forms. [Finding 06-308-05](#)
- 1 of 85 (1%) Internal Purchase Request forms was not signed by an Agency Procurement Officer assigned to the Purchasing Unit. [Finding 06-308-05](#)
- During a review of internal controls we noted 1 of the 26 (4%) transactions did not contain an approved Internal Purchase Request form. [Finding 06-308-05](#)
- 5 of 6 (83%) transactions in which the receiving document was not signed by an employee authorized by the Agency to sign for equipment and supplies received, at the headquarters office, subsequent to the time of purchase. [Finding 06-308-04](#)

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Internal Controls

- During a review of internal controls we noted one of three (33%) of the memo statements was not signed and dated by the cardholder's approving official. [Finding 06-308-02](#)
- One cardholder's account was closed seven days after the employee's last day. For another cardholder, the account was closed 47 days after the employee's last day. [Finding 06-308-01](#)

State Purchase Card Procedures

- 42 of 56 (75%) memo statements were not signed by an approving official. [Finding 06-308-02](#)
- 9 of 9 (100%) statewide contract purchase card transactions were not initialed and dated on the cardholder's transaction log to indicate approval the day of the purchase. [Finding 06-308-02](#)
- 40 of 56 (71%) memo statements were not signed and dated by the cardholder. [Finding 06-308-03](#)
- 4 of 56 (7%) memo statements did not reconcile due to missing support for certain purchases. [Finding 06-308-03](#)
- 35 of 85 (41%) occasions in which the receiving document was not either signed, dated, or annotated "Received". [Finding 06-308-04](#)

Audit Finding Details

(Findings and recommendations are reported based on audit significance.)

Finding No: 06-308-05: Internal Purchasing Procedures - Justification

Criteria: Oklahoma State Bureau of Investigation Policy and Procedure § II.A. **Contracts and Acquisitions** states:

Except as otherwise noted in this policy, prior to obtaining any product or service, an approved Internal Purchase Request (IPR) (OSBI Form 208A) and Product Requisition Justification Form (OSBI Form 208B) or Service Requisition Form (OSBI Form 208C) shall be submitted to the OSBI Procurement and Facilities Section. IPR and justification form must be signed by the Division Director unless otherwise noted in this policy. All justification forms must also be signed by the Director (the Chief Administrative Officer of the agency) or the Procurement and Facilities Manager (the Chief Administrative Officer of the requisitioning unit.) No employee shall financially obligate the OSBI without first obtaining an official purchase order from DCS or an IPR approved and signed by an

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OSBI certified procurement officer assigned to the Purchasing Unit, except as otherwise provided in this policy.

Condition: We statistically sampled 85 purchase card transactions totaling \$33,751.73 out of 1,323 transactions totaling \$309,947.88 during the audit period for review. Of the 85 transactions, 52 transactions totaling \$22,563.92 were charged to individual purchase cards; 9 transactions totaling \$4,609.81 were charged to statewide contract cards; and, 24 transactions totaling \$6,578.00 were charged to the travel card. Within this sample, there were a total of 56 memo statements and transaction logs reviewed.

Based upon our substantive testing, we noted:

1. 20 of 85 (24%) purchases were not supported by a justification form.
2. Of the 65 (85 – 20) purchases in which a justification form was present, 24 of the 65 (37%) were not signed by either the Director or the Procurement and Facilities Manager to indicate approval.

The total error rate for purchases in which proper justification was not obtained is 52% (44 of 85).

3. 1 of 65 (1.5%) justification forms provided was not completed. Justification for the purchase was not documented on the form.
4. 7 of 85 (8%) purchases were not supported by an Internal Purchase Request form. Six of the seven purchases referenced were airfare purchases which were not accompanied by travel request forms.
5. 1 of 85 (1%) Internal Purchase Request forms was not signed by an Agency Procurement Officer assigned to the Purchasing Unit.
6. During our review of internal controls, we tested 26 purchase card transactions specifically to determine if they were supported by an Internal Purchase Request (IPR) form. We noted that 1 of the 26 (4%) transactions did not contain an approved IPR.

Cause:

1-3. The Purchase Card Administrator stated that the Agency has changed the practice for requiring a justification form to be completed and approved prior to any purchase. However, the internal purchasing procedures have not yet been revised to reflect the change.

4. Oversight on the part of Agency purchase card management allowed for some purchases to occur without documented prior approval.
- 5, 6. The original approved Internal Purchase Request form was inadvertently omitted from the cardholder's supporting documentation.

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Effect or Potential Effect: Missing or unapproved justification forms allow for the possibility that unnecessary purchases may occur without prior knowledge or approval of the Director of Procurement or Facilities Manager. Without an approved Internal Purchase Request form, there exists likelihood that unauthorized transactions, including air travel purchases, may occur and go undetected prior to the purchase being made.

Recommendation: We recommend the Agency adhere to the internal purchasing procedures as designed by the Agency's management by ensuring that a justification form be completed and appropriately signed prior to any purchase being made. We further recommend the Agency to review and evaluate the Agency's internal purchasing procedures to determine if the requirement for such a justification form is a necessary, effective and efficient purchasing process for purchase card purchases. At the completion of the review and evaluation of the Agency's internal purchasing procedures, the Agency may decide to make revisions as deemed necessary. If revisions are made, the Agency should submit the revised internal purchasing procedures to the Department of Central Services for approval.

Management's Response

Date: May 29, 2007

Response: Concur - (OSBI Purchase Card Administrator)

Corrective Action Plan

Anticipated Completion Date: July 1, 2007 for air travel and pending approval for policy revisions

Corrective Action Planned: Air travel is always supervisor approved prior to tickets being purchased either using a training request form or by the Division Director for all business travel. Effective July 1, 2007, OSBI personnel will be required to submit either an OSBI Training Request form or an Internal Purchasing Request form for all airline travel requests. Policy has been revised and submitted to the Department of Central Services for review and approval. This includes deleting the requirement for the Product Justification form as it is not longer required by the Department of Central Services.

Finding No: 06-308-02: Approving Officials

Criteria: State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states in part, "SW Contract p/card and Travel p/card holders must obtain approval daily from their Entity Approving Official. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase..."

State of Oklahoma Purchase Card Procedures § 6.9.2 **Entity approving official(s) responsibility** states:

SW Contract p/card and Travel p/card Entity Approving Officials must review and approve the cardholders' purchases daily. The Entity Approving Official shall indicate

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approval by initialing and dating the transaction log next to the purchase. State Entity Approving Official(s) shall review the regular p/card, Statewide Contract p/card, or Travel p/card holder's reconciled memo statement and supporting documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, these procedures, and sound business practice. Any issue that cannot be resolved between the State Entity Approving Official and the cardholder shall be brought to the attention of the cardholder's immediate supervisor and the State Entity P/Card Administrator for resolution. To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.

Condition: During our review of internal controls, we tested three memo statements specifically for signatures on reconciled memo statements. One (33%) of the memo statements was not signed and dated by the cardholder's approving official.

We statistically sampled 85 purchase card transactions totaling \$33,751.73 out of 1,323 transactions totaling \$309,947.88 during the audit period for review. Of the 85 transactions, 52 transactions totaling \$22,563.92 were paid with individual purchase cards; 9 transactions totaling \$4,609.81 were paid with statewide contract cards; and, 24 transactions totaling \$6,578.00 were paid with the travel card. Within this sample, there were a total of 56 memo statements and transaction logs reviewed.

Based upon our substantive testing, we noted:

1. 42 of 56 (75%) memo statements were not signed by an approving official.
2. 9 of 9 (100%) statewide contract purchase card transactions were not initialed and dated on the cardholder's transaction log to indicate approval the day of the purchase.

Cause: The entity's purchase card management began performing monthly audits of cardholder statements in March 2006. As part of the audit process, it was discovered statements were not sufficiently signed and the enforcement of the requirement soon followed. Additionally, the statewide contract cardholder's approving official stated that she was not aware of the requirement to initial and date the cardholder's transaction log daily for each purchase.

Effect or Potential Effect: In the absence of approving officials' signatures on memo statements, there is no support showing that the cardholders' memo statement and supporting documentation was independently reviewed for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, procedures and sound business practices. A material internal control weakness could occur without adequate participation from the Agency's approving officials. In addition, the lack of approving official initials and date next to each item on the Statewide Contract card transaction log allows for the possibility that the purchase was not approved.

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Recommendation: We recommend the Agency to establish and implement procedures to ensure that all monthly memo statements are reviewed and approved by the approving official upon concurrence of the reconciliation performed by the cardholder. Further, we recommend that purchase card management or internal audit function monitor such memo statements to ensure adherence to the established procedures.

If the Agency determines approving officials continuously do not comply with the purchase card requirements, program officials should appropriately discipline the offenders.

Management's Response

Date: May 29, 2007

Response: Concur- (OSBI Purchase Card Administrator) Although the OSBI concurs with this finding, Statewide P-Card purchases are being approved daily by the approving official utilizing an internal form.

Corrective Action Plan

Anticipated Completion Date: Completed (May 1, 2007)

Corrective Action Planned: OSBI staff identified this deficiency in April of 2006 and immediately took action to correct the issue to include full monthly audits of all P-Card statements and attachments to assure signatures and required documentation are provided. Follow-up with employees who are missing any requirements is completed. A waiver had been requested from the DCS Central Purchasing Director to allow continuation of approving SW P-Card purchases on the OSBI internal form. That request was denied so the SW P-Card approving official now initials and dates the employee's Transaction Log for each purchase made.

Finding No: 06-308-01: Cardholder Termination

Criteria: State of Oklahoma Purchase Card Procedures § 6.10 **Card security** states in part, "...State entities shall establish an internal procedure to ensure that a p/card held by a terminated employee is promptly provided to the State Entity P/Card Administrator. The State Entity P/Card Administrator shall document the date a p/card is cancelled with JPMorgan Chase."

Condition: During our testing of internal controls, we judgmentally selected three employees who terminated their employment with the Agency. We compared each employee's last day on the job to the date their account was closed. One cardholder's account was closed seven days after the employee's last day. For another cardholder, their account was closed 47 days after the employee's last day.

Cause: It was oversight on the part of the previous Entity Purchase Card Administrator that resulted in the lengthy time between the cardholders' last day at work and the subsequent cancellation of the purchase cards.

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Effect or Potential Effect: By not closing a terminated cardholder's purchase card account in a timely manner, there is a potential for a terminated employee to make unauthorized purchases after his/her last day of employment with the Agency. Because a transaction log would not be completed or reconciliation performed by the cardholder, the potential exists for unauthorized purchases to go unnoticed by agency management.

Recommendation: We recommend the Agency implement procedures to ensure that the purchase card of a terminated employee is closed on or prior to the employee's last day of employment.

Management's Response

Date: May 29, 2007

Response: Concur- (OSBI Purchase Card Administrator)

Corrective Action Plan

Anticipated Completion Date: Completed (January 1, 2007)

Corrective Action Planned: Procedures were put in place to assure that P-Cards are cancelled for those employees leaving the OSBI on the day of their departure. Employees resigning or retiring from the OSBI complete an out-processing session on their last day on duty where their P-Card is turned in and cancelled. If the Administrator is not available to complete cancellation of the P- Card, the Assistant Administrator takes care of canceling the card. For terminated employees, the OSBI Human Resources Division notifies the OSBI P-Card Administrator and Assistant Administrator so the individual's P-Card can be cancelled immediately.

Finding No: 06-308-03: Cardholder

Criteria: State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states:

SW Contract p/card and Travel p/card holders must obtain approval for purchases daily from their Entity Approving Official. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase. 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 the Pathway Net System. 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 (ie, transaction log, purchase receipts, receiving documents, credit receipts) to verify that purchases and returns are accurately listed on the memo statement. After confirming the transactions

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on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall sign and date the memo statement verifying that the transaction log and memo statement have been reconciled. 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.

State of Oklahoma Purchase Card Procedures § 5.4.3 **Voucher documentation** states in part, "... detail documentation (i.e., purchase receipts, receiving documents, return receipts, transaction logs) supporting p/card transactions shall be retained by the state entity and made available upon request."

State of Oklahoma Purchase Card Procedures § 5.8 **Records retention** states in part:

State entity p/card records shall be maintained in a central location as referenced in State entity p/card procedures. Records include, but are not limited to transaction receipts and logs, dispute documents, Cardholder and State Entity Approving Official approvals, and any other pertinent documents whether in paper or electronic form.

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

Condition: We statistically sampled 85 purchase card transactions totaling \$33,751.73 out of 1,323 transactions totaling \$309,947.88 during the audit period for review. Of the 85 transactions, 52 transactions totaling \$22,563.92 were paid with individual purchase cards; 9 transactions totaling \$4,609.81 were paid with statewide contract cards; and, 24 transactions totaling \$6,578.00 were paid with the travel card. Within this sample, there were a total of 56 memo statements and transaction logs reviewed.

Based upon our substantive testing, we noted:

1. 40 of 56 (71%) memo statements were not signed and dated by the cardholder.
2. 4 of 56 (7%) memo statements did not reconcile due to missing support for certain purchases.

Cause: There exists a breakdown in controls, on the part of the cardholder and approving official, to ensure that cardholders adequately reconcile then sign and date their memo statements.

Effect or Potential Effect: Without the cardholder's signature on the memo statements it cannot be determined if the cardholder reconciled the receipts, transaction log and memo statement, or confirmed all transactions on the memo statement to be correct. There is the potential for governmental purchases to not be adequately supported and verified. Also, without adequate documentation and oversight of purchase card activity, inaccurate or unauthorized charges may occur and go undetected.

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Recommendation: We recommend that the agency communicate to all agency cardholders the importance of reconciling the cardholder's statements each cycle and signing the documentation that indicates these procedures were performed by the cardholder. We also recommend the Agency to notify all approving officials of the requirements each cardholder is to perform and the approving officials' responsibility to determine the requirements have been followed. We also recommend that the purchase card program management verify and monitor the progress of performing and documenting the requirements.

Management's Response

Date: May 29, 2007

Response: Concur- (OSBI Purchase Card Administrator)

Corrective Action Plan

Anticipated Completion Date: Completed (May 2006)

Corrective Action Planned: OSBI staff identified this deficiency in April of 2006 and immediately took action to correct the issue to include full monthly audits of all P-Card statements and attachments to assure signatures and required documentation are provided. Follow-up with employees who are missing any requirements is completed.

Finding No: 06-308-04: Receiving Documents

Criteria: State of Oklahoma Purchase Card Procedures § 6.7.1 **Goods or services received at the time of purchase** states, "The receipt for purchase (see 6.5 above) also serves as the receiving document. It should be annotated 'Received' and signed and dated by the receiving employee. The combination purchase receipt/receiving document shall be attached to the transaction log."

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 a packing slip or service order) serves as the receiving document and is processed as described in 6.7.1 above."

Oklahoma State Bureau of Investigation Policy and Procedures **Receipt of Equipment and Supplies** § II N states in part: "Unless otherwise authorized, all deliveries of equipment and supplies (including software, books, etc.), to the headquarters office will be received and signed for by the OSBI Central Supply Section. All other facilities will designate individuals who shall be responsible for receiving and signing for shipments."

Condition: We statistically sampled 85 purchase card transactions totaling \$33,751.73 out of 1,323 transactions totaling \$309,947.88 during the audit period for review. Of the 85

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transactions, 52 transactions totaling \$22,563.92 were paid with individual purchase cards; 9 transactions totaling \$4,609.81 were paid with statewide contract cards; and, 24 transactions totaling \$6,578.00 were paid with the travel card.

Based upon our substantive testing, we noted 35 of 85 (41%) occasions in which the receiving document was not either signed, dated, or annotated "Received".

Of the 85 purchase card transactions sampled, we tested 6 for the specific purpose of determining if an authorized employee signed for equipment and supplies received at the headquarters office. We noted 5 of the 6 transactions in which the receiving document for equipment and supplies received, at the headquarters office, subsequent to the time of purchase was not signed, dated and annotated "Received".

Cause: It was oversight on the part of the cardholder to not sign, date, and annotate "Received" on the receiving document.

Effect or Potential Effect: If the receiving employee does not perform all required tasks related to the receiving document or the receiving document is not included with the supporting documentation, there is no verification that goods and/or services were actually received. Items were not received by an authorized employee at the headquarter office.

Recommendation: We recommend that the Agency develop, implement and communicate:

- to all cardholders the importance of collecting and maintaining receiving documentation,
- to all anticipated receiving employees a process to ensure that receiving employees sign, date, and annotate "received" on the receiving document.

We also recommend the Agency review its process and procedures for retrieving items by Central Supply Section and returning receiving documentation to the cardholder in order to properly support the product or service was received. In final, we recommend the agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continuance compliance with the purchase card requirements and internal receiving procedures.

Management's Response

Date: May 29, 2007

Response: Concur- (OSBI Purchase Card Administrator)

Corrective Action Plan

Anticipated Completion Date: Completed (February 2007)

Corrective Action Planned: Staff were reminded of the requirement to sign, date and annotate "received" on all receipts and provide them with their monthly statements. In addition, full monthly audits of all P-Card statements and attachments are conducted to assure signatures and required documentation are provided. Follow-up with employees who are missing any requirements is completed.

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OVERALL CONCLUSION

Based upon our audit, we have determined the Oklahoma State Bureau of Investigation has materially complied with the objectives reviewed; however, some exceptions were noted. Some of these notable exceptions were related to the responsibility of the cardholder and approving official, receiving documents, and internal purchasing procedures. The Oklahoma State Bureau of Investigation has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

June 11, 2007

TO A. DEWADE LANGLEY, DIRECTOR OF THE OKLAHOMA STATE BUREAU OF INVESTIGATION

With this letter, we transmit the report of the Oklahoma State Bureau of Investigation purchase card program audit for the period July 28, 2005 through July 27, 2006.

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 "Delmas Ford".

Delmas Ford
Chief of Staff
Department of Central Services

"Committed to Quality"