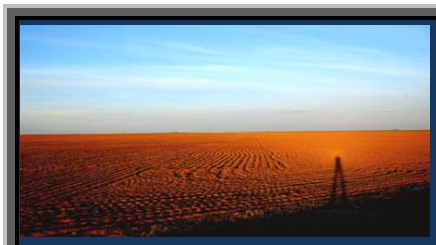

OKLAHOMA EMPLOYEES BENEFITS COUNCIL
PURCHASE CARD PROGRAM AUDIT
FOR THE PERIOD AUGUST 28, 2008 TO SEPTEMBER 28, 2009

State of Oklahoma
Department of Central Services
Audit Unit
Report Released June 03, 2010

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AUDIT PERFORMED BY

Lisa A. White, Audit Manager

AUDIT CONCLUSION

Based on our audit, we have determined Oklahoma Employees Benefits Council (the 'Agency') has significantly complied with the objectives audited. The objectives of this audit were (1) 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 (2) determine if the Agency's purchase card program is in compliance with Oklahoma State Purchase Card Procedures and approved internal purchasing procedures as they relate to the acquisition process through the use of purchase cards. We did note deficiencies during the audit. These deficiencies include missing receipts; receiving documents not properly signed, dated, and annotated 'received'; and, the charge of a meal on the travel purchase card. Oklahoma Employees Benefits Council has provided corrective action plans, which we believe will ensure the Agency complies, in all material respects, with the aforementioned requirements.

AUDIT FINDING SUMMARY

(Error rates are based on transactions reviewed.)

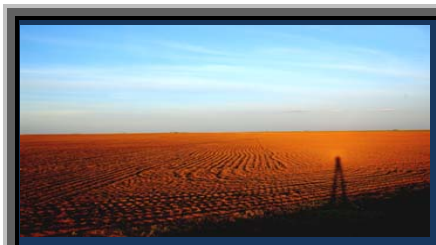
10-815-03- Prohibited Purchase: A $17.16 restaurant charge was charged to the travel card. Agency was reimbursed through an adjustment to the traveler's travel claim.

10-815-04- Itemized and Detailed Receipt: 2 of 57 (3.5%) purchase card transactions were not supported by a receipt. Purchase card transactions total $13,483.88. There was also an on-line purchase card transaction not supported by an order confirmation.

10-815-05- Receiving Documents: 10 of 11 (91%) receipts were not signed by the cardholder. Six receipts were airfare itineraries.

10-815-05- Receiving Documents: 9 of 9 (100%) hotel folios were not signed, dated, and annotated "received" by the traveler.

10-815-05- Receiving Documents: 5 of 38 (13%) receiving documents were not present.



OKLAHOMA EMPLOYEES BENEFITS COUNCIL PURCHASE CARD PROGRAM AUDIT FOR THE PERIOD AUGUST 28, 2008 TO SEPTEMBER 28, 2009

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.

The Audit Unit of the Department of Central Services has completed an audit of the purchase card program of Oklahoma Employees Benefits Council. Our audit was to determine if the agency's purchase card program for the period August 28, 2008 to September 28, 2009 complied with the audit objectives.

10-815-02- Internal Purchase Card Procedures: A separate transaction log for each purchase card was not maintained for each cycle. One transaction log was used for each purchase card type for each cycle.

10-815-02- Internal Purchase Card Procedures: One memo statement (3.3%) was not signed by either the cardholder and approving official. It could not be determined if the memo statement was submitted no later than five workdays after receipt of memo statement.

10-815-02- Internal Purchase Card Procedures: 26.7% of memo statements were not submitted within required period of five workdays after receipt of memo statement. On average, the cardholder signed memo statement three months after the end of the cycle. Approving official is signing a month after the cardholder.

10-815-02- Internal Purchase Card Procedures: A second employee did not verify goods received for 1 of 1 (100%) purchase card transactions requiring a second verification.

10-815-06- Approving Official Training: The approving official designated by the Agency had not attended mandatory purchase card training prior to assuming their duties and responsibilities as an approving official.

10-815-01- Internal Purchasing Procedures: 8 of 51 (16%) purchase card transactions were not supported by an internal pre-authorized purchasing form.

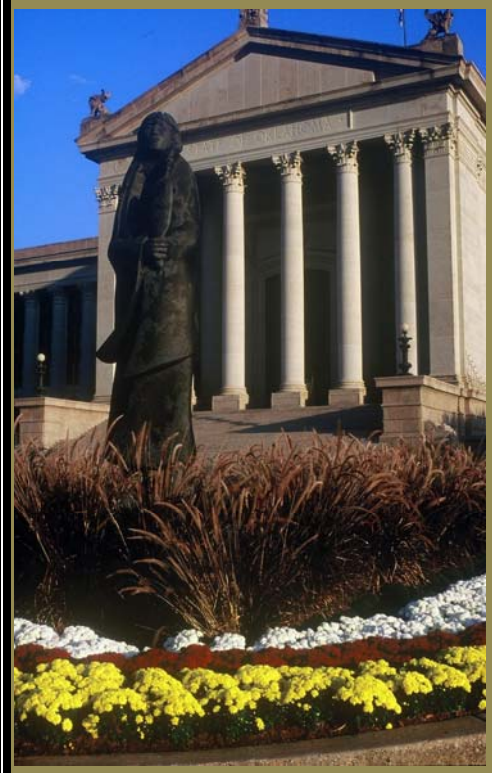
10-815-01- Internal Purchasing Procedures: 7 of 51 (14%) purchase card transactions were supported by an incomplete internal pre-authorized purchasing form. The purchasing form was missing one or more required signatures for approval.

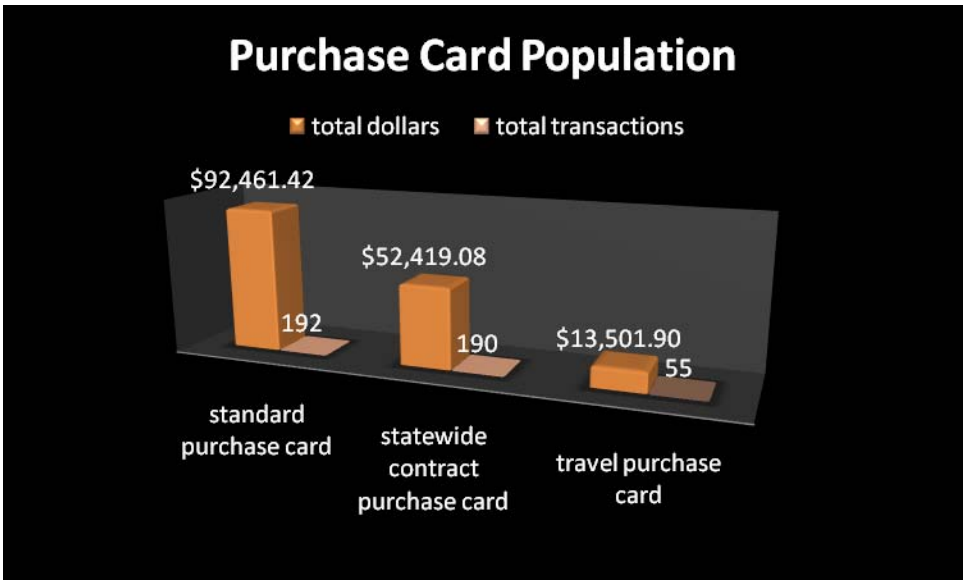
(The most significant audit findings are detailed in the audit report. The detailed information for the remaining findings was provided to the management of Oklahoma Employees Benefits Council.)

AUDIT OVERVIEW

For the period reviewed from August 28, 2008 to September 28, 2009, the Agency made 437 purchase card purchases. These purchases totaled $158,382.40. The purchase card transactions and total dollar amounts between the three purchase card types are depicted below.

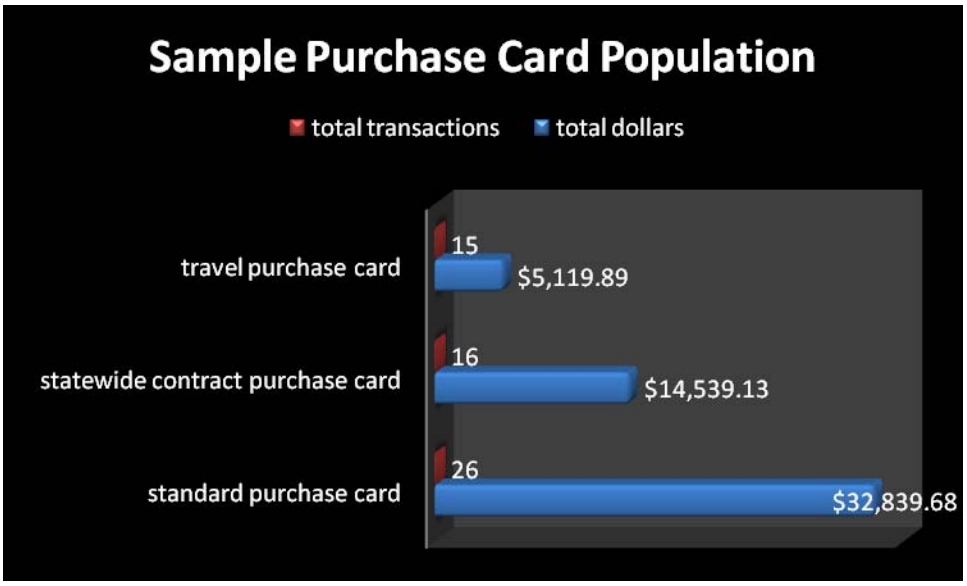
This publication is issued by the Department of Central Services, as authorized by the Director of the Department of Central Services. Copies have not been printed but are available through the agency website. Two printout copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.





The standard and statewide contract purchase cards represent 91.5% of the total transaction dollars for the period reviewed.

Data analysis software (IDEA) was used to select a sample of purchase card transactions to review. The sampling technique used was classical random sampling. An additional small sample was pulled from the population by the professional judgment of the auditor. The sample population reviewed by purchase card type is depicted below.



33% of the total transaction dollars was sample and reviewed.

For the period reviewed, there was one purchase card cardholder and one approving official.

Agency Accomplishments

To optimize the operating effectiveness of the Agency's purchase card program, Oklahoma Employees Benefit Council has created and implemented a number of forms, checklists, and transaction logs. The use of each within the purchase card program is discussed below.

- **Purchasing Requisition**- All standard and statewide contract purchase card transactions must have a completed purchase requisition prior to making the acquisition. The requisition requires justification and approval of the requestor's supervisor. The requisition also includes a section for the Agency Purchasing Division to provide approvals.

- **Travel Request**- All travel purchase card transactions must have a travel request completed prior to making the acquisition. The request requires traveler information, the destination of the traveler, and the method of travel. The request requires the approval of the traveler's supervisor and the approval of the Executive Director of the Agency. The request also includes a section for the Agency Purchasing Division to provide approvals.

- **Internal Transaction Log**- Transaction log is used to track all purchases made, as well as, the object code, carryover transactions from the previous billing cycle to the next billing cycle, and comparison of PO encumbrance to actual purchase card acquisitions to date.

- **P-Card Audit Checklist**- Checklist is used for the monthly reconciliation. Checklist provides 'reminders' as to the documentation that should be included in the supporting documentation, as well as, the items that should be verified by the approving official. Verification items include receiving document is signed, dated, and annotated 'received, receiving document is present, and the acquisition does not exceed the purchase request.

DETAILED FINDINGS

FINDING 10-815-03: PROHIBITED PURCHASE

Criteria: State Purchase Card Procedures § 6.2.3 **Other prohibited purchases** states in part:

> ...6.2.3.3 Per diem food and beverages as authorized by the State Travel Reimbursement Act, OSF State Travel Procedures, and any other statute pertaining thereto;...

State Purchase Card Procedures § 6.8.3.1 **Cardholder Responsibility Lodging** states in part:

> ... Except for airfare and lodging, all other travel-related expenses are prohibited on the Travel P/Card. State employees and authorized non-state personnel traveling on official business are responsible for paying out-of-pocket for all other travel-related expenses...
>
> In case of inadvertent personal charges, the traveler shall reimburse the State for any and all personal expenses charged to the Travel P/ Card (i.e., phone calls, room service, movies, etc.). Such repayment can be by actual check or cash returned to the Entity, or by an adjustment reducing a subsequent travel voucher...
>
> Non repayment of personal expenses to the State by the traveler shall result in the traveler's loss of Travel P/Card lodging privileges and other disciplinary or criminal actions as stated in the Purchase Card Employee Agreement...

Condition: For the audit period August 28, 2008 thru September 28, 2009, there were a total of 437 purchase card transactions in a total dollar amount of $158,382.40. We tested 57 purchase card transactions with a total dollar value of $52,498.70. Fifteen (26%) of the 57 purchase card transactions sampled were travel purchase card transactions. The total dollar value of these transactions is $5,119.89.

For one of the travel purchase card purchases, a restaurant charge was charged to the travel card. Total restaurant charge was $17.16. The travel voucher of the traveler was adjusted by the restaurant charge.

Cause: The hotel inadvertently added the restaurant charge to the traveler's total room charge. Traveler paid for the meal out-of-pocket.

Effect or Potential Effect: By including travel related expenses on the travel card, the Agency becomes responsible for the traveler's personal expenses.

Recommendation: We recommend the traveler review the hotel folio for unauthorized charges at the time of check-out. For any identified unauthorized charges, the traveler should obtain a reversal of charges from the establishment. All supporting documentation should be included as supporting documentation and included with the memo statement as part of reconciliation support.

Management's Response: Concur
Date: 5/19/2010
Respondent: Deputy Director, Financial and Accounting

Corrective Action Plan
Contact Person: Deputy Director, Financial and Accounting
Anticipated Completion Date: 4/30/2009
Corrective Action Planned: The charge was an inadvertent personal charge and the agency complied with the corrective action as discussed in the rules was followed upon the employee's return from travel status:

> Except for airfare and lodging, all other travel-related expenses are <u>prohibited</u> on the Travel P/Card. State employees and authorized non-state personnel traveling on official business are responsible for paying out-of-pocket for all other travel-related expenses. A

travel claim may be submitted by the traveler for reimbursement of travel-related purchases prohibited on the Travel P/Card which are directly associated with State official business in accordance with the State Travel Reimbursement Act (i.e., meals, cabs, etc.).

In the case of inadvertent personal charges, the traveler shall reimburse the State for any and all personal expenses charged to the Travel P/Card (i.e., phone calls, room service, movies, etc.). Such repayment can be by actual check or cash returned to the Entity, or by an adjustment reducing a subsequent travel voucher. Deposits must be cross-referenced to the related P/Card voucher with the erroneous charge, and the voucher Comments field must reference the deposit number and a brief description. If the reimbursement will be made as an adjustment on a travel reimbursement, the reduction will be made as a negative amount on the travel voucher to the appropriate hotel account code for the expense overpaid (i.e., in-state 521150 or out-of-state 521260). Entities must use the Comments field on the Invoice Information page to give a brief description of the negative adjustment (e.g., erroneous room service charge on a P/Card payment) and put the voucher number of the P/Card voucher having the overpayment. Also, the Entity must use the Comments field on the original P/Card voucher to give a description of the error and to put the voucher number of the travel voucher having the adjustment.

FINDING 10-815-04: ITEMIZED AND DETAILED RECEIPT

Criteria: State Purchase Card Procedures § 6.4 **Receipts for Purchase** states:

> Receipts shall be obtained for **all** purchases regardless of the order method. The receipt shall give an itemized and detailed description of the purchase and must include at a minimum: (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total. A detailed and itemized carbon copy is acceptable.

Condition: For the audit period August 28, 2008 thru September 28, 2009, there were a total of 437 purchase card transactions in a total dollar amount of $158,382.40. We tested 57 purchase card transactions with a total dollar amount of $52,498.70. We noted the following:

- 2 of 57 (3.5%) purchase card transactions were not supported by a receipt. In total, the purchase card transactions amounted to $13,483.88.

Transaction Date	Merchant	Transaction Amount	Description
01.08.2009	Center Executive and Professional Development	$12,515.88	conference room
06.04.2009	Personal Best #2	$ 968.00	brochures
		$13,483.88	

The transaction that exceeded the single purchase limit was noted and addressed in DCS Audit Unit's Continuous Monitoring Report for the audit period October 1, 2008 to January 15, 2009.

During our review of the Agency's internal controls, we noted an on-line purchase card transaction was not supported with an order confirmation. Screen shots of the goods ordered were used as supporting documentation for the purchase card transaction. Details of the transaction are noted below.

Transaction Date	Merchant	Transaction Amount	Description
05.08.2009	Amazon.com	$ 89.95	DVDs for chair aerobics

Cause: A detailed receipt was not provided for the purchase card transaction.

Effect or Potential Effect: By not obtaining a receipt for all purchase card transactions, it cannot be determined if the purchase is appropriate as it relates the mission of the Agency, in accordance with sound business practices, or in accordance with statutory and rule requirements.

Recommendation: We recommend the Agency develop and implement a process to ensure all purchase card transactions are supported by a receipt. At the time of reconciliation, there should be a process in place for the cardholder to follow in instances where a receipt has not been obtained/ retained for the purchase card purchase. Process should also address the responsibility of the Approving Official during the review of reconciled statements in ensuring all purchase card transactions are supported by a receipt.

Agency should use State Purchase Card Procedures § 6.4 Receipts for Purchase as a guide in developing and implementing a process.

Management's Response: Partially Concur

Date: 5/13/10
Respondent: Financial Manager
Response: Purchase 1/08/2009 – Center Executive and Professional Development - $12,515.88 – conference room. The vendor did not provide us with a detailed Invoice/Receipt so, to try our best to adhere to the State Purchase Card Procedures, we used the itemized e-mail from OSU's Seminar Coordinator as documentation of the cost for the seminar.

Purchase 6/4/2009 - Personal Best #2 - $968.00 – brochures. We used the packing slip as receipt verification. Each item was listed however, there were no dollar amounts included.

Purchase 5/8/2009 – Amazon.com - $89.95 – DVD's for chair aerobics. The vendor did not supply us with a detailed receipt as required by State P-Card rules. The Order Confirmation is included in our documentation however it does not include detailed pricing of the items. This is why we in cluded screen prints of the items to show verification of the pricing to compare to the amount paid to Amazon.

Corrective Action Plan

Contact Person: Financial Manager
Anticipated Completion Date: 5/30/2010
Corrective Action Planned: We have implemented periodic internal meetings including the Agency P-Card Administrator, designated back-up P-Card Administrator and all P-Card holders to review and discuss the State Purchase Card Procedures. This meeting serves as a refresher on these procedures and to discuss any changes or additions to the State Purchase Card Procedures. We have also implemented a checklist to be used during the monthly reconciliation by the Approving Official which includes a column

for "itemized receipts". The checklist is an Excel attachment.

FINDING 10-815-05: RECEIVING DOCUMENT

Criteria:

1. State Purchase Card Procedures § 6.6.1 **Goods or services received at the time of purchase** states:

   > The receipt for purchase shall serve as the receiving document. The receipt must contain the cardholder's signature and date. A carbon copy of the receipt containing the cardholder signature and date meets this requirement. (Annotating the document "Received" is NOT required.)...

2. State Purchase Card Procedures § 6.6.2 **Goods or services received subsequent to the time of purchase** states in part:

   > The document accompanying the goods or services (such as packing slip or service order) serves as the receiving document. The receiving document shall be annotated "Received" (or its abbreviation) and shall be signed and dated by the receiving employee. A carbon copy of the receipt containing the receiving employee signature, date and the annotation of "Received" (or its abbreviation) meets this requirement. The itinerary shall serve as the receiving document for airfare (traveler's signature is not required)...

Condition: For the audit period August 28, 2008 thru September 28, 2009, there were a total of 437 purchase card transactions in a total dollar amount of $158,382.40. We randomly sampled and tested 49 purchase card transactions with a total dollar value of $46,752.47. We noted the following:

1. Eleven (22%) of the 49 purchase card transactions reviewed were for goods or services received at the time of purchase. Of the 11 purchase card transactions, we noted:

   - The receipt for 10 of 11 (91%) purchase card transactions was not signed by the cardholder. Six of the 10 receipts were airfare itineraries.

2. Thirty-eight (78%) of the 49 purchase card transactions reviewed were for goods or services received subsequent to the time of purchase. Of the 38 purchase card transactions, we noted:

   - 9 of 9 (100%) hotel folios were not signed, dated, and annotated "received" by the traveler.

   - 5 of 38 (13%) receiving documents were not present. Details are noted below.

Purchase Card Type	Date of Transaction	Vendor	Amount
Statewide Contract	06.26.2009	Corporate Express	$302.39
Standard	09.18.2008	Netcentric Technologies	$2,400.00
Standard	12.05.2008	The Digi Group	$55.38

Standard	09.28.2009	Event Planning by Leil	$435.00
			$3,192.77
Internal Controls			
Standard	05.08.2009	Amazon.com	$89.95
			$3,282.72

Cause:

1. Oversight by the receiving person and the cardholder.

2. Receiving documents were not maintained as supporting documentation.

Effect or Potential Effect:

1. By not having packing slips/ delivery documents properly annotated, there is not physical documentation that there was an independent verification of goods or services ordered were received.

2. In the absence of a receiving document, it cannot be determined if goods or services were physically received. It also cannot be determined if the services received or the quantity of goods received was the correct service or quantity.

Recommendation: We recommend the Agency:

1. Develop and implement a process where there is a review of all packing slips/ delivery documents to ensure that the individual receiving the goods has signed the documentation. The Division receiving the goods, prior to accepting goods, should review the packing slip/ receiving document to ensure the delivery was properly receipted.

2. Develop and implement a process to ensure all purchase card transactions for goods and services subsequent to the time of purchase are supported by a receiving document. At the time of reconciliation, there should be a process in place for the cardholder to follow in instances where a receiving document has not been secured. The process should also address the responsibility of the Approving Official during the review of reconciled statements in ensuring all purchase card transactions for goods and services subsequent to the time of purchase are supported by a receiving document.

Management's Response: Concur
Date: 5/13/2010
Respondent: Financial Manager

Corrective Action Plan
Contact Person: Financial Manager
Anticipated Completion Date: 5/30/2010
Corrective Action Planned: We have implemented periodic internal meetings including the Agency P-Card Administrator, designated back-up P-Card Administrator and all P-Card holders to review and discuss the State Purchase Card Procedures. This meeting serves as a refresher on these procedures and to discuss any changes or additions to the State Purchase Card Procedures. We have also implemented a checklist to be used during the monthly reconciliation by the Approving Official which includes verification of documents properly annotated and receiving documents. The checklist is attached.

FINDING 10-815-02: INTERNAL PURCHASE CARD PROCEDURES

Criteria:

1. Employee Benefits Council Purchasing Card (P/Card) Policy **Transaction Logs** states:

   > The Cardholder shall maintain a Transaction Log of all P/Card purchases, returns, credits and disputed transactions. A separate transaction log shall be maintained for each P/Card for each cycle.

2. Employee Benefits Council Purchasing Card (P/Card) Policy **Reconciling Monthly Statements Cardholder Responsibility** states in part:

   > ...After reconciling, the Cardholder will sign, date and submit the Transaction Log, Memo Statement, and all supporting documentation to the Approving Official, no later than five (5) workdays after receipt.

3. Employee Benefits Council Purchasing Card (P/Card) Policy **Receiving Goods and Services** states in part:

   > ... If the P/Card Cardholder is also the receiving employee, a second employee shall verify that goods or services were received and also sign and date the receiving document. All receipts/ receiving documents shall be attached to the Transaction Log.

Condition: For the audit period August 28, 2008 thru September 28, 2009, there were a total of 437 purchase card transactions in a total dollar amount of $158,382.40. We tested 57 purchase card transactions with a total dollar value of $52,498.70. During this audit period, there were a total of 30 transaction logs and 30 memo statements reviewed (13 standard card transactions logs and memo statements, 10 statewide contract transaction logs and memo statements, and 7 travel card transaction logs and memo statements).

1. A separate transaction log for each purchase card was not maintained for each cycle. One transaction log was used for each purchase card type for each cycle.

2. For the memo statements reviewed, we noted the following:

   - One memo statement (3.3%) was not signed by either the cardholder and approving official. It could not be determined if the memo statement was submitted no later than five workdays after receipt.

   - Eight memo statements (26.7%) were not submitted no later than five workdays after receipt. For these eight memo statements, the cardholder is not signing the memo statement until, on average, three months after the end of the cycle. The approving official is not signing, in three instances, the memo statement until a month after the cardholder.

For the audit period August 28, 2008 thru September 28, 2009, we statistically sampled and tested 49 purchase card transactions. Purchase card transactions consisted of 20 individual card transactions, 15 travel card transactions, and 14 statewide contract transactions.

3. A second employee did not verify goods received for 1 of 1 (100%) purchase card transactions requiring a second verification.

Cause:

1. Agency only has one cardholder who maintains all purchase card types. It is more efficient to maintain one transaction log for all acquisitions.

2. There were staffing changes in the Accounting Department during the audit period. Primary CPO resigned and an employee within the Department was promoted. Newly promoted employee was learning their duties and responsibilities, as well as, attending training related to CPO duties.

3. Oversight by the cardholder.

Effect or Potential Effect:

1. Agency is not following its internal procedures related to the purchase card.

2. By not supporting the reconciled statement no later than five workdays after receipt, the Approving Official is not ensuring the accuracy and completeness of the reconciliation in a timely manner.

3. By not obtaining a second verification for goods and services received, there is not a documented independent verification of goods or services physically received.

Recommendation: We recommend the Agency:

1. Review their internal procedures and processes to determine if current practices are in line with procedures. For those procedures and processes that are identified as being not aligned, the Agency should update procedures accordingly to reflect current practices.

2. Develop and implement a process where reconciled statements and all supporting documentation are submitted to the Approving Official in a timely manner. Included in the process should be a system where the Cardholder receives a reminder that a completed reconciliation of the memo statement to supporting documentation is due prior to the actual due date.

3. Develop and implement a process for in-person purchases of the cardholder that ensures a second verification is obtained. Agency should incorporate the receiving practice for delivered goods into the process for in person purchases.

Management's Response: Concur
Date: 5/13/2010
Respondent: Financial Manager

Corrective Action Plan

Contact Person: Financial Manager

Anticipated Completion Date: 6/30/2010

Corrective Action Planned: We are reviewing our internal procedures for updates to ensure timeliness and accuracy for reconciliation purposes and to reflect achievable practices. The approving official shall set up e-mail reminders each month to accomplish the internal procedures and practices in a timely manner.

APPENDIX

DIRECTOR'S TRANSMITTAL LETTER

JOHN S. RICHARD
Director

BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

June 3, 2010

TO MR. PHIL KRAFT, EXECUTIVE DIRECTOR AND THE COUNCIL OF OKLAHOMA EMPLOYEES BENEFITS COUNCIL

With this letter, we transmit the purchase card program audit report of the Oklahoma Employee Benefits Council for the audit period August 28, 2008 to September 28, 2009.

We performed our audit in accordance with professional auditing standards to ensure that programs and contracts administered by the Department of Central Services are conducted in accordance with laws and regulations and used in an ethical, economical, equitable, effective and efficient manner while limiting exposure to fraud, waste, mismanagement, or abuse.

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,

John S. Richard
Director of the Department 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

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the purchase 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.

EXECUTIVE SUMMARY

Organization

Created in 1992 with the enactment of SB 591 of the Oklahoma Legislature, the Employees Benefits Council operates under the Oklahoma State Employees Benefits Act. The purpose is to furnish state employees with choices among various employee benefits including health, life, dental, and disability insurance, optional plans, and flexible spending accounts. Also to provide for the coordination, design, preparation, communication, and administration of all plans to state employees.

Agency Information

The Agency is made up of 34 classified and 4 unclassified employees as of September 1, 2009 per the Oklahoma Agencies, Boards, and Commissions publication.

Council Members

Mr. Bryce Fair, Chairman
Mr. Weldon Davis, Vice-Chairman
Mr. Cliff Peden, Secretary
Mr. Oscar B. Jackson, Jr., Administrator and Cabinet Secretary for Human Resources and Administration

Key Staff

(During the audit period)

Phil Kraft, Executive Director
Craig Cates, Executive Manager, Agency and Regulatory Affairs
Dan Melton, Deputy Director, Finance and Accounting
Joy Fite, Financial Manager