STATE OF OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES

OKLAHOMA STATE AND EDUCATION EMPLOYEES GROUP INSURANCE BOARD

Purchase Card Audit

Report Released
March 10, 2008

JOHN S. RICHARD
Director

BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

March 10, 2007

TO BILL W. CRAIN, ADMINISTRATOR, AND THE OKLAHOMA STATE & EDUCATION EMPLOYEES GROUP INSURANCE BOARD

With this letter, we transmit the report of the Oklahoma State & Education Employees Group Insurance Board purchase card program audit for the audit period September 28, 2006 through September 27, 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,

John S. Richard
Director of the Department of Central Services

TABLE OF CONTENTS

PURPOSE, OBJECTIVE AND SCOPE 1
METHODOLOGY 1
EXECUTIVE SUMMARY 2
AUDIT RESULTS 3
OVERALL CONCLUSION 10

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma State & Education Employees Group Insurance Board, hereinafter referred to as the "Agency", purchase card program for the period 9/28/2006 through 9/27/2007. 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;
- and, determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program.

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.

EXECUTIVE SUMMARY

Organization

An independent, non-appropriated agency that provides health coverage to both active and retired state employees including 168 cities, towns, and rural water districts, 549 public school districts and charter schools, 28 technology centers, 26 higher education entities, 54 county governments, and more than 100 other local governments, non-profits, associations, co-ops, or other entities. The Agency administers a governmental employer-direct Medicare Part D program.

AGENCY NAME

The Agency is made up of 154 classified and 24 unclassified employees as of 9/1/2007. At the time of the audit, there were 7 purchase cardholders and 1 approving official in the agency.

Board Members

Richard N. Womack Chairman
B. Steve Burrage, Vice Chairman
Eugene P. Reding, Secretary
Cody Graves, Member
W. R. Moon, Member
Tony Hutchison, Member
Kim Holland, Member

Key Personnel

Bill W. Crain, Administrator
Frank D. Wilson, Deputy Administrator, Finance
Paul S. King, Deputy Administrator, Operations
Charles Clifford, Assistant Administrator Purchasing Manager, Purchase Card Administrator

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of $43,822.62 savings during for the period 9/28/2006 through 9/27/2007. This is 12.34% ($43,822.62 / $355,249.95) of the total dollars expended using the purchase card. This is an average estimated savings of $ 71.96 from economy calculation 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. In the economy questionnaire, the Agency stated that acquisitions are a lot cheaper and faster to process than purchase orders.

AUDIT RESULTS

Audit Finding Summary

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

- The cardholder's transaction log and memo statement did not reconcile for twelve percent of the transaction logs reviewed. Finding 07-516-02
- The Agency's revised internal purchasing procedures that include the Agency's purchase card procedures were not approved by the Department of Central Services until October 3, 2007. Finding 07-516-01
- Four percent of the memo statements reviewed were not signed and dated by an entity Approving Official indicating a review of the reconciliation and supporting documentation was performed. Finding 07-516-05
- Thirty-eight percent of the transaction logs reviewed were not signed/dated daily to indicate approval for Travel and Statewide Card purchases. Finding 07-516-05
- One purchase for $1,931.00, for a fax machine, was not listed on the Agency's inventory schedule. Finding 07-516-04
- Thirty-eight percent of the memo statements reviewed were not signed and dated by the cardholder verifying that the transaction log and the memo statement had been reconciled. Finding 07-516-03
- Seventy-nine percent of the receiving documents reviewed were not either signed, dated, or marked 'received' by the receiving employee. Finding 07-516-04

Audit Finding Details

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

Finding No: 07-516-02: Reconciliations

Criteria: 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 receipts) to verify that purchases and returns are accurately listed on the memo statement…

State of Oklahoma Purchase Card Procedures § 6.8.1 **Processing returns, credits, and disputes**, states in part:

> Documentation of the credit receipt should be issued by the merchant. Keep on file all documentation pertaining to returns, credits, and disputes for reconciliation to the memo statement. Record the return, credit, or disputed transaction on the Transaction Log and attach copies of the documentation."

Condition: We statistically sampled 38 purchase card transactions totaling $40,181.78 out of 609 transactions totaling $355,249.95 for review during the audit period. Within this sample, there were a total of 26 memo statements and transaction logs reviewed.

The cardholder's transaction log and memo statement did not reconcile in 3 out of 26 (12%) transaction logs reviewed. Of the 3 instances, 1 transaction was omitted from the transaction log totaling $24.95. The remaining 2 transactions were due to missing credit memos issued by the merchant totaling $43.99. None of these transactions were disputed transactions or carried over to the next billing cycle.

Cause: There was a weakness in the controls that ensure the transaction log, the memo statement and the receipts all match each other. In addition, merchants issued credits to the Agency but did not provide confirmation to the cardholder.

Effect or Potential Effect: Inaccurate reconciliation of the transaction log to memo statement creates the possibility of omissions of transactions, understatement or overstatement of purchase activity and unexplained transactions may occur.

Recommendation: Cardholders should ensure that their memo statement is properly and accurately reconciled before submission to their designated approving official. The approving official should ensure that the memo statement reconciles prior to signing indicating concurrence with the reconciliation.

Management's Response

Date: February 29, 2008
Response: Concur (P-card administrator, Deputy Administrator) Each purchase card holder is issued a copy of the agency's internal purchasing/purchasing card procedures, and these procedures are reviewed periodically by the cardholders to ensure compliance of the cardholder responsibility.

Corrective Action Plan

Anticipated Completion Date: March 31, 2008
Corrective Action Planned: Have the Agency Purchase Card Administrator conduct refresher classes in regards to this matter of reconciliation of the monthly memo statements.

Finding No: 07-516-01: Internal Purchasing Procedures

Criteria: The Oklahoma Central Purchasing Act §85.39, **Agency internal purchasing procedures** states in part:

> Each state agency shall develop internal purchasing procedures for acquisitions by the state agency…
>
> The State Purchasing Director shall review the procedures submitted pursuant to paragraph 1 of this subsection to determine compliance with the Oklahoma Central Purchasing Act, rules promulgated pursuant thereto, Sections 3001 through 3010 of this title, and provisions of paragraph 1 of this subsection…

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: The Agency's revised internal purchasing procedures that include the Agency's purchase card procedures were not approved by the Department of Central Services until October 3, 2007. This was the first time revised since the agency began the purchase card program. The agency began using the purchase card program approximately 12/15/2004.

Cause: Miscommunication and misunderstanding between the Agency and the Department of Central Services has caused a delay in the final approval of revised internal purchasing procedures.

Effect or Potential Effect: Internal procedures were not updated timely, resulting in a lack of guidance for cardholders who make purchases on behalf of the Agency.

Recommendation: The Agency updated their internal purchasing procedures October 3rd, 2007. No further recommendation is made.

Management's Response

Date: February 29, 2008

Response: Concur (P-card administrator, Deputy Administrator)

OSEEGIB began using the purchase card on December 15, 2004. Prior to this date the agency internal purchasing procedures were updated to include the use of the new purchase card but due to oversight were not submitted to Central Purchasing for approval. We were made aware of this oversight during the p-card audit, and the agency internal purchasing procedures were submitted to and approved by Central Purchasing with an effective date of October 1, 2007.

Corrective Action Plan

Anticipated Completion Date: Completed

Corrective Action Planned: Internal purchasing procedures including p- card procedures have been approved by Central Purchasing.

Finding No: 07-516-05: Memo Statements and Transaction Logs

Criteria:

1. The State of Oklahoma Purchase Card Procedures § 6.9.2, **Entity approving official(s) responsibility** states, in part, "To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement …"

2. The State of Oklahoma Purchase Card Procedures § 6.9.2, **Entity approving official(s)responsibility** states, in part, "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 approval by initialing and dating the transaction log next to the purchase."

Condition: We statistically sampled 38 purchase card transactions totaling $40,181.78 and judgmentally sampled 12 purchase card transactions totaling $10,444.71 out of 609 transactions totaling $355,249.95 for review during the audit period. Within this sample, there were a total of 26 memo statements and transaction logs reviewed.

1. We noted 1 out of 26 (4%) memo statements was not signed and dated by an entity Approving Official indicating a review of the reconciliation and supporting documentation was performed.

2. We noted 3 out of 8 (38%) transaction logs not signed/dated daily to indicate approval for Travel and Statewide Card purchases.

Cause:

1. This was an oversight on the part of management.

2. This was an oversight on the part of management.

Effect or Potential Effect:

1. In the absence of approving officials' signatures on memo statement, 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.

2. By not initialing and dating the transaction log and memo statement, there is no written documentation that the approving official verified the accuracy, completeness,

appropriateness of the purchases and whether the transactions were conducted according to State statutes, rules, p/card procedures, and sound business practice.

Recommendation: We recommend the following:

1. The Agency establish and implement procedures to ensure that all monthly memo statements are signed and dated by the approving official upon concurrence of the reconciliation performed by the cardholder.

2. Implement procedures that ensure State Entity Approving Official provide written approval (handwritten, letter, email, form, etc.) to the SW Contract and Travel P/Cardholder prior to cardholder making a purchase of goods or services in compliance with purchase card procedures.

Management's Response

Date: February 29, 2008
Response: Concur (P-card administrator, Deputy Administrator)
Each purchase card holder and the entity approval official are issued a copy of the agency's internal purchasing/purchasing card procedures, and these procedures are reviewed periodically by the cardholders to ensure compliance.

Corrective Action Plan

Anticipated Completion Date: March 31, 2008
Corrective Action Planned: Have the entity approval official be more diligiant is signing all of the monthly memo statements in accordance with the agency internal procedures.

Finding No: 07-516-03: Inventory

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

Condition: We statistically sampled 38 purchase card transactions totaling $40,181.78 and judgmentally sampled 12 purchase card transactions totaling $10,444.71 out of 609 transactions totaling $355,249.95 for review during the audit period. Of the sample transactions tested, there were 2 transactions totaling $3,980.95 that exceeded $500.00 that should have been listed on the agency's inventory schedule. Based on our substantive testing, one purchase for $1,931.00, for a fax machine, was not listed on the Agency's inventory schedule.

Cause: There was a one time malfunction for adding an inventory item to the master schedule.

Effect or Potential Effect: By not accurately reporting inventory purchases, the total value of inventory is understated, inventory cannot be properly tracked and the agency does not have an accurate reporting of assets owned.

Recommendation: The Department should review their current processes to ensure that purchases exceeding $500 are being recorded on the Department's inventory schedule.

Management's Response

Date: February 29, 2008
Response: Concur (P-card administrator, Deputy Administrator)
OSEEGIB has in place written procedures in the handling of fixed assets regarding receiving, tagging, and fixed asset inventory recording. The receiving personnel did not follow agency procedure in accounting for this fixed asset item.

Corrective Action Plan

Anticipated Completion Date: March 31, 2008
Corrective Action Planned: Review with the receiving personnel and their supervisor the written procedures for tracking fixed assets.

Finding No: 07-516-04: Receipt Documentation

Criteria:

1. 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 that the transaction log and the memo statement have been reconciled...

2. 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 process as described in 6.7.1 above."

Condition: We statistically sampled 38 purchase card transactions totaling $40,181.78 out of 609 transactions totaling $355,249.95 for review during the audit period. Within this sample, there were a total of 26 memo statements and transaction logs reviewed.

1. We reviewed 26 transaction logs and memo statements to ensure they were signed and dated. We noted 10 out of 26 (38%) memo statements were not signed and dated by the cardholder verifying that the transaction log and the memo statement had been reconciled.

2. We reviewed 38 transactions, in which the goods and services were received subsequent to the time of purchase, to ensure receiving documents were signed, dated, and annotated

'received' by the receiving employee. We noted 30 receiving documents out of 38 (79%) were not either signed, dated, or marked 'received' by the receiving employee.

Cause:

1. Oversight on the part of the cardholder.

2. The Agency was using its Internal Requisition form as the receiving document. There are blocks on the form to indicate the date received and who received the goods or services.

Effect or Potential Effect:

1. Not requiring the cardholders to sign and date the memo statements verifying that the transaction logs have been reconciled to the memo statements could allow for unauthorized charges to the cards.

2. If the receiving employees sign, date, and mark the internal requisition received instead of the receiving documents, they are not following State purchase card procedures. By signing, dating, and marking the receiving document sent from the vendor, the agency is verifying the information from the vendor and not an internally generated document.

Recommendation: We recommend the Agency:

1. Implement a process that ensures cardholders sign the memo statements in accordance with the rules and regulations. Also implement a process that ensures that the approving official checks that the memo statement has been signed by the cardholder, indicating reconciliation has been properly performed.

2. Develop and implement a process for all individuals receiving goods or services that ensure that the receiving documents are properly signed, dated, and annotated 'received'.

Management's Response

Date: February 29, 2008
Response: Partially Concur (P-card administrator, Deputy Administrator)
(1) In all cases the purchase card holder signed the log sheet and/or the memo statement. There were no occurrences where the memo statement and the log sheet of the same month were not signed by the card holder.

(2) OSSEGIB has been using an internal requisition form for all purchase transactions. This requisition records the item to be purchased, the requester, the necessary approvals, the funding account numbers to be charged, receiving field and date received field. The receiving documents are attached to this requisition, and the requisition is then signed and dated received by the appropriate personnel acquiring the goods or services. This verifies what was delivered to OSEEGIB by the vendor. This also records the same information required by the p-card procedures.

Corrective Action Plan

Anticipated Completion Date: March 31, 2008

Corrective Action Planned: OSEEGIB will discuss with Central Purchasing if the practice of recording the receiving information on the agency internal requisition can be substituted for recording that information on the receiving document as long as the receiving document is attached to the internal requisition.

The agency cardholders will be reminded that all memo statements need to be signed in accordance with agency written procedures.

OVERALL CONCLUSION

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