



DEPARTMENT OF HUMAN SERVICES  
PURCHASE CARD PROGRAM AUDIT  
FOR THE PERIOD JANUARY 16, 2008 TO AUGUST 27, 2008

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State of Oklahoma

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Department of Central Services

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Audit Unit

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Report Release Date March 25, 2009

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AUDIT PERFORMED BY

Lauren Skora, Auditor  
Joe Birley, Auditor  
Lisa A. White, Audit Manager  
JoRay McCoy, Chief Auditor

AUDIT CONCLUSION

Based on our audit, we have determined the Department of Human Services (hereinafter referred to as 'Agency') has significantly complied with our Audit objectives. Our audit objectives are (1) determining 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) determining 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. There were deficiencies noted during the audit. These deficiencies include improper reconciliation method of memo statements, not properly annotating receiving documents, and memo statements not being signed by the cardholder and the approving official. The Agency 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.)*

- **Finding 08-830-03: Memo Statement**- Proper reconciliation of memo statements is not being performed.
- **Finding 08-830-06: Approving Official Pre-Approval Process**- 100% of travel purchases were not pre-approved by the cardholder's approving official.
- **Finding 08-830-07: Receiving Document Signature**- 94% of receiving documents were not signed, dated, and annotated 'received' by the receiving employee.
- **Finding 08-830-03: Memo Statement**- 100% of memo statements were not signed and dated by the cardholder.
- **Finding 08-830-03: Memo Statement**- 91% of memo statements were not signed and dated by the approving official.

*NOTE: We did not issue the following findings to the Agency: 08-830-01, 08-830-02, 08-830-04, & 08-830-05.*



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*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.*



*This publication is issued by the Department of Central Services, as authorized by 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.*

**AUDIT OVERVIEW**

The purchase card program of the Agency has 5 purchase cards- three individual cards and 2 travel cards. There are also five purchase card cardholders.

For the audit period January 16, 2008 to August 27, 2008, there were a total of 1,343 purchase card transactions. The total dollar value of the purchase card transactions is \$313,515.12. Breakdown of the purchase card transaction population and sample is detailed below:

	<b><u>Individual Card</u></b>	<b><u>Travel Card</u></b>
<b>Population Totals</b>		
Transactions	29	1,314
Dollars	\$25,513.32	\$308,001.80
<b>Total Travel Population without Agent Fees</b>		
Transactions		684
Dollars		\$292,596.07
<b>Sample Totals</b>		
Transactions	20	20
Dollars	\$16,564.46	\$7,207.05
<b>% of population sampled</b>		
Transactions	69%	3%
Dollars	65%	3%

Descriptive statistics and sample size generators were used to determine random sample size. After the appropriate sample size was determined, manual stratification and random sampling in IDEA Data Analysis Software.

**AGENCY HIGHLIGHT**

The Department of Human Service has created an interface that allows users to reconcile their memo statement on-line versus paper reconciliation. This interface also transfers purchase card transaction data daily to Office of State Finance (OSF) as part of the Agency's alternative claims system.



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**DETAILED FINDINGS**

**Finding 08-830-03: Memo Statement**

**Criteria:** State of Oklahoma Purchase Card Procedures §§ 6.8.1.1 and 6.8.3.1 **Cardholder Responsibility** states in part:

- ...
- The memo statement shall be signed and dated by the cardholder verifying responsibility for purchases and proper reconciliation (signature stamps are not acceptable).
- ...

State of Oklahoma Purchase Card Procedures §§ 6.8.1.2 and 6.8.3.2 **State Entity Approving Official(s) Responsibility** states:

- ...
- State Entity Approving Official(s) shall review... P/Cardholder's reconciled memo statement and transaction 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...
- ...
- To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement. (Signature stamps are not acceptable).
- ...

The Oklahoma Department of Human Services Internal Purchasing Procedures § 2-11-36 (b) (3) **Cardholder's authorized signer responsibilities** states in part, "It is the responsibility of the cardholder's authorized signer to sign and date...the issuing bank's statement..."

**Condition:** During the testing of internal controls of the Agency's purchase card program, we noted the following:

- The memo statements were unsigned by the cardholder and approving official. The memo statements are not required by the cardholders for the approving official and cardholders to sign because it is electronically reconciled.
- An appropriate reconciliation is not being performed by the cardholders and approving officials. Transaction logs are submitted to the approving official with the memo statement but without the transaction supporting documentation. The approving official either reviews the transaction log without transaction documentation or reconciles the transaction documentation to the transaction log. The transaction log is then signed and dated by the cardholder and the approving official. The cardholder will then submit the documentation to the Purchase Card Administrator for payment.

During the audit period reviewed (January 16, 2008 through August 27, 2008), the Agency had 1,343 transactions totaling \$333,515.12. We pulled a random sample of 40 (3%) transactions totaling \$23,771.51 (7.1%). There were 23 memo statements for the audit period reviewed. We noted the following during our testwork:



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- 21 of 23 (91%) memo statements were not signed or dated by the approving official.
- 23 of 23 (100%) memo statements were not signed or dated by the cardholder.

**Cause:** The reconciliation process for this Agency is completed in an online system that matches the Pathway Net transactions to the bank statement transactions. The Agency uses the transaction log, rather, as a signature document for reconciliation approval. By not reconciling to the memo statement, there exists a breakdown in controls in ensuring that cardholders adequately reconcile, sign and date their memo statements.

**Effect or Potential Effect:** By not signing the memo statement, there is a possibility that transactions can be made without approval.

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

- to all cardholders and approving officials the need to sign and date the paper memo statements.
- to all cardholders, approving officials, and Purchase Card Administrators, the importance of submitting transaction documentation each cycle for review in the paper reconciliation process.

**Management's Response**

**Date:** February 20, 2009

**Respondent:** Finance Manager

**Response: Concur-** OKDHS previously performed the reconciliation process using the Pathway Net, bank statements and transaction logs. The signature process was being performed on the transaction logs rather than the memo statements. We would like to note that we feel this reconciliation process to be adequate.

**Corrective Action Plan**

**Contact Person:** Finance Manager

**Anticipated Completion Date:** Began process January 1, 2009

**Corrective Action Planned:** OKDHS implemented a reconciliation process that requires the purchase cardholders to sign and date the paper memo statement. Also, this process includes the submission of all transaction documentation for each cycle's reconciliation. This process has been put into practice starting with the January 2009 reconciliation.

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**Finding 08-830-06: Approving Official Pre-Approval Process**

**Criteria:** State of Oklahoma Purchase Card Procedures § 6.8.3.1 **Cardholder Responsibility** states in part:

The Travel P/Cardholder (Entity Travel Coordinator) shall obtain written approval (handwritten, letter, email, form, etc.) from their State Entity Approving Official or designated back-up **prior to** making a purchase of airfare...in compliance with these procedures. The written approval must be retained for and included with the reconciliation



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at the end of the cycle.

State of Oklahoma Purchase Card Procedures § 6.8.3.2 **State Entity Approving Official(s) Responsibility** states in part:

The State Entity Approving Official must provide written approval (handwritten, letter, email, form, etc.) to the Travel P/Cardholder **prior to** cardholder making a purchase of goods or services in compliance with these procedures.

**Condition:** During the testing of internal controls of the Agency's purchase card program, we noted that the travel purchases are not pre-approved by the cardholder's approving official. The travel purchase is approved by other Agency employees not involved in the purchase card program. Program participants indicated that a form AMD 1B is completed and approved by the Division head while the Approving Official approves the travel purchases after the transaction is complete.

During the audit period reviewed (January 16, 2008 through August 27, 2008), the Agency had 1,343 transactions totaling \$333,515.12. We pulled a random sample of 40 (3% of total transactions) transactions totaling \$23,771.51 (7.1% of dollars). Out of the sample, there were 20 travel purchases which included 16 debits and 4 credits. We noted the following during our testwork:

- 16 of 16 (100%) debit transactions were not pre-approved by the approving official. These items were approved by the approving official after the transaction was entered and completed on the daily transaction log.

**Cause:** The Agency has an internal approval process in place for travel purchases.

**Effect or Potential Effect:** By not appropriately approving travel purchase card transactions, there is a chance for unauthorized transactions to occur.

**Recommendation:** We recommend the Agency develop and implement a process whereby the approving official of the cardholder is included in the approval process of all travel purchases prior to purchase.

**Management's Response**

**Date:** February 20, 2009

**Respondent:** Finance Manager

**Response: Concur-** The Travel Purchase cardholders were not obtaining written approval from their State Entity Approving Official or designated back-up **prior** to making a purchase of airfare.

**Corrective Action Plan**

**Contact Person:** Finance Manager

**Anticipated Completion Date:** Began Process December 1, 2008

**Corrective Action Planned:** OKDHS implemented a process for the State Entity Approving Official or designated back-up to provide written approval prior to making a purchase of airfare. This process was implemented by our Travel Coordinator on December 1, 2008 and was reviewed and approved by the DCS audit staff.



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**Finding 08-830-07: Receiving Document Signature**

**Criteria:** State of Oklahoma 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 a 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...

**Condition:** During the audit period reviewed (January 16, 2008 through August 27, 2008), the Agency had 1,343 transactions totaling \$333,515.12. We pulled a random sample of 40 (3%) transactions totaling \$23,771.51 (7.1%). Five of the transactions were not applicable to this rule as they were credit transactions. Therefore, only 35 transactions would require the annotations mentioned above. We noted the following during our testwork:

- 33 of 35 (94%) of applicable transactions had receiving documents that were not signed, date, or annotated "received" by the receiving employee.

**Cause:** The Agency was not aware the receiving employee was to annotate "Received" and sign and date the receiving document.

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

**Recommendation:** We recommend the Agency develop, implement and communicate to all cardholders, approving officials, and receiving employees that each receiving document for a good or service should be annotated "Received" and signed and dated by the receiving employee.

***Management's Response***

**Date:** February 20, 2009

**Respondent:** Finance Manager

**Response:** Concur- OKDHS was utilizing the authorization for payment signature as proof of receipt of the good or service rather than requiring the receiving employee to document the receipt.

***Corrective Action Plan***

**Contact Person:** Finance Manager

**Anticipated Completion Date:** Began process January 1, 2009

**Corrective Action Planned:** OKDHS has implemented a process for each good or service to be annotated "Received" and signed and dated by the receiving employee. This process has been communicated to all employees involved in the receipt of goods or services acquired via the purchase card.



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## APPENDIX

### 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

Oklahoma voters created what is now the Department of Human Services in the Great Depression year of 1936. By a two-to-one margin, voters approved a state constitutional amendment "to provide ... for the relief and care of needy aged ... and other needy persons." Voters also approved a 1 percent sales tax use by the Welfare Department. The amount was increased to 2 percent by the 1937 Oklahoma Legislature. In the 1950s, the agency's responsibilities were expanded, and in 1980, its name was changed by the legislature. Today, DHS has offices in each of the seventy-seven counties. The Commission for Human Services has nine members appointed by the governor for staggered nine-year terms with one appointment made each year. The commission appoints the department's director and decides the salary.

#### Agency Information

Per Oklahoma Agencies, Boards, and Commissions (ABC) Book, the Agency is made up of 6,745 classified, 505 unclassified, and 521 temporary employees as of September 1, 2008.

#### Commission Members

- Richard L. DeVaughn, D.D.S., Chairman
- Ronald L. Mercer, Vice-Chairman
- Jay Dee Chase, Member
- Patrice Dills Douglas, Member
- Michael L. Peck, O.D., Member
- Robert D. Rawlings, Member
- Garoldine (Gerri) Webb, Member
- Aneta F. Wilkinson, Member
- Rev. George E. Young Sr., Member



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*Key Staff*

(During the Audit Period)

- Howard H. Hendrick, Director of Human Services
- Paula Hearn, Chief Administrative Officer
- Paul Motley, Chief Financial Officer
- Chris Bottoms, Finance Manager
- Alice Gray, Administrative Programs Officer II and Purchase Card Administrator

JOHN S. RICHARD  
Director



BRAD HENRY  
Governor

STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

March 25, 2009

**TO MR. HOWARD H. HENDRICK, DIRECTOR OF HUMAN SERVICES:**

With this letter, we transmit the purchase card program audit report for the Department of Human Services.

We performed our audit in accordance with professional auditing standards to ensure that programs and contracts administered by the Oklahoma 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 Oklahoma Department of Central Services website, [www.dcs.ok.gov](http://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

**"Committed to Quality"**