



OKLAHOMA

Department of Central Services Audit Unit

OKLAHOMA BOLL WEEVIL ERADICATION ORGANIZATION

Purchase Card Program Audit

*Report Released
May 4, 2007*

STATE OF OKLAHOMA
OKLAHOMA BOLL WEEVIL ERADICATION ORGANIZATION
PURCHASE CARD PROGRAM AUDIT
JANUARY 28, 2006 TO JANUARY 29, 2007

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OKLAHOMA BOLL WEEVIL ERADICATION ORGANIZATION
PURCHASE CARD PROGRAM AUDIT
FOR THE PERIOD JANUARY 28, 2006 THROUGH JANUARY 29, 2007**

PURPOSE, OBJECTIVE, AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma Boll Weevil Eradication Organization, hereinafter referred to as the "Agency", purchase card program for the period January 28, 2006 to January 29, 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 has implemented internal controls and if your agency's controls are operating effectively in relation to the purchase card program;
- determine if the agency's purchase card program is in compliance with laws and regulations promulgated by the Department of Central Services; and
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards.

This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the purchase card program were documented and evaluated.
- 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 Boll Weevil Organization designs, implements, and completes a boll weevil eradication program that is economical, producer friendly, and beneficial to the State of Oklahoma.

As of September 1, 2006, Oklahoma Boll Weevil Eradication Organization was made up of 12 unclassified and 20 temporary employees. At the time of the audit, the Agency had six purchase cards.

Board Members

Jerry McKinley- District #4, Chairman
Dan Vinyard- District #5, Vice-Chairman
Ron Whittenberg- District #3, Treasurer
Phil Bohl- District #1, Secretary
Shelby Long- District #2, Member

Key Staff

Joe Harris, Executive Director
John Henderson, Assistant Executive Director
Amanda Davidson, Business & Finance Officer
Billy Burton, Computer Technician

Economy Results

Estimated Savings - The purchase card program saved the Oklahoma Boll Weevil Eradication Organization an estimated \$3,594.37 for the audit period January 28, 2006 to January 29, 2007. This is an average estimated savings of \$15.63 per transaction and represents approximately 9% (\$3,594.37 / \$41,788.05) of the total purchase card dollar transaction population. By the Agency using the purchase card, time is saved in traveling and money in emergency situations.

Questioned Costs – During our audit, we noted a purchase outside of mandatory statewide contract requirements in the amount of [\\$17.91](#).

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AUDIT RESULTS

Audit Finding Summary

Error rates are based on transactions and memo statements reviewed.

Purchase Card

- 21 of 40 (53%) receiving documents were not signed, dated, and annotated 'received' for walk-in purchases. [Finding 07-039-01](#)
- 2 of 9 (22%) receiving documents were not signed, dated, and annotated 'received' for internet and/ or phone orders. [Finding 07-039-01](#)
- 1 of 4 (25%) purchases applicable to merchant preference requirements was made in the open market. [Finding 07-039-01](#)
- 3 of 33 (9%) transaction logs were not signed and dated by the cardholder. [Finding 07-039-02](#)
- 2 of 33 (6%) memo statements were not signed and dated by an approving official. [Finding 07-039-02](#)

Internal Purchasing Procedures

- 49 of 49 (100%) purchase card transactions were not supported by an Oklahoma Boll Weevil Eradication Organization requisition. [Finding 07-039-03](#)

Internal Controls

- Agency's six purchase cardholders do not have access to Pathway Net. [Finding 07-039-03](#)

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Audit Finding Details

Findings and recommendations are reported based on audit significance.

Finding 07-039-03: Internal Purchasing Procedures/ Internal Controls

Criteria:

1. Oklahoma Boll Weevil Eradication Organization (OBWEO) Internal Purchasing Procedures, **Agency Procedures**, states in part, "The appropriate OBWEO staff member directs this need for purchase by submitting a OBWEO requisition to the CPO or the Alternate CPO. The requisition should contain necessary and pertinent information, i.e. description of requirements, vendor information, date items or services needed, appropriate signatures, etc."
2. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states in part, "...Regular p/card, Statewide Contract p/card, and Travel p/card holders shall obtain an electronically generated memo statement upon closing of the bank's monthly billing cycle from the Pathway Net System..."

State of Oklahoma Purchase Card Procedures § 6.12.2 **Information via the Internet** states in part, "Account information may be viewed and reports generated at the Pathway Net System website..."

United States General Accounting Office Internal Control GAO/AIMD-00-21.3.1 Control Activities, **Segregation of Duties** states:

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Condition:

1. During the audit period reviewed (January 28, 2006 thru January 29, 2007), the Agency had 230 purchase card transactions in the total amount of \$41,788.05. A random statistical sample was selected for substantive testing. Sample statistically selected and tested was 49 purchase card transactions (21% of population) in the total amount of \$14,578.99 (35% of population).

During substantive testing, 49 of 49 (100%) purchase card transactions were not supported by an OBWEO requisition.

2. The Agency has six cardholders participating in the purchase card program. None of the Agency's cardholders have computer access to their transactions and memo statements via the internet. These cardholders do not have the opportunity, methods or tools to

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review their card activity during the month and are limited in their ability to determine in a timely manner if any misuse of their purchase card has occurred.

Cause:

1. The OBWEO requisition is not to be used for purchase card transactions.
2. The Agency's Purchase Card Administrator stated, "The efficiency of the Agency is increased when the program is coordinated from headquarters."

Effect or Potential Effect:

1. There is no written documentation that the CPO and Alternate CPO have conferred and determined that the purchase card acquisition is fair and reasonable.
2. By limiting the access of the cardholders to the Pathway Net system, the cardholder is not provided the opportunity to monitor their transactions and account. Such restrictions reduce segregation of duties and the ability of the cardholder to be responsible and accountable for their purchase card activities.

Recommendation: We recommend the Agency:

1. Adhere to the internal purchasing procedures as designed by the Agency's management by submitting a requisition for each purchase to the CPO or the Alternate CPO. We further recommend the Agency to review and evaluate the Agency's internal purchasing procedures to determine if the completion of an OBWEO requisition is a necessary, effective and efficient purchasing process for purchase card purchases. If 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.
2. Provide cardholders with access to the Pathway Net System. Inquiry only access can be provided to the cardholders. Cardholders will only have access to their purchase card account to monitor their purchase card transactions with little to no risk to accounting functions. We further recommend the Agency provide training or request training for cardholders related to accessing Pathway Net.

Management's Response:

Date: April 24, 2007

Response: Partially Concur

1. OBWEO internal purchasing procedures address both regular purchases and P-card purchases. Requisitions are required for regular purchases, not for P-card purchases. The P-card section nowhere addresses a requirement to submit requisitions.

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2. Although the Alternate CPO monitors all transactions via the internet, and that is what I am comfortable with, as I had no intent to limit individual access to the system, I have no problem with providing cardholders access to Pathway Net.

Corrective Action Plan:

Anticipated Completion Date: May 31, 2007

Corrective Action Planned: OBWEO internal purchasing procedures will be revised to more specifically state that requisitions are not required for P-card transactions and that the CPO and Alternate CPO will confer, vice the current language that the Alternate CPO will review and make recommendations. All card holders will be given access to Pathway Net along with training on how to use it.

Finding 07-039-01: Receiving Documents & Merchant Preference

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.7.1 **Goods or services received at the time of purchase** states in part, “The receipt for purchase (see 6.5 above) can also serve as the receiving document. The receiving document should be annotated “Received” and signed and dated by the receiving employee...”
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 packing slip or service order) serves as the receiving document and is processed as described in 6.7.1 above.”
3. State of Oklahoma Purchase Card Procedures § 6.2.5 **Merchant preferences** states in part, “P/card purchases shall comply with the following preferences for certain merchants or types of contracts. The following are listed in the order of preference.

6.2.5.1 State Use Committee. State entities shall make p/card purchases from merchants on the State Use Committee procurement schedule unless the State Use Contracting Officer has issued a waiver to the entity prior to the purchase. State Use Committee statewide contracts are mandatory for use.

6.2.5.2 Oklahoma Corrections Industries (OCI). State entities shall make purchases from OCI pursuant to 57 O.S. § 549.1, if the vendor is deemed lowest and best.

6.2.5.3 Mandatory statewide contracts. State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity...”

Condition: During the audit period reviewed (January 28, 2006 thru January 29, 2007), the Agency had 230 purchase card transactions in the total amount of \$41,788.05. A random statistical sample was selected for substantive testing. Sample statistically selected and tested

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was 49 purchase card transactions (21% of population) in the total amount of \$14,578.99 (35% of population). We noted the following during substantive testing:

1. 40 of 49 (82%) purchase card transactions were for walk-in purchases. Of these 40 purchase card transactions, 21 (53%) receiving documents were not signed, and/ or dated, and/ or annotated 'received'.

During internal control review and testing, receipts for random sample of cardholders were reviewed to ensure receipts were properly processed. Of the receipts reviewed, one cardholder did not sign, date, and annotate their receipt 'received'.

2. 9 of 49 (18%) purchase card transactions were either internet or phone order purchases. Of these 9 purchase card transactions, 2 (22%) receiving documents were not signed, and/ or dated, and/ or annotated "Received".
3. 4 of 40 (10%) purchase card transactions met the requirements for merchant preference. Of these 4 transactions, 1 (25%) transaction was made from a vendor in the open market instead of a State Use vendor. Details are noted below:

<u>Card #</u>	<u>Transaction Date</u>	<u>Amount</u>	<u>Item Description</u>	<u>SW Contract</u>	<u>State Use Vendor</u>
*****7575	4/5/2006	<u>\$17.91</u>	HiFi Audio Cassettes	SW903	Work Activity Center, Inc.

Cause:

1. and 2. Cardholder oversight.
3. An exception was made to the merchant preference requirements due to the readily availability of the product and the timeliness of the delivery of the product.

Effect or Potential Effect:

1. By not requiring receiving employees to sign, date or annotate "Received" on the receiving document, there is no written verification that goods and/or services purchased were actually received.
2. By not making purchases from required mandatory statewide contracts, controls in place that ensures reduced costs and increased value for goods and services to the State of Oklahoma are circumvented.

Recommendation:

1. We recommend that the Agency develop, implement and communicate:
 - to all cardholders the importance of collecting and maintaining receiving documentation,

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- 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 for returning receiving documentation to the cardholder to properly support the product or service was received. In addition, 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.

2. We recommend the Agency to communicate to the cardholders the requirements of mandatory statewide contracts and verify cardholders are complying with said requirements. Cardholders should receive guidance, review, and on-the-job training from supervisors and managers to help ensure purchases are made from mandatory statewide contracts.

Management’s Response:

Date: April 24, 2007

Response: Concur

1. and 2. Two of the 23 documents cited were not signed, dated or annotated received. 21 were signed but did not reflect received.
3. Even though the cause cited is logical, this was an oversight and not the policy of OBWEO.

Corrective Action Plan:

Anticipated Completion Date: May 31, 2007

Corrective Action Planned: Although I had planned a thorough training session based on the revised P-card Procedures Manual which was to have been promulgated during December 2006, retraining in all procedures using the old manual will be conducted prior to May 31, 2007. This will include mandatory and state use contracts. Additionally, copies of receipts received weekly for review/coding will be segregated from originals which are received after the close of each period. This will help ensure against the possibility of not seeing a signature on one document when it may be on the other one. Also, one more layer is being added to the review process to catch inadvertent misses, if they occur, at the lower level.

Finding 07-039-02: Memo Statements and Transaction Logs

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states in part, “...In reconciling the statement, cardholders should use appropriate documents (i.e. transaction log, purchase receipts, receiving documents, credit receipts)

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to verify that purchases and returns are accurately listed on the memo statement. After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases...”

2. 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 and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.”

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...”

Condition: During the audit period reviewed (January 28, 2006 thru January 29, 2007), the Agency had 230 purchase card transactions in the total amount of \$41,788.05. A random statistical sample was selected for substantive testing. Sample statistically selected and tested was 49 purchase card transactions (21% of population) in the total amount of \$14,578.99 (35% of population). As part of the sample selected, there were 33 transaction logs and memo statements. We noted the following during substantive testing:

1. 3 of 33 (9%) transaction logs were not signed and dated by the cardholder.
2. 2 of 33 (6%) memo statements were not signed and dated by an approving official.

Cause: Unsigned transaction logs and memo statements are an oversight by both the cardholder and approving official.

Effect or Potential Effect: By not having the transaction log and memo statements signed by the appropriate parties, there is no written documentation that the memo statement has been reconciled by the cardholder, cardholder verified transactions as valid purchases, and the approving official reviewed the reconciliation for accuracy, completeness, appropriateness, and made in accordance with State statute, rules, and procedures.

Recommendation: We recommend the Agency implement a process and procedure to ensure transaction logs and memo statements are signed by all appropriate parties at the end of each stage of the reconciliation process. We further recommend the Agency’s purchase card management monitor on a regular scheduled basis reconciled statements to ensure cardholders and approving officials are adhering to established procedures.

Management’s Response:

Date: April 24, 2007

Response: Concur

1. The three transaction logs were signed but not dated as they should have been.
2. Upon review, I have no argument.

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Corrective Action Plan:

Anticipated Completion Date: Immediately

Corrective Action Planned: Originals and copies of all documentation will be segregated to ensure that a good, single document audit trail, with all the requisite signatures in place, is maintained.

OVERALL CONCLUSION

Based upon our audit, we have determined Oklahoma Boll Weevil Eradication Organization has materially complied, in all material respects, with the stated objectives. However, there were some exceptions noted. Exceptions include improper receipting methods for purchase card transactions, purchase made outside of merchant preference requirements, and cardholder access to Pathway Net. Oklahoma Boll Weevil Eradication Organization 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

May 4, 2007

**TO JOE HARRIS, EXECUTIVE DIRECTOR AND THE BOARD OF OKLAHOMA
BOLL WEEVIL ERADICATION ORGANIZATION**

With this letter, we transmit the report of the Oklahoma Boll Weevil Eradication Organization purchase card program audit for the period January 28, 2006 to January 29, 2007.

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

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

Sincerely,

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

John S. Richard
Director of the Department of Central Services

"Committed to Quality"