OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES
AUDIT UNIT

OKLAHOMA INSURANCE DEPARTMENT

Purchase Card Program Audit

Report Released
November 5, 2007

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Director

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STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

November 5, 2007

TO THE INSURANCE COMMISSIONER, KIM HOLLAND

With this letter, we transmit the report of the Oklahoma Insurance Department purchase card program for the audit period May 28, 2006 through May 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 Central Services

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma Insurance Department, hereinafter referred to as the "Agency", purchase card program for the period May 28, 2006 through May 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

The office of the Insurance Commissioner regulates the many facets of the insurance industry. The department is the regulatory agency for the insurance industry, bail bondsmen, real estate appraisers, funeral directors, adjusters, agents, and companies.

Agency

The Agency is made up of 134 unclassified employees as of September 1, 2006. At the time of the audit, there were 2 purchase cardholders and 1 approving official in the agency.

Key Personnel

Kim Holland, Insurance Commissioner
Frank Stone, Deputy Commissioner
Craig Knutson, Chief of Staff
Marta Coombs, Comptroller
Joyce Ballet, Purchasing Specialist

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Agency an estimated net savings of $19,963.53 during for the period May 28, 2006 through May 27, 2007. This is 51% ($19,963.53 / $39,120.92) of the total dollars expended using the purchase card. This is an average estimated savings of $ 68.13 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.

AUDIT RESULTS

Audit Finding Summary

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

- 60% of the memo statements reviewed were not signed by the Approving Official. **Finding 07-385-04**

- 1 memo statement reviewed was signed by an individual who has not attended mandatory purchase card training. **Finding 07-385-04**

- 1 memo statement reviewed, the cardholder signed their memo statement as an approving official. This cardholder is also the Agency's Purchase Card Administrator. **Finding 07-385-04**

- 47% memo statements reviewed were not signed by the cardholder. **Finding 07-385-04**

- 33% memo statements reviewed could not be reconciled due to missing receipts or credit memos. Missing receipts totaled $54.75 for the individual purchase card and missing credit memos totaled $737.40 for the travel purchase card. **Finding 07-385-04**

- The agency's first purchase card was activated in May 2004. The Agency's did not revise their internal purchasing procedures to include the Agency's purchase card procedures until March 2007. **Finding 07-385-01**

- All individual purchase card transactions reviewed were not supported by an open market purchase order as required by the Agency's internal purchasing procedures. Total of the purchase card transactions is $127.40. **Finding 07-385-01**

- The Agency did not create a separate authority order for the Travel purchase card for the period of July 1, 2006 thru August 21, 2006. A total of 51 days. Transactions in the total amount of $6,339.57 for the period were unencumbered. **Finding 07-385-02**

- One Agency cardholder did not know how to use the Pathway Net System. Based on our review of the Agency's internal controls, we noted the Purchase Card Administrator accesses Pathway Net to retrieve the memo statements for the Agency's other cardholder. **Finding 07-385-03**

- 17% of the transactions reviewed were not supported by a receipt or credit memo. **Finding 07-385-05**

- We noted 3 of 22 (14%) applicable transactions did not have a receiving document. The remaining 19 transactions (100%) were not signed, dated, and annotated 'received' by the receiving employee. **Finding 07-385-05**

Audit Finding Details

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

Finding No: 07-385-04: Approving Official and Cardholder Responsibility

Criteria:

1. 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."

2. 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..."

3. State of Oklahoma Purchase Card Procedures § 6.9.1, **Cardholder responsibility** states in part, "…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."

4. 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) to verify that purchases and returns are accurately listed on the memo statement…"

Condition: We statistically sampled 24 purchase card transactions totaling $3,476.08 out of 293 transactions totaling $39,120.92 for review during the audit period. Of the 24 transactions, 8 transactions totaling $127.40 were charged to individual cards; 16 transactions totaling $3,348.68 were charged to the travel card. We reviewed all individual card transactions during the audit period. Within this sample, there were a total of 15 memo statements and transaction logs reviewed. Based on our substantive testing, we noted the following:

1. 9 out of 15 (60%) memo statements were not signed by the Approving Official.

2. 1 out of 15 (7%) memo statements was signed by an individual who has not attended mandatory purchase card training.

3. For 1 out of 15 (7%) memo statements, the cardholder signed their memo statement as an approving official. This cardholder is also the Agency's Purchase Card Administrator.

4. 7 out of 15 (47%) memo statements were not signed by the cardholder.

5. 5 out of 15 (33%) memo statements could not be reconciled due to missing receipts or credit memos. Missing receipts totaled $54.75 for the individual purchase card and missing credit memos totaled $737.40 for the travel purchase card.

Cause:

1.-3. The Agency's new Comptroller has not attended purchase card training which would provide the Agency an approving official that is not also a cardholder and who is one position level above the cardholder.

The previous Agency Comptroller, who was the Purchase Card Administrator, terminated employment with the Agency in January 2007. The new Agency Comptroller has yet to attend purchase card training; and, therefore cannot assume the duties of approving official and Purchase Card Administrator.

4. Oversight by the cardholder.

5. It's difficult to get a receipt from one vendor. The Agency has documentation to support its efforts to obtain receipts from this vendor. Acknowledgement of prior payments to this vendor comes on the current month's invoice. The vendor will not send these upon request.

Effect or Potential Effect:

1.-3 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.

4. Without adequate documentation and oversight of purchase card activity, inaccurate or unauthorized charges may occur and go undetected. The Agency may miss the opportunity to dispute such a transaction and/or prevent any additional inaccurate or unauthorized charges from being made on the affected purchase card.

5. If the reconciliation is not completed, there is not a record or verification of purchases made by the cardholder. There is an increased risk for unauthorized charges to occur without being noticed.

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. The Agency should implement a process that ensures cardholders sign the memo statements in accordance with the rules and regulations.

3. The agency should identify either identify and appoint an approving official for the cardholder or request the cardholder turn in their purchase card.

4. The Agency communicate to all Agency cardholders the importance of reconciling the cardholder's statements each cycle, to include maintaining all receipts and credit memos.

Management's Response

Date: 10/16/07
Response: Concur - (Purchasing Specialist)
#1 As the current A/O the review of all Memo Statements and supporting documentation began with the Jan.-Feb., 2007 PCard Cycle. Every effort has been made to ensure that all Memo Statements are signed by both the cardholder and the A/O on a monthly basis.

#2 Effective with the Aug. 28 – Sept. 27, 2007 PCard Cycle, Cardholder, the individual noted in the finding has been trained and provided with access to the Pathway Net System for daily and monthly reconciliation purposes.

#3 Effective Oct. 3, 2007 the A/O cut in two both the Travel and 2500.00 PCards and forwarded both cut cards to the State PCard Administrator, with the DCS. The A/O is no longer a cardholder.

#4 A/O has reiterated to the cardholders the importance of the reconciliation process, maintaining all receipts and credit memos in accordance with sections 6.9.1 through 6.9.2 of the State PCard Procedures. Effective Aug.- Sept., 2007.

Corrective Action Plan:

Anticipated Completion Date: Jan., 2007 for recommendation #1 & #2. Oct. 3, 2007 for recommendation #3. Aug., 2007 for recommendation #4.
Corrective Action Planned: Ensure compliance with the State PCard Procedures through continuous monitoring of the agency internal controls. Completed.

Finding No: 07-385-01: Internal Purchasing Procedures

Criteria:

1. 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..."

2. The Oklahoma Insurance Department Internal Procurement Procedures (1999) § 4 #1 states in part, "Acquisitions less than $2,500.00, that are not available from any of the above sources listed in 2.4 above, the CPO shall issue an open market purchase order using PeopleSoft in accordance with the rules of the Central Purchasing Act,…"

   The Oklahoma Insurance Department Internal Procurement Procedures (2007) § 4 #1 states in part, "Acquisitions less than $2,500.00, that are not available from any of the above sources listed in 2.4 above, the CPO shall issue an open market purchase order using PeopleSoft in accordance with the rules of the Central Purchasing Act,…"

Condition: We reviewed all individual purchase card purchases and the agency internal purchasing procedures during the audit period. We noted the following:

1. The agency's first purchase card was activated in May 2004. The Agency's did not revise their internal purchasing procedures to include the Agency's purchase card procedures until March 2007.

2. All individual purchase card transactions reviewed were not supported by an open market purchase order as required by the Agency's internal purchasing procedures. Total of the purchase card transactions is $127.40.

Cause:

1. 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.

2. The vendors the agency used do not accept purchase orders. Acquisitions made with the Purchase Card do not require open market purchase orders.

Effect or Potential Effect:

1. Internal procedures may not be in compliance with state purchasing procedures, resulting in confusion on the part of cardholders who make purchases on behalf of the Agency.

2. If the purchase card is used, acquisitions for less than $2,500.00 cannot be made according to current requirements.

Recommendation: We recommend the Agency review current internal purchasing procedures to ensure there are no purchasing procedures that conflict with the use of the purchase card for acquisitions under $2,500. If purchasing procedures are identified that are in conflict with

purchasing procedures, the Agency should update the internal purchasing procedures and submit to the Department of Central Services for approval.

Management's Response

Date: 10/12/07

Response: Concur - (Purchasing Specialist) PCard Procedures at the OID are governed by the State PCard Procedures and Section 6 of the OID's IPP/PCard Procedures.

Corrective Action Plan

Anticipated Completion Date: Jan., 2008

Corrective Action Planned: Review IPP and incorporate changes as required.

Finding No: 07-385-02: Encumbrance

Criteria: State of Oklahoma Purchase Card Procedures § 5.1, **Encumbering funds** (Version September 6, 2005) states in part: "State entities shall establish encumbrances as "authority order" purchase orders in the State Purchasing System. Agencies are required to create a minimum of one authority order for each type of purchase card in use".

Condition: The Agency did not create a separate authority order for the Travel purchase card for the period of July 1, 2006 thru August 21, 2006. A total of 51 days. Transactions in the total amount of $6,339.57 for the period were unencumbered.

Cause: The Agency did not encumber funds by setting up a minimum of one separate authority order for each purchase card type until August 22, 2006.

Effect or Potential Effect: The Agency's payment method could have made obligations in excess of the unencumbered cash balance on hand.

Recommendation: We recommend the Agency establish encumbrances using an authority order as prescribed by the procedures.

Management's Response

Date: 10/12/07

Response: Concur - (Purchasing Specialist) This Audit Finding has been corrected and the agency is currently in compliance with section 5.1 Encumbering Funds.

Corrective Action Plan:

Anticipated Completion Date: June13, 2007

Corrective Action Planned: Completed and on-going Ensure that the entity establishes encumbrances as an "Authority Order" purchase orders in the PeopleSoft System prior to July 1, of the upcoming fiscal year in which the funds are to be used.

Finding No: 07-385-03: Pathway Net

Criteria: 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..."

Condition: One Agency cardholder did not know how to use the Pathway Net System. Based on our review of the Agency's internal controls, we noted the Purchase Card Administrator accesses Pathway Net to retrieve the memo statements for the Agency's other cardholder.

Cause: Cardholder has not been trained to access and use Pathway Net System.

Effect or Potential Effect: By cardholders not viewing their own transactions periodically throughout the billing cycle, there is a potential for unauthorized charges to occur and go undetected by the cardholder.

Recommendation: We recommend all cardholders be set-up with access to Pathway Net and trained on the use of the Pathway Net System.

Management's Response

Date: 10/16/07
Response: Concur - (Purchasing Specialist) This Audit Finding has been corrected and the agency is currently in compliance with Section 6.9.1-Cardholder Responsibility

Corrective Action Plan:

Anticipated Completion Date: Completed during the Aug.-Sept., 2007 PCard Cycle.
Corrective Action Planned: Provide training and access to Pathway Net for each cardholder. Completed

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Finding No: 07-385-05: Receipt Documentation

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.5 **Receipts for purchase** states:

   > Receipts shall be obtained for purchases. The receipt shall be given an itemized and detailed description of the purchase. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation, confirmation number, or packing slip should

be obtained. If neither a receipt, confirmation information, nor packing slip is available for a transaction, documentation shall be attached to the transaction log notating all attempts made to obtain a receipt from the merchant. In the latter situation, cardholders should consider future use of another merchant who will provide a receipt or confirmation information. If a receipt is lost, the cardholder shall note the loss on the transaction log and complete a Lost Receipt Report. The Lost Receipt Report shall be included in the cardholder's reconciliation submission. Repeated loss of receipts may be grounds for discontinuing a cardholder's p/card use or other disciplinary or legal action.

2. State of Oklahoma Purchase Card Procedures § 6.7.1 **Goods or services received at the time of purchase** states, "The receipt for purchase also serves as the receiving document. The receiving document 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 process as described in 6.7.1 above."

Condition: We statistically sampled 24 purchase card transactions totaling $3,476.08 out of 293 transactions totaling $39,120.92 for review during the audit period. Of the 24 transactions, 8 transactions totaling $127.40 were charged to individual cards and 16 transactions totaling $3,348.68 were charged to the travel card. Within this sample, there were a total of 15 memo statements and transaction logs reviewed. Based on our substantive testing, we noted the following:

1. 4 of 24 (17%) transactions were not supported by a receipt or credit memo. The total amount of the missing receipts is $54.75 - $225.70 = ($170.95) (The $225.70 is a credit transaction for the travel purchase card).

2. We noted 3 of 22 (14%) applicable transactions did not have a receiving document.

   The remaining 19 transactions (100%) were not signed, dated, and annotated 'received' by the receiving employee.

Cause:

1. It's difficult to get a receipt from one vendor. The Agency has documentation to support its efforts to obtain receipts from this vendor. Acknowledgement of prior payments to this vendor comes on the current month's invoice. The vendor will not send these upon request.

2. Misunderstanding on the part of management regarding the requirements for receiving goods per State of Oklahoma Purchase Card Procedures.

Effect or Potential Effect:

1. By not having supporting documentation for purchases made, it cannot be determined what was purchased, at what cost, or if purchase was for a valid business purpose.

2. By not requiring receiving employees to sign, date or annotate "Received" on the receiving document or not collecting receiving documentation, there is no verification that goods and/or services were actually received. Also, it also cannot be determined if the card was used by someone other than the cardholder.

Recommendation: We recommend the Agency:

1. Develop and implement a process at the cardholder and approving official level that ensures all purchase card transactions are supported by a receipt and the receipt is detailed and itemized. Process should include two mechanisms that ensure proper documentation supports the transaction. The first mechanism should be at the point memo statements are reconciled. Cardholders should verify that each transaction is supported by a detailed and itemized receipt. A procedure should be in place for the cardholder to follow to obtain missing or incomplete receipt documentation. The second mechanism should be at the point reconciliation is reviewed. The approving official should not approve the reconciliation until all supporting documentation, which provides sufficient detail, for the transaction has been submitted.

2. Develop and implement a process for all individuals receiving goods that ensures that the receiving documents is properly signed, dated, and annotated 'received'.

Management's Response

Date: **10/19/07**

Response: Concur - (Purchasing Specialist) Cardholders have been verbally instructed to sign, date and annotate "Received" on all packing slips, Travel Itineraries and etc. in accordance with Section 6.5-Receipts for Purchases. Cardholders and A/O will jointly ensure that the agency remains in compliance with Section 6.5 and shall ensure that all supporting documentation is included with each transaction prior to the completion of the monthly reconciliation process. Current A/O has been unable to retrieve missing receipt for the amount in question of $54.75 and is requesting a copy of the documentation.

Corrective Action Plan:

Anticipated Completion Date: Aug. –Sept., 2007 PCard Cycle

Corrective Action Planned: Monitor internal controls more closely for compliance with this audit finding all compliance with State PCard Procedures. Ensure supporting documents are attached and packing slips signed prior to reconciliation close out. Completed and on-going.

OVERALL CONCLUSION

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