



STATE OF OKLAHOMA

Department of Central Services

Audit Unit

Oklahoma Historical Society
Procurement Compliance Audit

*Report Released
September 26, 2007*

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

September 26, 2007

TO THE EXECUTIVE DIRECTOR BOB BLACKBURN, Ph.D. AND THE BOARD MEMBERS OF THE OKLAHOMA HISTORICAL SOCIETY:

With this letter, we transmit the report of the Oklahoma Historical Society procurement audit for state fiscal year 2006.

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"

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services' (DCS) Audit Unit has completed an audit of the Oklahoma Historical Society, hereinafter referred to as the "Agency", procurement program for the period July 1, 2005 through June 30, 2006. The purpose of this report is to communicate the results of the audit.

The objectives of this audit were to:

- Ensure the Agency is in compliance with provisions of the Oklahoma Central Purchasing Act;
- Ensure the Agency is in compliance with purchasing rules promulgated by the Department of Central Services;
- Ensure the Agency is in compliance with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee;
- Ensure the Agency is in compliance with approved internal purchasing procedures; and
- Determine if the Agency has implemented internal controls and if the Agency's controls are operating effectively in relation to the procurement program.
- Ensure the Agency is in compliance with the fixed assets reporting requirements during July 1, 2001 through June 30, 2006.

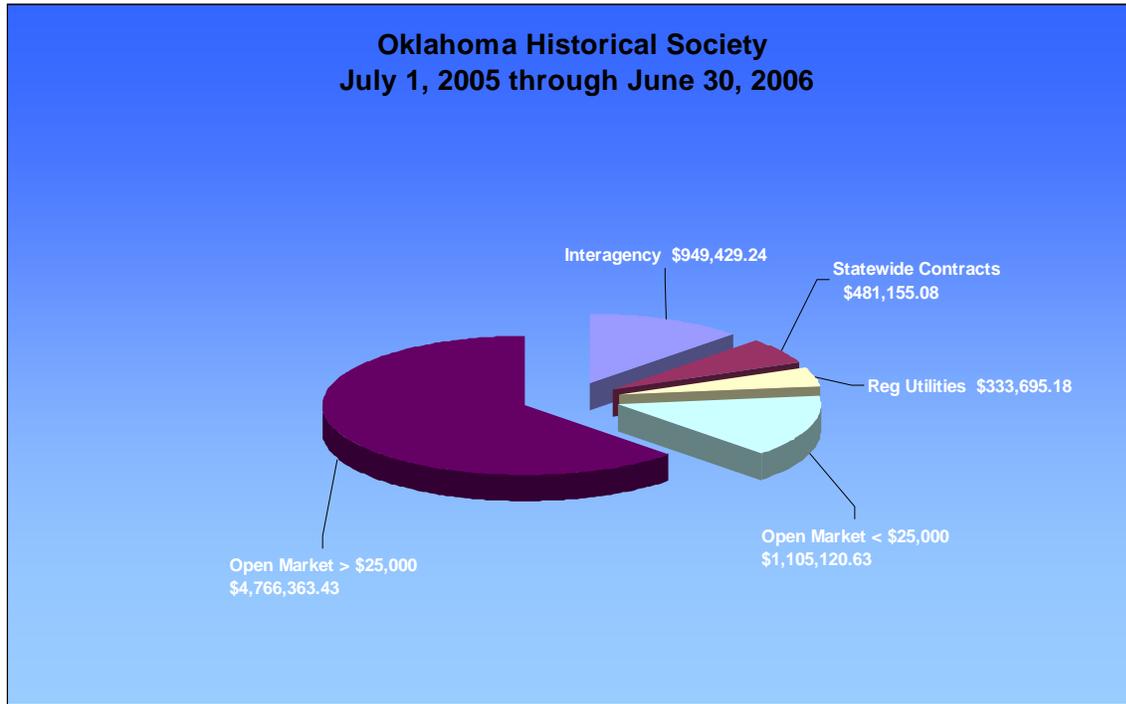
This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the procurement program and inventory were documented and evaluated.
- Procurement and inventory transactions were examined.
- Overall compliance with the laws and rules related to the audit objectives was evaluated.

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The chart listed below indicates the total value of specific types of purchases made by the Oklahoma Historical Society during the audit period.



The acquisition amount of \$1,105,120.63 was the Agency's primary purchasing responsibility in accordance with the Oklahoma Central Purchasing Act and purchasing rules. These acquisitions were the focus of our audit, based upon the audit objectives.

EXECUTIVE SUMMARY

Organization

The Oklahoma Historical Society has been collecting, preserving, and sharing the history of Oklahoma and its people since before statehood. OHS started by creating, collecting, and disseminating newspapers throughout the Oklahoma Territory.

Now, OHS has grown from a hand full of people with this same desire to collect, preserve, and share the history of the area now known as Oklahoma to several departments, museums, and historical sites from across the state and the Southwest.

The State Historic Preservation Office (SHPO) carries out the federal preservation programs in Oklahoma. These programs were established under the National Historic Preservation Act and are conducted in partnership with the U.S. Department of the Interior, National Park Service (NPS). The SHPO collects, evaluates, and maintains information about archeological and historic properties in the Oklahoma Landmarks Inventory (OLI); nominates properties to the National Register of Historic Places; reviews federal undertakings for effects on archeological and historic resources; assists individuals planning rehabilitation projects for federal tax credits; administers the Certified Local Governments Program; develops and implements the statewide preservation plan; and offers a wide range of technical assistance and outreach efforts such as the annual statewide preservation conference.

With these programs as the tools, the SHPO works with federal agencies, other state agencies, local governments, tribal governments, nonprofit organizations, and concerned citizens to protect Oklahoma's significant buildings, structures, sites, districts, objects, and landscapes.

The Agency is made up of are 145 full time FTEs, 2 part time FTEs, and 31 temporary employees during the time of this audit period of July 1, 2005 through June 30, 2006. At the time of the audit, there was one Certified Procurement Officer for the agency.

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Key Personnel

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Terry L. Howard, Director of Administration
William D. Weige, Director of Research Division
Darrell L. Covington, Director of Property Resources
Steve Cox, CPO

PREVIOUS AGENCY PURCHASE CARD PROGRAM AUDIT

A compliance audit of the Oklahoma Historical Society's purchase card program was performed for the period of July 1, 2004 through June 30, 2005 by the DCS Audit Unit. A current review of the Agency's corrective action was performed for the following findings:

Finding 05-350-01: The Oklahoma Historical Society internal purchasing procedures were last approved by the Department of Central Services (DCS) on January 4, 1999. Entity purchase card procedures have not been made part of the approved internal purchasing procedures. The agency's corrective action completion date was July 1, 2006. The Agency submitted the procedures for approval on May 30, 2007. On May 31, 2007 DCS Central Purchasing requested revisions of the procedures based on findings noted during their review. As of September 17, 2007, the Agency does not have approved revised internal purchasing procedures.

Finding 05-350-02: The inventory schedule maintained by Oklahoma Historical Society did not contain sufficient information to verify assets were properly recorded and maintained by the Agency. The Agency's corrective action was to implement a bar scan inventory identification system and add adequate staff to perform the inventory tracking duties. The date of completion was September 1, 2006. As of September 17th, 2007, the Agency's corrective action plan has not been completed.

Finding 05-350-03: The Agency's corrective action plan for the finding was to appoint a different employee to be the agency Purchase Card Administrator by August 15, 2006. As of September 17th, 2007, the purchase card administrator has not been replaced.

AUDIT RESULTS

Audit Finding Summary

(Error rates are based on transactions reviewed.)

Finding # 07-350-01 - Acquisition Documentation

- The Agency did not provide supporting acquisition documentation for the percentage of purchased reviewed:

- ◇ 9% - \$0 - \$2,500
- ◇ 22% - \$2,500-\$10,000
- ◇ 8% - \$10,000-\$25,000

The total questionable purchasing amount for the three categories above is \$36,189.67 and the extrapolated amount is \$142,403.47.

- ◇ 20% professional service acquisitions reviewed did not contain any acquisition documentation.

The total questionable purchasing amount for professional services is \$2,900.00 and the extrapolated amount is \$3,456.04.

- ◇ 100% intergovernmental acquisitions reviewed did not contain any acquisition documentation.

The total questionable purchasing amount for intergovernmental acquisitions is \$304,174.70 and the extrapolated amount is \$949,429.24.

- ◇ 13% statewide contract acquisitions reviewed did not contain any acquisition documentation.

The total questionable purchasing amount for the three statewide contracts is \$1,045.75 and the extrapolated amount is \$21,319.52.

Finding # 07-350-09 - \$2,500-\$10,000

- 25% applicable acquisitions reviewed did not contain documentation that the acquisition had documented specifications.
- 71% applicable files reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor.

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- 88% applicable files reviewed did not contain any evidence of price quotes and / or delivery dates was secured from a minimum of three (3) vendors. The total questionable purchase amount is \$35,946.09. The extrapolated amount is \$146,284.27.
- 83% applicable files reviewed did not contain the required Bid Recap Sheet.

Finding # 07-350-10 - \$10,000 - \$25,000

- 100% applicable acquisition files reviewed did not have any documentation presented for review to determine if reciprocity with another state was observed.
- 25% applicable acquisition files reviewed did not contain sufficient documentation to determine if travel expenses were paid over the contracted amount.
- 67% of the applicable acquisitions reviewed did not contain written specifications for the solicitation.
- 67% of the applicable acquisition files reviewed did not contain any evidence of the required number of price solicitations. The questionable purchase amount is \$44,049.15. The extrapolated questionable purchase amount is \$142,193.72.
- 83% of the applicable acquisitions reviewed did not contain a Non-Collusion Affidavit (85.22) signed by the contracting vendor.
- 71% of the applicable acquisition files reviewed did not contain a documented bid evaluation.
- 63% applicable acquisitions reviewed did not contain a Non-Collusion Affidavit (85.23) signed by the contracting vendor.

Finding # 07-350-12 - Sole Source

- 20% acquisitions reviewed and identified as sole source/sole brand did not appear to be unique services that could only be provided by a sole source vendor. The contract was for public seating and meeting services totaling \$17,600.00.
- 40% sole source affidavits reviewed were signed by someone other than the authorized approving authority or not signed at all. These acquisitions total \$28,532.00.
- 100% of the Sole Source/Sole Brand acquisition files reviewed were not reported on the PeopleSoft Sole Source/Sole Brand report. The total unreported sole source acquisitions is \$60,862.00.

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Finding # 07-350-13 - Split Purchasing

- 100% of facility site greeting service acquisitions above \$2,500.01 during fiscal year 2006 were not competitively bid. The acquisitions totaled \$137,192.32.

Finding # 07-350-11 - Professional Services

- 50% acquisition files reviewed did not contain the appropriate service requisition justification signed by the agency's chief administrative officer (CAO).
- 100% of the acquisition files reviewed did not contain an performance evaluation, therefore, it could not be determined the vendor quality of service or if there were any deficiencies present in the supplier's services.
- 78% of the acquisition files reviewed did not contain documentation that indicated the professional service contract was monitored.
- 44% of the acquisition files reviewed did not contain an audit clause in the contract for professional services.
- 55% of the acquisition files reviewed did not contain sufficient documentation to determine if travel expenses were paid in an amount over the bid amount.

Finding #07-350-03 - CPO Duties

- The designated certified procurement officer (CPO) does not retain a copy of the approved internal purchasing procedures for reference. Also the designated CPO did not know if the revised internal purchasing procedures had been submitted to Department of Central Services (DCS) or if they have been approved.
- The designated CPO could not identify whether the agency performed services or provided products to other state agencies.
- The agency's management does not have consistent methods of reviewing procurement activities and provides minimal oversight regarding procurement activities of division staff and designated CPO.
- The agency's designated CPO stated he was not aware of the penalties for procurement improprieties, he was not aware of any disciplinary actions by management, and he had not implemented any disciplinary actions.

A review of 4 randomly selected service acquisitions for labor indicated:

- the required forms were missing and could not be located;
- the acquisitions were not bid as required;

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- the approving official's signatures were either missing or by an unauthorized individual;
- original documentation could not be located;
- required affidavits were not properly executed.
- Service evaluations were not performed.

Finding # 07-350-15 - Inventory

- The agency inventory control officer reported suffering fixed asset losses in 2003 in one of the agency divisions. However, he did not received documentation from the division and therefore no documentation was submitted to the state inventory control officer as of the date of this audit.
- the master inventory list is not being maintained.
- 71% units tested indicated the CPO did not identify the purchase orders of identified fixed assets purchased with a notation identifying the purchase as a fixed asset.
- 100% applicable files regarding fixed assets transfers from one historical site to another were not supported by a Fixed Asset Transfer Slip.

Finding # 07-350-14 - Inventory

- The agency has not reported all tangible assets owned by the agency to the Oklahoma Department of Central Services inventory control officer. Omissions include livestock inventory and living history costumes and props.
- The inventory list submitted to the state inventory control officer in 2006 was not current based upon statements from staff with the responsibility of ensuring the master inventory list is up-to-date.
- 100% of the units tested could not be traced from the acquisition document to the Fixed Asset Inventory Master list. Total unreported fixed assets amount is \$25,072.23.
- 50% of the units tested could not be traced from its physical location to the Fixed Asset Inventory Master list.
- 6% units had an asset tag that identified a different fixed asset.

Finding # 07-350-04 Suspension and Debarment

- 100% of the applicable files reviewed from \$2,500 to \$25,000 dollar threshold did not contain documentation that the supplier status was not suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission.

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Finding # 07-350-05 - Sales Tax Permit

- 100% of the applicable files reviewed from \$2,500 to \$25,000 did not contain documentation that the sales tax permit was verified thru Department of Central Services or the Oklahoma Tax Commission prior to awarding the contract.

Finding # 07-350-07 - Delivery Documents

- 67% applicable files reviewed between \$0-\$10,000 did not contain a delivery document for the product acquisition nor adequate documentation to determine if what was requisitioned was received, inspected and accepted prior to payment. (Questionable delivery amount - \$48,176.91)
- 80% applicable files reviewed between \$10,000.01-\$25,000 did not contain a delivery document for the product acquisition received nor adequate documentation to determine if what was requisitioned was received, inspected and accepted prior to payment. (Questionable delivery amount - \$88,254.15)

The total extrapolated questionable delivery amount for the two categories is \$485,290.79.

Finding # 07-350-06 - Service Requisition Justification

- \$0-\$10,000 -71% applicable files reviewed did not contain a service requisition justification.
- \$10,000.01-\$25,000 - 60% applicable files reviewed did not contain a service requisition justification.
- \$25,000.01 & Greater - 100% applicable files reviewed did not contain a service requisition justification.

Finding # 07-350-08 - General Procurement

- 58% applicable files reviewed did not contain the affidavit as required by 85.42B.

Finding # 07-350-02 - Internal Procedures

- 36% of applicable acquisitions reviewed did not contain the agency required OHS Purchase Request Form (PRF).
- 22% files reviewed contained documentation that the purchase was made in advance of the approval signatures by an OHS Certified Procurement Officer (CPO) and approving authorities.

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Finding # 07-350-09 - Internal Procedures

- 67% acquisition files selected randomly during our internal control review, did not contain the required OHS Purchase Request Form (PRF).
- 100% applicable files reviewed did not contain documented evidence that at least one price solicitation was from a registered vendor on the DCS list of approved vendors.
- 100% applicable files reviewed did not contain documented evidence that at least one price solicitation was from a certified minority business or the availability of a minority business was verified.

Audit Finding Detail and Recommendations

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

FINDING 07-350-01: ACQUISITION DOCUMENTATION

Criteria:

The Oklahoma Historical Society Internal Purchasing Procedures, B PROCUREMENT PROCEDURES, 3.E. states in part:

It is imperative that accurate and complete records be maintained for each and every acquisition or purchase completed under these rules by the CPO and made available for audit by the Department of Central Services for up to three years: the documentation package should contain the following:

- (1) A PRF with the description of the goods and services included.
- (2) A Bid Recap Sheet
- (3) A signed and notarized non-collusion affidavit, when the agency contracts with the vendor for the goods or services
- (4) A Sole Source Affidavit, if applicable.

The Oklahoma Central Purchasing Act, 74 O.S. § 85.39.C, Agency Internal Purchasing Procedures states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires be kept.

Condition: We reviewed 22% (103 acquisitions) of the Agency's 474 applicable acquisitions made from July 1, 2005 to June 30, 2006. We tested all the dollar thresholds. (\$0 - \$25,000 and greater). Our sample represents 69% (\$5,041,754.26) of the Agency's total acquisition amount of \$7,318,254.88.

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During our testwork we noted the following:

- The Agency did not provide supporting acquisition documentation for the following purchases:

Specific categories below:

- o 1 of 11 (9%) - \$0 - \$2,500 (\$158.75)

02/06/06	509000539	Oklahoma Press Service	\$158.75
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- o 4 of 18 (22%) - \$2,500-\$10,000. (\$25,080.92)

04/21/06	3509000773	Best Western Broadway Inn	\$2,969.01
12/30/05	3509000711	JD Young Company	\$5,061.91
01/18/06	3509000718	Brig. Gen. Stand Waite Camp	\$7,500.00
	3509000688	Boadie L Anderson Quarries	\$9,550.00

- o 1 of 12 (8%) - \$10,000-\$25,000. (\$10,950.00)

3509000802	Atlas Fine Art Service		\$10,950.00
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The total questionable purchasing amount for the three categories above is \$36,189.67 and the extrapolated amount is \$142,403.47.

During review of categories we noted the following:

- 2 of 10 (20%) professional service acquisitions reviewed did not contain any acquisition documentation. (\$2,900.00)

10/05/05	3509000545	Individual	\$ 500.00
10/04/05	3509000660	Individual	\$2,400.00

The total questionable purchasing amount for professional services is \$2,900.00 and the extrapolated amount is \$3,456.04.

- 13 of 13 (100%) intergovernmental acquisitions reviewed did not contain any acquisition documentation. (\$304,174.70)

11/7/2005	3509000540	Outreach Authority Order	\$ 1,793.70
7/21/2005	3509000557	United States Post Office	\$ 38.00
7/21/2005	3509000560	University of Oklahoma	\$ 900.00
7/26/2005	3509000570	Oklahoma Tax Commission	\$ 49.00
7/29/2005	3509000582	City of Tahlequah	\$ 2,700.00
9/8/2005	3509000638	Post Master	\$ 150.00
9/8/2005	3509000639	Rose State College	\$ 6,511.00
9/8/2005	3509000640	University of Oklahoma	\$ 77,701.00
11/8/2005	3509000690	University of Oklahoma	\$ 10.00
12/15/2005	3509000705	Dept of Central Services	\$ 27,225.00
1/23/2006	3509000720	University of Oklahoma	\$ 3,897.00

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4/24/2006	3509000777	Rose State College	\$ 2,200.00
4/24/2006	3509000778	Department of Tourism	\$ 181,000.00

The total questionable purchasing amount for intergovernmental acquisitions is \$304,174.70 and the extrapolated amount is \$949,429.24. This condition will be forwarded to the Attorney General's official.

- 1 of 8 (13%) statewide contract acquisitions reviewed did not contain any acquisition documentation. (\$1,045.75)

01/26/06	3509000728	XPedx	\$ 1,045.75
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The total questionable purchasing amount for the three statewide contracts is \$1,045.75 and the extrapolated amount is \$21,319.52.

Cause: The Agency's certified procurement officer CPO has not maintained adequate documentation or implemented appropriate oversight to ensure the agency's procurement acquisitions are adequately documented and in compliance with all rules and statutes regarding record retention of acquisition files.

Effect or Potential Effect: Agency acquisitions are not supported and/or improper contracting by the state agency. The agency cannot verify that acquisitions were made in compliance with the applicable statutes, the Oklahoma Administrative Code and the agency's approved internal purchasing procedures.

Recommendation: We recommend:

- purchasing staff receives updated external training regarding their duties and responsibilities. We recommend this to be mandatory.
- Management designate specific staff members with the responsibility and duties of ensuring all required procurement documentation is collected and maintained for each acquisition.
- Management should develop and implement quality control oversight in regard to the acquisition process.
- Establish random quality control reviews of procurement processes and documentation retention to ensure acquisition files are complete and procedures continue to be in compliance with all statutes and rules.

The contents of this finding will be forwarded to the appropriate officials for additional review.

Management's Response:

Date: 08/22/2007

Respondent: Administration Director

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Response: Partially Concur - Many of the purchase orders above do have some supporting documentation. The list of intergovernmental purchase orders were overlooked somehow during the gathering of documentation for the auditors.

Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-09: \$2,500 - \$10,000

Criteria: The Oklahoma Administrative Code (OAC), 580:15-6-8 states in part:

State agencies with a certified procurement officer CPO and approved internal purchasing procedures pursuant to the requirement of Sections 580:15-6-2 and 580:15-6-3 shall make open market acquisitions not exceeding Two Thousand Five Hundred Dollars (\$2,500.00) pursuant to this section. State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000) pursuant to this section.

1. 580:15-6-8(2). **State agency terms and conditions.** The state agency shall document the state agency's specifications. The state agency shall notify suppliers of the state agency's specifications for the acquisition. The state agency shall give suppliers written specifications upon the suppliers' request.
2. 580:15-6-8(5). **Contracts.** If the state agency and the supplier execute a contract for the acquisition, the supplier shall provide a notarized, sworn statement of non-collusion pursuant to 74 O.S. § 85.23. The non-collusion affidavit shall have the original signature of an authorized person, signed in ink, and notarized with full knowledge and acceptance of all its provisions. A facsimile or photocopy of an original signature will not be accepted.

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3. OAC 580:15-6-8(3) **Price quotation.** The state agency shall solicit price quotations and delivery dates by mail, telephone, facsimile or by means of electronic commerce from a minimum of two suppliers. The state agency shall secure the suppliers' price quotation in writing or document the suppliers' price quotation and delivery dates.

Oklahoma Historical Society Internal Purchasing Procedures- PROCUREMENT PROCEDURES – B states:

4. B3A: The purchasing division must solicit price quotations from at least three (3) vendors and documents these quotations on a Bid Recap Sheet.
5. (B3A(1): At least one vendor must be on the current list of registered vendors maintained by the Department of Central Services.
6. B3A(2): At least one vendor must be a certified minority business, if any are registered.

Condition: We reviewed 24% (20 acquisitions) of the Agency's 82 acquisitions made between July 1, 2005 to June 30, 2006 within the \$2,500.01 - \$10,000.00 dollar threshold. Our sample represents 25% (\$106,996.09) of the population amount of \$435,425.53. Within the 20 transactions reviewed, 1 of the acquisitions was through a statewide contract, 2 were processed through the Department of Central Services Construction and Property, 1 was a pass thru education funding, 2 were exempt for the Central Purchasing Act, 2 were sole source acquisitions, and 12 were open market. Within the acquisitions tested, we noted the following:

- 4 open market purchases had no supporting acquisition documentation for review. See audit finding 07-350-01.
1. 4 of 16 (25%) applicable acquisitions reviewed did not contain documentation that the acquisition had documented specifications.
 2. 10 of the 14 (71%) applicable files reviewed did not contain a Non-Collusion Affidavit signed by the contracting vendor.
 3. 7 of the 8 (88%) applicable files reviewed did not contain any evidence of price quotes and / or delivery dates was secured from a minimum of three (3) vendors. The total questionable purchases amount is \$35,946.09. The extrapolated amount is \$146,284.27. *(Does not contain the 4 exceptions noted in finding 01.)*
 4. 10 of the 12 (83%) applicable files reviewed did not contain the required Bid Recap Sheet.
 5. 12 of the 12 (100%) applicable files reviewed did not contain documented evidence that at least one price solicitation was from a registered vendor on the DCS list of approved vendors.

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6. 12 of the 12 (100%) applicable files reviewed did not contain documented evidence that at least one price solicitation was from a certified minority business or the availability of a minority business was verified.

Cause:

- The Agency's procurement management has not established adequate oversight controls of the Agency's purchasing program.
- The agency's CPO is not performing his duties and responsibilities.

Effect:

1. The vendor cannot adequately meet the needs of the agency without full and complete knowledge of the agency's procurement specifications.
2. May limit the liability of a vendor who may be involved in collusive activities.
3. The state agency may not obtain the best and lowest prices for goods and/or services.

The agency cannot support the bid awarded was the best and lowest price for goods and/or services and a contract could be awarded to a vendor based upon preference.

- 4, 5 and 6. The agency is not in compliance with its internal purchasing policy.

Recommendation:

We recommend in all conditions present that the Agency create checklist to ensure that all agency procurement personnel obtain and include the required bids from the specific vendors so that documentation and retention of records are in compliance with all statutes, rules and internal purchasing procedures.

We recommend training for all procurement personnel in addition to the CPO.

We recommend management implement independent oversight of the procurement process to include random internal review of the procurement process to ensure continued compliance with statutes, rules and agency procedures.

Management's Response:

Date: 08/31/2007

Respondent: Administration Director

Response: **Concur** - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: **October 15, 2007**

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a

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representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-10: \$10,000 - \$25,000

Criteria:

1. The Oklahoma Central Purchasing Act, 74 O.S. §85.17(A), **Bidding Preferences—Reciprocity** states:

State agencies shall not discriminate against bidders from states or nations outside Oklahoma, except as provided by this section. State agencies shall reciprocate the bidding preference given by other states or nations to bidders domiciled in their jurisdictions for acquisitions pursuant to the Oklahoma Central Purchasing Act.

2. The Oklahoma Central Purchasing Act, 74 O.S. §85.40, **Travel Expenses to be Included in Bid, Proposal, or Quotation** states:

Suppliers that may incur travel expenses pursuant to an acquisition by a state agency from the supplier shall include travel expenses in the total acquisition price in the supplier's bid, proposal, or quotation. A state agency shall not pay any supplier travel expenses in addition to the total price of the acquisition.

3. The Oklahoma Administrative Code (OAC), 580:15-6-9 states in part:

State agencies with a certified procurement officer CPO and approved internal purchasing procedures pursuant to the requirement of Sections 580:15-6-2 and 580:15-6-3 shall make acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-Five Thousand Dollars (\$25,000.00) pursuant to this section.

- 1.) 580: 15-6-9, (2). **Solicitations.** The state agency shall prepare specifications for a solicitation. The state agency shall solicit bids from a minimum of three (3) suppliers using mail, telephone, and facsimile or by means of electronic commerce. The state agency shall notify the suppliers of the state agency's specifications for the acquisition.

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- 2.) 580: 15-6-9, (3). **Non-Collusion affidavit.** The state agency shall provide suppliers a noncollusion affidavit form pursuant to 74 O.S., Section 85.22. Suppliers shall submit the forms as stated in the solicitation. The noncollusion affidavit shall have an original signature of an authorized person, signed in ink, and notarized with full knowledge and acceptance of all its provisions. A facsimile or photocopy of an original signature will not be accepted.
- 3.) 580: 15-6-9, (5). **Bid Evaluation.** The state agency shall make a written bid evaluation. The state agency shall select the lowest and best bid or bid providing the best value to the state agency.
- 4.) 580: 15-6-9, (8). **Contract Non-collusion affidavit.** If the state agency and the supplier execute a contract for the acquisition, the supplier shall submit a notarized, sworn statement of non-collusion pursuant to 74 O.S., Section 85.23.

Conditions: We reviewed 34% (12 acquisitions) of the Agency's 35 total acquisitions made between July 1, 2005 and June 30, 2006 within the \$10,000.01 - \$25,000 dollar threshold. Our sample represents 31% (\$168,681.64) of the acquisition amount of \$544,516.06. Of the 12 acquisitions reviewed; 2 of the acquisitions tested were Sole Source, 2 were pass thru, 2 of the acquisitions were performed by the Department of Central Purchasing, and the remaining 6 acquisitions were open market acquisitions performed by the Agency. Based upon our testwork, we noted the following:

1.
 - 1 of 1 (100%) applicable acquisition files reviewed did not have any documentation presented for review to determine if reciprocity with another state was observed.
2.
 - 2 of the 8 (25%) applicable acquisition files reviewed did not contain sufficient documentation to determine if travel expenses were paid over the contracted amount.
3.
 - 1.)
 - 4 of the 6 (67%) of the applicable acquisitions reviewed did not contain written specifications for the solicitation.
 - 4 of the 6 (67%) of the applicable acquisition files reviewed did not contain any evidence of the required number of price solicitations. The questionable purchase amount is \$44,049.15. The extrapolated questionable purchase amount is \$142,193.72.
 - 2.)
 - 5 of the 6 (83%) of the applicable acquisitions reviewed did not contain a Non-Collusion Affidavit (85.22) signed by the contracting vendor.
 - 3.)
 - 5 of the 7 (71%) of the applicable acquisition files reviewed did not contain a documented bid evaluation.

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4.)

- 5 of the 8 (63%) applicable acquisitions reviewed did not contain a Non-Collusion Affidavit (85.23) signed by the contracting vendor.

Cause: In all cases, the absence of the required documentation is due to one or more of the following:

- agency procurement personnel is not implementing approved agency internal purchasing procedures,
- inadequate file maintenance,
- lack of operating controls that ensure the proper documentation is obtained, or the procedure was not performed by the Agency,
- procurement management has not providing adequate oversight over the procurement processes.

Effect:

- Agency contracts may not be open to competition. Vendors are not adequately solicited or given the opportunity to competitively compete for the state agency's contracts.
- The basic fundamentals of the procurement process are not operating effectively; therefore, increased risk of collusion, acquisitions with suspended or debarred vendors, unmonitored supplier performance and increased liability to the State.

Recommendation: We recommend in all conditions that:

- A check list for each type of acquisition be developed to be used by all procurement personnel to ensure the correct procedures are followed in each type of acquisition.
- A specific member of staff on a supervisory level or internal auditors is delegated to provide independent review of the procurement process. This would include reviews of the documentation within the acquisition files to ensure all the required documentation is present, the acquisition was performed in accordance with the purchasing laws and regulations and the purchasing program is operating efficiently.

Management's Response:

Date: 08/31/2007

Respondent: Administration Director

Response: Concur- The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at

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several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-12: SOLE SOURCE

Criteria:

1. The Oklahoma Central Purchasing Act, 74 O.S. § 85.45(j)A - Sole Source or Sole Brand Acquisition states:

7. For sole source or sole brand acquisitions exceeding Two Thousand Five Hundred Dollars (\$2,500.00) and not requiring submission of a requisition to the State Purchasing Director, the state agency's certified procurement officer shall document reasons a sole source or sole brand acquisition is necessary and shall retain a written record for three (3) fiscal years following the end of the fiscal year during which the sole source or sole brand acquisition was made.

8. The chief administrative officer of each state agency shall submit to the State Purchasing Director a monthly listing of all sole source and sole brand acquisitions exceeding Two Thousand Five Hundred Dollars (\$2,500.00) executed by the state agency in the preceding month. The report shall indicate whether requisitions for sole source and sole brand acquisitions were disapproved or modified by the State Purchasing Director and information the State Purchasing Director requires.

Oklahoma Department of Central Services Procurement Information Memorandum (Number 99-3 Revised) dated September 30, 2004 – Sole Source/Sole Brand Acquisition Approvals and Reports states in part:

1. **SOLE SOURCE/SOLE BRAND ACQUISITION APPROVALS**

The state agency chief administrative officer is the approving authority for sole source/sole brand acquisitions which exceed \$2,500.00 but are within the state agency's delegated monetary procurement authority....

The state agency chief administrative officer's signature on the notarized sole source/sole brand affidavit constitutes approval for a sole source/sole brand acquisition and also fulfills the requirement for CPO documentation required by 74 O.S., § 85.45j.

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2. SOLE SOURCE/SOLE BRAND REPORTING - Non-Interface Agencies states in part:

....no reports from state agencies are required if the award was made using the PeopleSoft system. The acquisition must be identified by populating the sole source/sole brand field in PeopleSoft.

Conditions: We reviewed 32 acquisitions (8%) of the Agency's 117 total acquisitions made between July 1, 2005 and June 30, 2006 within the \$2,500 - \$25,000 dollar threshold. Our sample represents \$275,677.73 (28%) of the total acquisitions of \$979,941.59 within this dollar threshold. Of the 32 acquisitions reviewed, 5 of the acquisitions tested were Sole Source. The agency provided the auditors with a sole source report that included one (1) acquisition, however we discovered additional sole source acquisitions during our testwork based on supporting documentation reviewed. The five acquisitions discussed are:

\$ 5,880.00	3509000523	7/1/2005	Lamar Outdoor Adv	Advertising, outdoor billboard
\$ 8,650.00	3509000701	11/29/2005	Cuadra Associates	catalog migration of data conversion
\$ 10,932.00	3509000619	8/30/2005	Ely, Inc.	Display cabinets, cases
\$ 17,600.00	3509000522	7/1/2005	(Individual)	Seating & meeting services, public
\$ 17,800.00	3509000592	8/11/2005	Reel Classics	Video production
\$ 60,862.00				

Based upon further review of these unreported sole source acquisitions we noted the following:

1.
 - 1 of the 5 (20%) acquisitions reviewed and identified as sole source/sole brand did not appear to be unique services that could only be provided by a sole source vendor. The contract was for public seating and meeting services totaling \$17,600.00.
 - 2 of the 5 (40%) sole source affidavits reviewed were signed by someone other than the authorized approving authority or not signed at all. These acquisitions total \$28,532.00.
2.
 - All 5 (100%) of the Sole Source/Sole Brand acquisition files reviewed were not reported on the PeopleSoft Sole Source/Sole Brand report. The total unreported sole source acquisitions is \$60,862.00.

Cause:

1. Oversight was not conducted to ensure:
 - sole source/sole brand affidavits were signed by the appropriate approving authority.
 - acquisitions procured as Sole Source were evaluated and properly identified as a service/product that could not be provided through general procurement/bidding processes.

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2. The authorized purchasing agent did not indicate the purchase was a Sole Source/Sole Brand within the State's accounting system when the purchase order was created.

Effect or Potential Effect:

1. The agency contracts may not be open to competition. Vendors may not be adequately solicited or given the opportunity to competitively compete for the state agency's contracts.
 - The agency's management assigned the responsibility to review and approve Sole Source/Sole Brand acquisitions may not be aware of the acquisition if they are not presented with the Sole Source Affidavit to approve.
2. The report that is submitted to the Legislation regarding Sole Source/Sole Brand acquisitions will not be accurate.

Recommendation: We recommend in all conditions that:

- The CPO is responsible for all aspects of the Sole Source/Sole Brand acquisitions to ensure compliance with statutes and rules.
- The CPO ensures the appropriate box is checked in PeopleSoft to correctly identify a Sole Source/Sole Brand acquisition within the PeopleSoft system.
- The agency should include all acquisitions identified as Sole Source/Sole Brand acquisitions in the report provided to the state legislation.
- A check list for each type of acquisition be developed to be used by all procurement personnel to ensure the correct procedures are followed in each type of acquisition.
- A specific member of staff on a supervisory level and independent of the procurement activities be delegated to oversee the procurement process. This would include reviews of the documentation files to ensure all minimum required documentation is present in the acquisition file.
- Appropriate bids are obtained when the acquisition can be identified as a non-Sole Source acquisition.

Management's Response

Date: 08/31/2007

Respondent: Administration

Response: Concur -

Corrective Action Plan

Anticipated Completion Date: October 15 ,2007

Corrective Action Planned: The entire documentary process for Sole Source acquisitions will be reviewed and will be a specific topic discussed with all personnel involved in the purchasing function of the agency during the upcoming training meetings.

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FINDING 07-350-13: SPLIT PURCHASING

Criteria: The Oklahoma Central Purchase Act 74, O.S. § 85.2, Definitions states in part, "**Split purchase**" means dividing a known quantity or failing to consolidate a known quantity of an acquisition for the purpose of evading a competitive bidding requirement;

The Oklahoma Central Purchase Act 74, O.S. § 85.7.(A).(2).(a) states, "Split purchasing for the purpose of evading the requirement of competitive bidding shall be a felony."

The Oklahoma Administrative Code (OAC) 580:15-6-11(a), **Split purchases**, states in part, "A state agency shall not make split purchases for the purpose of evading the state agency's dollar amount threshold for competitive bids. Conviction for making an acquisition by split purchase is a felony pursuant to 74 O.S. § 85.7."

Condition: A population of service acquisitions for statewide facility site greeting services totaling \$166,089.92 was paid to 45 different vendors from July 1, 2005 through June 30, 2006. Of these 45 vendors, 18 acquisitions were identified over the \$2,500.01 threshold totaling \$137,192.32. (11 acquisitions totaling \$47,952.57 were between the dollar threshold of \$2500.01 and \$10,000 wherein bid quotes are required. The remaining 7 acquisitions totaling \$89,239.75 were between the dollar threshold of \$10,000.01 and \$25,000 wherein bid solicitations are required.)

None of the 18 acquisitions totaling \$137,192.32 were documented as competitively bid for fiscal year 2006.

Name	2005	2006
Contract 1	\$3,153.42	\$2,622.98
Contract 2	\$0.00	\$2,893.80
Contract 3	\$0.00	\$3,185.44
Contract 4	\$0.00	\$3,500.00
Contract 5	\$0.00	\$3,678.00
Contract 6	\$5,014.00	\$3,764.00
Contract 7	\$0.00	\$4,591.36
Contract 8	\$8,413.48	\$4,806.80
Contract 9	\$0.00	\$5,147.69
Contract 10	\$0.00	\$6,400.00
Contract 11	\$0.00	\$7,362.50
Contract 12	\$10,175.00	\$10,355.00
Contract 13	\$0.00	\$10,956.76
Contract 14	\$4,634.40	\$11,284.00
Contract 15	\$0.00	\$12,828.24
Contract 16	\$13,574.00	\$13,024.00
Contract 17	\$0.00	\$13,191.75
Contract 18	\$0.00	\$17,600.00
Totals	\$44,964.30	\$137,192.32

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We also noticed some of the projects were acquired below the \$2,500 threshold and the agency used change orders to exceed the threshold without competitively bidding the services.

Cause: The Agency appears to be complacent in following both approved internal procedures within this agency regarding procurement procedures and state statutes.

The Agency has not performed a needs analysis of this type of service (site attendants) in order to consolidate the costs expected and procure based upon the projected expenditure dollar thresholds.

Effect: The basic fundamentals of the procurement process are not operating effectively. Agency contracts are not open to competition and vendors are not adequately solicited or given the opportunity to competitively compete for the state agency's contracts. An increased risk of collusion and split-purchasing occurs when non-bidding practices.

Recommendation: We recommend the Agency procure these services in accordance with the competitive bid procedures of the Oklahoma Central Purchasing Act.

We also recommend the agency perform an annual needs analysis for the site attendant services at each site to determine if the agency needs to bid the services based upon collective dollar threshold information obtained.

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: The OHS agrees that the entire process of acquiring site attendants should be reviewed and modified to meet the Oklahoma Central Purchasing Act.

Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The OHS will perform a needs analysis on the acquisition of substitute service attendants and visit with DCS about the appropriate methods for acquiring these services. Most, if not all, of the substitute site service attendants are hired for a specific reason. The OHS has the responsibility to ensure that all artifacts are secured properly and that responsible personnel are maintained to provide the collections integrity and condition. Substitute site attendants are often employed to provide collections and site oversight when no other OHS personnel are available to do so. Having someone that is trusted in the community and with a known history is often the only resource available. Bidding this service out would not provide that level of security. If DCS deems that a sole source acquisition is the best method for this situation, then the OHS will proceed immediately to notify all staff involved and correct any contracts currently in process.

This finding will be forwarded to the appropriate officials for further review and consideration.

FINDING 07-350-11: PROFESSIONAL SERVICES

Criteria:

1. The Oklahoma Central Purchasing Act, 74 O.S. Section 85.4(E)(1), states in part:

A contract that results from a requisition required by this section for nonprofessional services or professional services whether or not such services are exempt from the competitive bidding requirements of this section or pursuant to Section 85.7 of this title shall be signed by the chief administrative officer of the state agency or the chief administrative officer of the requisitioning unit of the state agency certifying that:

- a. No employee of the state agency is able and available to perform the services to be provided pursuant to the contract,
 - b. The state agency shall receive, review and accept a detailed work plan from the supplier for performance pursuant to the contract if requested by the State Purchasing Director,
 - c. The state agency has developed, and fully intends to implement, a written plan providing for the assignment of specific state agency personnel to:
 1. Monitoring and auditing supplier performance,
 2. The periodic review of interim reports, or other indications of performance, and
 3. If requested by the State Purchasing Director, the ultimate utilization of the final product of the nonprofessional or professional services..."
 - d. the work to be performed under the contract is necessary to the state agency's responsibilities, and there is statutory authority to enter into the contract,
 - e. the contract will not establish an employment relationship between the state or the state agency and any persons performing under the contract,
 - f. no current state employee will engage in the performance of the contract, unless specifically approved by the State Purchasing Director,
 - g. the purchase of the nonprofessional or professional services is justified, and
 - h. the contract contains provisions that are required by Section 85.41 of this title.
2. The Oklahoma Central Purchasing Act, 74, O.S. Section 85.41, **Professional Services Contracts** states:
- (A) A state agency that acquires professional service shall comply with the provisions of this section.
 - (B) The state agency shall evaluate the performance of the professional services provided pursuant to a professional services contract. The performance evaluation shall indicate the quality of service or work product of the supplier. The state agency

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shall retain the evaluation in the document file the state agency maintains for the acquisition pursuant of Section 85.39 of this title.

3.
 - (D) A state agency shall administer, monitor, and audit the professional services contract. The State Purchasing Director may require the state agency to report to the State Purchasing Director the status of an unfinished professional services contract.
4.
 - (E) A professional services contract shall include an audit clause which provides that all items of the supplier that relate to the professional services are subject to examination by the state agency, the State Auditor and Inspector and the State Purchasing Director.
5. The Oklahoma Central Purchasing Act, 74 O.S. Section 85.40. - **Travel Expenses to be Included in Bid, Proposal, or Quotation** states:

Suppliers that may incur travel expenses pursuant to an acquisition by a state agency from the supplier shall include travel expenses in the total acquisition price in the supplier's bid, proposal, or quotation. A state agency shall not pay any supplier travel expenses in addition to the total price of the acquisition.

Conditions: We reviewed 10 professional service contracts totaling \$1,400,106.15 out of the Agency's 46 contracts totaling \$1,668,588.83 made between July 1, 2005 through June 30, 2006. Of the 10 acquisitions, 1 was processed by the Department of Central Services, and the remaining 9 were open market acquisitions performed by the Agency. Based upon our review, we noted the following:

1. 5 of 10 (50%) acquisition files reviewed did not contain the appropriate service requisition justification signed by the agency's chief administrative officer (CAO).
2. 9 of the 9 (100%) of the acquisition files reviewed did not contain an performance evaluation, therefore, it could not be determined the vendor quality of service or if there were any deficiencies present in the supplier's services.
 - 3 of 3 (100%) of the professional acquisition files tested during Internal Control review did not contain performance evaluations.
3. 7 of the 9 (78%) of the acquisition files reviewed did not contain documentation that indicated the professional service contract was monitored.
4. 4 of the 9 (44%) of the acquisition files reviewed did not contain an audit clause in the contract for professional services.
5. 5 of the 9 (55%) of the acquisition files reviewed did not contain sufficient documentation to determine if travel expenses were paid in an amount over the bid amount.

Cause: In all conditions, the absence of the required documentation is due to one or more of the following:

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- inadequate file maintenance,
- lack of operating controls that ensure the proper documentation is obtained, or
- the procedure was not performed by the Agency.

Effect or Potential Effect:

1. The Agency may be procuring professional services that can be performed by a full-time member of the Oklahoma Historical Society staff.

The Chief Administrative Officer may not be aware of the professional service contracts being procured.

2. The agency and/or the State of Oklahoma may continue to do business with a vendor offering professional services that has not performed satisfactorily and pursuant to the agency's requirements.
3. Lack of monitoring could result in incomplete performance of professional contract or overspending of the contract terms.
4. The absence of an audit clause could result in the vendor not retaining the required contract documentation for the required length of time.
5. Lack of documentation can result in travel expenses being paid in addition to the agreed upon contract amount. This could result in unnecessary expenditures for the agency.

Recommendation: We recommend the Agency develop specific procedures to ensure the procurement requirements, as mandated by the state, are adhered to. This can be achieved by:

- Ensuring that current controls and purchasing procedures are reviewed, updated as needed and approved by the Oklahoma Department of Central Services Purchasing Division.
- Develop a check list to ensure all documentation required can be readily identified by procurement personnel and notated these were acquired.
- Assign specific agency members to be responsible for obtaining the required documentation for each acquisition.
- Assign the record retention responsibilities to an individual or unit. The acquisition files must contain the minimum documentation required to be compliant and adequately document the procurement process of each contract approved.
- We also recommend monitoring to be performed by someone independent of the procurement process to review professional service contract files and ensure all compliance requirements are being followed by the Agency.

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Management's Response

Date: 08/31/2007

Respondent: Administrative Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

FINDING 07-350-03: CPO DUTIES

Criteria:

The Oklahoma Administrative Code 580:15-6-2(d). Certified procurement officer states:

Duties. A CPO shall provide assistance and oversight to a state agency so state agency acquisition processes meet the requirements of the Oklahoma Central Purchasing Act, rules of the Purchasing Division, other statutory provisions and the state agency's internal purchasing procedures.

The Oklahoma Historical Society Internal Purchasing Procedures, B PROCUREMENT PROCEDURES, 3.E. states in part:

It is imperative that accurate and complete records be maintained for each and every acquisition or purchase completed under these rules by the CPO and made available for audit by the Department of Central Services for up to three years: the documentation package should contain the following:

- (1) A PRF with the description of the goods and services included.
- (2) A Bid Recap Sheet
- (3) A signed and notarized non-collusion affidavit, when the agency contracts with the vendor for the goods or services
- (4) A Sole Source Affidavit, if applicable.

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Oklahoma Historical Society Approved Internal Purchasing Procedures states in part:

B. PROCUREMENT PROCEDURES – All procurement will be done in strict compliance with pertinent laws and regulations...Failure to conform to this procedure will result in disciplinary action and may result in the payment being paid by the purchaser.

Conditions: We reviewed 17% (82 acquisitions) of the Agency's 474 applicable acquisitions made between July 1, 2005 to June 30, 2006. We tested all the dollar thresholds. (\$0 - \$25,000 and greater). Our sample represents 65% (\$4,713,920.08) of the Agency's total acquisition amount of \$7,297,246.88.

During the review of the agency's internal controls related to procurement, we noted the following:

- The designated certified procurement officer (CPO) does not retain a copy of the approved internal purchasing procedures for reference. Also the designated CPO did not know if the revised internal purchasing procedures had been submitted to Department of Central Services (DCS) or if they have been approved.
- The designated CPO could not identify whether the agency performed services or provided products to other state agencies.
- The agency's management does not have consistent methods of reviewing procurement activities and provides minimal oversight regarding procurement activities of division staff and designated CPO.
- The agency's designated CPO stated he was not aware of the penalties for procurement improprieties, he was not aware of any disciplinary actions by management, and he had not implemented any disciplinary actions.

A review of 4 randomly selected service acquisitions for labor indicated:

- the required forms were missing and could not be located;
- the acquisitions were not bid as required;
- the approving official's signatures were either missing or by an unauthorized individual;
- original documentation could not be located;
- required affidavits were not properly executed.
- Service evaluations were not performed.

Cause:

- The Agency's designated CPO has not maintained adequate documentation or implemented adequate oversight to ensure the agency's procurement acquisitions are adequately documented and in compliance with all rules and statutes regarding record retention in acquisition files.
- The agency's designated CPO does not retain a copy of the agency internal purchasing procedures for reference.

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- The agency has not implemented adequate oversight of the procurement activities of the agency's CPO activities or division procurement staff to ensure compliance of procurement acquisitions.

Effect or Potential Effect:

- The agency cannot verify that procurement acquisitions are made in compliance with the applicable statutes, the Oklahoma Administrative Code and the agency's own approved purchasing procedures.
- Acquisitions may be made that are not appropriate or not in the agency's best interest.
- The agency may be at risk for questionable purchases since documentation cannot be produced to adequately document the purchase was appropriate.
- The agency's designated CPO would not be able to enforce penalties for procurement improprieties if the penalties and code of conduct are unknown.

Recommendation: We recommend the Agency:

- Designated CPO and division procurement staff receives updated training regarding their purchasing duties and responsibilities. We also recommend procurement staff be provided additional training through the CPO certification process.
- Management designate specific staff members with the responsibility and duties of ensuring all required procurement documentation is collected and maintained for each acquisition.
- Management should perform random internal reviews to ensure acquisition files are complete.
- Management review the current internal procedures, revise and submit to the Department of Central Services for approval.

Management's Response

Date: 08/31/2007

Respondent: Administrative Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan:

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting

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of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

The OHS internal purchasing procedures will be revised once the reorganization of duties and responsibilities of agency staff have been completed.

FINDING 07-350-15: INVENTORY

Criteria:

1. Oklahoma Administrative Code 580:70-3-3. **Missing, stolen and destroyed tangible assets** states:

(a). Asset loss reports. Any agency shall report a loss to the state inventory control officer within thirty (30) days of discovery that a tangible asset is missing, stolen or destroyed by vandalism.

2. Oklahoma Administrative Code 580:70-3-1(a) **Report due date** states,

All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15. The report shall include all tangible assets based upon the threshold stated in 580:70-1-3(a)

3. Oklahoma Historical Society Procedure for Fixed Assets Inventory states,

(2) The Certified Procurement Officer (CPO) will determine which new purchases are fixed assets. The CPO will stamp the order as "fixed asset" and send a copy to Property Resources for recording and preparation of a tag for the item...

(4) the record of fixed assets will be retained by designated personnel in the Finance Division. Property Resources will route required information to Finance to keep the record up to date.

(8) Fixed assets which are transferred from one location to another within the Historical Society will be documented by use of a "Fixed Asset Transfer Slip".

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Condition:

1. The agency inventory control officer reported suffering fixed asset losses in 2003 in one of the agency divisions. However, he did not received documentation from the division and therefore no documentation was submitted to the state inventory control officer as of the date of this audit.
2. Based upon statements received from the Agency Finance Division, the master inventory list is not being maintained.
3. 14 randomly selected items identified as a fixed asset was selected for review. The following was noted:

10 of the 14 (71%) units tested indicated the CPO did not identify the purchase orders of identified fixed assets purchased with a notation identifying the purchase as a fixed asset.

2 of the 2 (100%) applicable files regarding fixed assets transfers from one historical site to another were not supported by a Fixed Asset Transfer Slip.

Causes:

1. The agency's inventory control officer is not involved in the documentation and tracking of lost inventory items. These duties have been segregated to the respective departments that oversee these services and adequate controls for proper reporting of these inventories have not been implemented agency wide.
2. The agency's finance division has not implemented adequate procedures to ensure all fixed assets are up-to-date on the master inventory list which may possible be due to lack of adequate staff or resources to perform required duties.
3. The agency has not implemented adequate oversight to ensure the procurement activities of the agency's CPO are in compliance with its own internal procedures of maintaining the fixed asset inventory identification and documentation process.

The agency has not implemented adequate procedures to ensure all fixed assets transferred from one historical site to another is documented with the required agency Fixed Asset Transfer Slip.

Effect or Potential Effect:

- The agency cannot adequately safeguard the agency's assets if the inventory records do not accurately document fixed inventory items.
- The agency cannot materially determine the value of fixed inventory items as the records are not accurate.
- Fraud and abuse of agency assets may be occurring since documentation of the agency's fixed assets are not current.

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Recommendation: We recommend the Agency to reconcile the agency's fixed asset inventory, determine the actual value of the assets, and document the physical location of all fixed assets in an effort to accurately update the inventory master list.

We also recommend that the agency:

- Implement changes in reporting methodology to include livestock inventory and living costume inventory in the master list of fixed assets reported to the Department of Central Services inventory control officer.

- Assign a specific staff member to perform the duties of the inventory control officer with authority to oversee all assets and the responsibility of reporting all fixed asset inventory to the state inventory control officer.

- Implement adequate controls to ensure that all newly acquired fixed assets shall be reported and documented in a consistent manner.

- After the agency's fixed asset reconciliation and actual value determined, the bar code method of identification of fixed assets be accelerated to be completed in a timely manner to ensure the integrity of the reconciliation is not compromised.

We recommend the Oklahoma State Auditor and Inspector's office perform a complete and thorough audit of the agency's fixed assets to determine the extent of missing or unreported items.

In final, we recommend the Director of Central Services review and evaluate the agency's inventory reporting threshold (OAC 580:70-1-3(d)).

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: **Concur** - The OHS is currently in the process of bar coding all fixed assets. The History Center has been completed but the field divisions have not been processed. The Property Resources division which once had two individuals was reduced to one after a retirement during the revenue shortfall years. This position was never replaced and the move to the History Center put the agency at a huge detriment with regards to updating the inventory.

Corrective Action Plan

Anticipated Completion Date: November 30, 2007

Corrective Action Planned: The OHS will take whatever actions necessary to bring the fixed asset listing up to date. If the inventory cannot be brought up to date using internal staff then the OHS may contract with a private company which specializes in fixed asset inventories. The OHS Finance division is adding an additional staff person and one of this positions duties is to review all paid vouchers inclusive of p-cards for fixed asset items and then to follow up with the respective division to complete the fixed asset forms and add the item to the fixed asset list.

FINDING 07-350-14: INVENTORY

Criteria:

4. Oklahoma Administrative Code 580:70-3-1(a) **Report due date** states,

All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15. The report shall include all tangible assets based upon the threshold stated in 580:70-1-3(a)

The Oklahoma Statutes, Title 74§110.1 states:

(D). Tangible assets shall consist of machinery, implements, tools, furniture, livestock, vehicles and other apparatus that may be used repeatedly without material impairment of its physical condition and have a calculable period of service and a value exceeding the reporting threshold the Director of Central Services establishes for the entity.

5. The Oklahoma Administrative Code, 580:70-3-2. **Additional asset reporting identification elements states -**

When any tangible asset named in this section is reported by the agency, the assets shall be readily identified by type in the inventory report required by 580:70-3-1(a):

- (1) tangible assets with historical significance;
- (2) livestock assets by breed, gender and approximate value;
- (3) assets on loan to another agency; a copy of the written instrument documenting the loan shall be submitted with the annual inventory report;
- (4) assets that have been traded in by the agency;
- (5) assets the agency is unable to affix an inventory tag to;
- (6) assets that have been disposed of in accordance with the state surplus property program;
- (7) assets that reach the end of its useful life.

Condition: During review of the agency's controls related to fixed asset reporting and testing fixed assets reporting requirements we noted the following:

1. The agency has not reported all tangible assets owned by the agency to the Oklahoma Department of Central Services inventory control officer. Omissions include livestock inventory and living history costumes and props.

The inventory list submitted to the state inventory control officer in 2006 was not current based upon statements from staff with the responsibility of ensuring the master inventory list is up-to-date.

2. 14 fixed asset items identified from randomly chosen procurement documentation were selected for review. Based upon our review, we noted the following:

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- 14 of 14 (100%) of the units tested could not be traced from the acquisition document to the Fixed Asset Inventory Master list. Total unreported fixed assets amount is \$25,072.23.
- 32 fixed asset items were visually observed at the historical site location where the items physically reside. We noted the following:
- 16 of 32 (50%) of the units tested could not be traced from its physical location to the Fixed Asset Inventory Master list.
- 1 of the remaining 16 (6%) units had an asset tag that identified a different fixed asset.

Causes:

- The agency does not have adequate controls or personnel resources in place to actively and effectively identify, record, and update the extensive fixed asset inventory list.
- The agency's inventory control officer is not involved in the documentation and tracking of livestock and living costume inventories. These duties have been segregated to the respective departments that oversee these services and adequate controls for proper reporting of these inventories have not been implemented separately.

Effect or Potential Effect:

- The agency cannot adequately safeguard the agency's assets if the inventory records do not accurately document fixed inventory items.
- The agency cannot materially determine the value of fixed inventory items as the records are not accurate.
- Fraud and abuse of agency assets may be occurring since documentation of the agency's fixed assets are not current.

Recommendation: We recommend the Agency to reconcile the agency's fixed asset inventory, determine the actual value of the assets, and document the physical location of all fixed assets in an effort to accurately update the inventory master list.

We also recommend that the agency:

- Implement changes in reporting methodology to include livestock inventory and living costume inventory in the master list of fixed assets reported to the Department of Central Services inventory control officer.
- Assign a specific staff member to perform the duties of the inventory control officer with authority to oversee all assets and the responsibility of reporting all fixed asset inventory to the state inventory control officer.
- Implement adequate controls to ensure that all newly acquired fixed assets shall be reported and documented in a consistent manner.

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- After the agency's fixed asset reconciliation and actual value determined, the bar code method of identification of fixed assets be accelerated to be completed in a timely manner to ensure the integrity of the reconciliation is not compromised.

We recommend the Oklahoma State Auditor and Inspector's office perform a complete and thorough audit of the agency's fixed assets to determine the extent of missing or unreported items.

In final, we recommend the Director of Central Services review and evaluate the agency's inventory reporting threshold (OAC 580:70-1-3(d)).

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: **Concur** - The OHS is currently in the process of bar coding all fixed assets. The History Center has been completed but the field divisions have not been processed. The Property Resources division which once had two individuals was reduced to one after a retirement during the revenue shortfall years. This position was never replaced and the move to the History Center put the agency at a huge detriment with regards to updating the inventory.

Corrective Action Plan

Anticipated Completion Date: November 30, 2007

Corrective Action Planned: The OHS will take whatever actions necessary to bring the fixed asset listing up to date. If the inventory cannot be brought up to date using internal staff then the OHS may contract with a private company which specializes in fixed asset inventories. The OHS Finance division is adding an additional staff person and one of this positions duties is to review all paid vouchers inclusive of p-cards for fixed asset items and then to follow up with the respective division to complete the fixed asset forms and add the item to the fixed asset list.

FINDING 07-350-04: SUSPENSION AND DEBARMENT

Criteria:

1. The Oklahoma Administrative Code (OAC), 580:15-6-8. State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00) states in part:

State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000.00) pursuant to this section.

- (1) Supplier selection. The State Purchasing Director shall make the Division registered supplier list available to state agencies. A state agency may select

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suppliers from the registered supplier list. State agencies shall not select a supplier that is suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission or a supplier that is suspended or debarred by the federal government if federal funds are being used in the acquisition.

2. The Oklahoma Administrative Code (OAC), 580:15-6-9. State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00) State agencies with a CPO and approved internal purchasing procedures pursuant to the requirements of Sections 580:15-6-2 and 580:15-6-3 shall make acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-Five Thousand Dollars (\$25,000.00) pursuant to this section.

(1) Supplier selection. The State Purchasing Director shall make the Division registered supplier list available to state agencies. The state agency shall select a minimum of three (3) suppliers from the commodity classification for bid solicitation. The state agency may select suppliers from the registered supplier list. State agencies shall rotate use of suppliers. State agencies shall not select a supplier that is suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission or a supplier that is suspended or debarred by the federal government if federal funds are being used in the acquisition.

Condition:

We reviewed 13% (51 acquisitions) of the Agency's 378 applicable acquisitions made between July 1, 2005 to June 30, 2006. Our sample represents 51% (\$2,977,099.75 / \$5,856,484.06) of the population. The 51 transactions reviewed included 1 acquisition through a statewide contract, 6 acquisitions were for pass thru education funding, 3 were sole source acquisitions, 39 were open market and 2 were exempt from the Central Purchasing Act based upon O.S. Title 74 § 85.12 B(18). Within the 49 (51-2) acquisitions tested, 13 acquisitions were processed through Department of Central Services.

During our testing of the above referenced sample, we noted the following:

1. 6 of the 6 (\$33,567.04) (100%) applicable files reviewed in the \$2,501 to \$10,000 dollar threshold did not contain documentation that the supplier status was not suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission.
2. 3 of the 3 (\$41,651.39) (100%) applicable files reviewed in the \$10,001 to \$25,000 dollar threshold files reviewed did not contain documentation that the supplier status was not suspended or debarred by the State Purchasing Director or the Oklahoma Tax Commission.

Cause: The agency has not implemented specific controls for the management and retention of procurement documentation that the supplier status was not suspended or debarred.

Effect or Potential Effect: The agency may do business with a supplier that has been suspended or debarred by the Department of Central Services or the Oklahoma Tax Commission.

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Recommendation: We recommend in all conditions, that the Agency:

- Assign specific personnel with the responsibility of obtaining the required documentation for all acquisition files to be retained in the acquisition file.
- Assign specific personnel with the responsibility of verifying the status of a supplier prior to the awarding of a contract.
- We recommend external training for all procurement personnel.
- We recommend management establish random quality control reviews of procurement processes and documentation retention to ensure acquisition files are complete and procedures continue to be in compliance with all statutes and rules.

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-05: SALES TAX PERMIT

Criteria:

1. The Oklahoma Administrative Code (OAC), 580:15-6-6. State agency open market acquisitions not exceeding two thousand five hundred dollars (\$2,500) states:

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State agency open market acquisitions not exceeding two thousand five hundred dollars (\$2,500.00) that are fair and reasonable. State agencies shall make acquisitions pursuant to OAC 580:15-6-8.

The Oklahoma Administrative Code (OAC) 580: 15-6-8. State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00) states in part:

...State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000.00) pursuant to this section.

580:15-6-8(5) Contracts.

(A) Prior to awarding a contract exceeding Two Thousand Five Hundred Dollars (\$2,500.00), the awarding agency must verify that the vendor has obtained a sales tax permit in accordance with the laws of Oklahoma.

(B) Verification. Sales tax permit verification may be confirmed through the link provided on the Department of Central Services' website. If a vendor cannot be identified by searching this database, agencies should call the Oklahoma Tax Commission for assistance.

(C) Documentation. Verification of the sales tax permit must be documented in the acquisition file.

2. The Oklahoma Administrative Code (OAC), 580:15-6-9. State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00), states in part:

580:15-6-9(7) Award to a supplier. When the state agency selects a bid, the state agency shall notify the supplier of the award.

(A) Prior to awarding a contract exceeding Two Thousand Five Hundred Dollars (\$2,500.00), the awarding agency must verify that the vendor has obtained a sales tax permit in accordance with the laws of Oklahoma.

(B) Verification. Sales tax permit verification may be confirmed through the link provided on the Department of Central Services' website. If a vendor cannot be identified by searching this database, agencies should call the Oklahoma Tax Commission for assistance.

(C) Documentation. Verification of the sales tax permit must be documented in the acquisition file.

Condition: We reviewed 13% (51 acquisitions) of the Agency's 378 applicable acquisitions made between July 1, 2005 and June 30, 2006. Our sample represents 51% (\$2,977,099.75 / \$5,856,484.06) of the population. The 51 transactions reviewed included 1 acquisition through a statewide contract, 6 acquisitions were for pass thru education funding, 3 were sole source

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acquisitions, 39 were open market and 2 were exempt from the Central Purchasing Act based upon O.S. Title 74 § 85.12 B(18). Within the 49 (51-2) acquisitions tested, 13 acquisitions were processed through Department of Central Services.

During our testing of the above referenced sample, we noted the following:

\$2,500 - \$10,000 dollar threshold:

6 of the 6 (\$33,567.04) (100%) applicable files reviewed did not contain documentation that the sales tax permit was verified thru Department of Central Services or the Oklahoma Tax Commission prior to awarding the contract.

\$10,000.01 - \$25,000 dollar threshold:

3 of the 3 (41,651.39) (100%) applicable files reviewed did not contain documentation that the sales tax permit was verified thru Department of Central Services or the Oklahoma Tax Commission prior to awarding the contract.

Cause:

- The agency has not implemented specific controls for verifying, obtaining and retention of the verification of the sales tax permit.
- The Agency is not providing adequate oversight to ensure the required sales permit verification is obtained and documented.

Effect or Potential Effect:

The agency may be awarding contracts to a vendor that has not obtained or no longer has a valid sales tax permit.

Recommendation: We recommend in all conditions present that the Agency:

- Assign specific personnel with the responsibility of verifying the sales tax permit of any vendor prior to awarding a contract.
- Assign a specific staff member with the responsibility of retaining the sales tax permit verification in the file.
- External training for all procurement personnel.
- Develop and implement an internal review process independent of all procurement activities to ensure compliance with applicable laws and regulations

Management's Response

Date: 08/31/2007

Respondent: Administration Director

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Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition. Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-07: DELIVERY DOCUMENTS

Criteria:

The Oklahoma Administrative Code (OAC), 580:15-6-8. State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00), states in part:

...State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000.00) pursuant to this section.

#1:

(6) Delivery document from supplier. When the state agency takes possession of the acquisition, the state agency shall obtain a delivery document from the supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, and a description of the acquisition. The state agency shall note the delivery date and person receiving the acquisition on the delivery document.

#2:

(7) Supplier payment. The state agency shall pay the supplier following receipt, inspection and acceptance of the acquisition by the state agency.

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The Oklahoma Administrative Code (OAC), 580:15-6-9. State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00)

State agencies with a CPO and approved internal purchasing procedures pursuant to the requirements of Sections 580:15-6-2 and 580:15-6-3 shall make acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-Five Thousand Dollars (\$25,000.00) pursuant to this section.

#1:

(9) Delivery document from supplier. The state agency shall receive a delivery document from the supplier stating, at a minimum, the date of the acquisition, the name and address of the supplier, and a description of the acquisition. The state agency shall note the delivery date and person receiving the acquisition on the delivery document.

#2:

(10) Supplier payment. The state agency shall pay the supplier following receipt, inspection and acceptance by the state agency of the acquisition.

Title 74 § 85.44B. Payment for Goods or Services Pursuant to Contract states in part:

Payment for products or services pursuant to a contract executed by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, Section 85.1 et seq. of this title, shall be made only after products have been provided or services rendered. This section shall not prohibit the payment for subscriptions to magazines, periodicals, or books or for payment to vendors providing subscription services....

Condition: We reviewed 13% (51 acquisitions) of the Agency's 378 applicable acquisitions made between July 1, 2005 to June 30, 2006. Our sample represents 51% (\$2,977,099.75 / \$5,856,484.06) of the population. The 51 transactions reviewed included 1 acquisition through a statewide contract, 6 acquisitions were for pass thru education funding, 3 were sole source acquisitions, 39 were open market and 2 were exempt from the Central Purchasing Act based upon O.S. Title 74 § 85.12 B(18). Within the 49 (51-2) acquisitions tested, 13 acquisitions were processed through Department of Central Services.

During our testing of the above referenced sample, we noted the following:

#1:

\$0-\$10,000

1. 8 of the 12 (67%) applicable files reviewed did not contain a delivery document for the product acquisition. (Questionable delivery amount - \$48,176.91)

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\$10,000.01-\$25,000

2. 4 of the 5 (80%) applicable files reviewed did not contain a delivery document for the product acquisition received. (Questionable delivery amount - \$88,254.15)

The total extrapolated questionable delivery amount is \$485,290.79.

#2:

\$0-\$10,000

1. 20 of the 29 (69%) applicable files reviewed did not contain adequate documentation to determine if what was requisitioned was received, inspected and accepted prior to payment.

\$10,000.01-\$25,000

2. 8 of the 10 (80%) applicable files reviewed did not contain adequate documentation to determine if what was requisitioned was received, inspected and accepted prior to payment.

Cause:

- The agency has not implemented adequate controls to ensure all staff members obtains and retains delivery documentation for each type of acquisition.

Effect or Potential Effect:

- The agency cannot monitor contracts without documentation of the delivered goods and/or services.
- The agency cannot document, monitor, or report a vendor's failure to provide quality goods or services.

Recommendation: We recommend in all conditions present hat the Agency:

- Assign specific personnel with the responsibility of obtaining the required authorized approving signature on all Oklahoma Historical Society Request for Purchase forms for all acquisition files to be retained in the acquisition file.
- Develop and implement controls to ensure all procurement acquisitions are accompanied with delivery documentation.
- Assign specific personnel with the responsibility of obtaining a delivery document, receipt or invoice upon delivery and receipt of all goods and services to be retained in the acquisition file.
- External training for the agency's CPO and all agency personnel who may receive goods or services for the agency.
- Perform a physical inspection of previously ordered products to determine if the items were received.

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Management's Response

Date: 08/31/2007

Respondent: Administrative Director

Response: **Partially Concur** - Invoices for payments of goods are sent to the respective departments for approval. By signing the invoice as approved the authorizing official is providing proof of acceptance and receipt of goods or services provided.

The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-06: INTERNAL PURCHASING PROCEDURES

Criteria: The Central Purchasing Act, Title 74, O.S. § 85.39 - **Agency Internal Purchasing Procedures**

C. Each state agency shall maintain a document file for each acquisition the state agency makes which shall include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires be kept.

The Oklahoma Administrative Code (OAC), 580:15-6-8. State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00) states in part:

State agencies that do have a CPO and approved internal purchasing procedures shall make open market acquisitions not exceeding Ten Thousand Dollars (\$10,000.00) pursuant to this section.

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(4) Services requisition requirements. If the state agency requisitions professional or nonprofessional services, the state agency shall submit a requisition or contract signed by the state agency's chief administrative officer or the chief administrative officer of the requisitioning unit certifying to each requirement of 74 O.S., Section 85.4(E)(1).

Oklahoma Administrative Code (OAC), 580:15-6-9. State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00) states in part:

State agencies with a CPO and approved internal purchasing procedures pursuant to the requirements of Sections 580:15-6-2 and 580:15-6-3 shall make acquisitions exceeding Ten Thousand Dollars (\$10,000.00) but not exceeding Twenty-Five Thousand Dollars (\$25,000.00) pursuant to this section.

(6) Services requisition requirements. If the state agency requisitions professional or nonprofessional services, the state agency shall submit a requisition or contract signed by the state agency's chief administrative officer or the chief administrative officer of the requisitioning unit certifying to each requirement of 74 O.S., Section 85.4(E)(1).

580:15-6-10. State agency acquisitions the Purchasing Division processes states in part:

All acquisitions exceeding twenty-five thousand dollars (\$25,000.00) shall be submitted to the State Purchasing Director.

(2) Services requisition requirements. If the state agency requisitions professional or nonprofessional services, the state agency shall submit a requisition or contract signed by the state agency's chief administrative officer or the chief administrative officer of the requisitioning unit certifying to each requirement of 74 O.S., Section 85.4(E)(1).

Conditions: We reviewed 13% (51 acquisitions) of the Agency's 378 applicable acquisitions made between July 1, 2005 and June 30, 2006. Our sample represents 51% (\$2,977,099.75 / \$5,856,484.06) of the population. The 51 transactions reviewed included 1 acquisition through a statewide contract, 6 acquisitions were for pass thru education funding, 3 were sole source acquisitions, 39 were open market and 2 were exempt from the Central Purchasing Act based upon O.S. Title 74 § 85.12 B(18). Within the 49 (51-2) acquisitions tested, 13 acquisitions were processed through Department of Central Services.

During our testing of the above referenced sample, we noted the following:

\$0-\$10,000

10 of the 14 (71%) applicable files reviewed did not contain a service requisition justification.

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\$10,000.01-\$25,000

3 of the 5 (60%) applicable files reviewed did not contain a service requisition justification.

\$25,000.01 & Greater

1 of 1 (100%) applicable files reviewed did not contain a service requisition justification.

Cause: The agency has not implemented adequate controls to ensure procurement staff obtains and retains the required documentation for each type of acquisition.

Effect or Potential Effect: Services are acquired that may not be necessary and could have been performed by a member of the agency staff.

Recommendation: We recommend in all conditions present that the Agency:

- Assign a specific staff member with the responsibility of obtaining and retaining all required acquisition documentation including the service requisition justification.
- We recommend procurement training for all agency purchasing personnel.
- Management develop internal oversight of the procurement activities to ensure all documentation is obtained, retained and all procedures are followed.

Management's Response

Date: 08/31/2007

Respondent: Administrative Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-02: INTERNAL PURCHASING PROCEDURES

Criteria:

Oklahoma Historical Society Approved Internal Purchasing Procedures, states in part:

B. PROCUREMENT PROCEDURES – All procurement will be done in strict compliance with pertinent laws and regulations. All purchases must be submitted on an OHS Purchase Request Form (PRF) and approved in advance of purchase by an OHS Certified Procurement Officer (CPO) and processed through the approval signatures before the purchase is made. Failure to conform to this procedure will result in disciplinary action and may result in the payment being paid by the purchaser.

Condition:

We reviewed 17% (82 acquisitions) of the Agency's 474 applicable acquisitions made between July 1, 2005 to June 30, 2006. We tested all the dollar thresholds. (\$0 - \$25,000 and greater). Our sample represents 65% (\$4,713,920.08) of the Agency's total acquisition amount of \$7,297,246.88.

Note:

- o 2 of the 82 acquisitions reviewed were exempt from the Central Purchasing Act (CPA).
- o 22 of the 80 acquisitions reviewed contained no documentation.

During our testing of the above referenced sample, we noted the following:

- 21 of the 58 (36%) remaining applicable acquisitions reviewed did not contain the agency required OHS Purchase Request Form (PRF).
- 8 of the remaining 37 (22%) files reviewed contained documentation that the purchase was made in advance of the approval signatures by an OHS Certified Procurement Officer (CPO) and approving authorities.
- 4 of 6 (67%) acquisition files selected randomly during our internal control review, did not contain the required OHS Purchase Request Form (PRF).

Cause #1-2:

The CPO has not implemented adequate controls to ensure consistent processing of agency acquisitions based upon agency internal purchasing procedures.

The agency has not implemented adequate oversight to ensure the procurement activities are in compliance with agency approved internal purchasing procedures by retaining the required minimum documentation required.

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Effect or Potential Effect:

- The agency is not effectively documenting the internal procurement process which includes management approval of the acquisition.

- The agency may be procuring products or services that have not been subjected to management oversight and may be not appropriate or within the agency's budget.

Recommendation: We recommend in all conditions present, that the Agency:

- Assign specific personnel with the responsibility of obtaining the required documentation for all acquisition files to be retained in the acquisition file.
- Assign specific personnel with the responsibility of submitting the form to the appropriate division for management approval prior to the awarding of a contract.
- External procurement training for all agency procurement personnel

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

FINDING 07-350-08: GENERAL PROCUREMENT

Criteria:

The Oklahoma Central Purchasing Act, Title 74, § 85.42. **One Year Limitation on Entering Contracts with Certain Persons- Exceptions**, states in part:

- B. Each contract entered into by any person or firm with the State of

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Oklahoma shall include an affidavit certifying that no person who has been involved in any manner in the development of that contract while employed by the State of Oklahoma shall be employed to fulfill any of the services provided for under said contract....

Condition: We reviewed 13% (51 acquisitions) of the Agency's 378 applicable acquisitions made between July 1, 2005 to June 30, 2006. Our sample represents 51% (\$2,977,099.75 / \$5,856,484.06) of the population. The 51 transactions reviewed included 1 acquisition through a statewide contract, 6 acquisitions were for pass thru education funding, 3 were sole source acquisitions, 39 were open market and 2 were exempt from the Central Purchasing Act based upon O.S. Title 74 § 85.12 B(18). Within the 49 (51-2) acquisitions tested, 13 acquisitions were processed through Department of Central Services.

During our testing of the above referenced sample, we noted the following:

- 18 of the 31 (58%) applicable files reviewed did not contain the affidavit as required by 85.42B.

Effect or Potential Effect:

- The Agency may be entering into contracts with individuals who are already employed with the agency, thereby creating a conflict of interest.
- An individual involved in development of that contract while employed by the agency may have undue advantage during a competitive bidding process.

Recommendation: We recommend in all conditions present that the Agency:

- Assign a specific staff member with the responsibility of obtaining and retaining all required acquisition documentation including the required affidavit.
- Management develop internal oversight of the procurement activities to ensure no employee or former employee of one year of awarding a contract was involved in creating the contract.

Management's Response

Date: 08/31/2007

Respondent: Administration Director

Response: Concur - The OHS agrees that specific staff be assigned responsibility for obtaining required documentation and that external training for all staff involved in the acquisition process is needed.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: The current agency CPO will attend the CPO training course being held in September 2007. All major divisions of the OHS are also sending a representative to this course. After the course is completed the OHS will hold a meeting of all attendees and review agency internal purchasing procedures and make any

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modifications necessary to ensure that the review of all purchasing documents occur at several defined checkpoints. Random reviews of the central purchasing files in the CPO office will be conducted to ensure that all necessary documentation is complete. A checklist will be provided to all major division staff involved in the procurement process to ensure that all documentation is provided for each type of acquisition.

Also the OHS has started scanning all purchase orders and supporting documentation into a central repository and using an electronic purchasing process that makes the review of the acquisition process more complete and expedient.

OVERALL CONCLUSION

Due to the small amount of purchases that would have required the Agency to comply with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee during the audit period, we elected not to review and conclude on the following objective:

- Ensure the Agency is in compliance with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee;

For the remaining objectives we have determined, based upon our audit, the Oklahoma Historical Society has not materially complied with the following objectives:

- Ensure the Agency is in compliance with provisions of the Oklahoma Central Purchasing Act;
- Ensure the Agency is in compliance with purchasing rules promulgated by the Department of Central Services;
- Ensure the Agency is in compliance with approved internal purchasing procedures; and
- Determine if the Agency has implemented internal controls and if the Agency's controls are operating effectively in relation to the procurement program.
- Ensure the Agency is in compliance with the fixed assets reporting requirements during July 1, 2001 through June 30, 2006.

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OVERALL RECOMMENDATION

Based upon our audit findings of the agency's procurement activities, we recommend:

- a consultation between the Agency and Central Purchasing to address all concerns noted in the audit and discuss the Agency's proposed corrective action plan to ensure compliance.
- the Director of the Department of Central Services reduce of the Agency's purchasing authority limits to \$2,500 or below until the Agency's purchasing staff receives additional procurement training and demonstrates proficiency in maintaining acquisition documents and performing procurement activities.
- the State Purchasing Director to review and evaluate the audit findings to determine if the Agency's CPO certification should be revoked due to the failure to make state agency acquisitions pursuant to the Oklahoma Central Purchasing Act, rules of the Purchasing Division, other statutory provisions, and the state agency's internal purchasing procedures.

Based upon our audit findings of the agency's fixed asset reporting activities, we recommend:

- a consultation between the Agency and Department of Central Purchasing Inventory Control Officer to address all concerns noted in the audit.
- an inventory audit be performed by the Oklahoma State Auditor and Inspector's office to determine the scope of fixed asset misstatements.

Based upon our review of the corrective actions proposed by the agency during the purchase card audit, we have determined the agency is noncompliant in implementing the correction actions proposed. We recommend:

- the State Purchasing Director require the agency to perform the corrective actions within thirty days of the date of this report. Should the agency fail to comply, we recommend the agency's purchase card program be placed on temporary suspension until such time the State Purchasing Director determines the agency is in compliance.

OVERALL MANAGEMENT'S RESPONSE

(See attached Management's Response Letter)



Oklahoma Historical Society

Founded May 27, 1893

Oklahoma History Center • 2401 North Laird Ave. • Oklahoma City, OK 73105-7914
(405) 521-2491 • Fax (405) 521-2492 • www.okhistory.org

September 24, 2007

Mr. JoRay McCoy, Chief Auditor
Department of Central Services
2401 N. Lincoln Blvd., Suite 212-2
Oklahoma City, OK 73105

Dear Mr. JoRay McCoy:

RE: Fiscal Year 2007 Purchasing Audit

The Oklahoma Historical Society recognized during the course of this purchasing audit that significant changes needed to be made to its purchasing processes and quality control initiatives.

Therefore, the OHS has taken the following actions that have already been completed:

1. Sent six of its employees, including the current CPO, to the CPO training course that was held earlier this month.
2. Created a computer based purchasing system in Filemaker Pro whereby purchase requests and all respective documents can be easily reviewed and feedback given to all agency personnel involved in the purchasing process.
3. Scanned all purchase orders, purchase requests and all supporting documentation into a central repository so that quality control and review can be easily accomplished.
4. Reduced the flow of internal paperwork to a minimum level to reduce the possibility of lost documents.
5. Established the CPO office as the final repository for all purchasing documents.

Other actions the OHS is taking but have not yet completed are the following:

1. Scheduling a meeting of all attendees of the CPO training course and department heads to discuss formal revisions to the agency internal purchasing procedures. The procedures will be revised so that all agency personnel have a clear and accurate understanding of what each individuals and departments responsibility is.
Completion Date: October 15, 2007
2. Designating an employee that has completed the CPO training and certification process as the agency backup CPO.
Completion Date: October 15, 2007

3. Creating a checklist for each type of purchase that will be reviewed and completed prior to submission of purchasing documents.
Completion Date: October 15, 2007
4. Started assembling bid specifications for a private company to do a complete fixed asset inventory of the History Center and all outlying OHS field locations. The OHS has acquired asset tracking software and a barcode printer to expedite future inventory processes. The OHS employee that was assigned this task retired and the OHS is currently reassigning this task to another department.
Completion Date: November 30, 2007
5. Preparation of a needs analysis for all substitute site attendants and further discussion with DCS personnel regarding the most appropriate method of obtaining these services in the best interest of the OHS and the state.
Completion Date: October 15, 2007

If additional information is needed please do not hesitate to contact me at 522-5201 or by email at bblackburn@okhistory.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Blackburn". The signature is fluid and cursive, with a large initial "B" and "B".

Bob Blackburn
Executive Director