

STATE OF OKLAHOMA OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES DIVISION OF CAPITAL ASSETS MANAGEMENT AUDIT UNIT REPORT RELEASED SEPTEMBER 12, 2012

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AUDIT PERFORMED BY

JoRay McCoy, Chief Auditor
Megan Hannabass, Senior Auditor
Brittany Porter, Auditor

AUDIT CONCLUSION

Based on our audit, we have determined that the J.D. McCarty Center has significantly complied with the following objectives audited:

- Determine if the Agency has implemented internal controls and if the Agency's controls are operating in relation to the purchase card program, and
- Determine if the Agency's purchase card program is in compliance with the Oklahoma State Purchase Card Procedures and approved internal purchasing procedures State Purchase Card Procedures and approved internal purchasing procedures as they relate to the acquisition process through the use of purchase cards.

However, there were a few deficiencies noted during the audit. A couple of these deficiencies include lack of proper documentation to support transactions, as well as, approvals from appropriate Approving Officials. The Agency has provided corrective action plans, which we believe will ensure the Agency complies, in all material respects, with the aforementioned requirements.

AUDIT FINDING SUMMARY

FINDING 12-670-01 The Agency's purchase card program did not comply with Oklahoma Purchase Card Procedures for Approving Officials.

FINDING 12-670-02 The Agency made a purchase that was outside of the purchase card limit of \$5,000.00.

FINDING 12-670-03 An applicable item was not added to the Agency's Inventory schedule.

(The most significant audit findings are detailed in the report. Detailed information for any remaining concerns or considerations has been provided to the Agency's Management.)

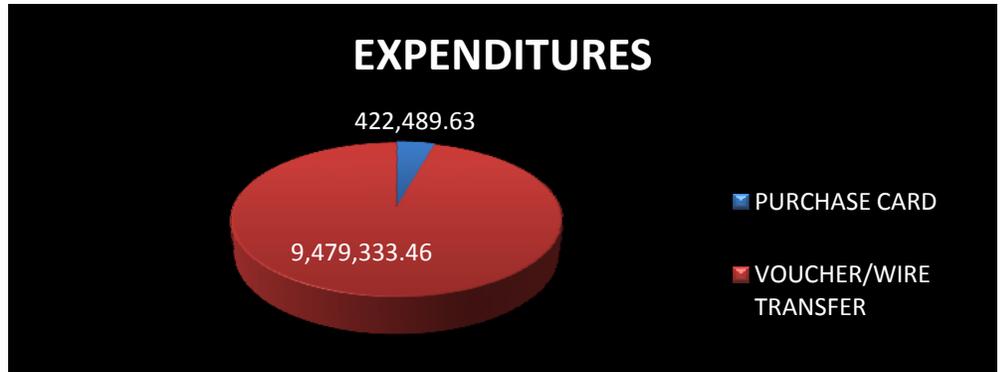
The Office of Management and Enterprise Services, Department of Capital Asset Management's Audit Unit completed an audit of the JD McCarty Center, referred to as the "Agency" within the audit report. Our audit was to determine if the Agency's purchase card program for the period December 31, 2010 to May 31, 2012 complied with the audit objectives.



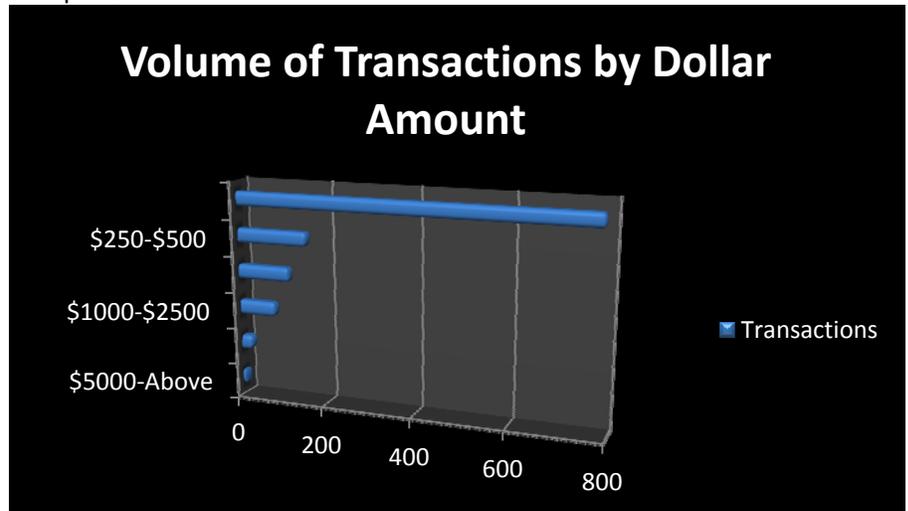
This publication is issued by the Department of Capital Asset Management's Audit Unit, as authorized by the Office of Management and Enterprise Services. Printed copies have not been produced. Electronic copies are available through the Department of Capital Asset Management's website (<http://www.dcaom.ok.gov>). Two printed copies were deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

AUDIT OVERVIEW

As of May 31, 2012, the end of the audit period, the Agency had eight cardholders and one approving official. The following chart depicts the Agency's expenditures by purchase card and voucher or wire transfer payment methods for the audit period.



The Agency set their card transaction limits at \$5,000. Therefore, the Agency primarily utilizes their purchase card program to purchase office or business supplies. The agency had 1,165 purchase card transactions greater than \$0.00 during the audit period.



Our population for substantive testwork consisted of 1,165 transactions totaling \$422,489.63. We used the classical variable sampling method with a minimum confidence level of 99% and an expected proportion of errors equal to eight. We randomly selected 37 transactions totaling \$65,790.72 for testwork under \$5,000. We tested 100% of both lodging transactions and transactions over \$5,000. In addition, we judgmentally selected eight transactions. These transactions were tested against attributes selected using auditor judgment.

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.



DETAILED FINDINGS#

FINDING: 12-670-01 – Approving Official

Criteria: State of Oklahoma Purchase Card Procedures §3.6 **State Entity Approving Officials** states in part, “One or more State Entity staff members designated by the State Entity P/Card Administrator to review and approve P/cardholder transactions. State Entity Approving Officials must be at least one level above the P/cardholder’s position...”

State of Oklahoma Purchase Card Procedures §6.8.2 **Entity Approving Official(s) responsibilities**, states in part:

6.8.2.1 State Entity Approving Official(s) shall review the P/Cardholder’s reconciled statement and transaction documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, these Procedures, and sound business practice.

6.8.2.3 To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement. (Signature stamps are not acceptable.)

Condition: During the planning phase of our audit, we noted that an individual was signing off on transactions that did not meet the Approving Official requirements. This individual was not one level higher than the cardholder in the organization.

Later, during substantive testwork, we noted that 11 out of 27 statements (40 %) sampled were not signed or dated by an approving official. Eight of these exceptions were related to the cardholder noted during the planning phase. Out of the remaining memo statements, 5 of 16 transactions were signed but not dated by an approving official.

Our sample was based on 57 purchase card transactions totaling \$121,476.12 out of 1,165 transactions totaling \$422,489.63. Within this sample, there were a total of 27 memo statements and transaction logs reviewed.

Cause: The cardholder and approving official were on the same level within the Agency as the result of a staffing change.



Not dating the memo statement along with the approving official's signature was an oversight.

Effect or Potential Effect: If the approving official is not at least one level higher than the cardholder within the organizational structure of the Agency, the cardholder could have improper influence and concrete authority over the approving official. As a result, there is an increase in the risk for transactions to be unauthorized, unsupported, or unallowable and the cardholder's ability to skew the approving official's decision making process will/could occur and go undetected. In addition, disputes or unresolved issues may not be properly resolved by the approving official. Accordingly, controls in relation to the proper review and approval process of purchase card expenditures and monthly reconciliations could be weakened.

In the absence of approving officials' signatures on memo statements, there is no support showing that the cardholders' memo statement and supporting documentation was independently reviewed for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, procedures and sound business practices. A material internal control weakness could occur without adequate participation from the Agency's approving officials.

Recommendation: We recommend the Agency structure their purchase card program so that Director will serve as the approving official for the cardholder noted in the condition. The cardholder will then have an approving official one level higher in the organization to approve their purchase card transactions.

Establish and implement procedures to ensure that all monthly memo statements are signed and dated by the approving official upon concurrence of the reconciliation performed by the cardholder. Further, we recommend that purchase card management monitor such memo statements to ensure adherence to the established procedures.

Management's Response – Partially Concur

Date: 08/31/2012

Respondent: Business Manager

Response: The Agency has implemented a corrective action plan in which the Director will be signing off on the Purchase Card reports and transactions of the Construction Maintenance Administrator in order to comply with existing law. This issue has been resolved with the corrective action plan below.



Corrective Action Plan

Contact Person: Business Manager

Anticipated Completion Date: 07/31/2012

Corrective Action Planned: The Agency will begin having the Director review and sign transactions of Construction Maintenance Administrator as the approving official in order to maintain the one organization level requirement. This has commenced for July's transactions and will be fully implemented during the August Purchase card cycle.

FINDING: 12-670-02 – Purchase Card Limits

Criteria: The Oklahoma Central Purchasing Act Title 74 § 85.5, L states in part, The State Purchasing Director may authorize the use of a state purchase card for acquisitions within the following parameters:

1. No limit on the amount of the transaction for the following:
 - a. purchases from statewide contracts issued by the State Purchasing Director,
 - b. regulated utilities,
 - c. interagency payments, and
 - d. professional services as defined in Section 803 of Title 18 of the Oklahoma Statutes; and... **[Effective November 1, 2011 - See House Bill 1034]**
2. For any other transaction with a state purchase card, the transaction shall not exceed Five Thousand Dollars (\$5,000.00).

Condition: We tested seven (100%) transactions greater than or equal to \$5,000 totaling \$51,993.14 to determine whether the Agency followed the purchase card limits requirement.

Based upon our substantive testing, we noted that one out of seven transactions exceeded the transaction limit.

TXN NUMBER	ITEM TOTAL SUM	CARD LAST 4 DIGITS	PURCHASE DATE	VENDOR NAME
TXN00020245	\$6,300	7056	2/24/2011	BECKMAN & ASSOCIATES

The purchase card transaction exceeded the single purchase limit of \$5,000 resulting in a prohibited transaction. The transaction was for 16 employees to attend the Beckman Oral Motor training to learn in the field of communicative disorders. The purchase did not require competitive bidding. The vendor does



not accept purchase orders; therefore the purchase card was used.

Cause: To send employees to training.

Effect or Potential Effect: The Agency is not able to effectively fulfill their mission to help children with developmental disabilities when employees are not able to attend the necessary training.

Recommendation: We recommend the State to consider opening the purchase card up to all vendors that will accept the card for payment. Expanding the purchase card limits would create faster payment to vendors, larger rebates to the State Agencies and a more efficient and economical purchasing structure. This would also limit experiences when State Agencies are unable to conduct state business.

We also recommend that limited cardholders have the ability to make purchases above \$5,000 and that cardholders are aware of what type of purchases that can be made above the \$5,000 transaction limit.

Management's Response – Concur

Date: 08/31/2012

Respondent: Business Manager

Response: The agency in deference to existing law will ensure that all purchases of this nature will not be made in this fashion again and the agency will seek the guidance of the Purchase Card Administrator and State Purchasing Director if a situation such as this arises again. All orders over \$5,000 dollars will be flagged for review by the at least one other C.P.O. on staff to ensure full compliance with the law.

Corrective Action Plan

Contact Person: Business Manager

Anticipated Completion Date: 08/31/2012

Corrective Action Planned: Purchase over this threshold will be reviewed ensure that these transactions meet required state laws. Further this will be tracked in the Centers QAPI report annually.

FINDING: 12-670-03 – Inventory

Criteria: State of Oklahoma Purchase Card Procedures § 6.3 Inventory states, "State entities shall establish procedures to ensure that items acquired using the P/Card are added to the State Entity's inventory schedule, when applicable."



Condition: We tested four inventorial transactions totaling \$26,376.53 to determine whether they were added to the inventory schedule. Based upon our substantive testing, we noted that one of four transactions (25%) was not added to the inventory schedule. The purchase was for a hot water heater totaling \$5,840 acquired on December 29, 2011.

As soon as the agency was alerted of this issue, the item was added to inventory.

Cause: Due to the nature of the item, it was overlooked by the Agency.

Effect or Potential Effect: By not consistently reporting inventory: inventory cannot be properly tracked, the total value of inventory is understated and the Agency does not have an accurate reporting of assets maintained.

Recommendation: We recommend the Agency initiate a procedure to ensure every required item is added to inventory.

Management's Response – Concur

Date: 08/31/2012

Respondent: Business Manager

Response: This item was not properly added to the inventory system due to a weakness in the internal system outlined in J.D. McCarty Center policy 6055.4. The Agency failed to identify a trained backup to the Business Managers duties as described in the aforementioned policy.

Corrective Action Plan

Contact Person: Business Manager

Anticipated Completion Date: 08/31/2012

Corrective Action Planned: Correcting this error the Agency has identified the accounts payable accounting technician, as the backup and have provided training. This will enable the agency to ensure that items are added and deleted from inventory on a consistent basis. The Agency will monitor this by tracking the number days it takes to put an item into inventory from the day it is received, and report annually on that timing within the Departments Quality Assurance Performance Improvement Plan.

APPENDIX**METHODOLOGY**

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

EXECUTIVE SUMMARY***Organization***

Mission Statement - To provide a comprehensive program of rehabilitative care to Oklahoma's children (0 to 21) with developmental disabilities; to utilize measurable quality standards and to ensure excellence in health care through a comprehensive, multi-disciplinary approach to service delivery which will enable children with developmental disabilities to maximize their potential and enhance their quality of life; to provide an intensive and comprehensive habilitative environment through direct services, referrals, and consultations that will lead to increased productivity and a quality standard of living throughout adulthood; to increase the physical and emotional well-being of patients and their families through an empowering process of education, training, transitional planning, and community support; to advocate for the needs of children with developmental disabilities by increasing awareness and supplementing habilitative services in all communities as well as pro-actively seeking solutions to expressed concerns; and to facilitate ongoing educational training for staff to ensure continuous quality improvements.

History and Function - The McCarty Center was founded in 1946 by the 40 et 8 of Oklahoma, an honor society within the American Legion. A member of the 40 et 8 had a grandson who had cerebral palsy. The grandfather could not find any entity in the state that could help his grandson to learn to walk or talk. The 40 et 8 took it upon themselves to create a place where children with cerebral palsy could get the physical, occupational, and speech and language therapy they needed to reach their highest level of independence and functionality. Today, the McCarty Center has treated more than seventy different diagnoses in the developmental disability category. In 1948 the McCarty Center became a state agency.

Personnel - 235 (per Oklahoma Agencies, Boards, and Commissions, as of September 1, 2011)

Key Staff

(During the Audit Period)

Vicki Kuestersteffen, Director

Erik Paulson, Business Manager & P/Card Administrator

Sheri Diehm, Contracting & Acquisitions Agent

Vicki Linda Darnell, Accounting Tech



DIRECTOR'S TRANSMITTAL LETTER



John W. Morrison
Administrator

Preston L. Doerflinger
Director and Secretary of Finance and Revenue

Mary Fallin
Governor

**STATE OF OKLAHOMA
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES
DIVISION OF CAPITAL ASSETS MANAGEMENT**

September 12, 2012

TO VICKI KUESTERSTEFFEN, DIRECTOR:

With this letter, we transmit the report of the J.D. McCarty Center purchase card program audit for the audit period December 31, 2010 to May 31, 2012.

We performed the audit in accordance with professional auditing standards to ensure the J.D. McCarty Center's purchase card program administered by the Office of Management and Enterprise Services, Division of Capital Assets Management is conducted in accordance with laws and regulations.

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 Division of Capital Assets Management website, <http://dcam.ok.gov>.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Morrison".

John W. Morrison
Administrator, Division of Capital Assets Management

"Committed to Quality"

Administration, Will Rogers Office Building (2401 N. Lincoln) Suite 206 / P.O. Box 53218 · Oklahoma City, OK 73152-3218
Telephone 405/521-2121, Fax 405/521-6403, www.dcs.state.ok.us