

STATE OF OKLAHOMA

**Department of Central Services
Audit Unit**

Oklahoma Employment Security
Commission
Purchase Card Audit

*Report Released
August 31, 2007*

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

August 31, 2007

**TO THE EXECUTIVE DIRECTOR, JON BROCK AND THE BOARD MEMBERS OF
THE OKLAHOMA EMPLOYMENT SECURITY COMMISSION**

With this letter, we transmit the report of the Oklahoma Employment Security Commission purchase card program for the audit period March 28, 2007 through March 27, 2007.

We performed our review 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

"SERVICE, QUALITY, INTEGRITY"

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OKLAHOMA EMPLOYMENT SECURITY COMMISSION
PURCHASE CARD AUDIT
FOR THE PERIOD MARCH 28, 2006 THROUGH MARCH 27, 2007

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma Employment Security Commission, hereinafter referred to as the "Agency", purchase card program for the period March 28, 2006 through March 27, 2007. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- and, determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program.

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

METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

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EXECUTIVE SUMMARY

Organization

The Oklahoma Employment Security Commission governs local workforce centers throughout the state, collects unemployment insurance taxes from Oklahoma employers, manages research programs that provide current labor market information, provides administrative funds for local fiscal agents and service providers to provide services under the Workforce Investment Act, and is part of a national network of employment service agencies receiving funding from the federal government.

Oklahoma Employment Security Commission

The Agency is made up of 692 classified and 88 temporary employees September 1, 2006. At the time of the audit, there were 7 purchase cardholders and 2 approving officials in the agency.

Board Members:

Rev. W. B. Parker, Chairman
Julius Hilburn
Susan Stoll
Mike Wester
Gayle Harris

Key Personnel:

Jon Brock, Executive Director
Glen Robards, Deputy Director
Levi Onwuchuruba, Chief Financial Officer
Don Armstrong, Purchase Card Administrator

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AUDIT RESULTS

Audit Finding Summary

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

- 27% of the required transaction logs were not present. [Finding 07-290-07](#)
- 18% memo statements reviewed were not signed and dated by the cardholder. [Finding 07-290-07](#)
- 45% of the memo statements could not be reconciled. Reconciliation could not be completed due to either missing receipt documentation or missing transaction logs. Missing receipts totaled \$1,074.41. [Finding 07-290-07](#)
- A cardholder resigned their position with the Agency on March 23, 2006. The card's purchase limit was reduced to \$3.00 on May 9, 2006 (47 day lapse). An additional 91 days (August 6, 2006) lapsed before the Purchase Card Administrator cancelled the card through the purchase card provider. [Finding 07-290-06](#)
- 2 of 7 purchase cards have been used a total of three times in a 12 month period. The total amount of the three transactions was \$1,125.00. Each purchase card has a monthly cycle limit of \$10,000. The Agency has a monthly financial exposure of \$20,000 for cards that are rarely used. [Finding 07-290-06](#)
- Deficiencies related to segregation of duties within the agency's purchase card program were noted. [Finding 07-290-08](#)
- Our initial review of the purchase card files indicated 35 of 75 (47%) transactions were not supported by a receipt. During the remaining course of the audit, the Agency was able to locate all missing receipts. [Finding 07-290-03](#)
- 87% of the receiving documents reviewed were not signed, dated, and annotated 'received'. [Finding 07-290-05](#)
- 36% of the memo statements were not signed and dated by the approving official. [Finding 07-290-04](#)
- 1 of 22 memo statements was signed by an individual who has not attended p-card training. [Finding 07-290-04](#)
- The Agency has not completed revisions for their internal purchasing procedures to include the purchase card procedures since participating in the program. [Finding 07-290-01](#)

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Audit Finding Details

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

Finding No: 07-290-07 Cardholder Responsibility

1. **Criteria:** State of Oklahoma Purchase Card Procedures § 6.4 **Transaction logs**, states in part, “Cardholders shall maintain a transaction log of all p/card purchases, returns, credits and disputed transactions are made. A separate log shall be maintained for each p/card for each cycle...”
2. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility**, states in part, “...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying that the transaction log and memo statement have been reconciled...”
3. State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility**, states in part, “...In reconciling the statement, cardholders should use appropriate documents (i.e., transaction log, purchase receipts, receiving documents, credit receipts) to verify that purchases and returns are accurately listed on the memo statement...”

Condition: We statistically sampled 75 purchase card transactions totaling \$16,864.15 out of 222 transactions totaling \$44,009.00 for review during the audit period. We reviewed all individual card and statewide card transactions during the audit period. Of the 75 transactions, 20 transactions totaling \$4,767.42 were charged to individual cards; 4 transactions totaling \$2,227.40 were charged to statewide contract cards; 51 transactions totaling \$9,869.33 were charged to the travel card. Within this sample, there were a total of 22 memo statements and transaction logs reviewed. We noted the following during substantive testing:

1. There were 6 of 22 (27%) transaction logs were not present.
2. There were 4 of 22 (18%) memo statements were not signed and dated by the cardholder.
3. 10 of 22 (45%) statements could not be reconciled. Reconciliation could not be completed due to either the receipt documentation was missing or the transaction log was missing. Missing receipts were in the total amount of \$1,074.41.

Cause: To some extent the Agency has a breakdown in management controls on the part of the cardholder, approving official and agency management to ensure that each involved individual adheres to all applicable statutes, rules and procedures.

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Effect:

1. If the transaction log is not completed, the memo statements cannot be reconciled according to current requirements. .
2. If the memo statements are not signed and dated by the cardholder, it cannot be verified that they have been reconciled with the supporting documentation.
3. By not properly reconciling the memo statement, it cannot be determined if purchases made by the cardholder were verified as appropriate purchases.

Recommendation: We recommend that the Agency communicate to all Agency cardholders the importance of reconciling the cardholder's statements each cycle, to include maintaining a complete transaction log, and signing the documentation that indicates these procedures were performed by the cardholder. We also recommend the Agency to notify all approving officials of the requirements each cardholder is to perform and the approving officials' responsibility to determine the requirements have been followed. We further recommend that the purchase card program management verify and monitor the progress of performing and documenting the reconciliation requirements.

If the Agency determines cardholders continuously do not comply with the purchase card rules, program officials should appropriately discipline the offenders.

Management's Response

Date: August 14, 2007

Response: Concur- (Chief Financial Officer)

We are in complete agreement with the auditors' recommendation. This corrective action will begin with the revision and DCS approval of the OESC P/Card Purchasing Procedures.

Corrective Action Plan

Anticipated Completion Date: Ongoing

Corrective Action Planned: Immediately upon DCS approval of the OESC P/Card Purchasing Procedures all current p/card account holders and approving officials will be provided with a copy and a copy will be placed on OESC's Intranet. In-class training, with required attendance, will be provided within 45 days. In addition to basic p/card procedures, such training will emphasize the points brought forth in this audit. As OESC's p/card program is expanded, this process will be repeated. Follow-up classes and refresher classes will be provided as needed. An online class will be considered.

Approving Officials will be advised that they are responsible for ensuring that all required documentation, receipts, forms, etc. are signed and notated in the proper manner before they approve and forward documents to the P/Card Administrator.

Any employee who is a p/card account holder shall have a statement to that effect on his/her Performance Evaluation as a critical task. Failure to perform satisfactorily in this accountability shall lead to p/card removal and possible discipline.

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Finding No: [07-290-06](#) Purchase Card Administrator

Criteria: State Purchase Card Procedures § 3.5 **State Entity P/Card Administrator**, states in part, “The state entity individual designated by the entity Chief Administrative Officer to manage, on a day-to-day basis and in detail, the p/card program for the entity...”

State Purchase Card Procedures § 3.6 **State Entity Approving Officials** states, “One or more agency staff members designated by the State Entity P/Card Administrator to review and approve cardholder transactions.”

State Purchase Card Procedures § 6.9.3 **Entity retention of statements**, states in part, “Entity p/card procedures shall designate where state entity approving officials shall retain reconciled statements and supporting documents and to make available upon request by OSF and/ or DCS for review and audit purposes...”

State Purchase Card Procedures § 5.4.3 **Voucher documentation** states in part, “...Therefore, detail documentation (i.e., purchase receipts, receiving documents, return receipts, transaction logs) supporting p/card transactions shall be retained by the state entity and made available upon request (see also 6.9.3).”

The United States General Accounting Office, GAO/AIMD-00-21.3.1, Internal Control Standards, **Control Activities**, states in part:

...Control activities occur at all levels and functions of the entity. They include a wide range of activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation...

The United States General Accounting Office, GAO/AIMD-00-21.3.1, Internal Control Standards, **Control Activities Specific for Information Systems General Control**, states in part, “...Access security control protects the systems and network from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel...”

Condition: The Oklahoma Employment Security Commission Purchase Card Administrator is responsible for managing and monitoring the Agency’s purchase card program. The purchase card program had seven cardholders (one of which is the P-Card Administrator) and two approving officials (one of which is the P-Card Administrator) for the audit period reviewed of March 28, 2006 to March 27, 2007. Total dollar volume of purchase card transactions for the audit period was \$44,009.00 and 222 purchase card transactions. Based upon our review of the Agency’s internal controls for the purchase card program and substantive testing, we have determined that the Purchase Card Administrator for the Agency has not managed the purchase

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card program efficiently and effectively. Determination is based on audit findings reported during this audit.

1. The Agency began participation in the purchase card program in July 2004. The Agency has not submitted revised internal purchasing procedures which include state entity p/card procedures to the Department of Central Services for review and approval.
2. Cardholder #164724 resigned their position with the Agency on March 23, 2006. The card's purchase limit was reduced to \$3.00 on May 9, 2006 (47 day lapse). An additional 91 days (August 6, 2006) lapsed before the P-Card Administrator cancelled the card through Pathway Net. The login ID for this card has not been locked.
3. 10 of 22 (45%) reconciliations of the memo statements by cardholders were improperly performed. Either receipt documentation was missing or the transaction log was missing. P-Card Administrator was the approving official for 6 (60%) of the 10 reconciliations and the cardholder for the other 4 reconciliations.
4. 8 of 22 (36%) memo statements were not signed by an approving official. Seven of the memo statements were for the P-Card Administrator and the P-Card Administrator was the approving official for the remaining memo statement.
5. 4 of 22 (18%) memo statements were not signed by the cardholder. The P-Card Administrator is the approving official for the cardholder.
6. 2 of 7 (29%) purchase cards have been used a total of three times in a 12 month period. The total amount of the three transactions was \$1,125.00. Each purchase card has a monthly cycle limit of \$10,000. The Agency has a monthly financial exposure of \$20,000 for cards that are rarely used.

Cause: The P-Card Administrator is not properly maintaining records or is not fully aware of all the requirements for operating an effective and efficient purchase card program.

Effect: By not managing the p/card program in detail and daily, the P/Card Administrator creates an environment where there are no established controls to ensure the program is operating efficiently and effectively. The P/Card Administrator also creates the opportunity for misuse and abuse of the purchase card in the absence of compensating controls.

Recommendation: We recommend the Agency evaluate the effectiveness and impact of the current P/Card Administrator in administering the p/card program of the Agency. Changes to program and administration of the p/card program should be made accordingly.

This finding will be forwarded to State Purchase Card Administrator and the State Purchasing Director to review the agency's corrective action plan.

Management's Response

Date: August 14, 2007

Response: Partially Concur- (Chief Financial Officer)

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Although the purchases were reasonable and authorized, we agree, in part, with the Auditor's findings, and changes will be made as outlined below. We do not believe that the problem lies with the OESC P/Card Administrator. OESC is completely federally funded and funds are reduced each fiscal year. For this reason, vacant administrative positions are seldom filled. Because the P/Card program was an important new program, we handed administration of this program to one of our most responsible administrators, one who puts far too many hours into a work week.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: Condition #1: The OESC internal P/Card procedures were written and approved by management. The P-card administrator was unaware that they had to be approved by DCS. As a result of this audit, these internal procedures will further reviewed, revised and submitted to DCS for approval.

Condition #2: The 47 day lapse between the employee's resignation and the date the card's purchase limit was reduced may seem inexcusably long, but this is how long it took the outstanding transactions to be completed. The P/Card Administrator states that the reason he did not cancel the P/Card was that some of the goods ordered on this State Contract P/Card had yet to be received. The cardholder had provided management with a listing of those transactions where OESC was awaiting receipt of the goods. The P/Card Administrator was unaware of how to lock the login ID for a P/Card. The login ID for this former employee has now been locked. OESC internal purchasing policy will now include a provision requiring surrender of a departing employee's P/Card and immediate locking of the login ID.

In response to this audit, OESC is in the process of reorganizing the OESC P/Card Program. The OESC Purchase Card Administrator will no longer be a P/Card Account Holder. These changes will be incorporated into the OESC internal purchasing card procedures.

Condition #3: In response to this audit, OESC is in the process of reorganizing the OESC P/Card Program. The OESC Purchase Card Administrator will no longer be a P/Card Account Holder. This will allow the Purchase Card Administrator to enforce the OESC internal purchasing card procedures and ensure compliance with the DCS P/Card Procedures. The Purchase Card Administrator has also received little assistance from other units in the Finance/Administration Division. OESC intends to broaden its use of the P/Card Program. This audit was timely. It provides OESC with an opportunity to improve its processes before adding new users. OESC will use the Training unit, the OESC Intranet, and Human Resources to ensure that policies, forms and other resources are available to users, and that departing employees are immediately brought to the attention of the P/Card Administrator.

Condition #4: In response to this audit, OESC is in the process of reorganizing the OESC P/Card Program. The OESC Purchase Card Administrator will no longer be a P/Card Account Holder. This will provide the OESC Purchase Card Administrator more

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time to attend to P/Card administrative duties and remove any need to obtain approval for his own p/card purchases.

Condition #5: In response to this audit, OESC is in the process of reorganizing the OESC P/Card Program. The OESC Purchase Card Administrator will no longer be a P/Card Account Holder. This will provide the OESC Purchase Card Administrator more time to attend to P/Card administrative duties.

Condition #6: When setting up OESC's P/Card program, OESC was unaware of how or how much the p/card would be used. One p/card was provided to the Executive Division which is comprised of OESC's top management personnel. That card was rarely used and, as a result of this audit, will be reduced to \$1,500.00 until activities with the card improves. Another card was provided to the Legal Division who needed it to pay court costs. In the past they have used in more frequently, but recently they have not. Effective August 10, 2007, the monthly cycle limit on that card has been reduced to \$1,500.

As a result of this audit, OESC's internal purchasing card procedures will provide for a regular review of monthly cycle limits on all p/cards.

Finding No: [07-290-08](#) Segregation of Duties

Criteria: The Codification of Statements on Auditing Standards AU § 319.110 (9), **Segregation of duties**, states in part:

Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

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

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

Condition: We noted the following during our testwork:

The Agency has deficiencies in the segregation of duties as it relates to the purchase card program. Based on our review, one individual within the agency has access to or performs the following duties:

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- Assumes the duties of Cardholder/Approving Official/Purchase Card Administrator
- Administers the Purchase Card Program
- Has access to and maintains all purchase cards and account information
- Has authority to change cardholder spending limits
- Maintains all purchase card records and information
- Prepares the purchase card voucher
- And, establishes authority orders

Cause: The Agency has not identified other employees who could possibly be used to segregate the duties of the purchase card program. As such, it is difficult to appropriately segregate duties.

Effect: One individual can control all key aspects of a transaction or event. With a lack of compensating controls, the existing controls create the opportunity for the abuse of the purchase card that could go undetected by agency management.

Recommendation: We recommend the Agency: separate the duties of; maintaining the purchase card program, processing the transaction, recording the transaction, and reviewing the transaction. Due to the size of the Agency, we recommend that the purchase card administrator for the agency not be a cardholder and possibly an approving official. Separation of these duties would improve and increase the effectiveness of management's control activities.

Management's Response

Date: August 17, 2007

Response: Concur (Chief Financial Officer)

The purchasing card administrator made purchases that were pre-authorized. Hence the preventive controls were very effective. However, in response to this audit, the OESC Purchase Card Administrator will no longer be a P/Card Account Holder. This will allow the Purchase Card Administrator to enforce the OESC internal purchasing card procedures and ensure compliance with the DCS P/Card Procedures.

Corrective Action Plan

Anticipated Completion Date: October 1, 2007

Corrective Action Planned: The OESC Purchase Card Administrator will no longer be a P/Card Account Holder effective October 1, 2007.

Finding No: [07-290-03](#) Missing Receipts

Criteria: State of Oklahoma Purchase Card Procedures § 6.5 **Receipts for purchase**, states

Receipts shall be obtained for purchases. The receipt shall be given an itemized and detailed description of the purchase. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation, confirmation number, or packing slip should be obtained. If neither

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a receipt, confirmation information, nor packing slip is available for a transaction, documentation shall be attached to the transaction log notating all attempts made to obtain a receipt from the merchant. In the latter situation, cardholders should consider future use of another merchant who will provide a receipt or confirmation information. If a receipt is lost, the cardholder shall note the loss on the transaction log and complete a Lost Receipt Report. The Lost Receipt Report shall be included in the cardholder's reconciliation submission. Repeated loss of receipts may be grounds for discontinuing a cardholder's p/card use or other disciplinary or legal action.

State of Oklahoma Purchase Card Procedures § 5.4.3 **Voucher documentation**, states in part, "...Therefore, detail documentation (i.e., purchase receipts, receiving documents, return receipts, transaction logs) supporting p/card transactions shall be retained by the state entity and made available upon request..."

State of Oklahoma Purchase Card Procedures § 6.8.1 **Processing returns, credits, and disputes**, states in part, "... Documentation of the credit receipt should be issued by the merchant. Keep on file all documentation pertaining to returns, credits, and disputes for reconciliation to the memo statement..."

State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility**, states in part, "...In reconciling the statement, cardholders should use appropriate documents (i.e., transaction log, purchase receipts, receiving documents, credit receipts) to verify purchases and returns are accurately listed on the memo statement..."

Condition: We statistically sampled 75 purchase card transactions totaling \$16,864.15 out of 222 transactions totaling \$44,009.00 for review during the audit period. We reviewed all individual card and statewide card transactions during the audit period. Of the 75 transactions, 20 transactions totaling \$4,767.42 were charged to individual cards; 4 transactions totaling \$2,227.40 were charged to statewide contract cards; 51 transactions totaling \$9,869.33 were charged to the travel card. Within this sample, there were a total of 22 memo statements and transaction logs reviewed. Based on our substantive testing, we noted the following:

- Our initial review of the purchase card files indicated 35 of 75 (47%) transactions were not supported by a receipt. During the remaining course of the audit, the P/Card Administrator was able to locate all the missing receipts.

During our review and testing of the Agency's internal controls, we also noted the following:

- A reconciliation was not properly performed by the cardholder (card #363954) due to a missing receipt dated 1/26/2007 in the amount of \$159.00 for the January 2007 statement.
- The P-Card Administrator did not indicate that a Lost Receipt Report would be completed if a receipt was unable to be obtained from the vendor. P-Card Administrator was unaware of the availability of the Lost Receipt Report in such instances.

Cause: Cardholders are not consistently obtaining and maintaining receipts for purchase card transactions.

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Effect: By not providing documentation to support a purchase, we were unable to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid governmental purposes. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

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

Management's Response

Date: August 14, 2007

Response: Concur (Chief Financial Officer)

Although the purchases were reasonable and authorized, we completely agree that they were not adequately documented. Effectively immediately, steps are being taken to obtain the necessary documentation and a report will be provided to the auditors in a timely manner.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: Auditors recommendations will be incorporated into the OESC revised internal purchasing procedures.

Condition #1: The CFO is already in contact with the Auditors to obtain a listing of the remaining transactions not supported by a receipt. Those receipts will either be found or Lost Receipt Report will document the transaction.

Condition #2: Effective immediately, and in the future no reconciliation shall be approved by an approving official until all supporting documentation providing sufficient detail for the transaction has been submitted.

Condition #3: On August 9, 2007, we checked and could not find the Lost Receipt Report on the DCS website. We could not find it in the Central Purchasing Rules effective July 25, 2007. We did find a form titled "Missing Receipt Form" on page 28 of the online P-Card Procedures page of the Central Purchasing website. We contacted State Purchase Card Administrator of DCS and she verified that it was the form we were looking for. In the future, this form will be used on those rare occasions where a receipt cannot be obtained through diligent efforts on the cardholder's part. Repeated use of this form by a cardholder may lead to removal of cardholder privileges.

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Finding No: [07-290-05](#) - Receipts Not Signed and Dated

Criteria: State of Oklahoma Purchase Card Procedures § 6.7.1 **Goods or services received at the time of purchase** states, “The receipt for purchase also serves as the receiving document. It should be annotated ‘Received’ and signed and dated by the receiving employee. The combination purchase receipt/receiving document shall be attached to the transaction log.”

State of Oklahoma Purchase Card Procedures § 6.7.2 **Goods or services received subsequent to the time of purchase** states, “The document accompanying the goods or services (such as a packing slip or service order) serves as the receiving document and is process as described in 6.7.1 above.”

United States General Accounting Office Internal Control Standards for Internal Control in the Federal Government GAO/AIMD-00-21.3.1 **Segregation of Duties** states in part, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any

Condition: We statistically sampled 75 purchase card transactions totaling \$16,864.15 out of 222 transactions totaling \$44,009.00 during the audit period for review. Of the 75 transactions, 20 transactions totaling \$4,767.42 were charged to individual cards; 4 transactions totaling \$2,227.40 were charged to statewide contract cards; 51 transactions totaling \$9,869.33 were charged to the travel card. Within this sample, there were a total of 22 memo statements and transaction logs reviewed. We noted the following during our substantive testing:

- We noted 58 (87%) of 67 (75 – 8 missing receipts) receiving documents were not signed, dated, and annotated ‘received’.

Cause: To some extent, the Agency has a breakdown in management controls on the part of the cardholder, approving official and agency management to ensure that each involved individual adheres to the receiving documents requirements.

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

Recommendation: We recommend the Agency:

- Communicate to all cardholders the importance of properly maintaining receiving documentation.
- Develop and implement a process for all individuals receiving goods that ensures that the receiving documents is properly signed, dated, and annotated ‘received’.

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We also recommend the Agency create procedures for the periodic review of purchase card supporting documentation to ensure compliance with purchase card procedure requirements.

We further recommend the Internal Audit Department include as part of their audit process a review of receipts and supporting documentation for all purchase card transactions.

Management's Response

Date: August 14, 2007

Response: Concur (Chief Financial Officer)

Although the purchases were reasonable and authorized, we agree completely with the audit recommendations. Effectively immediately, we will ensure that the approval process followed at OESC is in complete compliance with DCS P/Card Purchasing Procedures.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: Auditors recommendations will be incorporated into the OESC revised internal purchasing procedures.

Effective immediately, we communicated to all cardholders the requirements and the importance of properly maintaining receiving documentation. Approving Officials have been notified of the requirement for receiving documents and informed that ensuring proper documentation of receiving documents is a responsibility of their position and that they are not to approve transaction logs/memo statements until receiving documents are properly notated.

Internal Audit has agreed to review a small sample of P-Card purchases on a quarterly basis to ensure compliance.

Condition #1: The fifty-eight (58) receiving documents plus the eight (8) missing receipts will be properly notated in accordance to DCS P/Card Procedures.

Finding No: [07-290-04](#) - Approving Officials

Criteria: State of Oklahoma Purchase Card Procedures § 6.9.2 **Entity approving official(s) responsibility**, states:

SW Contract p/card and Travel p/card Entity Approving Officials must review and approve the cardholders' purchases daily. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase. State Entity Approving Official(s) shall review the regular p/card, Statewide Contract p/card, or Travel p/card holder's reconciled memo statement and

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supporting 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. Any issue that cannot be resolved between the State Entity Approving Official and the cardholder shall be brought to the attention of the cardholder's immediate supervisor and the State Entity P/Card Administrator for resolution. To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.

State of Oklahoma Purchase Card Procedures § 3.6 **State Entity Approving Officials** states, "One or more agency staff members designated by the State Entity P/Card Administrator to review and approve cardholder transactions."

Condition: We statistically sampled 75 purchase card transactions totaling \$16,864.15 out of 222 transactions totaling \$44,009.00 for review during the audit period. We reviewed all individual card and statewide card transactions during the audit period. Of the 75 transactions, 20 transactions totaling \$4,767.42 were charged to individual cards; 4 transactions totaling \$2,227.40 were charged to statewide contract cards; 51 transactions totaling \$9,869.33 were charged to the travel card. Within this sample, there were a total of 22 memo statements and transaction logs reviewed. We noted the following during substantive testing:

- 8 (36%) of 22 memo statements were not signed and dated by the approving official.
- 1 (5%) memo statement of 22 memo statements was signed by an individual who has not attended p-card training.

Cause: There was a misunderstanding on the part of management.

Effect or Potential Effect: 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 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. We further recommend that purchase card management monitor such memo statements to ensure adherence to the established procedures.

Management's Response

Date: August 14, 2007

Response: Concur (Chief Financial Officer)

Although the purchases were reasonable and authorized, we agree completely with the audit recommendations. Effectively immediately, we will ensure that the approval

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process followed at OESC is in complete compliance with DCS P/Card Purchasing Procedures.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: Auditors recommendations will be incorporated into the OESC revised internal purchasing procedures.

Condition #1: The eight (8) memo statements that were not signed and dated by the Approving Official are in the process of being reviewed at this time. They will be signed after review.

Condition #2: Our purchasing process requires the department director to authorize purchases from their department. We will make sure that the approving official also signs the memo statement in the future.

Finding No: [07-290-01](#) - Internal Purchasing Procedures

Criteria: State of Oklahoma Purchase Card Procedures (dated 3/28/2001) § 1.6 **Conditions of participation** states in part, "...State entity p/card procedures shall be made a part of their internal purchasing procedures."

State of Oklahoma Purchase Card Procedures (dated 3/28/2001) § 4.2 **Implementation Submissions** states in part, "State entities are to prepare and submit the following documents... Entity P/Card procedures to the Chief, Audit and Training Branch, Central Purchasing Division (DCS)..."

Condition: The Oklahoma Employment Security Commission began participating in the Oklahoma Purchase Card Program in July 2004. As of May 1, 2007, the Agency has not completed revisions for their internal purchasing procedures to include the purchase card program and submit them for approval to the Department of Central Services.

Cause: The Agency submitted purchasing procedures to Department of Central Services but was unaware they were required to be formally approved.

Effect or Potential Effect: Requirements for condition to participate are not met.

Recommendation: We recommend Oklahoma Employment Security Commission submit revised internal purchasing procedures that include purchase card procedures to the Department of Central Services for approval.

Management's Response

Date: August 14, 2007

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Response: Concur (Chief Financial Officer)

The Oklahoma Employment Security Commission (OESC) will review its internal purchasing procedures, including purchase card procedures, in light of the findings of this audit and the Department of Central Services (DCS) revised rules and make any and all needed changes. OESC will submit the revised internal purchasing procedures to DCS for approval.

Corrective Action Plan

Anticipated Completion Date: October 15, 2007

Corrective Action Planned: : OESC will review its internal purchasing procedures, including purchase card procedures, in light of the findings of this audit and DCS revised rules and make any and all needed changes. OESC will submit the revised internal purchasing procedures to DCS for approval. If immediate approval is not possible, OESC will continue working with DCS until approval is granted.

OVERALL CONCLUSION

Based upon our audit, we have determined the Oklahoma Employment Security Commission has not materially complied with the objectives reviewed. The audit objectives were:

- determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program.
- determine if the agency's purchase card program is in compliance with laws and regulations administered by the Department of Central Services; and
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards.

The Oklahoma Employment Security Commission has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.

Overall Managements Response: See Attachment 1

Auditors Response: The auditors provided and discussed all findings with the agency's purchase card administrator on May 15th, 2007.

Oklahoma Employment Security Commission



Jon Brock, Executive Director

Brad Henry, Governor

Representing Employers
Julius Hilburn, Commissioner
Gayle Harris, Commissioner

Representing the Public
Rev. W. B. Parker, Chairman

Representing Employees
Mike Wester, Commissioner
Susan Stoll, Commissioner

August 30, 2007

JoRay McCoy, Chief Auditor
Department of Central Services

Dear Mr. McCoy,

Thank you for the opportunity to provide an overall response to your Purchase Card Audit report released on August 29, 2007. I received your revised draft about 11 am on August 30, 2007, and you have asked me to provide a response by 4:30 pm today.

I strongly disagree with your overall conclusions. Our control environment and specific preventive controls designed to prevent unauthorized purchases are effective in relation to the purchase card program. For an audit that was initiated on August 26, 2006 and concluded on August 29, 2007, no finding of inappropriate expenditure was uncovered by your auditors.

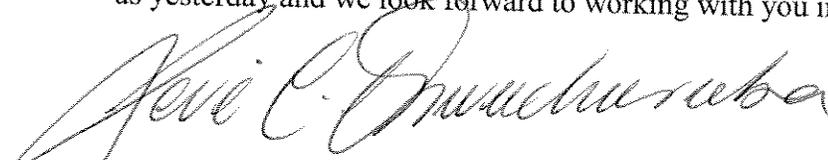
As I stated yesterday (August 28, 2007), your auditors never discussed any of the findings or concerns with me during the field work. If they had, the majority of the findings that you included in your report would have been resolved. Your statement yesterday that from now on, your auditors have been instructed to make sure that this does not happen again is highly appreciated.

- You agreed yesterday that your auditors did not find any misspending by any of OESC Purchase Card Holders. This is due to the fact that OESC has adequate controls in place to ensure that all purchases are pre-authorized, reasonable and necessary. Your finding of lack of segregation of duties is accurate and appreciated. However, I wish your auditors paid more attention to the Agency's control environment and methods of operation especially the preventive controls established by management to ensure that only proper transactions are executed in the first place.
- Seven of the eleven findings refer to the lack of adequate documentation relating to transaction logs, memo statements, receipts, and receiving documents. All of the said missing receipts and receiving documents were provided to you during the exit conference. If the exit conference occurred at the end of the field work, these finding would not have made it to the report. You also indicated that your new policy will abolish some of these requirements. We applaud your new direction because some of your Agency's current requirements have made it impossible to achieve the

efficiencies of using Purchasing Cards. Purchase cards are used as a means of improving procurement efficiency by reducing or eliminating paperwork associated with requisitions, purchase orders and invoices for acquisition transactions. If it only replaces purchase orders with other documents as is currently the case, the whole purpose is defeated.

- Our policy is updated. We will wait for the changes that you indicated yesterday. Any new changes by your Agency will be incorporated in our policy and submitted to you for approval.

We will continue to review and improve our processes to strengthen current preventive measures. Currently, less than half of 1% of our expenditures is Purchase Card transactions and we do not see it increasing unless changes are made by your Agency to encourage efficiency without compromising control. Again, thank you for visiting with us yesterday and we look forward to working with you in the future.



Levi C. Onwuchuruba, CFO
Oklahoma Employment Security Commission