



STATE OF OKLAHOMA

**Department of Central Services
Audit Unit**

**OKLAHOMA LOTTERY
COMMISSION
Purchase Card Audit**

*Report Released
May 29, 2007*

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

TABLE OF CONTENTS

PURPOSE, OBJECTIVE AND SCOPE	1
METHODOLOGY	1
EXECUTIVE SUMMARY	2
AUDIT RESULTS	3
OVERALL CONCLUSION	15

This publication is printed and issued by the Department of Central Services, as authorized by the Department of Central Services. Pursuant to 74 O.S. 3105, 5 copies have been prepared and distributed at a cost of \$3.15. Copies have been deposited with the Publications Clearing House of the Oklahoma Department of Libraries.

PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the Oklahoma Lottery Commission, hereinafter referred to as the "Agency", purchase card program for the period of July 28, 2005 through July 27, 2006. The purpose of this report is to communicate the results of the audit.

The objectives of this audit were 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;
- determine if the Agency has implemented internal controls and if the Agency's controls are operating effectively in relation to the purchase card program; and
- determine the relative cost benefits the purchase card program has on the Agency.

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

METHODOLOGY

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

EXECUTIVE SUMMARY

Organization

The Oklahoma Lottery Commission was created following approval of the voters on November 2, 2004. The Commission supervises and administers the operation of the lottery. The Commission is governed by a board of trustees composed of seven (7) members appointed by the Governor with the advice and consent of the Oklahoma Senate.

The mission of the Oklahoma Lottery Commission is to maximize revenues for public education through the creation and marketing of fun and entertaining products consistent with the highest levels of service, integrity, and public accountability.

The Agency is made up 39 fulltime employees and four (4) interns. At the time of the audit, there were three (3) purchase card cardholders and two approving officials for the Agency.

Board of Trustees

James Orbison, Chair
Ron Norick, Vice Chair
Linda Dzialo, Secretary
Thomas F. Riley, Jr., Treasurer
Cindy Ball, Member
George R. Charlton, Jr., Member
William Paul, Member

Key Personnel

Jim Scroggins, Executive Director
Rollo Redburn, Director of Administration
Jim Bratkovich, Administrative Officer & Purchase Card Administrator

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Oklahoma Lottery Commission an estimated \$17,793.29 in administrative costs for the audit period July 28, 2005 to July 27, 2006. This is an average estimated savings of \$68.70 per transaction and represents 34% (\$17,793.29 estimated savings/ \$51,799.25 total purchase card expenditures) of the total dollars expended using the purchase card. In addition to the administrative savings, the Agency was able to use the purchase card to make purchases on-line and from a wider variety of merchants.

Audit Finding Summary

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

- 10 of 21 (48%) memo statements were signed by an individual serving as an approving official but has not attended mandatory purchase card training. [Finding 07-435-02](#)
- 8 of 8 (100%) travel purchase card transaction logs were not initialed and dated by cardholder's approving official. [Finding 07-435-02](#)
- 1 of 21 (5%) memo statements was signed by an individual serving as an approving official but was not one level higher than the cardholder. [Finding 07-435-02](#)
- An approving official has not signed a Purchase Card Employee Agreement form. Finding [07-435-02](#)
- 11 of 19 (58%) purchases applicable to merchant preference requirements were made outside of merchant preference requirements. [Finding 07-435-03](#)
- 17 additional purchases applicable to merchant preference requirements were made outside of merchant preference requirements. [Finding 07-435-03](#)
- Two inventoriable items were not initially found to be reported on the Agency's inventory schedule. [Finding 07-435-01](#)
- Purchase card number was given to individuals other than the cardholder to pay for on-line purchases. [Finding 07-435-01](#)
- A cardholder for the Agency did not maintain their transaction log. [Finding 07-435-01](#)
- Letter designating the Agency's Purchase Card Administrator had not been submitted to the State Purchase Card Administrator. [Finding 07-435-01](#)
- 31 of 62 receiving documents were not properly dated, signed, and 'annotated' received. [Finding 07-435-04](#)
- 2 of 21 (10%) memo statements were not signed by the cardholder. [Finding 07-435-04](#)

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

- A payment for regular purchase card and travel purchase card transactions was made as a single payment. [Finding 07-435-04](#)

Audit Finding Details

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

Finding 07-435-02: Approving Official

Criteria:

1. State of Oklahoma Purchase Card Procedures § 3.9. **Training**, states in part, "Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued p/cards..."
2. State of Oklahoma Purchase Card Procedures § 6.9.1. **Cardholder responsibility**, states in part, "SW Contract p/card and Travel p/cardholders must obtain approval for purchases daily from their Entity Approving Official. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase..."
3. State of Oklahoma Purchase Card Procedures § 6.9.1. **Cardholder responsibility**, states in part, "... All cardholders (including Entity P/card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position."
4. State of Oklahoma Purchase Card Procedures § 3.10. **Purchase Card Employee Agreement**, states in part, "Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards..."

Condition: During the audit period reviewed (July 28, 2005 to July 27, 2006), the Agency had a total of \$51,799.25 in regular and travel purchase card transactions (total of 294 purchase card transactions). There were 21 memo statements and transaction logs (8 travel card and 13 regular purchase card) for the audit period reviewed. We noted the following during our substantive test work:

1. 10 of 21 (48%) memo statements were signed by an individual acting in the capacity of an approving official who has not attended purchase card training.
2. 8 of 8 (100%) travel purchase card transaction logs were not initialed by the cardholder's approving official indicating approval of the purchase card transaction.
3. 1 of 21 (5%) memo statements was signed by an individual acting in the capacity of an approving official that was not one level above the cardholder's position.

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

4. Individual acting in the capacity of an approving official for the Director of Administration has not signed a Purchase Card Employee Agreement form.

Cause:

1., 3., & 4. As one of the first 4 employees for the Agency, the Director of Administration had been through p-card training when he was the Budget Director for the State and had a p-card for several years at another state agency. Travel purchase cards were later added to the purchase card program for two employees. These employees attended purchase card training. A regular purchase card was then added for an employee. All participants in the Agency's purchase card program have attended all purchase card training and review purchases made on the purchase cards. Per Director of Administration, "We have no need to nor desire to add others to this process, since we prefer to keep them fairly tightly under control. As director of the agency, the Director reviews all of the expenditures, including the Director of Administration's p-card expenditures. In addition to the Director's review of the Director of Administration's use of his p-card, the P-Card Administrator reviews the use of the card. We feel we are more than adequately covered on the review of p-card expenditures and on the amount of time spent in the p-card training classes. Requiring the Director of the Agency to attend this kind of training is unnecessary and requiring us to spread the cards to lower levels of the Agency is in our opinion a weakening of our internal control of expenditures."

2. The process for a signed, separate travel request to support airline ticket purchases had not been initiated. The Agency considers the initialing of the travel transaction log as not providing any additional controls.

Effect or Potential Effect:

1. ,3. & 4. By not having an individual acting in the capacity of an approving official attend mandatory purchase card training and sign a Purchase Card Employee Agreement form, the individual is not cognizant of their duties and responsibilities and may not fully understand the operation of the purchase card program. Further by not designating an approving official that is one level above the cardholder's position, undue influence could be exerted over the cardholder providing an opportunity for unauthorized purchases to be made.
2. By not initialing the transaction log for each travel purchase made, there is no written documentation that the acquisition was approved by the cardholder's designated approving official.

Recommendation: We recommend the Agency:

1. ,3. & 4. Enroll the individual in the next available purchase card training. If the individual is unable or unwilling to attend the purchase card training, the cardholder who is impacted should relinquish their purchase card. We also recommend the Agency develop a process whereby when individuals are selected as participants in the purchase card program the Purchase Card Administrator initiates the enrollment process which includes enrolling the cardholder and approving official in the mandatory purchase

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

card training and preparation of all necessary forms. Upon completion of training, all forms should be completed and finalized by the Purchase Card Administrator, approving official, and cardholder prior to the assumption of duties and responsibilities. The process developed and implemented should include the identification of individuals within the Agency who are at least one level above the cardholder.

2. Communicate to applicable cardholders and approving officials the process for recording and approving travel purchase card transactions on transaction logs. We further recommend the Agency implement a process whereby the transaction log is initialed and dated by the cardholder's designated approving official.

Management's Response

Date: 05/21/2007

Respondent: Director of Administration

Response: Partially Concur

1, 3 and 4. The Director has not been to the Purchase Card Training sessions. We feel that the "Effect or Potential Effect" you cite is extremely overstated because we believe we have more than adequate review of the transactions. We have 3 cardholders and an Administrator who have all been to the training and who review the transactions for appropriate compliance. The Director reviews every expenditure made by the agency, purchase card or non-purchase card. However, the Director of Administration will turn back in his purchase card and we will send another employee to training. Our current program Administrator will remain and the Director of Administration will be the Approving Official to comply with program requirements.

2. Our internal process requires that a separate travel request be signed by the requestor and approved by the agency director to support ticket purchases. These transactions are all approved in advance and all the logs receive more than adequate review. We feel that what we are doing accomplishes the requirement that approval be given and we are doing so in a more efficient manner. However, we will start requiring that a manual travel purchase log be kept and that purchases be initialed by the approving official as required by the program.

Corrective Action Plan

Anticipated Completion Date: Completed

Corrective Action Planned:

1, 3 and 4. The Director of Administration will turn back in his purchase card and we will send another employee to training. Our current program Administrator will remain and the Director of Administration will be the Approving Official to comply with program requirements.

2. We will start requiring that a manual travel purchase log be kept and that purchases be initialed by the approving official as required by the program.

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

Finding 07-435-03: State Use

Criteria: State of Oklahoma Purchase Card Procedures § 6.2.5. **Merchant preferences**, states in part, "P/card purchases shall comply with the following preferences for certain merchants or types of contracts. The following are listed in the order of preference: State Use Committee, Oklahoma Corrections Industries (OCI), and Mandatory statewide contracts."

Condition: During the audit period reviewed (July 28, 2005 to July 27, 2006), there were 51 (22%) regular purchase card transactions tested out of a total of 228 regular purchase card transactions (\$16,600 / \$38,423.09 = 43%). Of these 51 purchase card transactions, merchant preference requirements applied to 19 purchase card transactions. Of these 19 purchase card transactions, 11 purchase card transactions (58%) were made outside of merchant preference requirements. Details are noted below:

<u>Purchase Date</u>	<u>Item</u>	<u>Total Open Market Cost</u>	<u>Total Statewide Contract Cost</u>	<u>Cost (Savings)</u>
08.03.2005	Office Supplies	\$3.75	\$5.85	(\$2.10)
10.10.2005	Office Supplies	\$81.00	\$123.90	(\$42.90)
11.15.2005	Office Supplies	\$69.99	\$67.00	\$2.99
11.16.2005	Office Supplies	\$164.81	\$319.86	(\$155.05)
11.18.2005	Office Supplies	\$237.82	\$336.33	(\$98.51)
12.09.2005	Office Supplies	\$34.44	\$42.55	(\$8.11)
12.14.2005	Office Supplies	\$52.35	\$117.15	(\$64.80)
12.21.2005	Office Supplies	\$23.83	\$38.53	(\$14.70)
01.18.2006	Office Supplies	\$319.20	\$559.20	(\$240.00)
01.19.2006	Office Supplies	<u>\$65.00</u>	<u>\$47.92</u>	<u>\$17.08</u>
		<u>\$1,052.19</u>	<u>\$1,658.29</u>	<u>(\$606.10)</u>

Because of the high exception rate noted on the sample tested, the total regular purchase card transaction population was examined to determine if further instances of purchases outside of merchant preference requirements were made. There were 17 additional transactions that were identified that were made outside of merchant preference requirements. Details are noted below:

<u>Purchase Date</u>	<u>Item</u>	<u>Total Open Market Cost</u>	<u>Total Statewide Contract Cost</u>	<u>Cost (Savings)</u>
09.28.2005	Office Supplies	\$128.27	\$119.89	\$8.38
10.10.2005	Office Supplies	\$87.76	\$167.60	(\$79.84)
10.13.2005	Office Supplies	\$13.94	\$7.25	\$6.69
10.14.2005	Office Supplies	\$21.75	\$24.31	(\$2.56)
10.17.2005	Office Supplies	\$56.44	\$30.20	\$26.24
10.18.2005	Office Supplies	\$11.98	\$11.04	\$0.94

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

10.20.2005	Office Supplies	\$40.17	\$47.03	(\$6.86)
11.04.2005	Office Supplies	\$78.88	\$22.26	\$56.62
11.07.2005	Office Supplies	\$10.88	\$21.90	(\$11.02)
11.10.2005	Office Supplies	\$35.29	\$41.88	(\$6.59)
11.15.2005	Office Supplies	\$182.15	\$188.34	(\$6.19)
11.30.2005	Office Supplies	\$11.25	\$17.55	(\$6.30)
12.07.2005	Office Supplies	\$240.11	\$210.22	\$29.89
12.13.2005	Office Supplies	\$63.29	\$99.23	(\$35.94)
12.20.2005	Office Supplies	\$13.77	\$17.34	(\$3.57)
01.03.2006	Office Supplies	\$75.99	\$92.00	(\$16.01)
01.18.2006	Office Supplies	\$13.20	\$8.76	\$4.44
		<u>\$1,085.12</u>	<u>\$1,126.80</u>	<u>(\$41.68)</u>

Cause: During the time purchases were made, the Agency was in its infancy. The necessity for expediency to become an Agency may have taken priority over what items were listed on statewide mandatory contracts.

Effect or Potential Effect: By not making purchases from required State Use statewide contract, cardholders circumvented controls that promote purchases for approved products at a fair market price from qualified nonprofit organizations for the severely handicapped or disabled.

Recommendation: We recommend the Agency communicate to the cardholders the requirements of State Use Committee and verify cardholders are complying with these requirements. Cardholders should also be provided with guidance and on-the-job training to ensure purchases are made in accordance with the requirements set forth by the State Use Committee.

Management's Response

Date: 05/21/2007

Respondent: Director of Administration

Response: Partially Concur- We agree this happened. And, although it is not an excuse for not utilizing the State Use Contracts, as indicated in the tables you prepared, we spent less than we would have by using the contracts. In January of 2006, I was informed by the State Use Director how we should be handling these purchases. Once I was informed we needed to operate differently, we corrected our procedures. All of this was completed in January 2006, before you came out to perform the audit. The purchases you identify in the tables don't extend beyond January of 2006 and we should not have a recurrence of this same issue.

Corrective Action Plan

Anticipated Completion Date: Completed prior to audit.

Corrective Action Planned: No corrective actions planned as this was corrected before you conducted the audit.

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

Finding 07-435-01: Internal Controls

Criteria:

1. State of Oklahoma Purchase Card Procedures § 5.6. **Inventory**, states, "State entities shall establish procedures to ensure that items acquired using the p/card and exceeding \$500.00 in cost, or a different amount if approved by the Director of Central Purchasing, are added to the inventory schedule pursuant to 74 O.S. § 110.1."
2. State of Oklahoma Purchase Card Procedures § 6.10. **Card security**, states in part, "Use of the p/card and Statewide Contract p/card is limited to the person whose name is embossed on the card. The card shall not be loaned to another person... The cardholder shall assure that the card is kept in a secure manner and that the p/card account number on the card is not posted or left in a conspicuous place."

United States General Accounting Office Internal Control GAO/AIMD-00-21.3.1 **Access Restrictions to and Accountability for Resources and Records**, states, "Access to resources and records should be limited to authorized individuals, and accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

3. 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 as the transactions are made..."
4. State of Oklahoma Purchase Card Procedures § 4.2 **Implementation submissions**, states in part, "State entities are to prepare and submit the following documents."

<u>Document</u>	<u>Signed by</u>	<u>Submitted to</u>
Letter appointing Agency P/Card Administrator & Back-up P/Card Administrator	Entity Chief Administrative Officer (Agency Head)	Original to appointee. Copy to State P/Card Administrator (Central Purchasing)

Condition: During our review of the Agency's internal controls, we noted the following:

1. Two purchase card purchases exceeding \$500 were judgmentally selected to ensure the items were properly recorded on the Agency's inventory schedule. These items were not initially found to be reported on the Agency's inventory schedule. Subsequent inventory schedules submitted to the auditors included these items. Details of the items follow:

Date of Purchase	Item Description	Cost of Purchase
12.30.2005	Portable projector	\$1,627.99
02.16.2006	PREC BAL 81g x .001 g (scale)	<u>\$1,000.94</u>
	TOTAL	<u>\$2,628.93</u>

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

2. Purchase card number was given to individuals other than the cardholder to pay for on-line purchases including on-line course registrations.
3. Two cardholders were interviewed regarding how transaction logs maintained and kept current. One cardholder stated an office manager maintains and update their transaction log after each purchase. Each cardholder is required to maintain their transaction log.
4. Agency had not submitted a letter to the State Purchase Card Administrator the appointment of the Entity Purchase Card Administrator for the Agency.

Cause:

1. Omission of the inventory items on the Agency's inventory schedule was an oversight by the Agency.
2. Purchases made by these individuals were to facilitate Agency operations.
3. Increase the efficiency of Agency operations.
4. Purchase Card Administrator did not process the necessary paperwork to make their appointment official.

Effect or Potential Effect:

1. By not recording and reporting inventory items in a timely manner, inventory of the Agency is understated and the ability of management to manage operations and make appropriate decisions is decreased.
2. By allowing individuals other than the cardholder access to purchase card and purchase card numbers, there is an increased risk for error, fraud, misuse and unauthorized purchases.
3. By the cardholder not maintaining their transaction log, transactions may not be accurately and timely recorded. Further, transactions may not be clearly documented preventing ready availability for examination.
4. By not notifying the State Purchase Card Administrator of the Agency's Purchase Card Administrator, there is not an officially recognized administrator of the Agency's purchase card program.

Recommendation: We recommend the Agency:

1. Review current processes and procedures for the inventorying of goods to identify breakdowns in the process. For identified breakdowns, a process and procedure should be established that ensures at the time of purchase the appropriate documentation to add inventoriable items to the inventory schedule is completed and forwarded to the appropriate personnel. We also recommend a periodic review of inventory reports and schedules to ensure accuracy and completeness.

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

2. Develop an internal procedure that ensures access to purchase cards and purchase card numbers are restricted to those individuals who are participants of the Agency's purchase card program.
3. Provide refresher training to all cardholders and approving officials regarding the proper method of maintaining purchase card transaction log.
4. A letter was sent in October 2006 to the State Purchase Card Administrator appointing the Agency's Purchase Card Administrator. No further recommendations are deemed necessary.

Management's Response

Date: 05/21/2007

Respondent: Director of Administration

Response: Partially Concur

1. We agree that this happened. It was corrected immediately after being informed of the problem. The "Effect or Potential Effect" you identify is overstated. Missing 2 items from the inventory has no effect on the ability of management to manage operations and make appropriate decisions.

2. As we were starting up a brand new lottery and new state agency in Oklahoma, we had only 1 purchase card and wanted to keep it that way. There were a couple of times that I asked my Assistant to use the card to pay for purchases that we needed. Once we got another purchase card, that hasn't happened. Again, the "Effect or Potential Effect" cited in your report is overstated. These were approved purchases. There was no "error, fraud, misuse and unauthorized purchases" identified, nor will there be.

3. I have one of my direct reports and fellow purchase cardholder, The Office Services Supervisor, enter my purchase card transactions into a spreadsheet. As soon as a purchase is made, she gets the signed and dated receipt and the OLC Request for Acquisition form. I sign the log after reviewing it to make sure all purchases are correctly entered. The "Effect or Potential Effect" is again overstated. Transactions are clearly documented and readily available for examination. We will modify our procedure so that I maintain my own log, although in this case, it is a complete waste of my time as we have more than adequate review to ensure what you identify as potential effect does not happen.

4. This is the one item that you indicated we have already addressed. You state under "Effect or Potential Effect" that "By not notifying the State Purchase Card Administrator of the Agency's Purchase Card Administrator, there is not an officially recognized administrator of the Agency's purchase card program". During or soon after the audit, we provided to you a copy of a letter from me to the Purchase Card Administrator, while we were both still at another state agency, indicating that he would be the purchase card administrator for the Lottery. What we could not find was a copy of correspondence to DCS stating the same. However, what we do have is numerous email exchanges between

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

the Purchase Card Administrator and DCS staff where they are discussing changes to the Lottery's purchase card program. We also have a "Commercial Card Authorized Signer(s) Form", signed by the Director of Central Purchasing, showing our Purchase Card Administrator as our Program Administrator, dated 5/24/05. We also have a "Commercial Card Cardholder Account Form" completed for the Director of Administration, "Approved By:" our Purchase Card Administrator, and also dated 5/24/05. If we could not reproduce a copy of the official notification letter, the facts show that our Purchase Card Administrator was recognized as the Lottery's purchase card program Administrator by DCS in May of 2005; 15 months prior to this audit.

Corrective Action Plan

Anticipated Completion Date:

- 1., 2., and 4. Completed.
3. To be completed May 2007.

Corrective Action Planned:

1. This was corrected last July. Items required to be on the inventory are entered on the inventory on receipt of the item. On payment of an invoice, our accounting staff (accounts payable) verifies that items to be inventoried are on the inventory. No further corrective action is planned.
2. We are in compliance with your recommendation. We have a "procedure that ensures access to purchase cards and purchase card numbers are restricted to those individuals who are participants of the Agency's purchase card program."
3. Effective after this date, each cardholder will prepare and maintain their own log. Refresher training as recommended is not appropriate as this is not a case of "not knowing"; it's a case of accomplishing the same thing with a more efficient process.
4. None required. This has already been addressed.

Finding 07-435-04: Miscellaneous

Criteria:

1. State of Oklahoma Purchase Card Procedures § 6.7.1 **Goods or services received at the time of purchase**, states in part, "The receipt for purchase (see 6.5 above) also serves as the receiving document. It should be annotated "Received" and signed and dated by the receiving employee..."

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

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006

or services (such as a packing slip or service order) serves as the receiving document and is processed as described in 6.7.1 above.”

2. State of Oklahoma Purchase Card Procedures § 6.9.1. **Cardholder responsibility**, states in part, “... 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 § 5.1. **Encumbering funds**, states in part, “... Agencies are required to create a minimum of one authority order for each type of P/Card in use. Separate authority orders should be established for the regular P/Card, the statewide contract P/Card, and the Travel P/Card...”

State of Oklahoma Purchase Card Procedures § 5.4.3. **Voucher documentation**, states in part, “... If an agency has multiple card types, i.e., regular card, statewide contract card and the travel card... such agencies are required to separate out the totals for each card type and write them on the RPT 500...”

State of Oklahoma Purchase Card Procedures § 5.3. **P/Card payment**, states in part, “Each state entity shall make one, single monthly payment to the appropriate P/Card vendor to satisfy all transactions listed for the billing cycle, in the time and manner agreed to by the State and the servicing bank regardless of the number of purchase orders utilized...”

Condition: During the audit period reviewed (July 28, 2005 to July 27, 2006), the Agency had a total of \$51,799.25 in regular and travel purchase card transactions and a total of 294 purchase card transactions. A random statistical sample of 62 (21%) purchase card transactions was tested ($\$17,730 / \$51,799.25 = 34\%$). There were a total of 21 memo statements and transaction logs. We noted the following during our substantive testwork:

1. During substantive testing, 31 of 62 (50%) receiving documents were not properly processed. Details are noted below:
 - 13 of 31 (42%) receiving documents were not signed, dated, and annotated ‘received’.
 - 12 of 31 (39%) receiving documents were initialed, dated, and annotated ‘received’.
 - 5 of 31 (16%) receiving documents were signed and dated only.
 - 1 of 31 (3%) receiving documents was only signed.
2. 2 of 21 (10%) memo statements were not signed by the cardholder.
3. A combined total of 19 purchase card payments for regular and travel purchase card transactions were reviewed for the audit period July 28, 2005 to July 27, 2006. Of these 19 payments, the payment for regular and travel purchase card transactions for the billing cycle ending 09.27.2005 was combined (1 of 19 payments (5%)).

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

Cause:

1. Breakdown in properly receipting the receiving document was an oversight by the receiving employee.
2. Cardholder did not sign these memo statements because others had already signed the lines for the cardholder.
3. This payment was performed by an external finance agency's accounts payable personnel. The external finance agency was functioning as the Agency's accounts payable staff.

Effect or Potential Effect:

1. By not following the process for receiving goods and services, it is difficult to determine if appropriateness of the purchase was independently verified or if the goods and services were received by the Agency.
2. By the cardholder not signing their memo statement, there is no written documentation attesting that the cardholder has reconciled their transaction log to their memo statement and supporting documentation or that the transactions on the memo statement are confirmed by the cardholder.
3. By making a payment for the travel and purchase card transactions under one authority order, encumbered funds for one type of purchase card has the potential to be exceeded.

Recommendation: We recommend the Agency:

1. Implement a process for the cardholders and receiving employees that ensures the receiving document is properly signed, dated, and annotated 'received'. There should also be a process in place that allows the receiving document be returned to the cardholder for completion of missing elements. We further recommend The Agency engage in monitoring activities to review supporting documentation to ensure continued compliance with the purchase card requirements.
2. Implement a process whereby during the designated approving official's review of the cardholder's reconciliation the memo statement is returned to the cardholder if the memo statement has not been signed by the cardholder.
3. Implement a process where purchase card transactions for each purchase card type are separately identified and paid under the authority order for the purchase card type. We further recommend an on-line review of transaction activity on a weekly basis to ensure account codes are accurate.

Management's Response

Date: 05/21/2007

Respondent: Director of Administration

Response: Partially Concur

**STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
PURCHASE CARD PROGRAM AUDIT
AUDIT PERIOD OF JULY 28, 2005 TO JULY 27, 2006**

1. These items were not annotated according to program criteria. We have since implemented a process to make sure items are receipted and signed for according to program requirements.
2. This was an oversight that has since been corrected. Proper signatures are required on the documents. In these instances, the individual had signed other documents which indicate approval. We have no doubt the purchases were proper purchases.
3. This happened in September of 2005 and was done by an agency that was helping us with our finance needs during start-up. Since we've been doing our own finances, prior to you coming to perform this audit, the Lottery hasn't had a problem with it and processes all of the invoices properly.

Corrective Action Plan

Anticipated Completion Date: Completed.

Corrective Action Planned:

1. This has been corrected. Items are properly receipted and signed for.
 2. This has been corrected. Proper signatures are required on the documents.
 3. No corrective action is needed.
-

OVERALL CONCLUSION

Based upon our audit, we have determined the Oklahoma Lottery Commission has materially complied with the objectives reviewed; however, some exceptions were noted. Notable exceptions include an approving official not attending mandatory purchase card training, incompliance with state use statewide mandatory contracts, and improper receipting of receiving documentation. The Oklahoma Lottery Commission has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

May 29, 2007

**TO JIM SCROGGINS, EXECUTIVE DIRECTOR AND THE BOARD OF THE OKLAHOMA
LOTTERY COMMISSION**

With this letter, we transmit the report of the Oklahoma Lottery Commission purchase card program audit for the period July 28, 2005 to July 27, 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", is written over the typed name.

John S. Richard
Director of the Department of Central Services

"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