

**State of Oklahoma
Office of Management and Enterprise Services
Audit and Internal Investigations**

**Tobacco Settlement Endowment Trust Fund
Purchase Card Audit**



TOBACCO SETTLEMENT ENDOWMENT TRUST FUND PURCHASE CARD AUDIT

FOR THE PERIOD OF SEPT. 24, 2013, TO SEPT. 23, 2014.

State of Oklahoma Office of Management and Enterprise Services Audit and Internal Investigations Report Released March 5, 2015

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AUDIT PERFORMED BY

JoRay McCoy, Audit Director
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AUDIT CONCLUSION

Based on our audit, we have determined the Tobacco Settlement Endowment Trust Fund (TSET) has significantly complied with the following audit objectives:

- 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 Oklahoma State Purchase Card Procedures and approved internal purchasing procedures as they relate to the acquisition process through the use of purchase cards.

AUDIT FINDING SUMMARY

(Error rates are based on transactions reviewed.)

FINDING 15-092-02: On two separate occasions during board meetings, meals were purchased for staff and non-agency personnel.

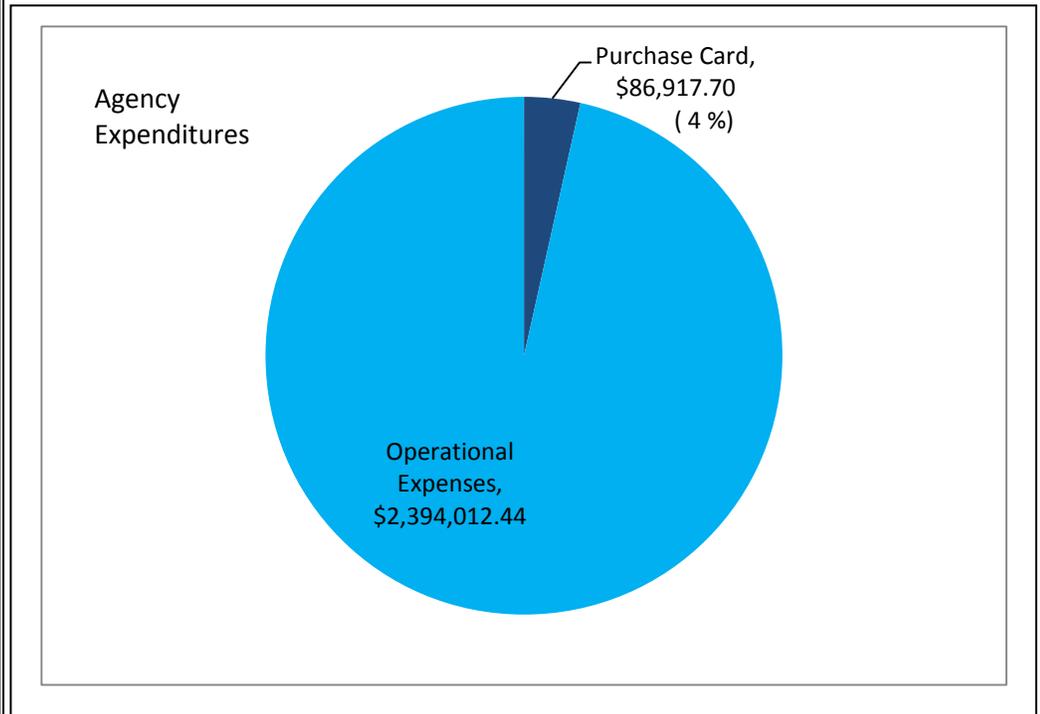
Two information services (IS) purchases totaling \$12,669.00 were not individually pre-approved by the state CIO.

FINDING 15-092-01: Sixty-nine percent of the airfare transactions reviewed did not contain comments in the notes field.

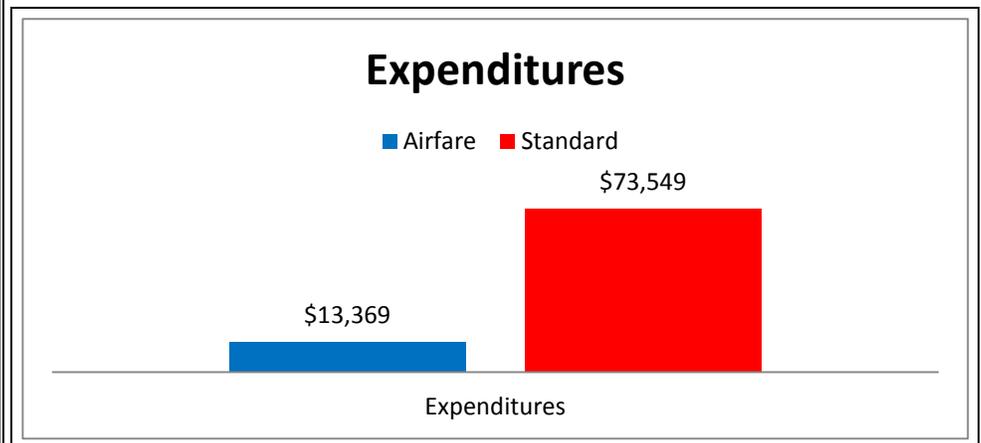
Thirty-six percent of the payments reviewed did not contain payment confirmations.

AUDIT OVERVIEW

As of Sept. 23, 2014, there are two purchase card holders, one purchase administrator and one approving official in the agency. In total, the agency had \$86,917.70 in purchase card spend during the audit period. The agency's Purchase Card Program has remained a significantly small portion of their spending in the audit period. The following chart depicts the expenditures by purchase card compared to voucher or wire transfer for operational cost made by the agency during the audit period.



The agency uses the purchase card for standard low dollar purchases as well as airfare. The agency's purchase spend is categorized in the following table.



This audit was performed pursuant to 74 O.S. §85.5.E. and the State of Oklahoma Purchase Card Procedures.



The Office of Management and Enterprise Services, Audit and Internal Investigations has completed an audit of the Tobacco Settlement Endowment Trust Fund, referred to as the "agency" within the audit report. Our audit was to determine if the agency's Purchase Card Program for the period Sept. 24, 2013, through Sept. 23, 2014, complied with the audit objectives.

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SAMPLING METHODOLOGY

The population for substantive test work was 237 transactions totaling \$86,917.70. We used a classical variable stratification process to extract a random sample of transactions below the \$5,000 threshold. Through stratification random sampling we obtained 13 transactions for airfare. In addition, six transactions were selected at the auditor's discretion and tested against selected attributes. We tested 100 percent of the transactions in the greater than \$5,000 category.

	<u># of Transactions</u>	<u>(\$)</u> Amount
<u>Total Expenditures</u>	237	\$86,917.70
<u>Reverse Transactions</u>	10	(\$0.00)
<u>Agent Fees</u>	27	(\$675.00)
<u>Negative Transactions</u>	11	\$392.97
<u>Filtered Population</u>	189	\$86,635.67
<u>Subpopulation</u>		
Airfare	29	\$13,368.81
Under \$5,000	158	\$60,597.86
Greater than \$5,000	2	\$12,669.00
<u>Total</u>	189	\$86,635.67
<u>Samples</u>		
Under \$5,000	24	\$19,231.34
Greater than \$5,000	2	\$12,669.00
Airfare	13	\$5,623.40
Auditor's Discretion	6	\$699.40

DETAILED FINDINGS

FINDING 15-092-02: Employees meals and IS transactions over \$5,000

Condition:

1) We discovered two transactions that included meals provided to staff and non-agency attendees. These meals corresponded with a Board of Directors meeting and a Board of Investors meeting. Agency management stated the meals were provided for working lunches. We noted the following during our review of the two transactions:

- Meals were pre-ordered specifically for staff members and non-agency attendees.

- Meals were not provided to guests or general public attending the meetings.
- No travel or overnight stay was involved with the meal purchase.
- Meals were not provided during an employee appreciation ceremony.
- Agency management did not state that the meals were for a “public purpose” when asked about the meal purchases.
- No documentation was attached to the meal purchases stating that the agency’s governing body indicated the meal purchases were in the best interest of the state.
- The meal purchases are not covered under the State Accounting Manual for the purchase of refreshments in connection with meetings.
- The meal purchases are not part of the Central Purchasing Act Title 74 §85.12, Act Not to Affect Non-conflicting Procedures – Acquisitions Excluded.
- The agency is not listed under The Travel Reimbursement Act Title 74 §500.2 that allows some state agencies to provide food for persons attending conferences, meetings and training sessions that do not require overnight travel.
- Sales tax revenue is not generated from the purchase of these meals.

A Board of Director’s meeting was held on Feb. 27, 2014, with seven attending board members. Eight staff members were provided meals totaling \$79.04. The ratio of staff versus board members was 1 to 1.14 staff participants.

A Board of Investor’s meeting was held on June 25, 2014, with five attending board members. Four meals were purchased for non-board members.

- A meal was purchased for the consultant. However, the consultant paid for his own meal once they were delivered but did not pay sales tax or his portion of the delivery fee.
- Two meals were purchased for staff members from another state agency.
- One meal was purchased for a staff member working during the meeting.

Purchase Date	Vendor Name	Item Total	Staff/Non-Agency Portion
2/28/2014	Healthy Hearth	\$148.20	\$79.04
6/26/2014	Camille’s Sidewalk Café	\$67.72	\$34.58

We were unable to distinguish if the meals purchased for staff and non-agency attendees were for official state use.

2) During our audit period, the agency made two IS purchases above \$5,000. The purchases were made to Dell totaling \$12,669.00. A pre-approved ePro was not performed for these two transactions.

Cause:

- 1) The purchase card has made purchasing food for meetings easier and more convenient. Under a purchase order system, this type of purchase would have been difficult to perform and most food vendors do not accept a purchase order for small food purchases.
- 2) Conflicting information received from OMES IS described how the blanket purchase card IS authority order can be used.

Effect or Potential Effect:

- 1) Meals purchased for staff and non-agency attendees.
- 2) There was minimal effect due to the fact that the purchases were procured through a statewide IS contract processed by the IS department. The business segment director was not able to pre-approve the individual IS purchases.

Criteria:

- 1) The State of Oklahoma Purchase Card Procedures **§6.3.7 Prohibited Items** states, "Purchase of any goods or services not for official state use is prohibited."
- 2) The **ePro ISD Procedures 07252012, IT and Telecom P-card Procedures**, Option 1 states in part:

To allow time for IT P-card workflow implemented in Works (Bank of America P-Card Transaction System), an interim process is provided as identified in items 1 and 2. (*Note: These procedures are still under review and are subject to change.)

Interim – Agencies may purchase items under \$5,000.00 without ISD Business Segment Director approval. Any purchases above \$5,000.00 require the approval from your agency's assigned ISD Business Segment Director prior to purchasing.

Recommendation:

- 1) We recommend the agency develop, implement and communicate an internal food policy that is approved by the governing board. We further recommend the executive director of the agency specifically state the statutory authority to spend the funds in this manner and must state the public purpose served by purchasing the meals within the policy.
- 2) In addition, we recommend the agency submit an ePro request for any IS purchases exceeding \$5,000. If the policy is outdated for requiring approval of individual IS purchase card transactions above \$5,000, then the policy should be updated.

Management's Response

Date: Dec. 29, 2014

Respondent: Executive director

Response: *Management partially concurred with this finding.*

- 1) Meals provided for staff at board meetings are provided only for staff essential to the board meeting. Meals are only provided for "working lunches" which means that after a short recess of the meeting in order to allow people to obtain their meal, the meeting is reconvened and the works continues while the board and staff are eating. Every board meeting has a "public purpose" and this should be implied when staff were asked about the purpose of the meeting. It should not have been necessary for the staff to reply to the auditors, verbatim, that the board meeting was for a public purpose. Each board meeting agenda, which is posted on the website and provided as documentation for the purchase of

meals, contains the public purpose for which the meeting was held. In addition, staff were not aware that it was necessary for the agency to be specifically listed in the State Travel Reimbursement Act, in order provide food for persons attending conferences, meetings and training sessions that do not require overnight travel. Staff had contacted the Director of Transaction Processing at OMES prior to the purchase of meals (for working lunches) for board or staff members during board meetings, and his email response was as follows (this email was provided to the p-card auditors during their investigation):

- “The only place in state statutes addressing meals is in connection with the State Travel Reimbursement Act (Title 74 § 500.1 et seq.) and is based on per diem payments. However, when looking beyond the normal meal authority, state law and numerous Attorney General Opinions require that any expense with state (public) funds must be for an official public purpose. If an agency has deemed it necessary and advantageous to the agency for business purposes and in the best interest of the State, it could be concluded that providing a meal may be appropriate.

If making such a meal payment there should be documentation included that the agency governing body has indicated that they deem it in the best interest of the State to provide the meal and that the expenditure is for a lawful public purpose. Such documentation should briefly outline the reasons why. The meal should only be provided for the appropriate people participating in such "event", should be reasonably priced and certainly should not be an extravagant affair. Unless otherwise justified, any meal certainly should not exceed one-fourth of the daily meals expense allowance as provided by in the State Travel Reimbursement Act for ordinary travel.”

With regard to the February 27th board meeting, this was held at the Stephenson Cancer Center, to coincide with a recognition ceremony the Cancer Center was holding for TSET the same day. Eight staff members were present on this special occasion as each had a critical role to play in the board meeting. Typically, five to six staff members may be required at a board meeting.

With regard to the June 25th meeting of the Board of Investors, this was an exceptionally long board meeting due to the nature of the work that day. Again every meeting of the Board of Investors is for a public purpose, and the board meeting agenda, provided as documentation for the purchase of the meals, clearly states the purpose and actions of the meeting. Staff present at that meeting were critical to the functioning of the meeting. In terms of the consultant not having paid his share of a delivery charge, or sales tax, it is difficult to understand the significance of this audit finding, therefore, we can provide no appropriate response.

- 2) The p-card holder understood (mistakenly) that the ‘blanket po’ that already had IT approval did not have a threshold. The purchase was on statewide contract, and the specifications had been recommended to TSET by OMES/IT.

Additional Management Response

Provided: March 3, 2015

The report mentions that two meals were purchased for employees of “another state agency.” However, the staff with the Office of the State Treasurer who provide support to the TSET Board of Investors, are not just staff of “another state agency.”

TSET was established through a constitutional amendment and has specific constitutional authority to purchase “6. Authorized administrative expenses of the Office of the State Treasurer and the Board of Directors.” The constitutional amendment may be found here:

<http://www.oscn.net/applications/oscn/deliverdocument.asp?citeID=434355>.

This link is also on the TSET website at

http://www.ok.gov/tset/Who_We_Are/Public_Information/Rules.html.

In addition, TSET’s enabling legislation, (which may be found at

<http://www.oscn.net/applications/oscn/deliverdocument.asp?citeID=21655>) gives statutory authority for TSET to pay for “E. Staffing for the Board of Investors shall be provided by the Office of the State Treasurer.” And “G. The State Treasurer shall provide any necessary staff support to the Board of Investors. The cost of up to two full-time-equivalent employees for the Office of the State Treasurer may be considered as an administrative expense of the trust fund. However, the amount provided to the State Treasurer for this purpose shall be determined by the Board of Directors of the Tobacco Settlement Endowment Trust Fund.” This is available at

<http://www.oscn.net/applications/oscn/deliverdocument.asp?citeID=216551>.

In fact, the budget for the TSET Board of Directors also includes the travel budget for the Board of Investors. This is all under the auspices of agency 092.

Given TSET’s specific constitutional and statutory authority to pay for the salary and expenses of the staff at the Oklahoma State Treasurer’s Office who are assigned to staff the TSET Board of Investors, these staff should not be referred to as being from “another state agency” in the report.

Corrective Action Plan

Contact Person: Office manager

Anticipated Completion Date: June 30, 2015

Corrective Action Planned:

- 1) As recommended, the agency will develop a food policy, to be approved by the Board of Directors.
- 2) P-card holders will obtain prior approval through e-pro for any IT purchases over \$5,000.

FINDING 15-092-01: Airfare transaction notes and payment confirmations

Condition:

- 1) We reviewed 13 airfare transactions to verify information was placed within the notes field in the Works program. There were nine transactions (69 percent error rate) in which comments were not added in the notes field.
- 2) We reviewed a total of 25 transactions to determine if the purchase card holder obtained a payment confirmation. There were nine transactions (36 percent error rate) that did not include a payment confirmation.

Cause:

- 1) Tobacco Settlement Endowment Trust Fund (TSET) management stated there was an agreement with Office of Management and Enterprise Services (OMES) Agency Business Services (ABS) accounting in which ABS completed the notes field.
- 2) The purchase card administrator explained that sometimes she does not receive payment confirmation from certain vendors. Cardholders did not recall the payment confirmation process being addressed

during training.

Effect or Potential Effect:

- 1) If an airline transaction becomes questionable, the notes field provides details about the authorization of the purchase card transaction that would assist with validating the purchase.
- 2) Not maintaining payment confirmations creates a risk of duplicate payments, lack of proof of purchase and increase of unsubstantiated claims.

Criteria:

1) State of Oklahoma Purchase Card Procedures **§6.13 Travel Acquisitions, Section 2.1**, states in part:

- The following information shall be listed in the Bank's transaction system. Some of the information is automatically populated due to Airlines and Lodging Establishments registering as Level 3 vendors; however, the airlines and lodging establishments have 30 days to provide the Level 3 information. Therefore, the P- Cardholder is responsible for ensuring the following information is included and may have to enter all of it in the Description field under "Allocation":
- Traveler's name, employee ID number, itinerary/confirmation number, date of travel and purpose of travel; for travelers that are authorized non-state personnel, include the traveler's name; the justification for the travel, to and from destination; and dates of travel.

2) State of Oklahoma Purchase Card Procedures **§6.8 Receipts for Purchase** states:

6.8.6 Payment Confirmation – A payment confirmation must be obtained for walk-in, internet or payment over the phone purchases. The payment confirmation can be part of the receipt or accompanying the receipt. When the purchase card is used to pay for an invoice, then the supporting documentation must be accompanied by a payment confirmation or the payment confirmation number must be written on the invoice.

Recommendation: We recommend the agency implement a process to ensure comments are added in the notes field of the Works system for all airfare transactions by the purchase card holder. The procedures do not allow someone other than the purchase card holder to enter the information in the notes field for the airfare transaction.

We also recommend the cardholders be informed of the importance of collecting and maintaining payment confirmations when required.

Management's Response:

Date: Dec. 29, 2014

Respondent: Executive director

Response: *Management partially concurred with this finding.*

- 1) As discussed with the auditor, TSET has a contract with the Agency Business Services (ABS) at OMES to provide finance support including budget revisions, purchase orders, accounts payable and p-card payment. The p-card holder makes the purchases, completes a hard copy internal document, 'P-card Transaction Log,' that is scanned and emailed to ABS for the purpose of entering the information in the Works program (including, but not limited to: the description of the item, amount, account code, SW contract number and which department is should be charged to). Afterward, the office manager receives the p-card statement from an accounts payable representative from ABS. The Office manager (cardholder) reconciles all receipts with the statement prior to obtaining signatures of the approving officials. It was TSET staff's understanding that ABS was entering the description in the Works system each month after TSET provided the scanned internal

'P-card Transaction Log'. TSET staff were unaware that the cardholder was required to personally enter items into the Works system. We recommend to OMES that training in Works should be a publicly stated prerequisite to obtaining a p-card.

- 2) At times when finishing a purchase online, especially with AT&T and Dell which are statewide contracts, nothing is provided by the vendor that indicates payment. The only items provided are the total cost of the item when checking out; email confirmation of order, sometimes an email that states the item is being shipped and then a packing slip. Many office supply vendors, such as Staples, do not charge the p-card until the item is delivered.

The requirement to obtain a payment confirmation, when none is offered by the vendor, seems an unreasonable expectation, particularly given the other items of documentation that are provided (email confirmation of the order, packing slip, etc.). It does not serve as good use of time for the employee to call the vendor each time a purchase is made to request a payment confirmation.

We recommend that the auditors familiarize themselves with the vendors' practices and offer up recommendations to Central Purchasing regarding practical policies that will create a more efficient use of state time and resources while ensuring accountability. In addition it is recommended that if a payment confirmation is required of the agency, Central Purchasing should consider requiring the vendors on statewide contract to provide a payment confirmation.

In follow-up the agency requested a list of these 9 findings. Below are the agency's findings:

TXN00450209

This is a charge from AT&T for iPads. All documents received by AT&T were placed in the file. As mentioned previously to the auditor by email, AT&T never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00455752

This is a Veridesk charge. This is a charge for stand-up workstations. All documents received by Veridesk were placed in the file. Veridesk never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00456332

This is a Dell charge. This is a charge from Dell was for computer bags. All documents received by Dell were placed in the file. As mentioned previously to the auditor, Dell never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00459671

This is a Dell charge. This is a charge from Dell was for a laptop. All documents received by Dell were placed in the file. As mentioned previously to the auditor, Dell never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00461727

This is a Dell charge. This is a charge from Dell was for a sound bar and monitors. All documents received by Dell were placed in the file. As mentioned previously to the auditor, Dell never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00468079

This is a Dell charge. This is a charge from Dell was for a laptop sleeve. All documents received by Dell were placed in the file. As mentioned previously to the auditor, Dell never provides a document that reflects 'payment confirmation' prior to shipment.

TXN00463681

This is a Dell charge. This charge was over \$5,000 without IT approval, however it was on statewide contract, and the specifications had been recommended to TSET by OMES/IT. The p-card holder understood (mistakenly) that the 'blanket po' that already had IT approval did not have a threshold. This process has been changed.

TXN00526927

This is a Dell charge. This charge was over \$5,000 without IT approval, however it was on statewide contract, and the specifications had been recommended to TSET by OMES/IT. The p-card holder understood (mistakenly) that the 'blanket po' that already had IT approval did not have a threshold. This process has been changed.

TXN00483934

This is a charge for a luncheon registration with the Mayor's Development Roundtable. All the documentation that was provided was in the file. There is a document that is at the very front that was received after payment was made. It had the wording 'Receipt ID: 1585-9753-8267-2602. This should indicate a payment confirmation since the invoices were behind this document.

Corrective Action Plan

Contact Person: Office manager

Anticipated Completion Date: June 30, 2015

Corrective Action Planned:

TSET P-card holders will be trained in the Works program and will enter their own comments in the notes field.

APPENDIX

METHODOLOGY

- Interviews were conducted with the agency's staff members.
- Internal controls over the Purchase 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

Mission Statement:

To improve the health and quality of life of all Oklahomans through accountable programs and services that address the hazards of tobacco use and other health issues.

History and Overview:

The Oklahoma Tobacco Settlement Endowment Trust was established in November 2000 by a vote of the people of Oklahoma, directing the earnings from the trust to fund programs that are designed to improve the health and well-being of all Oklahomans, especially children and senior adults.

Agency Information:

The agency is made up of 21 unclassified employees as of Dec. 16, 2014, according to the purchase card administrator.

Board of Directors

Jim R. Gebhart, *chair*
Dr. Lisa Nowlin, *vice chair*
Dr. George Foster
Casey Killblane
Dr. Curtis Knoles
Don Millican
Kenneth Rowe

Key Staff

(during the audit period)
Tracey Strader, executive director
Dorothy Antwine, office manager/purchase card administrator

TRANSMITTAL LETTER

TO EXECUTIVE DIRECTOR TRACEY STRADER AND BOARD MEMBERS OF THE OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST FUND:

With this letter, we transmit the report of the Tobacco Settlement Endowment Trust Fund Purchase Card Program audit for the period Sept. 24, 2013, through Sept. 23, 2014.

We performed the audit in accordance with professional auditing standards to ensure the Tobacco Settlement Trust Fund Purchase Card Program as administered by the Office of Management and Enterprise Services 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 Office of Management and Enterprise Services website, <http://www.ok.gov/OSF/Audit/>.

Respectfully,

Carol McFarland
Director, Performance and Efficiency Division