

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

July 6, 2006

**TO DUANE A. SMITH, EXECUTIVE DIRECTOR AND THE OKLAHOMA WATER
RESOURCES BOARD**

With this letter, we transmit the report of the Oklahoma Water Resources Board purchase card program audit for March 1st, 2005 through February 28th, 2006.

We performed our audit in accordance with professional auditing standards to ensure that the State's resources, procurement processes, and procedures are used in an ethical, effective, and efficient manner.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Richard", is written over the typed name and title.

John S. Richard
Director of Central Services

"Committed to Quality"

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OKLAHOMA

**DEPARTMENT OF
CENTRAL SERVICES**

Auditing Unit

**OKLAHOMA WATER
RESOURCES BOARD**

Purchase Card Audit

**For the period March 1, 2005
through February 28, 2006**

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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, 25 copies have been prepared and distributed at a cost of \$3.36. 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 Water Resources Board, hereinafter referred to as the "Agency", purchase card program for the period March 1, 2005 thru February 28, 2006. 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;
- 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 the relative cost benefits the purchase card program had on the agency;
- make recommendations for improvements.

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 sample of transactions from each of the active cardholders was examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

Created in 1957, the nine-member board is composed of one member from each of six congressional districts, with the remaining members-at-large. Members are appointed by the governor and approved by the Oklahoma Senate for seven-year terms. Members represent recreational, industrial, irrigation, municipal, agricultural, soil conservation, and rural residential water uses. The board administers financial assistance programs to fund eligible public waste supply and wastewater treatment projects and improvements, and administers water use permits, the waterwell drillers licensing program, safety, and floodplain management programs, the Clean Lakes program and promulgates state water quality standards.

OKLAHOMA WATER RESOURCES BOARD

The Agency is made up of 76 classified, 29 unclassified and 8 temporary employees as of September 1, 2005. At the time of the audit, there were 6 purchase cardholders in the agency.

Board Members:

Rudolf John Hermann, Chairman
Jess Mark Nichols, Vice Chairman
Bill Secrest, Secretary
Harry Currie, Member
Lonnie Farmer, Member
Ed Fite, Member
Jack W. Keely, Member
Kenneth K. Knowles, Member
Richard Sevenoaks, At Large Member

Key Staff:

Duane A. Smith, Executive Director
Michael Melton, Assistant Director
Mike McGaugh, Purchase Card Administrator (Prior to January 2006)
Monte Boyce, Comptroller/Purchase Card Administrator (As of January 2006)
Leslie Nance, Accountant

AUDIT RESULTS

Purchase Card Program Economy Results

Estimated Savings - The purchase card program saved the Oklahoma Water Resources Board (OWRB) an estimated net savings of \$2,641.61 during the period March 1, 2005 thru February 28, 2006. This is 14.7% (\$2,641.61 / \$17,921.71 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$15.82 per transaction for the Agency.

Management stated that there were two (2) instances in which the purchase card gave the Agency the ability to make purchases they were previously unable to do. Aspects of the program that are especially beneficial to the OWRB include rebates, no need for tax ID numbers, sales tax exemptions, and reducing transaction fees. All of these aspects save the Agency time and money. The only limits that management encounters are the employees' expectations of the purchase card program causing an overcautious attitude of employees involved.

Questioned Costs - We noted a total extrapolated questioned cost of [\\$337.93](#) and an understated inventory amount of [\\$1,649.58](#) during the audit period.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

Finding No: 05-835-01

Criteria: State of Oklahoma Purchase Card Procedures § 5.1. **Encumbering funds** states, "State entities shall establish encumbrances as "authority order" purchase orders in the State Purchase System. Agencies are required to create a minimum of one authority order for each type of P/Card in use...Change orders to amend these encumbrances may be processed as necessary."

Condition: The Agency encumbered \$100.00 on an authority order established for the purchase card on 11/23/2004. A change order was not issued until 7/25/2005 in which the Agency encumbered an additional \$100.00. No additional change orders have been issued for the purchase card; however, the Agency expended \$17,921.71 using the purchase card from 3/1/2005 through 2/28/2006.

Cause: The current Purchase Card Administrator relied on the encumbrance procedures put into place by the previous Purchase Card Administrator; therefore, the current Purchase Card Administrator was unaware that their encumbrance method for the purchase card was incorrect.

Effect: The Agency created an unauthorized obligation to the State.

Recommendation: We recommend the Agency creates a process to ensure funds are properly encumbered for the purchase card.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Concur - We now understand that the previous P-Card Administrator misunderstood or was misinformed regarding the proper encumbrance process. However, we do have a number of Authorization for Purchase documents with sufficient balances for the amount of purchases that were on the OWRB purchase cards during this time period (unused because of the purchase card use). Therefore, we did not create an unauthorized obligation of funds for the State.

Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: July 31, 2006

Corrective Action Planned: We will begin FY 07 with the proper encumbrance document and will process necessary change orders as the year progresses.

Finding No: 05-835-07

Criteria:

1. The Oklahoma Water Resources Board Internal Purchasing Procedures, Section 6(d), **Procurement Parameters** state in part:
 - (1) Purchases less than \$250. ... A completed Request for Acquisition form is required if the purchase is from **any** state contract (including State Use) or a vendor who requires an agency purchase order.
 - (2) Purchases more than \$250 but not exceeding \$2,500. A completed Request for Acquisition form is required. The agency will issue purchase orders for acquisitions estimated to cost over \$250 but not exceeding \$2,500.
2. The Oklahoma Water Resources Board Internal Purchasing Procedures, Section 9(a) Accounting Records states, "Accounting will retain documents for each acquisition. Completed acquisitions will be stored in a place designated by the Executive Director for three (3) years from purchase completion, or for three years following completion of an audit or protest action."

Condition:

1. The agency is using the purchase card as the method of purchasing and not the purchase order when required by internal purchasing procedures.
2. The agency's internal policy for retaining records for acquisitions conflicts with the record retention requirements of the purchase card program.

Cause:

1. Using the purchase card as a method of purchasing may not have been considered during the time of the last internal purchasing policy revision.
2. Purchase card management was not certain of the required record retention time period for the purchase card documents.

Effect:

1. The Agency is not abiding by the Agency's internal purchasing policies and procedures.
2. The internal policy to maintain records may be adhered to by individuals within the agency and records may be destroyed at an earlier time than allowed.

Recommendation:

1. We recommend the Agency abide by their internal purchasing procedures that relate to procurement parameters and method of purchasing.

The Agency may review and evaluate their internal purchasing procedures to determine if the procedures need to be updated to better meet the purchasing needs in a more effective and efficient manner.

2. We recommend the Agency to revise the internal purchasing procedures record retention requirements to communicate the requirements of retaining purchase card documentation. Also we recommend the Agency to review its current process for maintaining and storing purchase card documentation.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Concur - The OWRB's Purchasing Procedures were last approved by DCS on October 14, 2004, which was about the same time as the implementation of the purchase card program. With the retirement of the two Agency CPOs in December 2005, we began to deviate from the internal purchasing procedures to allow the Agency to continue to purchase but not violate the Central Purchasing Act. The decision was made to revise the Agency purchasing procedures when the current purchasing employee is certified. These revised internal purchasing procedures will mirror the Central Purchasing Act to allow for more timely and efficient acquisition of goods and services. The purchase card program will be considered in the revised procedures.

Our internal retention schedule has not been revised since we began the purchase card program.

Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: November 2006

Corrective Action Planned: The Agency will have a CPO in October 2006 and will begin to review and revise the purchasing procedures to accommodate all changes in the Agency such as implementation of the purchase card program.

Regarding the internal policy to maintain records for three years, staff knows that certain groups of records must be kept longer than others (i.e., purchase card records, withholding claims). Separate file cabinets are dedicated to these items in our long-term storage area so that when approval is received to destroy records from certain years, that items with longer retention periods are not destroyed until the appropriate time. The Agency will revise the retention schedule.

Finding No: 05-835-05

UNDERVALUED INVENTORY: \$1,649.58

Criteria: 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 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."

Condition: We statistically sampled fifty (50) transactions totaling \$9,737.92 from a total of 167 transactions totaling \$17,921.71. Our sample included one transaction that an item was greater than \$500. Based upon our testwork, the item reviewed exceeding \$500 was not reported on the Agency's inventory schedule.

Transaction Date	Merchant	Amount
2/23/2006	Oklahoma Department of Corrections	\$1,649.58

The agency's inventory is understated by [\\$1,649.58](#).

Cause: The Agency failed to add the inventoriable item to their inventory schedule.

Effect: By not consistently reporting inventory purchases exceeding \$500, inventory cannot be properly tracked, the total value of inventory is understated, and the Agency does not have an accurate reporting of assets owned.

Recommendation: We recommend the Agency record the noted item on the inventory schedule. We also recommend the Agency review its current process for tracking, reporting and verifying items purchased above \$500 with the purchase card are reported on the inventory schedule.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Concur - This finding is correct, with the retirement of the Agency CPO in December 2005, this item was not flagged for inventory.

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Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: June 1, 2006

Corrective Action Planned: Our current purchasing employee has been made aware of this and will begin notifying the Agency inventory coordinator when items with a purchase price above \$500 are received/paid for to ensure the Agency inventory is accurate.

Finding No: 05-835-02

QUESTIONED COSTS: \$210.00

EXTRAPOLATED QUESTIONED COSTS: \$337.93

Criteria: State of Oklahoma Purchase Card Procedures § 6.5 **Receipts for purchase** states, "Receipts shall be obtained for purchases. The receipt shall give an itemized and detailed description of the purchase..."

Condition: We statistically sampled 50 transactions totaling \$9,737.92 from a total of 167 transactions totaling \$17,921.71. Based upon our testwork, we noted 16% (eight (8) out of fifty (50) transactions) of the transactions reviewed did not have an itemized and detailed receipt to support the purchase.

See transactions below:

Sample #	Transaction Date	Merchant	Amount
5	5/2/2005	FedEx Ship	17.90
7	5/11/2005	FedEx Ship	20.45
9	3/26/2005	FedEx Ship	24.89
10	4/14/2005	FedEx Ship	34.73
11	5/24/2005	FedEx Ship	35.39
30	4/21/2005	FedEx Ship	177.57
31	5/16/2005	FedEx Ship	181.62
36	4/29/2005	Boat City Pro Shop	210.00
TOTAL			\$702.55

The FedEx transactions were supported by the sender's copy of the mailing label; therefore, these transactions will not be considered questioned costs. The questioned cost is \$210.00 and the extrapolated questioned cost is \$337.93.

Cause: The cardholder did not obtain adequate supporting documentation for the purchases made with the purchase card, or the vendor did not provide an itemized and detailed receipt for the purchase.

Effect: By not providing adequate 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.

Recommendation: We recommend that the Agency ensure all purchases are supported with an itemized and detailed receipt. If the vendor does not provide an itemized and detailed receipt, we recommend that cardholders utilize a different vendor for future purchases.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Partially Concur - We agree with this finding with the exception of the extrapolated costs. Findings should be limited to the transactions sampled. We don't believe the extrapolation is a fair and accurate representation of the transactions outside the sample.

Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: August 1, 2005 / July 1, 2006

Corrective Action Planned: Federal Express transactions are now paid after the invoice is received from FedEx and matched with the appropriate sender's copy of the airbill.

The Approving Official will notify the Cardholders that itemized receipts must be received from the vendor, if itemized receipts are not provided, alternate vendors will be used in the future.

Auditor Response: Since the sample pulled for the audit period is statistically sound, the extrapolation accurately represents the population at a 5% significant level.

Finding No: 05-835-03

Criteria: State of Oklahoma Purchase Card Procedures **Section 6.7.1, Goods or Services Received at the Time of Purchase**, states in part, "The receipt for purchase 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 or services (such as packing slip or service order) serves as the receiving document and is processed as described in 6.7.1. above."

Condition: We statistically sampled 50 transactions totaling \$9,737.92 from a total of 167 transactions totaling \$17,921.71. During our testwork, we noted 26% (13 errors / 50 receiving documents) of the receiving documents that one or more of the requirements of annotating "Received", signing, and dating by the receiving employee was not performed.

Cause: The Agency's receiving employees were not consistently annotating "Received", signing, and dating the receiving document.

Effect: If the receiving employee does not perform all required tasks related to the receiving document, there is inadequate verification that goods and/or services were actually received.

Recommendation: We recommend the Agency inform all receiving employees that each receiving document should be annotated "Received", signed, and dated.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Concur - The OWRB's standard practice is to annotate each receiving document with the word "received", the receiver's signature and date. Eight of the 13 items cited were Federal Express airbills and three were registrations, each item was acknowledged by the "recipient" but in the case of these transactions, nothing tangible was received, therefore annotating "received", signing, and dating the airbill/invoice was omitted. The remaining two items cited were lacking either the annotation of "received" or the date but did have the signature of the receiving employee.

Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: June 27, 2006

Corrective Action Planned: The Approving Official will reiterate the importance of having each receiving document annotated "received", signed, and dated to the Cardholders.

Finding No: 05-835-06

Criteria: The State of Oklahoma Purchase Card Procedures § 4.2, **Implementation submissions**, states, in part, "State entities are to prepare and submit the following documents:

Document	Signed by	Submitted to
Letter appointing Agency P/Card Administrator	Entity Chief Administrative Officer (Agency Head)	Original to appointee Copy to State P/Card Administrator (Central Purchasing)

Condition: The Agency did not submit a letter to the Department of Central Services appointing an Agency employee as the Purchase Card Administrator.

Cause: During the retirement of the previous Purchase Card Administrator in 2004, management may have overlooked this policy and did not file the documentation.

Effect: Without an official letter signed by the Secretary of State, the Purchase Card Administrator is not authorized to assume the duties and responsibilities as the Agency's Purchase Card Administrator.

Recommendation: We recommend that the Agency create the required letter appointing a Purchase Card Administrator for the agency. The letter should be signed by the Chief Administrative Office of the agency and a copy should be forwarded to the State Purchase Card Administrator.

Management's Response:

Date: June 29, 2006

Respondent: Leslie Nance, Approving Official

Response: Concur - This step was inadvertently overlooked when the Agency began the program.

Corrective Action Plan:

Contact Person: Leslie Nance, Approving Official

Anticipated Completion Date: July 31, 2006

Corrective Action Planned: A letter will be prepared by the Agency Executive Director appointing the Purchase Card Administrator for the Agency to submit to the Department of Central Services for approval.

OVERALL CONCLUSION

In our opinion, the Oklahoma Water Resources Board has materially complied with the requirements of the State of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, there were notable exceptions. These notable exceptions are related to encumbrance procedures and proper transaction documentation. The Oklahoma Water Resources Board has begun implementing corrective action, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.