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Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

February 23, 2006

To The State Auditor And Inspector

With this letter, we transmit the report of the State Auditor and Inspector Office purchase card program review for state fiscal year 2005.

We performed our review 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".

John S. Richard
Director of Central Services

"Committed to Quality"

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OKLAHOMA

Department of Central Services



STATE AUDITOR AND INSPECTOR OFFICE

Purchase Card Review

For the period July 1, 2004 through June 30, 2005

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PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed a review of the State Auditor and Inspector Office, hereinafter referred to as the "agency", purchase card program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the review.

The objective of this review 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 review 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.
- Sample of purchase card transactions from all 9 active cardholders were examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rule promulgated thereto was evaluated.

EXECUTIVE SUMMARY

Organization

The State Auditor and Inspector office operates under the executive department to the government of the State of Oklahoma. The duties of the State Auditor and Inspector Office includes the auditing of county governments, state agencies, boards and commissions, school districts, cities and towns, and conduct audits of other public entities upon request. The State Auditor and Inspector Office is also responsible for regulating the abstract industry, providing technical assistance to county officers and other public entities, monitoring and educating public trusts in statutory compliance and maintaining filed public trust audits. The mission of the Office is to provide independent, unbiased, accurate oversight for state and local government by: (1) auditing programs, agencies institutions as allowed by constitutional and statutory authority; (2) identifying opportunities to reduce waste, abuse and fraud; and (3) promoting change and accountability in government.

Agency

The agency is made up of 169 non-merit, unclassified employees as of September 1, 2004. At the time of the review, there were 9 active purchase cardholders within the agency.

Key Staff:

Jeff McMahan, CFE, State Auditor and Inspector
Bob Klein, Management Services
Ed Noltensmeyer, CPO, Finance Officer, Purchase Card Administrator

AUDIT RESULTS

Purchase Card Program Economy Results

The purchase card program saved the agency an estimated net savings of \$2,791.51 during state fiscal year 2005. This is 8.7% (\$2,791.51 estimated savings / \$32,143.16 total expenditures) of the total dollars expended using the purchase card. This is an average estimated savings of \$16.82 per transaction for the agency. A majority of the savings was contributable to the cost associated with the time saved by using the purchase card rather than traditional governmental purchasing methods. Additional savings include the purchase card rebate and transaction fees. The agency stated that having the ability to make purchases on-line has saved time.

We noted a total extrapolated additional cost of \$652.51 to the State for the agency not purchasing all items from mandatory statewide contracts.

Findings and Recommendations

Finding No: 05-300-01

Criteria:

1. State Purchase Card Procedures § 3.5 State Entity P/Card Administrator, states:

The state entity individual designated by the entity Chief Administrative Officer to manage, on a day-to-day and in detail, the p/card program for the entity. This employee and any designated back-up or authorized signer are the only employee authorized with JPMorgan Chase to designate or change cardholder and card limits for their state entity.

The State Purchase Card Procedures § 6.1.5, Card Control and Limits, states:

State entities are required to establish the following categories of controls and limits on each purchase card. These mandatory limits are required by JP Morgan Chase and MasterCard. The mandatory categories are:

- Credit limit (dollar amount per cycle),
 - Single purchase limit (dollar amount per transaction and shall not exceed \$2500),
 - Merchant Category Code Group (MCCG).
2. State Purchase Card Procedures § 3.9, Training, states, "Entity Purchase 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 purchase cards."
 3. State Purchase Card Procedures § 3.10, Purchase Card Employee Agreement, states, "Entity Purchase 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 purchase cards.”

Condition: We noted the following during our internal control testwork:

1. Agency officials interviewed during our internal control section of our audit stated:

Purchase Card Administrator does not make changes to cardholder information or cardholder purchase card limits. Request is sent to State Purchase Card Administrator for any changes in cardholder information. JP Morgan Chase is faxed to make changes in cardholder limits.

The Purchase Card Administrator for the agency requested the service provider to increase a cardholder's single purchase purchase card limit from the mandatory \$2500 limit to \$4000 on May 18, 2004. This single purchase limit was in effect for approximately 13 ½ months. The Purchase Card Administrator appeared not to be managing or involved in the day-to-day detail activity of the agency's purchase card program for the period reviewed.

2. An individual for the agency was scheduled to attend mandatory purchase card training on April 4, 2001. There was no signature by the employee name or on ad-hoc sign-in sheet indicating the employee attended the mandatory training.
3. Approving officials of the agency are not required to sign an employee agreement form.

Cause:

1. The Purchase Card Administrator was relying on outside sources to process purchase card information that is typically performed by the Purchase Card Administrator. The agency was not aware that increasing the single purchase purchase card limit of the cardholder circumvented controls in place to prevent unauthorized purchases and avoidance of necessary and required statutory approvals.
2. Agency assumed as well as the cardholder that the cardholder received credit for attending training.
3. The agency was not aware that both the cardholder and approving official(s) are required to sign the State of Oklahoma Purchase Card Employee Agreement form.

Effect:

1. If the Purchase Card Administrator is not managing the day to day activity of the purchase card program, there is then an increased risk of the agency's purchase card program not operating properly or efficiently. By increasing the single purchase purchase card limit above procedural requirement, unauthorized purchases are allowed to be made that circumvent bidding requirements and required agency approvals.
2. Since there is not a signature by the employee's name on the training register, program officials are unable to determine if the employee received the mandatory training.

Training provides the requisite information regarding the duties and responsibilities of the cardholder and the approving official.

3. By not having the approving official sign the State of Oklahoma Purchase Card Employee Agreement form, there is not a written document available attesting to the approving official's understanding of their duties and responsibilities as it relates to the purchase card program.

Recommendation: We recommend the following to the agency:

1. Administer the purchase card program in accordance with State Purchase Card Procedures, applicable state statutes and codified rules. This includes administering purchase cardholder information and card limits. It is the responsibility of the Purchase Card Administrator to ensure specific cardholder limits do not exceed statutory limits.
2. Obtain confirmation from DCS training personnel regarding the attendance of mandatory purchase card training by non-cardholders.
3. All approving officials of the agency should sign a State of Oklahoma Purchase Card Employee Agreement form.

Management's Response:

Respondent: Ed Noltensmeyer, CPO, Finance Officer, and P-Card Administrator

1. Partially Concur- The Purchase Card Administrator did send changes to the State Purchase Card Administrator and fax the changes to the bank. However, according to the former agency Purchase Card Administrator, in the beginning of the program, the State Purchase Card Administrator required that all changes go through them. Later, the State Purchase Card Administrator advised the agency Purchase Card Administrator to fax changes to the bank.

The agency Purchase Card Administrator did raise the card limit in error to \$4,000. However, no purchase was ever made which exceeded the \$2,500 limit.

2. Concur- The agency Purchase Card Administrator was not aware that the approver had not attended the training when she was scheduled. DCS did not notify us that the approver, who was scheduled to attend training on April 4, 2001, did not attend the training until the fall of 2005.
3. Partially Concur- The former Purchase Card Administrator was not aware that approvers had to sign the Employee Agreement. In support of that position, all but one of the provisions of the Employee Agreement pertains to the cardholder and not to the administrator or approver. I respectfully suggest that the Department of Central Services issue an agreement specifically for administrators and approving officials.

Corrective Action Planned:

1. New agency Purchase Card Administrator was trained and is administering the program in accordance with the State Purchase Card Procedures.

2. We now verify with both the employee and DCS to insure that scheduled training has been completed.
3. All approving officials will sign an Employee Agreement.

Anticipated Completion Date:

1. Complete
2. Complete
3. March 1, 2006

Finding No: 05-300-02

Total Additional Extrapolated Costs: \$652.51

Criteria:

1. State Purchase Card Procedures § 5.1, Encumbering funds, states in part, "State entities shall establish encumbrances as "authority order" purchase orders in the State Purchasing System... Change orders to amend these encumbrances may be processed as necessary."

Oklahoma Constitution Article 10 § 23, Balanced budget, states in part, "The state shall never create or authorize the creation of any debt or obligation, or fund or pay any deficit, against the state, or any department, institution or agency thereof, regardless of its form or the source of money from which it is to be paid ..."

Office of State Finance Procedures Manual Chapter 200, Prior Approval and Encumbrance Before Purchase- Executive Summary, states in part:

Except as otherwise provided, state statutes require that whenever any agency enters into an agreement for the purchase of goods, wares, merchandise, contractual services, or construction projects for which labor and material must be furnished by outside vendors, such agreement shall be evidenced by written contracts or purchase orders encumbered by the agency within a reasonable time as determined by the Director of State Finance against the proper agency funds and accounts... Written contracts or purchase orders encumbered after thirty days must be justified by a letter for the delay.

2. State 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: § 6.2.5.1 State Use Committee, § 6.2.5.2 Oklahoma Corrections Industries (OCI) and § 6.2.5.3 Mandatory statewide contracts.

State of Oklahoma Purchase Card Employee Agreement, point #6, states, "I understand that the use of the p/card does not exempt me from requirements to

obtain certain supplies from the required sources as set forth in statutes and p/card procedures.”

State Purchase Card Procedures § 1.6, Conditions of participation, states in part:

State entities, as a condition of participation in the program and use of statewide contract, shall abide by the terms of these procedures unless a written exception is requested of and approved by the State Purchasing Director. Requests shall cite the specific paragraph(s) of these policies and procedures for which the exception is requested. The State Entity Purchase Card Administrator and the Audit Branch of the Department of Central Service shall keep approved exceptions on file.

Oklahoma Administrative Code 580:15-6-5 (1)(A), Mandatory statewide contract, states in part:

...State agencies shall make acquisitions from mandatory statewide contracts regardless of the acquisition price. A state agency may submit a written request to the State Purchasing Director to waive requirements for a state agency's use of a mandatory statewide contract for acquisitions. The State Purchasing Director shall grant exceptions prior to a state agency making the acquisition from another supplier.

Condition: We noted the following during our testwork:

1. During fiscal year 2005, the agency exceeded encumbrance for the purchase card program in three separate occurrences. These occurrences were from October 15, 2004 to November 23, 2004 for a total of \$4,214.57 unencumbered; from February 3, 2005 to April 5, 2005 for a total of \$8,567 unencumbered; and from April 28, 2005 to June 30, 2005 for a total of \$2,143.16 unencumbered. The total dollar amount of expenditures that were not properly encumbered during the fiscal year totaled \$14,925.69 for a total 163 days.
2. Eight out of eleven (72.7%) office supply purchases reviewed were made outside of merchant preferences. Purchases made outside of merchant preference cost the State an additional \$284.62. The total additional extrapolated cost to the State is \$652.51.

Cause:

1. After the initial authority order was created, the agency did not timely process change orders when encumbered funds were exhausted.
2. Office supply purchases were special orders and were needed expediently.

Effect:

1. The agency created an unauthorized obligation for the State.
2. By not making purchases according to merchant preferences, controls are circumvented that ensures prices paid for goods and services are fair and reasonable for the state of

Oklahoma and that approved products from qualified nonprofit agencies for the severely handicapped are purchased.

Recommendation: We recommend the following to the agency:

1. Institute a formal process that tracks expenditures paid against the encumbered amount. This process should include safeguards to alert program officials when encumbered funds have reached a significantly low level and when encumbered funds have reached a \$0.00 balance. Once these levels have been reached, all cardholders' limits may be temporarily suspended until sufficient funds are properly encumbered through Office of State Finance to cover anticipated or pre-approved expenditures. This process may be used in conjunction with the agency's current pre-approval process for acquisitions.
2. Cardholders should be made aware of mandatory merchant preferences for goods and services. Cardholders who abuse the merchant preference requirement should be reprimanded. If continuous abuse occurs, program officials should suspend the cardholder from the purchase card program. We also recommend the agency incorporate a review of merchant preference requirements during the agency's request for acquisition process.

Management Response:

Respondent: Ed Noltensmeyer, CPO, Finance Officer, and P-Card Administrator

1. Partially Concur- While the encumbrance was exceeded, there were some issues with PeopleSoft at the time in which Change Orders were not reflected and OSF personnel had to assist us in correcting the problem.
2. Non-Concur- I have reviewed all of the office supply purchases and do not concur with the findings of the audit. The referenced items purchased were not on the state contract at that time or were not available from the preferred vendors. The items in question, which DCS provided to the respondent, were not the same in most cases as the item that was purchased or the item was added to the contract or merchant catalog at a later date. Cardholders and agency purchasing personnel are familiar with the state use merchant preference.

Corrective Action Planned:

1. A process has been instituted to track remaining encumbrances for the P-Card.
2. We are aware that an item may be added to the state use contract or be offered by a preferred vendor at a later time so we consistently review items that are offered by state use vendors. We are also aware of the procedure in which we must have a waiver from the State Use Coordinator if we purchase a state use item from a non-preferred merchant.

Anticipated Completion Date:

1. February 14, 2006
2. Complete

**STATE OF OKLAHOMA
STATE AUDITOR AND INSPECTOR OFFICE
PURCHASE CARD REVIEW
FEBRUARY 23, 2006**

Auditor Response:

2. Detailed below are the office supplies that the agency did not purchase from a mandatory statewide contract. By not purchasing from the mandatory statewide contract, the additional cost to the State totaled \$284.62. The extrapolated cost to the State totaled \$652.51.

Date	Item Purchased	Item Listed on StateWide Contract	State Contract Vendor
08.09.04	Heavy duty stapler	Heavy duty desk top stapler	Oklahoma League for the Blind
08.09.04	Staples	Staples for heavy duty stapler	Oklahoma League for the Blind
08.12.04	Gel pen refills- ergonomic grip (fine & X-fine)	Gel pen refills	Sunshine Industries
10.28.04	Cordless rechargeable stapler	Heavy duty desk stapler	Oklahoma League for the Blind
10.28.04	X-fine refill gel pens	Gel pen refills	Sunshine Industries
10.28.04	Fine refill gel pens	Gel pen refills	Sunshine Industries
01.25.05	Legal, stack tray	Plastic stackable trays, legal	Oklahoma League for the Blind
01.25.05	Dry erase markers	Dry erase markers	Sunshine Industries
02.25.05	File, pocket	Expansion file pockets	Oklahoma League for the Blind
02.25.05	1" binder D ring	1" D slant with clearview	Center of Family Love
03.17.05	White board eraser	Dry eraser board wipes	Sunshine Industries
04.08.05	Electronic stapler (up to 30 sheets)	Electronic stapler (up to 25 sheets)	Galt Foundation
04.08.05	Cartridge staples	Staple cartridge	Galt Foundation
06.14.05	1/3 cut, legal, 2 ply top tabs, manila file folders (100/ box)	1/3 cut, legal, 2 ply top tabs, manila file folders	Galt Foundation

OVERALL CONCLUSION

In our opinion, the State Auditor and Inspector Office has materially complied with the requirements of the state of Oklahoma Purchase Card Procedures and the rules promulgated thereto; however, some exceptions were noted. These exceptions were single purchase limits, approving officials attending mandatory purchase card training, approving officials signing purchase card employee agreement form, encumbrances, and complying with merchant preference. The State Auditor and Inspector Office has implemented corrective actions, which we believe will ensure the agency will comply, in all material respects, with the aforementioned requirements.