

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

November 16, 2006

**TO STEPHEN A. THOMPSON, EXECUTIVE DIRECTOR AND TO THE
ENVIRONMENTAL QUALITY BOARD**

With this letter, we transmit the report of the Oklahoma Department of Environmental Quality procurement audit for state fiscal year 2005.

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".

John S. Richard
Director of the Department of Central Services

"Committed to Quality"

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OKLAHOMA

DEPARTMENT OF CENTRAL SERVICES AUDIT UNIT



OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY

Procurement Audit

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

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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, 9 copies have been prepared and distributed at a cost of \$5.99. Copies have been deposited with the Publications Clearing House of the Oklahoma Department of Library

PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services, Audit Unit has completed an audit of the Oklahoma Department of Environmental Quality, hereinafter referred to as the "Agency", procurement program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the Agency is in compliance with provisions of the Oklahoma Central Purchasing Act;
- determine if the Agency is in compliance with rules promulgated by the Department of Central Services pursuant to the Oklahoma Central Purchasing Act;
- determine if the Agency is in compliance with provisions of Section 3001 et seq. of Title 74 pertaining to the State Use Committee;
- determine if the Agency is in compliance with the provisions of the State of Oklahoma Purchase Card Procedures;
- determine if the Agency is in compliance with approved internal purchasing procedures;
- and, 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 procurement program (including the purchase card program) was documented and evaluated.
- Procurement transactions (including a statistical sample of purchase card transactions from active cardholders) were examined.
- Overall program compliance with the rules related to the audit objectives was evaluated.

EXECUTIVE SUMMARY

Organization

The Department of Environmental Quality was established in 1993 to implement and enforce laws and rules within its jurisdictional areas of environmental responsibility; strengthen relationships between state, regional, local and federal environmental planning, development and management programs; and, cooperate with all state environmental agencies, other state agencies and local or federal governmental entities to protect, foster, and promote the general welfare, and the environment and natural resources of Oklahoma. The mission of the Oklahoma Department of Environmental Quality is to provide a clean, attractive, prosperous Oklahoma.

Agency / Procurement Background

The Agency is made up of 482 classified, 76 unclassified, and 48 temporary staff members as of September 1, 2004. The total acquisition amount by the Agency during state fiscal year 2005 was \$16,977,477.01. Of this amount, \$10,940,225.90 (64%) was related to open market acquisitions. The Agency's purchase card program during state fiscal year 2005 represented 0.2% (\$22,723.62) of the open market acquisitions.

Key Staff:

Stephen A. Thompson- Executive Director
Craig R. Kennamer- Deputy Executive Director
Lawrence A. Gales, Director of Administrative Services
Jimmy Givens, General Counsel
Elaine Taylor, CPO, CPPB, Contracting and Acquisitions Administrator

Board Members:

(During the audit period)

Steve Mason, Chair
Jennifer Galvin, Vice Chair
Brita Cantrell
Mike Cassidy
Jack Coffman
Anthony "Tony" Dark
Bob Drake
Dave Griesel
Jerry Johnston
Sandra Rose
Karol "Terri" Savage
Richard Wuerflein

AUDIT RESULTS

Economy Results

Estimated Savings. The purchase card program saved the Agency an estimated nest savings of \$1,685.44 during state fiscal year 2005. This is 7.4% (\$1,685.44 estimated savings/ \$22,723.62 total expenditures) of the total dollars expended using this form of procurement method. This is an average estimated savings of \$11.62 per transaction for the Agency. A majority of the savings was contributable to the cost associated with employee time savings. Additional savings include the Agency rebate and the reduction in transaction fees. The Agency stated that time is saved by not having to initiate and process purchase orders.

Questioned and Understated Costs – We noted two instances in which the Agency did not obtain the required supporting documentation for the acquisition in accordance with statute and procedure. We noted a total questioned cost of [\\$149.00](#) and an extrapolated cost of [\\$467.09](#). We also noted inventory items not reported on the Agency's inventory schedule. Inventory was understated by [\\$5,542.12](#). Lastly, we noted a purchase made in the amount of [\\$2,590.71](#), which exceeded the single purchase limit by \$90.71.

Findings and Recommendations

Findings and recommendations are reported based on audit significance.

FINDING 05-292-11: Professional Services

Criteria: 74 O.S. § 85.41., **Professional services contracts**, B., states:

The state agency shall evaluate the performance of the professional services provided pursuant to a professional services contract. The performance evaluation shall indicate the quality of service or work product of the supplier. The state agency shall retain the evaluation in the document file the state agency maintains for the acquisition pursuant to § 85.39 of this title. If the evaluation indicates deficiencies with the supplier's work, the state agency shall send a copy of the evaluation to the State Purchasing Director.

Procurement Information Memorandum (Number 01-1 Revised), **Professional Services Contract Evaluations**, dated September 30, 2004, states in part, "Professional Service Contract evaluations which indicate satisfactory performance are to be maintained by the state agency as part of the contract file... State agencies shall use Purchasing Form 017, Professional Service Evaluation, to document performance..."

Condition: During state fiscal year 2005, the Agency procured 56 professional service contracts totaling \$3,788,731.95. Of these acquisitions, 13 professional service contracts (23.2% of total contracts) with a total dollar value of \$3,078,164.82 (81% of total dollar value) were statistically sampled for review. Professional service evaluation forms were not completed for services received (100% of the sample).

Cause: Agency does not complete professional service evaluation forms.

Effect: By not completing professional service evaluation forms, the Agency is not effectively monitoring the service provided by vendors.

Recommendation: We recommend the Agency develop a procedure that ensures that at the end of the contract period, the division who has contracted for professional services complete and maintain on file a professional service evaluation form. We also recommend that for unsatisfactory service noted, a copy of the evaluation form be forwarded to the State Purchasing Director.

Management's Response:

Date: 11/08/2006

Response: Concur – The ODEQ has not been complying with 74 S.S. §85.41- Professional Services Contract Evaluations. The ODEQ CPO will educate division personnel on this requirement and will be more diligent in checking documentation for each Professional Service Contract.

Corrective Action Plan:

Anticipated Completion Date: Immediately

Corrective Action Planned: The ODEQ CPO will educate division personnel on this requirement and will be more diligent in checking documentation for each Professional Service Contract.

FINDING 05-292-10: Inventory

Criteria: 74 O.S. § 110.2, **Inventory records of departments, boards, etc.**, states, "The Office of Public Affairs may require inventory records to be maintained at state departments, boards, commissions, institutions, or agencies of the state, of all classes of supplies, books, machinery, implements, tools, furniture, livestock, and other apparatus as the Office deems necessary in order to comply with the provisions of § 110.1 of this title."

The Oklahoma Administrative Code 580:70-1-3, **Threshold determination**, states in part, "(a) General threshold. Unless the Director specifies otherwise (Reference (b) of this Section), the threshold for tangible asset inventory reports is \$500.00."

Condition: During state fiscal year 2005, the Agency's acquisitions totaled \$10,940,225.90 with 1,471 purchase orders. A statistical sample of the acquisitions was selected for testing. The sample reviewed was 78 acquisitions with a total value of \$7,477,143.16.

There were 12 inventoriable items with a total dollar value of \$310,445.10 in the sample tested. Of these 12 inventoriable items, four (33.3%) items with a total dollar value of

\$5,542.12 (1.79%) were not reported on the Agency's fixed asset report. Details of these items are as follows:

PO #	Date	Item	Amount
2929001481	08.27.2004	Corel software products	\$ 735.00
2929001749	10.20.2004	software	\$ 4,224.00
2929002208	01.18.2005	software	\$ 583.12
Total			<u>\$ 5,542.12</u>

The extrapolated understated inventory amount is \$8,108.99.

Cause: Omission of software was an oversight by the Agency. The Agency, at present, only tracks software that is currently in use on the Agency's PCs.

Effect: By not maintaining adequate records of the Agency's inventory purchases exceeding \$500, the inventory cannot be properly tracked, the total value of inventory is understated, and the Agency does not have an accurate reporting of assets owned. During state fiscal year 2005, inventory was understated by \$5,542.12.

Recommendation: We recommend the Agency add the inventory items noted during the audit finding to the Agency fixed asset listing. Implement a process for the Agency's Information Technology Division that ensures software and hardware purchased by the Division is appropriately recorded on the Agency's inventory schedule.

Management's Response:

Date: 11/07/2006

Response: Concur - The ODEQ has not had an accurate means for recording the acquisition of data software for asset inventory purposes. We are in the process of implementing a procedure for tracking all software purchases.

Corrective Action Plan:

Anticipated Completion Date: 12/01/2006

Corrective Action Planned: ODEQ has implemented a process to track all software acquisitions. All owned and agency produced software has been entered into an excel spreadsheet. An agency asset tag will be assigned with an accumulated total of all software and this amount will be entered into the Agency Fixed Asset Management System. As additional software is purchased, the value will be added to the total already entered into the system and an itemized list of the software will be entered into the spreadsheet. As software becomes obsolete, the software will be removed from the list and the value will be reduced from the amount in the system after approval has been received from the Dept. of Central Services.

FINDING 05-292-09: Purchasing

1. OAC 580:15-6-8, **State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00)**, (5) **Contracts**, states in part, "If the state agency and the supplier execute a contract for the acquisition, the supplier shall provide a notarized, sworn statement of noncollusion pursuant to 74 O.S. § 85.23."

74 O.S. § 85.23, **Notarized sworn statement attached to contract**, states in part, "A notarized sworn statement shall be attached to each contract for goods and services awarded by the state..."

2. OAC 580:15-6-8, **State agency open market acquisitions not exceeding ten thousand dollars (\$10,000.00)**, (5) **Contracts**, states:

(A) Prior to awarding a contract exceeding Two Thousand Five Hundred Dollars (\$2,500.00), the awarding agency must verify that the vendor has obtained a sales tax permit in accordance with the laws of Oklahoma.

(B) Documentation. Verification of the sales tax permit must be documented in the acquisition file.

3. OAC 580-15-6-9, **State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00)**, (7) Award to a supplier, states:

(A) Prior to awarding a contract exceeding Two Thousand Five Hundred Dollars (\$2,500.00), the awarding agency must verify that the vendor has obtained a sales tax permit in accordance with the laws of Oklahoma.

(C) **Documentation.** Verification of the sales tax permit must be documented in the acquisition file.

4. OAC 580-15-6-9, **State agency acquisitions exceeding ten thousand dollars (\$10,000.00) and not exceeding twenty-five thousand dollars (\$25,000.00)**, (8) **Contract noncollusion affidavit**, states, "If the state agency and the supplier execute a contract for the acquisition, the supplier shall submit a notarized, sworn statement of noncollusion pursuant to 74 O.S. § 85.23."

74 O.S. § 85.23, **Notarized sworn statement attached to contract**, states in part, "A notarized sworn statement shall be attached to each contract for goods and services awarded by the state..."

Condition: During state fiscal year 2005, the Agency's acquisitions totaled \$10,940,225.90 from 1,471 purchase orders. A sample was statistically selected for acquisitions between \$2,501 and \$10,000. The sample tested was 7 purchase orders with a total dollar value of \$40,490.94. Exceptions noted during substantive testing include:

1. 4 of the 7 (57%) acquisitions reviewed were not supported by a non-collusion affidavit.
2. 5 of the 7 acquisitions reviewed were for goods which required verification of a valid sales tax permit. All 5 acquisitions reviewed did not include documentation in the acquisition file that the valid status of the sales tax permit of the vendor was verified.

During state fiscal year 2005, the Agency's total acquisition amount was \$10,940,225.90 for 1,471 purchase orders. A statistical sample was extracted from acquisitions exceeding \$10,000 and not exceeding \$25,000. The sample tested was 10 purchase orders with a total dollar value of \$169,442.64. Exceptions noted during substantive testing include:

3. 4 of the 10 acquisitions were for goods which required verification of a valid sales tax permit. All 4 of these acquisitions did not include documentation in the acquisition file that the valid status of the sales tax permit of the vendor was verified.
4. 5 of the 10 (50%) acquisitions reviewed were not supported by a non-collusion affidavit.

Cause:

1. and 4. Absence of non-collusion affidavit was an oversight by management.
2. and 3. Agency does not verify sales tax permits.

Effect:

1. and 4. By not having a notarized sworn statement included in the purchase file, there is no written documentation that the individual initiating the contract is in fact an agent for the contractor, has intimate knowledge of the contract process, and consideration was not given by the agent or the State in the development of the contract.
2. and 3. By not having documentation on file that the status of the sales tax permit has been verified, the Agency could be conducting business with a vendor who has been suspended by the Oklahoma Tax Commission.

Recommendation: We recommend the Agency:

1. and 4. Devise a process and procedure for division personnel with purchasing responsibilities that ensures all necessary and required documentation for the acquisition is completed before submission to Assistant Division Director for approval. This includes the completion of a notarized sworn affidavit for all contracts executed. In addition, the Agency Certified Procurement Officer (CPO) should provide oversight to ensure the acquisition file contains all required documentation for the acquisition before the procurement process is completed.

2. and 3. Devise and implement a process for all division personnel with the responsibility of procuring goods and services that ensures the valid status of a vendor's sales tax permit is verified. The Agency CPO should also provide oversight to ensure the acquisition file contains all required documentation for the acquisition before the acquisition is made.

Management's Response:

Date: 11/06/2006

Response: Partially Concur - The ODEQ has received conflicting information on when Non-Collusion Affidavits are required. We were told that they were not necessary for any purchase under \$10,000. Then we were told that they were necessary for all purchase orders that consisted of a written contract. We are now requiring them on all purchase orders containing contracts exceeding \$2500.

The ODEQ has received unclear and conflicting information on which vendors the sales tax permit information needs to be obtained, i.e. in-state or out-of-state vendors, etc.

Corrective Action Plan:

Anticipated Completion Date: 11/07/2006

Corrective Action Planned: The ODEQ has implemented a process where by division purchasing personnel obtain a non-collusion affidavit for all purchases orders/contracts that exceed \$2500. which becomes a part of the purchase order file. DEQ is working on a Purchasing brochure to help educate division personnel and others on when a Contract Non-Collusion is necessary. The agency CPO will be more diligent in overseeing that this requirement is fulfilled.

The ODEQ has implemented a process that requires the division purchasing personnel to obtain Sales Tax Permit information on each qualifying vendor.

FINDING 05-292-02: Approving Officials

Criteria:

1. 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."
2. State of Oklahoma Purchase Card Procedures §6.9.2 Entity **approving official responsibility, states in part:**

State Entity Approving Official(s) shall review the regular p/card or the Statewide p/card holder's reconciled memo statement and supporting

documentation for accuracy, completeness, appropriateness, of the purchase and whether the transactions were conducted according to State Statutes, rules, state purchase card procedures, and sound business practices...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement...

Condition:

1. We statistically selected 36 transactions totaling \$7,248.99 out of 145 transactions totaling \$22,723.62 to review. During testwork of the 36 transactions, we noted 2 of 12 (17%) memo statements tested where the approving official for the agency is not one level higher in position than one of the cardholders; therefore, inappropriate levels of authority have occurred for one cardholder.
2. We statistically selected 36 transactions totaling \$7,248.99 out of 145 transactions totaling \$22,723.62 to review. During testwork of the 36 transactions, we noted 2 of 12 (17%) memo statements were not signed and dated by the approving official indicating a review of the reconciliation and supporting documentation was performed.

Cause:

1. The Agency was not aware that the approving official had to be at least one level higher in position than the cardholders.
2. The Agency stated that the instances were an oversight of the approving official.

Effect:

1. If the approving official is not at least one level higher than the cardholder within the organizational structure of the Agency, the cardholder could have improper influence and actual authority over the approving official. As a result, the cardholder could skew the approving official's decision making process and an increased risk for transactions to be unauthorized, unsupported, or unallowable could occur and go undetected. In addition, disputes or unresolved issues may not be properly resolved by the approving official. Accordingly, controls in relation to the proper review and approval process of purchase card expenditures and monthly reconciliations could be weakened.
2. The Agency would not have documentation showing an independent review of the cardholder's transactions, reconciliation, and supporting documentation occurred by a trained approving official.

Recommendation:

1. When we informed the Agency of non-compliance with requirements, the cardholder whose approving official was not one level higher voluntarily elected to have the purchase card deactivated. No further recommendation is made at this time.
2. We recommend the Agency implement a process that ensures the State Entity Approving Official reviews the purchase cardholder's reconciled memo statement and supporting documentation for accuracy, completeness, and appropriateness of the

purchase and whether the transactions were conducted according to State Statutes, rules, procedures, and sound business practices and indicate this review by signing and dating the memo statements.

Management's Response:

1. **Date:** 10/25/2006

Response: Concur - The Agency P-Card Administrator was aware that the approving official had to be at least one level higher in position than the cardholders. When the cardholder initially was issued the p-card, the cardholder was more than one level in position below the approving official. This cardholder moved up in a position level higher than the approving official during the time they held the card. The only positions higher than the cardholder at that time were the Agency Executive Director and the Agency Deputy Director. It was an oversight by the P-Card Administrator in not acting on the situation when it occurred.

2. **Date:** 10/25/2006

Response: Concur - This was an oversight by the approving official in not signing and dating the cardholder's statement. The approving official has always reviewed all transactions of all cardholders.

Corrective Action Plan:

Anticipated Completion Date: Our agency had conducted an internal p-card audit in August of 2005 and had discovered some of errors mentioned in this audit. We took steps at that time to correct them.

Corrective Action Planned:

1. The cardholder has since relinquished the purchase card.
2. The approving official realizes the importance of signing and dating the cardholder's statements and will make certain that this is done on each p-card holder statement.

FINDING 05-292-06: Card Control & Limits

Criteria: The State Purchase Card Procedures (version March 28, 2001) § 6.2.3 **Other prohibited purchases**, states in part:

The p/card shall NOT be used for the following types for purchases:

...- Any transaction exceeding a total of \$2500.00 (State entities may establish lower dollar levels.)...

The State Purchase Card Procedures (version March 28, 2001) § 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 Bank One 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).

Condition: One Agency cardholder's (card # 0552) single purchase transaction limit was set at \$3,000.00. On October 28, 2004, a transaction was made in the amount of [\\$2,590.71](#). The Entity Purchase Card Administrator stated that the limit change was done in error and was corrected as soon as the error was found. An unauthorized purchase in the amount of \$2,590.71 occurred. The purchase exceeded the statutory single transaction limit in the amount of \$90.71.

Cause: The Agency stated the increase was done in error.

Effect: By increasing the single purchase card limit above single purchase transaction limit, a breakdown in management controls has occurred and a purchase occurred that exceeded the cardholder's authorized purchasing authority.

Recommendation: We recommend the Agency 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.

Management's Response:

Date: 10/30/2006

Response: *Concur* - This error was corrected as soon as the P-Card Administrator realized the mistake.

Corrective Action Plan:

Anticipated Completion Date: Already completed

Corrective Action Planned: State Purchase Card Procedures, State Statutes and codified rules were reviewed and are being strictly enforced.

FINDING 05-292-03: Receiving Document

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

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

Condition: We statistically selected 36 transactions totaling \$7,248.99 out of 145 transactions totaling \$22,723.62 to review. We noted 1 of 36 (3%) transactions was not supported by receiving documentation. We also noted 30 of 35 (86%) of the transactions reviewed the receiving document did not contain all the requirements of signing, dating, or annotating "Received" on the receiving document.

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

Effect: Without completing all the procedures required by the receiving employee, it is difficult to determine all the factors of who received the goods and services and when the goods and services were received. For the one exception noted, we are unable to determine if the goods or services purchased on the purchase card were actually received by the agency.

Recommendation: We recommend that the Agency develop, implement and communicate to all anticipated receiving employees a process to ensure that receiving employees sign, date, and annotate "received" on the receiving document.

We also recommend the Agency review its process for returning receiving documentation to the cardholder to properly support the product or service was received. In final, we recommend the agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continuance compliance with the purchase card receiving requirements.

Management's Response:

Date: 10/25/2006

Response: Concur - This is one of the errors we discovered during our internal audit. Measures have been taken by the P-Card Administrator to insure that all goods and services purchased with the agency p-cards are duly signed and dated by two individuals, the shipping and receiving personnel as well as the cardholder, as goods or services are received.

Corrective Action Plan:

Anticipated Completion Date: The agency has already corrected this procedure.

Corrective Action Planned: Please see statement under "Response".

FINDING 05-292-08: Internal Purchasing Procedures

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

Condition: The Department's approved internal purchasing procedures did not include procedures for the purchase card program. The Department has submitted revised procedures and these procedures were approved on December 15, 2005.

Cause: The Department internal purchasing procedures were revised and submitted to the Department of Central Services on July 2, 2004 but did not receive a request for revisions until December 2005. Revisions were made and submitted on December 13, 2005.

Effect: The Department's internal purchasing policies and procedures were not in compliance with the State Purchase Card Procedures before implementing the purchase card program.

Recommendation: The Department has revised, submitted, and received approval for their internal purchasing procedures on December 15, 2005. No further recommendations will be made at this time.

Management's Response

Date: 10/30/2006

Response: Concur - The agency purchase card procedures became a part of the agency's internal purchasing procedures after waiting a year and a half for DCS to review our revised procedures.

Corrective Action Plan:

Anticipated Completion Date: Already completed as of 12/15/05

Corrective Action Planned: The agency internal purchasing procedures were revised to include the purchase card procedures as of 12/15/05.

FINDING 05-292-07: Card Security

Criteria: State of Oklahoma Purchase Card Procedures § 6.10, **Card security** state in part, "Entities shall establish an internal procedure to ensure that a p/card held by a terminated employee is promptly provided to the State Entity Purchase Card Administrator".

Condition: The Agency does not have an internal procedure to ensure that a purchase card held by a terminated employee is promptly provided to the State Entity Purchase Card Administrator.

Cause: The Agency was not aware that they were required to have an internal procedure ensuring purchase cards held by a terminated employee were to be provided to the State Entity Purchase Card Administrator at the time of termination.

Effect: The purchase card may not be collected from the terminated employee in a timely manner, and unauthorized purchases may occur.

Recommendation: The Agency should develop and implement procedures that ensure purchase cards held by terminated employees are provided to the State Entity Purchase Card Administrator at the time of termination.

Management's Response:

Date: 10/30/2006

Response: Concur - The agency was not aware that we were required to have an internal procedure to retrieve purchase cards from terminated employees. With the agency only having two purchase cards, the Purchase Card Administrator had not realized this was an issue.

Corrective Action Plan:

Anticipated Completion Date: Done

Corrective Action Planned: The following statement has been submitted for change to the Agency's Administrative Procedures Manual # 12 **Exit Process:**

Employee purchase card shall be turned in to employee's supervisor during the exit process. Supervisor shall then submit employee purchase card to the Agency P-Card Administrator.

This addition to the Agency APM is awaiting approval by the Agency Division Directors.

FINDING 05-292-04: Receipts for Purchase

Criteria: The State of Oklahoma Purchase Card Procedures § 6.5 (Version June 9, 2005), Receipts for purchase, states in part, "Receipts shall be obtained for purchases.

The General Accounting Office (GAO), Internal Control Management and Evaluation Tool (08/01), Common Categories of Control Activities Comments/Descriptions, states in part:

9. Recording of Transactions and Events – Transactions and other significant events are properly classified and promptly recorded. ...Proper classification of transactions and events includes appropriate organization and format of information on original documents (hardcopy paper and electronic) and summary records from which reports and statements are prepared.

Condition: We statistically selected 36 transactions totaling \$7,248.99 to review out of 145 transactions totaling \$22,723.62. During our testwork, we noted 1 of 36 (2.7%) purchase card transactions in the amount of \$149.00, dated 11/18/2005, that was not supported by an itemized or detailed receipt. The supporting documentation with the transactions was a credit card authorization slip showing only the amount charged and not a detail list of items purchased. The total questioned cost for the transaction is \$149.00. The total extrapolated questioned cost is \$467.09.

Cause: The Agency was unaware that a credit slip was not sufficient receipting documentation for purchases of goods.

Effect: By not having sufficient receipting documentation for purchases, it is difficult to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid government purposes in accordance with the agency's mission. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

Recommendation: We recommend the Agency obtain detailed receipts to support all purchases of goods and services. As part of the designated Approving Official's duties in reviewing cardholder's reconciliation, the designated Approving Official should verify adequate supporting documentation has been obtained for each purchase.

Management's Response

Date: 10/25/2006

Response: Concur - The agency cardholders do obtain receipts for all p-card purchases. Some merchants do not give itemized credit slips for goods. Since the required p-card log contains detailed information for each purchase, all items itemized, the p-card administrator did not think it necessary to insist that the merchant itemize the purchases on the credit slip.

Corrective Action Plan:

Anticipated Completion Date: Corrective measures were implemented upon from the results of the agency's internal audit.

Corrective Action Planned: The P-Card Administrator has instructed cardholders to make certain that all credit slips are itemized.

FINDING 05-292-01: Purchase Card Employee Agreement Form

Criteria: The 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 from prior to assuming their duties and being issued p/cards."

Condition: The Approving Official did not complete a copy of the State of Oklahoma Purchase Card Employee Agreement.

Cause: The client was unaware the Employee Agreement Forms were to be signed by Approving Officials.

Effect: The approving officials may not understand their responsibility in relation to the purchase card program. Also, individuals may not be held liable for the misuse of their purchase card or exceed the authority that has been granted to them.

Recommendation: Implement a process that would ensure current and future purchase card agreements are completed and maintained by the Entity P/Card Administrator.

Management's Response:

Date: 10/25/2006

Response: Concur - It is mandatory that the approving official attends p-card training before he can act as an approving official. All areas are covered in the training to show them their responsibility in relation to the purchase card program. Purchase card agreements had been signed by the p-card holders only. The P-Card Administrator was unaware that the Approving Official was required to sign a P-Card Holder Agreement since a P-Card had not been issued to him.

Corrective Action Plan:

Anticipated Completion Date: Immediately

Corrective Action Planned: P-Card Administrator will in the future make certain that all persons as they become involved in the p-card program signs a Purchase Card Agreement and will kept them on file.

FINDING 05-292-05: Voucher Submission

Criteria: State of Oklahoma Purchase Card Procedures, Version 1 dated March 28, 2001, § 5.4, **State Reimbursement of OSF**, states in part:

Each State Entity P/Card Administrator will receive a separate memo statement from Bank One reflecting the amount due from said Entity and the Entity shall use this memo statement as the basis for payment to OSF. Payments to OSF should be made within 21 days after the end of the billing cycle, but no later than the end of the subsequent billing cycle."

Condition: During our testwork, we noted 2 of 7 (28.57% error rate) vouchers were not submitted to the Office of State Finance (OSF) within 21 days after the end of the cycle or no later the end of the subsequent cycle.

<u>Voucher number</u>	<u>Cycle Date</u>	<u>Voucher Date</u>	<u>Amount</u>	<u>Days late</u>
00007709	07/27/2004	09/01/2004	\$771.09	5 days
00009720	09/27/2004	11/19/2004	\$2,228.07	23 days

Cause: The Agency was not aware that the time limit was not met.

Effect: By not submitting vouchers to OSF within the mandatory time limit, OSF is not allowed appropriate time to process the voucher and submit EFT payment to the bank.

Recommendation: We recommend the Agency submit all vouchers to OSF within the prescribed time limit. We also recommend the Agency devise a system whereby the appropriate individual is notified of when the voucher payment is due.

Management's Response:

Date: 10/25/06

Response: Concur - The new procedures for paying for p-card purchases has eliminated this issue. When the notice from the State P-Card Administrator is sent to the Agency P-Card Administrator, cardholders and accounts payable personnel are notified of the cut off dates and the due dates of the payment.

Corrective Action Plan:

Anticipated Completion Date: Done

Corrective Action Planned: The P-Card Administrator follows through to make certain that all p-card statements are reconciled and submitted to Approving Official in a timely manner as well as to the payables department to insure that the payments are made within OSF's policy.

OVERALL CONCLUSION

Based on our audit, we have determined the Oklahoma Department of Environmental Quality has materially complied with the objectives reviewed. However, there were deficiencies noted during the audit. Some of these deficiencies were related to the professional service evaluation forms, sales tax permit verification, and purchase card approving official. The Oklahoma Department of Environmental Quality has stated corrective actions plans, which we believe will ensure the Agency, will comply, in all material respects, with the aforementioned requirements.