



Oklahoma Department of Mines

Purchase Card Program Audit

Audit and Internal Investigations

Report Released November 2016

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AUDIT HIGHLIGHTS

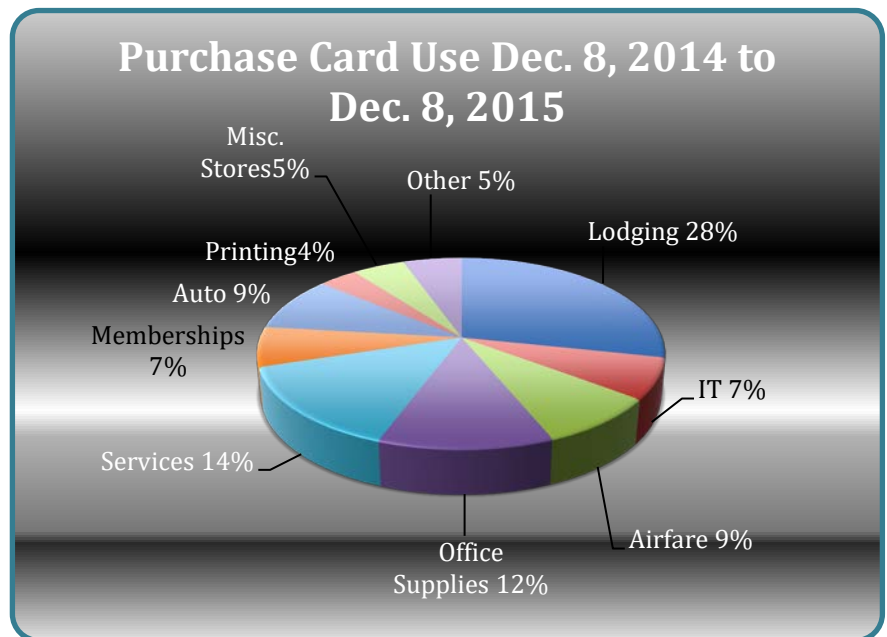
Oklahoma Department of Mines - Purchase Card Program Audit — Completed April 2016

Why We Conducted This Audit

This report provides information on the agency's compliance of the Purchase Card Program with the state Purchase Card Procedures and the strength and execution of the agency's approved internal control procedures.

What We Found

We have determined the Oklahoma Department of Mines has significantly complied with the state purchase card procedures and the agency's internal purchasing procedures. The agency has also implemented internal controls and the controls appear to be operating effectively in relation to the agency's purchase card program. We performed analytical testwork during our planning, completed internal control walkthroughs, and tested 65 purchases against a minimum of 9 compliance requirements for each transaction. Five formal findings were written.



Audit Finding Summary

(Findings are listed by order of importance. Error rates are based on transactions reviewed.)

Finding 15-125-05: Encumbrance

The agency was encumbering funds after the purchase card expenditure occurred.

Finding 15-125-03: Card Security

One purchase card was not in a secure location.

Finding 15-125-04: Internal Purchasing Procedures

The agency's purchasing procedures are outdated. The agency has not submitted their revised procedures that they are currently operating under.

Finding 15-125-02: Food Policy

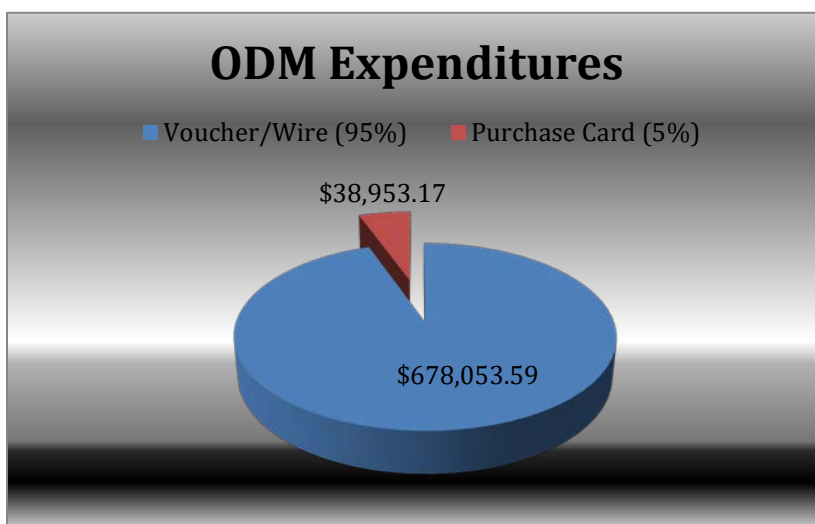
The agency did not have the required food policy per State of Oklahoma Purchase Card procedures.

(The most significant audit findings are detailed in our audit report. All exceptions noted during our audit have been provided to agency's management.)

AUDIT OVERVIEW

This audit was performed pursuant to 74 O.S. §85.5.E. and the State of Oklahoma Purchase Card Procedures. Our audit was to determine if the agency's purchase card program was in compliance with the audit objectives during the period of Dec. 8, 2014, to Dec. 8, 2015. As of Aug. 5, 2015, there were three purchase cardholders and one approving official in the agency.

In total, the agency spent \$38,953.17 over 211 purchase card transactions for the audit period. Transactions reviewed for testing included, purchases under \$5,000, lodging and airfare transactions. We used the classical variable sampling method to randomly select our sample for testing. We exercised auditor judgment in adjusting the confidence level and expected proportion of errors in the population based on the risk assessment when applying the classical variable sampling technique. To ensure a sound statistical sample, a minimum sample size of 30 transactions was required to be tested.



DETAILED FINDINGS

Finding 15-125-05: Encumbrance

Condition: During the testing phase of the audit, we found that from Oct. 20, 2014, to July 23, 2015, the agency was encumbering funds after the purchase card expenditure occurred. Change orders were created after the end of the billing cycle to make the monthly payment. Purchase card expenditures totaling \$33,253.83 were not properly encumbered.

Cause: To reflect the exact amount needed to pay for P-card purchases for the month, the agency did not encumber the funds prior to purchasing.

Effect or Potential Effect: If the agency faces a budget shortfall, funding may not be sufficient to meet current liabilities. This process leaves funds which should have been encumbered for P-card purchases available for non-purchase card activity for the agency.

Criteria: The State of Oklahoma 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. Entities are required to create an authority order prior to making any P-Card transactions. Change orders to amend the encumbrance(s) may be processed, as necessary.

Please remember to follow the prior encumbrance requirement (sufficient balance implied) to be in compliance with the encumbrance law (62 O.S. § 34.62. - Encumbrance requirements for payment of state funds). The administrative head of a State Entity shall be personally liable for obligations incurred in excess of the authorization [funds encumbered]. Accordingly, the Director of the Office of Management and Enterprise Services shall never authorize payment of claims [vouchers under Core] for purchases not supported by an encumbrance and any invoice or claim dated prior to the date of the encumbrance shall be rejected.

Recommendation: We recommend that the agency pre-encumber funds by monitoring purchase card usage and processing change orders prior to making expenditures in excess of the authority order balance.

Management's Response

Date: 04/01/2016

Respondent: Director

Response: Concur – There was a misunderstanding regarding funding distribution lines on the P-Card authority order in relation to the date that purchases occurred utilizing the P-card. It was pointed out that funding distribution lines must be in place on the P-card authority order BEFORE use of the P-card occurs that will adequately fund the use of the P-card.

Corrective Action Plan

Contact Person: Chief Financial Officer

Anticipated Completion Date: 02/11/2016

Corrective Action Planned: At the time of the exit conference, and discussion of this finding, immediate action was taken. The CPO encumbered an amount equal to the largest combined annual purchases on the P-card Authority Order in a specific funding distribution line. The CFO monitors the distribution balances monthly to insure that there is always an adequate amount encumbered BEFORE purchases are made with the agency P-card. The CPO and Accountant continue to make funding changes to other funding distribution lines for the monthly P-card voucher payment.

Finding 15-125-03: Card Security

Condition: During our review of the agency's internal controls, we examined the agency's processes and procedures for securing purchase cards and purchase card documentation. When asked to see where she secured the purchase card, the cardholder said it was at her house on the nightstand.

Cause: The cardholder was planning on making a purchase that day and accidentally took the card home in her purse. The cardholder then switched purses the next day and left the purchase card on the nightstand at home.

Effect or Potential Effect: The P-card information could be compromised without the cardholder's knowledge.

Criteria: The State of Oklahoma Purchase Card Procedures § 6.16, **Card Security**, states in part:

The P-Card holder shall assure the card is kept in a secure manner and the P-Card account number on the card is not posted or left in a conspicuous place. Although not required, it is recommended the P-Card holder not carry the P-Card on their person outside of normal duty hours unless required and justified by the State Entity. The State Entity is responsible for maintaining adequate security of purchase card account numbers and related information.

Recommendation: The agency should maintain the purchase cards and purchase card information in a secure manner at all times. Purchase cards and cardholder information should not be left untended or in an insecure area that allows access to unauthorized individuals.

Management's Response

Date: 04/01/2016

Respondent: Director

Response: Concur – Card security is important, and we concur with the findings and recommendation.

Corrective Action Plan

Contact Person: Chief Financial Officer

Anticipated Completion Date: Immediate implementation

Corrective Action Planned: Card security was implemented immediately. The card(s) will be secured when not in use. When located in the agency, the card(s) will be kept under lock and key for security. If carried for needed travel, it will be secured and kept on the person assigned at all times.

Finding 15-125-04: Internal Purchasing Procedures

Condition: 1) During the substantive testing phase of the audit we noted 11 out of 53 transactions tested (21 percent error rate) that did not include an ODM Internal Request for Purchase form per the agency's internal purchasing procedures.

2) During the substantive testing phase of our audit we also noted 2 out of 5 transactions tested (40 percent error rate) did not contain documentation of a Telephone Solicitation Form from a minimum of three vendors per the agency's internal purchasing procedures.

The agency's transactions were audited under the internal purchasing procedures currently approved and on file with the state purchasing director. The revised internal purchasing procedures under which the agency has been operating have not yet been submitted to the state purchasing director for approval.

Cause: The agency's approved internal purchasing procedures are not current.

Effect or Potential Effect: 1) By not providing a completed Internal Request for Purchase form, there is no documentation of approval given to the cardholder for the purchase of goods and services with the purchase card.

2) By not providing a minimum of three vendors for purchases from \$750-\$2,500 per the requirements listed in the agency's internal purchasing procedures, competitiveness is reduced.

Criteria: 1) The Oklahoma Department of Mines Internal Purchasing Procedures § 6.D, **Procurement Parameters** states, "For all purchases, an "ODM Internal Request for Purchase" form must be fully completed and properly signed by all necessary staff."

2) The Oklahoma Department of Mines Internal Purchasing Procedures § 6.D.1, **Procurement Parameters**, states, "Purchases exceeding \$750 but not exceeding \$2,500, ODM will issue internal purchasing orders for acquisitions estimated to cost over \$750 but not exceeding \$2,500. Unless the purchase is made from a State Contract, each such acquisition requires completion of a Telephone Solicitation Form with adequate documentation from a minimum of three vendors."

Recommendation: We recommend the agency review and update its internal purchasing procedures and submit them to the state purchasing director for approval.

Management's Response

Date: 04/01/2016

Respondent: Director

Response: Concur – ODM revised the agency internal purchasing policy and procedures in September 2013. However, while the agency was complying with and utilizing these procedures, they were not submitted to OMES for review and approval.

Corrective Action Plan

Contact Person: Chief Financial Officer

Anticipated Completion Date: 04/01/2016

Corrective Action Planned: ODM has completed revised internal purchasing procedures. These procedures will be submitted by ODM's Financial Division for approval by OMES. The policies outlined in the procedures have been instituted by ODM.

Finding 15-125-02: Food Policy

Condition: During our testwork, we discovered one food purchase that was made after the Dec. 8, 2014, update of the Purchase Card Procedures which called for an internal food policy for all agencies purchasing food with the purchase card. ODM did not have a food policy in place after the update; however there was a food purchase made.

Cause: The agency was unaware that their agency needed a food policy.

Effect or Potential Effect:

Without a pre-approved agency food policy defining allowed and necessary food purchases, it is difficult to determine if a food purchase is appropriate for agency business and not for personal use. Food transactions could be perceived as improper stewardship of state resources.

Criteria: The State of Oklahoma Purchase Card Procedures § 6.23, **Food**, states, “Provided an agency has statutory authority to purchase food, the P-card may be used for payment. Authorized food purchases shall be covered in the internal policies of each agency.”

Recommendation: We recommend the agency discontinue the purchase of food until a food policy is approved by the governing board. 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.

Management’s Response

Date: 04/01/2016

Respondent: Director

Response: Concur – The CFO and CPO were unaware of the required food policy at the time of the P-card audit entrance meeting. Following that meeting, the audit team provided an acceptable version of an approved food policy to the CFO for inclusion in the agency’s Purchasing Policy and Procedures.

Corrective Action Plan

Contact Person: Chief Financial Officer

Anticipated Completion Date: 04/01/2016

Corrective Action Planned: A food policy has been completed and is part of the revised purchasing procedures to be implemented by ODM. The Financial Division will submit these procedures for approval by OMES and adoption by ODM. These procedures will be followed immediately.

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 were evaluated.

Sampling

	Transactions	Amount
Total Expenditures:	211	\$38,953.17
Reverse Transactions	(10)	(\$0.00)
Agent Fees	(11)	(\$163.00)
Negative Transactions	(8)	\$934.30
Filtered Population	182	\$39,724.47
Sub-Populations:		
IT	4	\$598.39
Lodging	41	\$9,534.74
Airfare	14	\$3,381.59
Under \$5,000	123	\$26,209.75
Greater than \$5,000	0	\$0.00
Total:	182	\$39,724.47
Samples:		
Lodging	11	\$8,083.15
Airfare	8	\$3,381.59
Under \$5,000	42	\$15,936.29
Judgmental	4	\$1,323.45

EXECUTIVE SUMMARY

Organization: Oklahoma Department of Mines

Mission Statement: To protect the environment of the state, to protect the health and safety of the miners, and to protect the life, health, and property of affected citizens through enforcement of the state mining and reclamation laws.

History and Overview: The Department of Mines enforces and implements various provisions of state and federally-mandated programs in health, safety, mining, and land reclamation practices associated with surface and subsurface mining. The department has programs to 1) safeguard human health and safety; 2) issue permits and inspect all mining operations for land reclamation; 3) minimize environmental impact to land, air, and water quality; and 4) regulate blasting of a mine site. The department also conducts miner courses in first aid, mine safety, and accident prevention through the Oklahoma Miner Training Institute.

Agency Information

The Agency is made up of 32 unclassified employees according to the [Oklahoma Agencies, Boards and Commissions Book](#) as of September 10, 2015.

Board Members

J. Clement Burdick III, Vice Chairman
George E. Fraley, Chairman
Jed Winters
John J. Curtis
Timothy David Lochridge

Kurt Klutts
Bill David Donoley
Tommy Caldwell
Ron Cunningham, Secretary

Key Staff

Mary Ann Pritchard, Director
Suzen Rodesney, Chief Financial Officer, Purchase Card Administrator
Donna Ward, Accountant II, CPO
Rhonda Roberts, Accountant II