



Oklahoma Department of Transportation Procurement Audit

Audit and Internal Investigations

December 2015

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

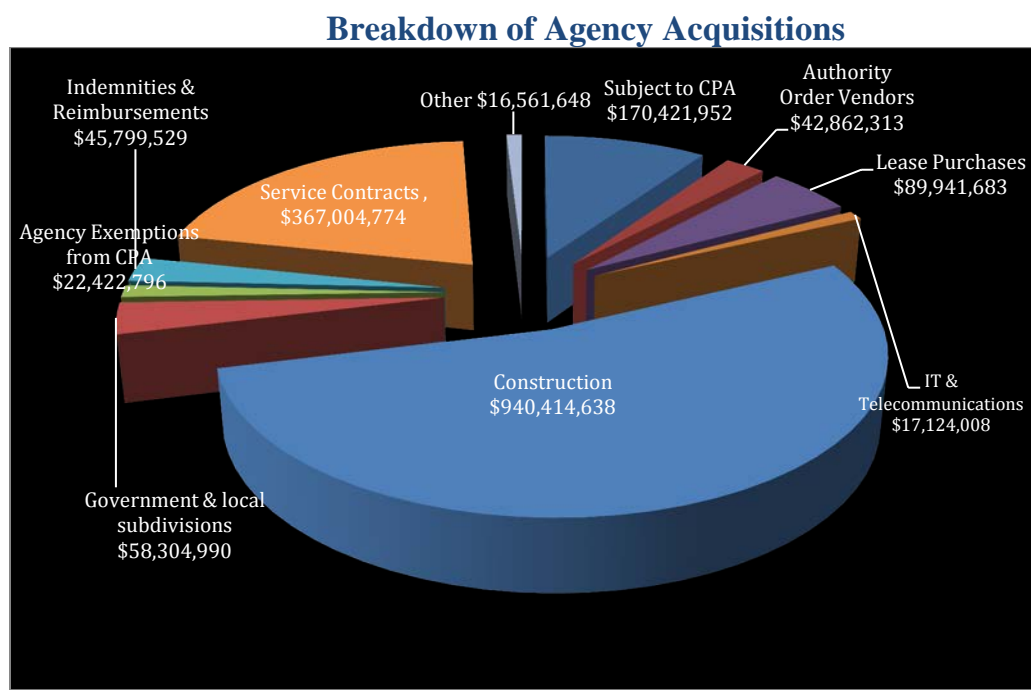
AUDIT HIGHLIGHTS

Why We Conducted this Audit

This report provides information on the compliance of the procurement and purchase card programs with the Central Purchasing Act (CPA) and the state Purchase Card Procedures and the strength and execution of the agency's approved internal control procedures.

SUMMARY OF ACQUISITIONS

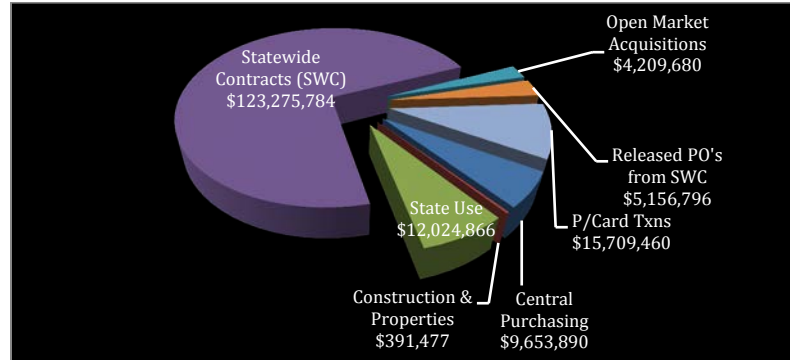
The chart below depicts the agency's acquisitions during or related to the period of Sept. 12, 2013 to Sept. 18, 2014. The agency's total acquisitions for the audit period totaled 1.78 billion.



PURCHASING DELEGATED TO THE AGENCY

Purchases related to OMES-administrated policy totaled \$170,421,952 for the audit period. The primary focus of our audit was purchases applicable to the Central Purchasing Act that are delegated to the agency through the state purchasing director. These purchases included agency *open market acquisitions* and *purchase card transactions*.

Purchases Subject to Central Purchasing Act



WHAT WE FOUND

Open market acquisitions performed by the agency and the agency's purchase card transactions total \$19,919,140. This amount represents only 1 percent of the agency's purchasing for the period audited. Based upon our audit of this 1 percent, we have determined the agency did significantly comply with the following audit objectives:

- Determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the Procurement Program; and
- Determine if the agency's purchase card program is in compliance with the Oklahoma State Purchase Card Procedures.

The agency did not significantly comply with 1 of the 3 objectives of the audit.

- Determine if the agency's procurement program is in compliance with the agency's approved internal purchasing procedures, the Central Purchasing Rules and the Oklahoma Central Purchasing Act. Significant errors were noted in this area, such as performing IT contracts without state Chief Information Officer (CIO) approval, performing purchases greater than the agency's authority, lack of supporting documents, procurement files not provided in a timely manner, no bid evaluations, unreported sole source purchases, obtaining products without going through Central Purchasing, no sales tax verification performed, 95 percent of vendors not checked for debarment and 83 percent of vendors not verified through the Secretary of State.

RECOMMENDATIONS

We recommend that the state purchasing director reduces ODOT's purchasing authority from \$50,000 to \$25,000 for open market acquisitions.

We also recommend the central purchasing office provide additional training to all ODOT certified procurement officers (CPOs).

In final, we recommend that OMES review ODOT's statutory exemption within the Central Purchasing Act (Title 74 O.S. §85.12.3). Listed within the exemption are contractual services. During our audit period the

agency's contractual services totaled \$367 million. These purchases are exempt from the Central Purchasing Act and are not processed through ODOT's public bidding process. ODOT may be vulnerable and unprotected if these purchases remain exempt from the Central Purchasing Act.

FINDING SUMMARY

(Error rates are based on transactions reviewed.)

Procurement

- [Finding 14-345-14](#): There were nine purchases totaling \$3,118,608 for contracts over the \$50,000 threshold that were not submitted to the central purchasing office.
- [Finding 14-345-09](#): Twenty two acquisition files totaling \$470,854 did not contain a bid evaluation. Two were not awarded to the lowest bidder. No bid evaluations were performed by the agency.
- [Finding 14-345-15](#): Visa gift cards totaling \$116,807 purchased for ODOT employee recognition programs were not competitively bid.
- [Finding 14-345-06](#): Information technology (IT) contracts totaling 3 million were not pre-approved by the CIO.
- [Finding 14-345-16](#): Four transactions totaling \$93,225 for services or products were ordered prior to the procurement process.
- [Finding 14-345-10](#): Designated and non-designated emergency purchases totaled \$8,876, all without appropriate supporting documentation for emergency acquisitions.
- [Finding 14-345-02](#): The agency did not provide 10 contract files totaling \$197,071 upon request.
- [Finding 14-345-01](#): Eighty-six percent of contracts were approved with a signature stamp that was not on file with the Secretary of State.
- [Finding 14-345-07](#): Twenty nine contracts had supporting documentation issues such as no sales tax permit documentation and Secretary of State registration confirmation.
- [Finding 14-345-04](#): We noted 38 transactions were not accompanied with a packing slip or proof of delivery.
- [Finding 14-345-13](#): There were several issues noted regarding solicitation documents and the proper procedures to obtain the documents.

Purchase Card

- [Finding 14-345-08](#): We noted the splitting of three transactions totaling \$14,293.

- [Finding 14-345-05](#): Purchase cardholders from the agency paid \$266 in taxes in addition to their room rate, and two of the charges included valet parking paid as opposed to self-parking.
- [Finding 14-345-11](#): After a multi-year spend analysis, we discovered purchases from four vendors that were consistently high from one year to the next requiring consolidation.
- [Finding 14-345-03](#): A spending analysis performed resulted in excess credit limits of over 70 percent of the agency's total purchase cards.
- [Finding 14-345-12](#): We were unable to determine if some approving officials were one level higher than the cardholder.

* Detailed information for any remaining concerns or considerations has been provided to the agency's management.

DETAILED FINDINGS

Procurement

[Finding 14-345-14: Contracts Greater Than \\$50K](#)

Condition: During the substantive testwork phase of the audit, we noted 31 contracts over the amount of \$50,000 that appear to be subject to the Central Purchasing Act. The following contracts were not evidenced with documentation of being processed through OMES Central Purchasing or exempt from the Central Purchasing Act. Agencies are not authorized to procure contracts, subject to the Central Purchasing Act, greater than \$50,000 within their delegated purchasing authority. The agency is required to submit a requisition for these acquisitions to OMES Central Purchasing. A list of these contracts is noted below:

<u>PO NUMBER</u>	<u>REQ NUMBER</u>	<u>AMOUNT</u>	<u>Description of Purchase</u>	<u>ISSUE NOTED</u>
3459041007	12-P-0032	\$250,670.00	Unknown	Agency did not provide contract.
3459042008	13-P-0028	\$112,720.00	Unknown	Agency did not provide contract.
3459039945	14-7-0072	\$150,148.44	Janitorial and custodial services	Contract not processed through OMES Central Purchasing.
3459043201	14-7-0072	\$150,148.44	Janitorial and custodial services	Contract not processed through OMES Central Purchasing.
3459039737	14-COMP-0006	\$140,000.00	Advertising service	Contract not processed through OMES Central Purchasing.
3459043414	15-COMP-0004	\$140,000.00	Advertising service	Contract not processed through OMES Central Purchasing.
3459034279	12-P-0031	\$1,390,700.78	Installation and repair of traffic monitoring equipment	Contract not processed through OMES Central Purchasing.
3459041019	12-P-0031	\$663,150.25	Installation and repair of traffic monitoring equipment	Contract not processed through OMES Central Purchasing.
3459042751	14-P-0141	\$121,070.00	Transportation research board subscription	Contract not processed through OMES Central Purchasing.
<u>Total:</u>		<u>\$3,118,607.91</u>		

Cause: It is difficult to distinguish which contracts are subject to the Central Purchasing Act because ODOT is exempt from the act in some cases.

Effect or Potential Effect: Bypassing purchasing controls required in the Central Purchasing Act leaves the agency and state vulnerable.

Criteria: The Oklahoma Central Purchasing Act Title 74 §85.7 Competitive Bid or Proposal Procedures state in part:

A. 1. Except as otherwise provided by the Oklahoma Central Purchasing Act, no state agency shall make an acquisition for an amount exceeding Fifty Thousand Dollars (\$50,000.00) or the limit determined by the State Purchasing Director pursuant to rules authorized by Section 85.5 of this title, not to exceed One Hundred Thousand Dollars (\$100,000.00), without submission of a requisition to the State Purchasing Director and submission of suppliers' competitive bids or proposals to the State Purchasing Director.

Recommendation: The agency needs to specify and designate all exemptions from the Central Purchasing Act and train purchasing personnel on the proper protocol for contracts greater than \$50,000. We recommend the exemptions be placed and referenced within the agency's internal purchasing procedures.

These contracts will be turned over to the state purchasing director for further review.

Management's Response

Date Requested: 7/21/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Non concur. **The files in question are for purchases that the Department is exempt from the Central Purchasing Act (74 O.S. 85.12(b)(3)). The first two in the list were files being rebid at the time of the audit and were hard copy files that were being used as reference material. Neither file was scanned.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: N/A

Corrective Action Planned: The Department will continue to closely monitor requisitions that are to be bid internally as exempt from the Central Purchasing Act to ensure compliance. In addition, items being bid as exempt are identified as such in the solicitation so that proper statute authority is known.

Finding 14-345-09: Bid Evaluations

Condition: During the substantive testwork phase of our audit, we randomly selected 22 contract files ranging from \$5,239.00 to \$47,880.00 to verify the agency made a written evaluation of criteria considered in selection of the supplier for the awarded contract. All 22 acquisition files (100 percent error rate) tested did not contain an evaluation supporting the awarded vendor. These contracts totaled \$470,853.81. Purchasing personnel has stated that the contract is awarded to the vendor with the lowest bid, bypassing the need for a documented evaluation tool. However, the solicitation documents within the ODOT files state "Contract awards will be made to the lowest and the best bidder(s) unless the solicitation specifies that best value criteria is being used."

Two of the 22 contracts were not awarded to the lowest bidder.

- The first contract awarded by the agency went to Langley Body Shop for automotive body and chassis repair for \$9,706.50 originally, with an added change order of \$4,629.15 for a total of \$14,335.65 per the division's request. A lower bid was submitted at \$7,464.25 and reason for rejection was "Vendor does not include all parts necessary to make all repairs, without requesting additional funds for completion."
- The second contract was awarded to a vendor that did not submit the lowest bid. The contract was awarded to K & K Systems Inc., for changeable message signs in the amount of \$29,486.46. A lower bid was submitted at \$28,800. The reason for rejection was "Bid specs call for a full matrix sign. This sign is a character matrix sign." Agency solicitation documents listed an example model for a character matrix sign (CMS-T331), therefore this bid met the minimum specifications. In addition to the bidding documents, we learned that vendor K & K Systems Inc. was not registered with the state at the time of award.

Cause: Purchasing personnel has stated that the contract is awarded to the vendor with the lowest bid, bypassing the need for a documented evaluation tool.

Effect or Potential Effect: There is an increased possibility for vendor protests that result in awards being overturned. The state cannot be certain it's receiving the best value. Increased risk of collusion could occur and go undetected. Without a written evaluation of criteria, the selection method lacks support.

Criteria: Oklahoma Administrative Code 260:115 §115-7-13. Acquisitions over \$5,000.00 and not exceeding \$25,000.00 and §115-7-15. Acquisitions over \$25,000.00 and not exceeding \$50,000.00 state in part:

(c) Supplier selection.

- (3) The state agency shall make a written evaluation of criteria considered in selection of the supplier for the acquisition. Documentation of prices, delivery dates and the evaluation shall be placed in the acquisition file.

Oklahoma Administrative Code 260:115 §115-3-13. Supplier registration states in part:

- (a) Purpose. Unless otherwise specified, supplier registration pursuant to this section provides a supplier with automatic notification of bid opportunities but is not required for a supplier to respond to a solicitation. Supplier registration is required for any supplier selected for award or renewal of a contract pursuant to the Central Purchasing Act and these rules. For the purposes of this section, "State Purchasing Director" does not include personnel of state agencies to whom the State Purchasing Director has delegated authority.
- (1) Suppliers may be required to prequalify for the purpose of responding to online solicitations.
- (2) Suppliers shall prequalify in accordance with procedures established by the State Purchasing Director.

Recommendation: We recommend the agency develop and implement a written evaluation of criteria tool to document the selection of awards. We also recommend developing a process for how the bids will be evaluated and document the new process within the agency's internal purchasing procedures.

The two contracts singled out in the finding will be turned over to the state purchasing director for further consideration.

Management's Response**Date Requested:** 6/23/2015**Date Responded:** 9/9/2015**Respondent:** Purchasing manager**Response:** Partially concur. **The Department believes the first transaction was awarded properly as the lowest bidder did not include all known work that needed to be completed. Additional work was discovered as repairs were being made which is why the change order was created.****Corrective Action Plan****Contact Person:** Purchasing manager**Anticipated Completion Date:** 1/1/2016 and ongoing**Corrective Action Planned:** Mandatory CPO Training is being conducted on 9/9/2015 to train on ODOT's evaluation process, and policy is being updated to include written procedures. In addition, evaluations must now occur either with the CPO in attendance at either the Central or Field Office locations.**Finding 14-345-15: Gift Cards****Condition:** During the audit in the substantive testwork phase, we noted several purchases made from the same vendor, Oklahoma Employees Credit Union (OECU). Visa gift cards were purchased for ODOT employees recognition programs according to invoices reviewed. These purchases were not bid out. There were no solicitation documents on file indicating the purchase was competitively bid out by the agency. The following purchases of gift cards from OECU were noted:

<u>PO DATE</u>	<u>PO NUMBER</u>	<u>REQUISITION #</u>	<u>VENDOR</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1/09/14	3459041724	14-4-0132	OECU	\$39,100.50	139 Visa gift cards @ \$200/ea. 76 Visa gift cards @ \$130/ea. 11 Visa gift cards @ \$80/ea.
1/16/14	3459041795	14-TE-0041	OECU	\$5,239.00	26 Visa gift cards @ \$200/ea.
1/21/14	3459041809	14-5-0169	OECU	\$28,068.00	Unknown
1/23/14	3459041838	14-8-0208	OECU	\$29,244.00	97 Visa gift cards @ \$200/ea. 119 Visa gift cards @ \$80/ea.
1/28/14	3459041881	14-B-0006	OECU	\$806.00	4 Visa gift cards @ \$200/ea.
1/28/14	3459041879	14-P-0046	OECU	\$3,627.00	18 Visa gift cards @ \$200/ea.
2/03/14	3459041941	14-SD-0016	OECU	\$9,916.50	48 Visa gift cards @ \$200/ea.
3/26/14	3459042282	14-TSD-0149	OECU	\$806.00	4 Visa gift cards @ \$200/ea.
				\$116,807.00	Total

The receiving process lacks adequate controls. We also learned there is a possibility that cards are not under dual control when delivered to the agency from the bank and that the agency is not receiving a confirmation of delivery.

Though the gift cards are processed through the employer's payroll system, the purchase is not exempt from the Central Purchasing Act.

Cause: Purchasing personnel informed us that the agency uses this method of dispensation as pass through funds related to payroll, bypassing the need to bid out the gift cards.

Effect or Potential Effect: No other vendors were given the opportunity to bid for the contracts. By not having adequate controls to deliver the visa gift cards, the agency is at risk for abuse. Without receiving documentation or adequate cash handling controls, the agency cannot account for all gift cards properly.

Criteria: Oklahoma Administrative Code 260:115 §115-7-5. Split purchases states:

State agencies shall not make split purchases for the purposes of evading their approved dollar threshold for competitive bids. Split purchasing for the purpose of evading competitive bidding requirements is a felony. [Reference 74 O.S. §85.7(A)(2)(a)]

Oklahoma Administrative Code 260:115 §115-7-15. Acquisitions over \$25,000 and not exceeding \$50,000 states in part:

(a) Basic requirements. State agencies that have an internal CPO or a designated CPO through an interagency agreement and approved internal purchasing procedures pursuant to the requirements of 260:115-5-3 and 260:115-5-7 shall make acquisitions exceeding \$25,000.00 but not exceeding \$50,000.00 in accordance with this section, by means of a formal method of competitive solicitation, i.e. sealed bid solicitations.

Recommendation: In the future these purchases should be combined and performed by OMES Central Purchasing due to the dollar amount.

In conclusion, we recommend the gift cards to be handled as cash and always in dual control, meaning in physical control by two employees. ODOT employees should pick up gift cards from the bank, verify and account for all gift cards and securely seal them in an envelope. Employees should also retain documentation from the bank for reconciliation purposes. Once at the agency, the gift cards are to remain in dual control until they can be locked in a safe or an equally secure storage unit. The safe should be accessible by two employees at all times. The safe should be lock and combination/key pad safe; the accessing employees should have opposite control access, meaning it should require two employees to open the safe, one with key access and one with the keypad combination. There needs to be a running log of the date(s) the safe is opened, for what reason(s), who opened it and the cards that were taken. Employees should sign/initial log for accountability purposes. As each card is dispensed, the receiving employee should sign "received" on documentation.

Management's Response

Date Requested: 6/23/2015

Date Responded: 8/26/2015

Respondent: Purchasing manager

Response: Non Concur. The Department's payment to the vendor for the above purchases was \$1,072.50. The remaining amount was a payroll expense that was taxable income for the employee.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: N/A

Corrective Action Planned: Human Resources Division is being advised of the dual control recommendation.

Finding 14-345-06: IT Acquisitions

Condition: During our audit we noted information technology (IT) contracts were not pre-approved. We reviewed the acquisition files to verify an eProcurement (ePro) approval was on file. Below is a list of acquisitions that did not contain proper ePro approval documentation.

VENDOR NAME	VENDOR ID/TXN #	AMOUNT
US Fleet Tracking	0000299098	\$4,132.80
Eaton Corporation	0000307901	\$4,175.00
Metro Monitor Inc.	0000301211	\$22,380.00
Media Specialists	0000062442	\$36,855.48
Dobson Technologies	0000337115	\$150,000.00
Innovative Traffic Systems & Solutions	0000325252	\$547,744.66
Southern Traffic Services Inc.	0000333827	\$663,150.25
Southern Traffic Services Inc.	0000333827	\$1,390,700.78
Video Reality	TXN00468164	\$386.50
Video Reality	TXN00468187	\$3,248.00
Video Reality	TXN00468137	\$3,788.00
Video Reality	TXN00470369	\$3,788.00
Presidio	TXN00482901	\$31,490.67
Dell	TXN00468124	\$40,248.48
Dell	TXN00471831	\$73,894.08
Dell	TXN00473722	\$73,894.08
Total		\$3,049,876.78

Cause: Unknown

Effect or Potential Effect: Strategic objectives of the state related to IT management might be impacted by not obtaining the appropriate approvals.

Criteria: The Oklahoma Central Purchasing Act Title 74 §85.5 Powers and Duties of State Purchasing Director state in part:

A. Except as otherwise provided for in this section, pursuant to the provisions of Section 85.4 of this title, the State Purchasing Director, under the supervision of the Director of the Office of Management and Enterprise Services, shall have sole and exclusive authority and responsibility for all acquisitions used or consumed by state agencies. In order to carry out the powers and duties established in Section 2 of this act, the Chief Information Officer shall have sole and exclusive authority and responsibility for all acquisitions of information and telecommunications technology, equipment, software, products and related peripherals and services used or consumed by state agencies.

The **Information Technology and Telecommunication Procurement Information Memorandum 01 (ITPIM-01)** states in part:

Beginning Jan. 1, 2012 all IT and Telecom-related procurement must come through the CIO / ISD State Purchasing Director's office. Agency procurement personnel will need to send all IT and Telecom purchase requests to: purchasing@osf.ok.gov.

Relevant Legislation – Information Technology Consolidation and Coordination Act

No agency shall expend or encumber any funds for the purchase, lease, lease purchase, lease with option to purchase, rental or other procurement of any information technology assets without the prior written approval of the CIO [62 O.S. (2011) § 35.4 (A)]

In addition, no state agency shall initiate or implement an information technology planned project without the prior written approval of the CIO [62 O.S. (2011) § 35.4 (B)]. This means that ISD approval should always be obtained in advance of initializing the project. If you submit a request for approval after the effective date of the contract/purchase order, the request could be denied and a settlement agreement could be required.

Instructions

Plan Approval Process

Unless specifically directed otherwise, agencies may continue to procure IT and Telecom-related acquisitions in accordance with their existing statutory procurement threshold. However, all IT and Telecom purchases will need to be reviewed prior to purchasing. This should be accomplished by submitting an OSF Form 115 () with supporting documentation (to the purchasing email address above) in accordance with past procedures. The following applicable supporting documentation must be included; the agreement or contract, terms, specifications, sole source, non collusion, the completed form 115, scoring tool or evaluation method, VPAT, the requisition or purchase order, and the vendor quote(s). Other documentation may be requested as needed for processing.

The **E-Pro ISD Procedures 07252012, IT and Telecom P-card Procedures**, Option 1 states in part:

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

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

Recommendation: We recommend the agency obtain appropriate review and approval of IT acquisitions prior to purchase.

The list of contracts was provided to the state CIO.

Management's Response

Date Requested: 6/23/2015

Date Responded: 9/15/2015

Respondent: Purchasing manager

Response: Concur. The Department has been closely monitoring requests to ensure none are IT related. In addition, a list of IT and non-IT services and products (attached) has been published on the agency's intranet for review and instructions on how to order.

Innovative Traffic Systems & Solutions and Southern Traffic Services Inc. were solicited utilizing Title 74 O.S. Sec 85.12(B)(3) Acquisitions Excluded "...the acquisition of equipment or materials accruing to the Department of Transportation required in Federal-Aid Contracts..."

The three Dell transactions were requested to be ordered by an OMES employee, according to an approved PC Refresh schedule. As the IT process has become more defined and additional PIM provided, requests have been submitted through ePro.

Additional information is attached for Eaton Corporation, Dobson Technologies and Presidio Networked Solutions.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 10/1/2015

Corrective Action Planned: ODOT and the IT Steering Committee (consisting of members from both ODOT and OMES ISD) have better defined what items are technology and need OMES ISD approval. In addition, Purchasing participates in the ITSC meetings. Communication between the two areas is continuous and excluding the list above, no purchases of IT equipment have occurred. For the purchases made and to be made utilizing Title 74 O.S. Sec 85.12(B)(3), the Department will include this information in the acquisition file.

Auditor's Response: All acquisitions listed in the finding above were deemed information technology purchases by OMES ISD. Title 74 O.S. Sec 85.12(B)(3) does not exempt purchases from OMES ISD.

Finding 14-345-16: Invoice Dates

Condition: During the audit we reviewed 52 open market purchases below \$50,000. Upon reviewing these contracts, we noted that four purchases totaling \$93,224.96 were improperly acquired by the agency. The agency made an unauthorized commitment or item/services were received prior to the procurement process. In addition, no ratification agreement was performed for the four transactions.

<u>PO DATE</u>	<u>PO NUMBER</u>	<u>INVOICE DATE</u>	<u>VENDOR</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
8/02/13	3459040401	7/1/13-6/30/14	Intergraph Corporation	\$6,336.00	Data services subscription
8/22/14	3459044082	8/20/14	Okassessor.com	\$12,000.00	Subscription services
7/05/12	3459036637	7/3/12	OCE North America Inc.	\$40,230.74	Color, scan and controller models
5/09/14	3459042734	4/9/14	Thorp Reed & Armstrong LLP	\$34,658.22	Sale agreement
Total:				\$93,224.96	

Cause: Procurement documents were performed after the commitment by the agency was made.

Effect or Potential Effect: By allowing purchases to be made before the proper procedures are fulfilled, the agency is maximizing the risk that excessive or unauthorized purchases will go undetected.

Criteria: Oklahoma Administrative Code 260:115 §115-5-17. Ratification of an unauthorized commitment states in part:

If a state agency makes an unauthorized commitment on behalf of the state to a supplier, the state may, if in the best interest of the state, ratify the commitment.

(1) **State agency actions.** The chief administrative officer of the state agency shall approve or disapprove a ratification request.

(A) **Chief administrative officer approves request.** If the chief administrative officer approves the request, the state agency shall perform steps as follows:

(i) The state agency shall negotiate a proposal for a ratification agreement with the supplier.

(ii) The chief administrative officer shall document facts and circumstances of the unauthorized commitment.

(iii) The chief administrative officer shall sign the proposed ratification agreement.

(iv) The chief administrative officer shall provide a copy of the ratification agreement and, upon request, the supporting documents to the State Purchasing Director.

(B) **Chief administrative officer disapproves request.** If the chief administrative officer disapproves the request, the state agency shall retain documents from the supplier and the state agency.

(2) **State Purchasing Director actions.** The State Purchasing Director shall retain a copy of the ratification agreement.

Recommendation: We recommend the agency file a ratification agreement should these situations occur in the future.

Management's Response

Date Requested: 7/21/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department agrees with the utilization of ratification agreements when necessary.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: Ongoing

Corrective Action Planned: Contracting and Acquisition Agents were reminded to thoroughly review submitted paperwork for any appearance that a product or service has already been provided. The OMES Audit & Internal Investigations Unit Audit Guide will further provide guidance to Contracting & Acquisition Agents on identifying an appropriate purchase.

Finding 14-345-10: Emergency Acquisitions

Condition: 1. In the substantive testwork sample, we noted a contract described as an emergency purchase. Upon further review, we found email correspondence stating the nature of the emergency. We tested the contract against emergency purchase requirements to verify that the agency submitted a requisition to the state purchasing director within five days following the acquisition and that the agency submitted a statement of emergency with the requisition. The following purchase did not contain the appropriate documentation to support the contract was made in a state of emergency.

PO DATE	PO NUMBER	REQUISITION #	VENDOR NAME	AMOUNT	DESCRIPTION
12/6/2013	3459041447	14-8-0171	Yocham Trucking Inc.	\$8,000.00	Hauling of 600 tons of salt

2. We also verified purchases within our random sample that were made from an authority order used for small dollar emergency purchases. The following purchases did not have supporting documentation for emergency purchases and appeared to be non-emergency items and/or goods.

PO NUMBER	REQUISITION #	VENDOR	AMOUNT	DESCRIPTION OF PURCHASE
3459039432	14-LGL-0001	West A Thompson Reuters Business	\$31.00	Subscription product charges
3459039646	14-ADA-0002	Staples Inc.	\$93.95	Ink stamper
3459039841	14-8-0006	Reddy Ice Co.	\$97.30	10 pound bags of ice
3459039109	14-5-0003	Grainger	\$118.94	Valve kit and washers
3459042788	15-WO-0001	Petroleum Marketers Equipment Co.	\$534.67	Invoice not detailed

Cause: Unknown

Effect or Potential Effect: The use of emergency purchases may be abused in the absence of a true emergency. Furthermore, the state purchasing director cannot issue a written analysis to the governor regarding the emergency purchases without the proper follow-up documentation.

Criteria: 1. **State of Oklahoma Title 74. The Central Purchasing Act §85.7. Competitive Bid or Proposal Procedures** states in part:

4. Requisitions pursuant to this section shall not be required prior to emergency acquisitions by a state agency not exceeding One Hundred Thousand Dollars (\$100,000.00). The state agency shall submit a requisition to the State Purchasing Director within five (5) days following the acquisition together with a statement of the emergency. The State Purchasing Director shall send the requisition and a written analysis to the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives specifying the facts and circumstances giving rise to the emergency requisition.

2. **Procurement Information Memorandum (10-02) Clarification and Use of Authority Orders, Procedure Guidance and Policy Change** states in part:

Authority Orders (AO's) are authorized for the following:

1. To encumber funds for the payment of all Purchase Cards Transactions.
2. To reserve funds for payroll; or travel claims.
3. For small dollar emergency purchases less than the competitive bid limit.

Authority Orders should be used on a very limited basis. Purchase Orders (PO's) are to be used when the vendor is known in advance of the receipt of services or products.

Recommendation: We recommend the agency develop a process to ensure emergency acquisitions are handled appropriately and that all supporting documentation is forwarded to the state purchasing director. In addition, we recommend that the agency create an individual purchase order for each vendor if the items are not in fact needed for an emergency and limit the usage of authority orders.

Management's Response

Date Requested: 6/23/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. Each Division at the Department is responsible for identifying its purchasing needs. Authority orders can be utilized for emergency/small purchase items that do not need to be competitively bid.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: Ongoing

Corrective Action Planned: The emergency purchase will be forwarded to the State Purchasing Director immediately. The Department will limit the use of authority orders by reminding staff of the limits for its use. The following will be included on all Emergency (Small Purchase) Authority Orders: Use of an authority order should be very limited and only for purchases when the vendor is not known in advance. For those known in advance, a PO should be issued for that vendor or utilize pcard.

Finding 14-345-02: Acquisition Files

QUESTIONABLE ACQUISITION AMOUNT: \$197,071.27

Condition: During our audit we requested acquisition files to review. Below is a list of acquisitions for which the agency did not provide a file.

PO DATE	PO NUMBER	REQ NUMBER	VENDOR NAME	VENDOR ID	AMOUNT
12/05/2013	3459041587		ASAP Energy	0000348931	\$3,273.38
03/05/2014	3459042120	14-3-0128	Domino Equipment Company	0000074904	\$9,372.80
06/19/2013	3459039778	13-7-0070	Air Fresh LDS Inc.	0000076164	\$22,100.00
10/22/2013	3459041063	14-4-0095	Airplaco Equipment Co. Inc.	0000304907	\$16,345.65
02/07/2014	3459041971	14-2-0180	K & K Systems Inc.	0000056000	\$13,960.00
04/15/2014	3459042490		Bob Hufnagel Construction Inc.	0000374984	\$11,750.00
04/15/2014	3459042484		Bob Hufnagel	0000374984	\$12,850.00

			Construction Inc.		
10/25/2013	3459041095	14-2-0110	Keystone Engineering & MFG Corporation	0000369389	\$46,700.00
12/05/2013	3459041442	15-TSD-0016	Canon Solutions America Inc.	0000346621	\$26,519.44
07/08/2014	3459043506	15-TSD-0005	ESRI Business Information Solutions	0000068875	\$34,200.00
Total:					\$197,071.27

We were not able to determine if these purchases were compliant with the Oklahoma Central Purchasing Act.

Cause: A lack of organization between the ODOT central purchasing office and the divisions in maintaining the files.

Effect or Potential Effect: The acquisition process is not properly supported and the agency is unprotected.

Criteria: Oklahoma Administrative Code 260:115 §115-5-9. Audits of state agencies states in part:

- (1) **Audit notification.** OMES shall notify the state agency of all scheduled audits.
- (2) **State agency responsibilities.**
 - (A) The state agency shall provide work space for the audit team.
 - (B) The state agency shall provide records for acquisitions for the audit period.
 - (C) The state agency shall make the state agency's CPO available to assist the audit team.

Recommendation: We recommend the agency develop a process to ensure all acquisitions files are accessible.

In addition, we will forward the list of acquisitions to the state purchasing director for additional consideration.

Management's Response

Date Requested: 4/10/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. The audit occurred during the time period the Department's Purchasing Office was relocating and becoming paperless. Files had been scanned but had not been renamed electronically.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 9/2/2015

Corrective Action Planned: Staff was given a completion date to complete the renaming process and discussed with Contracting and Acquisition Agents to ensure no gaps were in acquisition file folders. A visual verification was made and the above listed files have been scanned and are available for review.

Finding 14-345-01: Authorized Signatures

Condition: We statistically sampled 58 acquisition files to verify each contract was properly authorized. Out of the 58 contracts tested, eight were manually signed. The remaining 50 contained a signature stamp from an individual who has not certified their signature with the Secretary of State, therefore they were not properly

authorized. The 50 contracts totaled over \$791,000. These contracts were digitally approved within the state's accounting system, although this form of approval has not been defined as the official authorization of state contracts. Purchasing personnel with the agency has informed us that authorized signers for contracts have filed the proper certification with the Secretary of State.

Once the agency was notified of the exceptions, they began the process of completing the proper paperwork with the Secretary of State. Our follow-up indicated 2 out of the 3 ODOT authorized signers had filed the proper forms with the Secretary of State. The purchasing manager and the assistant purchasing manager have filed as of March 31, 2015; a buyer for the agency has not filed with the Secretary of State.

Cause: Agency was not aware of procedures requiring filing with Secretary of State in order to use signature stamps for contract approval.

Effect or Potential Effect: All contracts containing a signature stamp may not be valid. Usage of signature stamp places the agency at a higher risk.

Criteria: Oklahoma Statutes Title 62. Public Finance §62-602. Execution of public securities by facsimile signature — Effect states:

Any authorized officer, after filing with the Secretary of State his manual signature certified by him under oath, may execute or cause to be executed with a facsimile signature in lieu of his manual signature any public security or any certificate thereon or thereto.

Upon compliance with this act by the authorized officer, his facsimile signature has the same legal effect as his manual signature.

Recommendation: We recommend the agency re-evaluate the necessary use of the signature stamp.

Should the agency choose to continue using a signature stamp as a method of approving contracts, the authorized signer should complete the certification process with the Secretary of State before using a signature stamp. We also recommend the agency develop an internal policy related to the security and usage of the signature stamp. This policy should be placed within their internal purchasing procedures.

In addition, we recommend the state purchasing director define the final method of contract approval, should this be through actual signature, signature stamp or digital approval within the state's accounting system.

Management's Response

Date Requested: 6/4/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Partially concur. **All three signature stamp authorized signer's submitted paperwork to the Secretary of State on 3/12/2015. Those were accepted (filed) by the Secretary of State on 3/31/2015. Copies of the filing have been attached.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 3/31/2015 and ongoing

Corrective Action Planned: Any signature stamps for new authorized signers will be immediately filed with the Secretary of State.

Finding 14-345-07: Support Documentation

Condition: 1. During our audit, we reviewed 29 applicable contracts to verify a copy of the sales tax permit or exemption document was included in the contract file. All 29 contracts (100 percent error rate) were missing sales tax permit documentation.

2. We also reviewed 19 applicable contracts to verify documentation supporting that the supplier has not been suspended or debarred by the state purchasing director or the federal government. Of the 19 contracts, 18 contracts (95 percent error rate) lacked documentation to determine if the suppliers have been debarred.

3. We reviewed 18 applicable contracts to verify that the supplier (vendor) confirmed registration with the Secretary of State (SOS) and franchise tax payment status. The agency should have documentation supporting suppliers' registration with the SOS. Of the 18 we reviewed, 15 contracts (83 percent error rate) did not contain documentation to support suppliers' registration with SOS.

Cause: Purchasing personnel stated that verifications are performed; however, documentation supporting verifications were not placed in the acquisition files.

Effect or Potential Effect: The agency may not be aware that they are entering into a contract with a suspended vendor, a vendor who owes outstanding taxes or a vendor who cannot legally conduct business in Oklahoma.

Criteria: 1. **Oklahoma Administrative Code 260:115 §115-7-13. Acquisitions over \$5,000.00 and not exceeding \$25,000.00** and §115-7-15. **Acquisitions over \$25,000.00 and not exceeding \$50,000.00** state in part:

(B) **Sales Tax Permit Verification.** Prior to the award of a contract, the state agency must verify that the supplier has obtained a current sales tax permit in accordance with the laws of Oklahoma. Documentation of verification of a current sales tax permit, which must be a copy of the sales tax permit, the vendor's explanation of exemption, or confirmation of the permit's status obtained from the Oklahoma Tax Commission, must be filed in the acquisition file.

2. **Oklahoma Administrative Code 260:115 §115-7-15. Acquisitions over \$25,000.00 and not exceeding \$50,000.00** state in part:

(c) **Supplier selection.**

(1) The state agency shall solicit all registered suppliers in the appropriate commodity classification from the Supplier List along with any other suppliers identified by the state agency. Suppliers that have been suspended or debarred by the State Purchasing Director or the Federal government shall not be awarded a contract.

3. **Oklahoma Administrative Code 260:115 §115-7-15. Acquisitions over \$25,000.00 and not exceeding \$50,000.00** state in part:

(E) **Verification of registration and status with Secretary of State.** Prior to the award of a contract, the acquiring state agency must verify, pursuant to applicable provisions of law, that the supplier is registered with the Secretary of State and franchise tax payment status pursuant to 68 O.S. §1203 and §1204.

Recommendation: We recommend the agency develop a process to ensure all supporting documentation is accessible and placed in the contract file at the division level as well as the purchasing office.

Management's Response

Date Requested: 4/23/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department is ensuring the necessary paperwork is saved to the acquisition file.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 10/1/2015 and ongoing

Corrective Action Planned: All staff were reminded to check and then save a copy of the verification to the acquisition file folder. A checklist is being created to include in the folder which will ensure completion.

Finding 14-345-04: Receiving Documents

Condition: During our audit, we reviewed 64 purchases totaling \$2.1 million for which the product was shipped after the purchase.

We noted that 38 of 64 transactions totaling over \$1.7 million (59 percent error rate) were not accompanied with a packing slip or proof of delivery. We were unable to determine products purchased were received by the agency through the review of a vendor packing slip or proof of delivery document. Out of the remaining 26 transactions, four (15 percent error rate) contained receiving documentation but lacked the signature of a receiving employee.

Cause: Unknown

Effect or Potential Effect: There is no verification that goods and/or services were actually received by the agency.

Criteria: **State of Oklahoma Purchase Card Procedures 6.11.2 Products shipped** states, "a packing slip or proof of delivery obtained from carrier's website must be obtained."

The United States General Accounting Office publication **Streamlining the Payment Process While Maintaining Effective Internal Control**, issued May 2000, states in part:

The purchase authorization portion of the process is the formal approval of the purchase by responsible, designated officials within the agency and usually results in the obligation of budget authority. The receipt and acceptance portion generally involves a government employee taking possession of the items purchased and verifying quantity and quality of the items received. Receipt of the invoice or bill from the supplier or vendor represents a claim against the government for the items sent or delivered per the government's purchase order.

The payment approval and authorization portions of the process can involve a multistep process with administrative approvals being first followed by payment authorization. An administrative approval is generally performed by a responsible official in the unit that ordered or received the items

purchased. The administrative approval normally is based on verification that the items ordered were actually received and met the government's specifications, and thus validates a vendor's request (invoice) for payment.

Recommendation: We recommend that the agency develop, implement and communicate:

Purchase card transactions —

- to all receiving employees the process for collecting and submitting documents to the cardholder.
- to all cardholders the importance of collecting and maintaining receiving documentation for items purchased that were shipped to the agency.

Purchase order transactions —

- to accounts payable the importance of collecting and maintaining shipping documentation to complete the three-way match needed prior to approving payment to the vendor.
- to all receiving employees the process for signing, collecting and submitting documents to accounts payable.

We also recommend the agency review its process for returning receiving documentation to the cardholder and/or accounts payable to properly support the product was received. In final, we recommend the agency create procedures to conduct monitoring activities and autonomously review the supporting documentation to determine continuing compliance with the newly developed procedures.

Management's Response

Date Requested: 5/7/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department concurs that not all supporting documentation was included with the Purchasing copy of the monthly pcard report.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 10/1/2015

Corrective Action Planned: Supporting document requirements are being added to Purchasing policy. In addition, cardholders are being reminded to retain/submit all supporting documents. Contracting and Acquisition Agents have been instructed to verify monthly pcard statements and the supporting documents to ensure the proper paperwork is submitted. The progressive discipline process for pcard will be utilized for failure to provide the necessary documents.

Finding 14-345-13: Solicitation Documents

Condition: During the substantive testwork, we verified that the solicitation process was performed accurately. We tested 22 acquisition files to verify they contained solicitation documents that included the agency's specifications. Also, we verified that all information required from the supplier for acquisition was in the file. The acquisition files ranged from the thresholds of \$5,000 to \$25,000. Of the 22 files we tested, two acquisition files (9 percent error rate) did not contain solicitation documents. Therefore, we were unable to verify that the agency prepared and documented specifications and all other relevant information.

We also reviewed 10 acquisition files to verify the agency solicited a minimum of three vendors for quotes in the \$5,000.01 to \$10,000 threshold. Of the 10 acquisition files we reviewed, five files (50 percent error rate) did not contain documentation of three solicited vendors.

In the \$10,000.01 to \$25,000 and \$25,000.01 to \$50,000 thresholds, we tested for solicitations of vendors in the appropriate commodity classification. In the \$10,000.01 to \$25,000 threshold, we reviewed eight acquisition files for documented price solicitations from a minimum of 10 registered suppliers in the appropriate commodity classification. Out of the eight acquisition files we reviewed, two files (25 percent error rate) did not contain price solicitations for the appropriate commodity code from registered vendors.

In the \$25,000.01 to \$50,000 threshold, we reviewed 15 acquisition files to verify the agency solicited all registered vendors in the appropriate commodity classification from the supplier list. Out of the 15 we reviewed, three files (20 percent error rate) did not contain price solicitations for the appropriate commodity code from registered vendors.

While performing substantive testwork in the \$5,000.01 to \$50,000 thresholds, we reviewed files for the solicited prices and delivery dates by mail, telephone, fax or by other means of electronic commerce. We reviewed 34 acquisition files, and were not able to verify solicitation of pricing and dates in three files (15 percent error rate).

Finally, per the ODOT internal purchasing procedures, we reviewed 10 acquisition files in the \$5,000.01 to \$10,000 threshold to verify the agency obtained vendor quotes on letterhead. Out of the 10 acquisition files we reviewed, four vendor quotes (40 percent error rate) were not obtained on letterhead.

Cause: Unknown

Effect or Potential Effect: The state may not be obtaining the best value. Vendors also pay a fee to the state to be solicited and are at risk of not receiving an opportunity to submit a bid.

Criteria: Oklahoma Administrative Code 260:115 §115-7-13. Acquisitions over \$5,000.00 and not exceeding \$25,000.00 states in part:

(b) **Acquisition Preparation.** The state agency shall prepare and document the state agency's specifications and all information required from the supplier for an acquisition. An agency shall choose an appropriate solicitation methodology, i.e. formal or informal competitive solicitation, based on the complexity of an acquisition.

(c) **Supplier selection.**

(1) The state agency shall solicit from a minimum of three (3) registered suppliers for acquisitions over \$5,000.00 and not exceeding \$10,000.00 and ten (10) registered suppliers for acquisitions over \$10,000.00 and not exceeding \$25,000.00, from the Supplier List in the appropriate commodity classification. Selection of suppliers shall be rotated whenever more than ten (10) suppliers are registered.

(2) State agencies shall solicit prices and delivery dates by mail, telephone, facsimile or by means of electronic commerce.

Oklahoma Administrative Code 260:115 §115-7-15. Acquisitions over \$25,000.00 and not exceeding \$50,000.00 states in part:

(c) **Supplier selection.**

(1) The state agency shall solicit all registered suppliers in the appropriate commodity classification from the Supplier List along with any other suppliers identified by the state agency. Suppliers that

have been suspended or debarred by the State Purchasing Director or the Federal government shall not be awarded a contract.

(2) State agencies shall solicit prices and delivery dates by means of sealed bid using mail or electronic commerce. The suppliers shall provide pricing and delivery dates in accordance with the requirements of the solicitation.

Oklahoma Department of Transportation Purchasing Procedures § 8.1.2 – Over \$5,000 and not exceeding \$10,000. Processed in Central Office Purchasing or at Field Division level by Field Division CPO states:

8.1.2.1 Three (3) quotes obtained on letterhead from suppliers

8.1.2.2 Requisition, Purchase Order [in pending approval status] all quotes and award recommendation to Purchasing for processing.

Recommendation: We recommend the agency develop and implement a process to ensure all solicitations are handled appropriately and all documentation is kept in the acquisition file. We also recommend the agency abide by internal purchasing procedures and obtain vendor quotes on letterhead in the \$5,000.01 to \$10,000 threshold. If the rule is outdated, the agency needs to make the appropriate changes within the internal purchasing procedures.

Management's Response

Date Requested: 6/23/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. The audit occurred during the time period the Department's Purchasing Office was relocating and becoming paperless. Files had been scanned but had not been renamed electronically. The Department believes this was the cause that some files were not complete.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: Ongoing

Corrective Action Planned: A checklist is being created by modifying the OMES Audit & Internal Investigations Unit Audit Guide which will be included in the folder which will ensure all documentation is in the acquisition file

Purchase Card

Finding 14-345-08: Purchase Limit/Split Purchasing/Receipts/Prohibited Purchases

Condition: 1. During the testwork, we noted the splitting of three transactions totaling \$14,293.36. The transactions are listed below:

Table 1: Split Transaction – Curly Electric

INVOICE NUMBER	INVOICE DATE	SHIP DATE	PAID BY	Ordered By	SHIP TO	Last 4 digits of P-card	AMOUNT
48101	1/22/2014	11/27/2013	Cardholder CH-3373	CH-3373	Field Division 4	3373 (Division 4)	\$ 4,820.01
48102	1/22/2014	11/27/2013	CH-0204	CH-3373	Field Division 4	0204 (Division 4)	\$ 4,653.34
48103	1/22/2014	11/27/2013	CH-3743	CH-3373	Field Division 4	3743 (Division 4)	\$ 4,820.01
						Totals	\$14,293.36

Issues Noted:

- Invoice numbers are one number apart.
- Cardholders (CH) all from same division.
- All ordered by the same person (CH-3373).
- Shipping to same location.
- Ship dates and invoice dates are all the same.
- Purchase card statement for CH-3743 was approved by CH-3373.

2. In addition to the purchases above, we noted three transactions that were structured to evade the purchase card limit by visibly modifying the receipt. The first transaction was for the payment of debris and litter clean up service to Southeast OKC Landfill. Initially, the invoice was for the amount of \$7,617.68 (including a balance forward of \$1,727.62). The invoice was altered to reduce the purchase card payment to \$4,912.34.

We also noted a transaction was paid in the amount of \$4,999.99 to vendor Goldstar Products, Inc. Eleven 5-gallon containers were purchased at \$427.05 each, totaling \$4,697.55. An additional \$302.49 was charged for freight, totaling an overall amount of \$5,000.04. The invoice reflects an altered total cost (before freight) of \$4,697.50, bringing the total amount paid by the cardholder to \$4,999.99 after freight charges.

3. During our testwork we also noted three transactions that lacked detailed receipts.

- A transaction was made to Brownco Manufacturing in the amount of \$1,175 that was not accompanied with a receipt. We had to request a copy of the receipt from the vendor.

- The second transaction was to vendor Antlers Roof in the amount of \$4,995. This transaction lacked detail on the invoice in regards to the goods/services provided. No detailed and itemized receipt was provided for this transaction, just a hand-written statement that said “flooring.”
- We also noted a transaction to vendor Stevens Refrigeration in the amount of \$4,999. The agency did not produce a detailed and itemized invoice. The invoice provided by the agency contained a total amount for materials; however, labor costs were not on the original invoice. Due to the amount of the transaction, the Audit unit requested a detailed invoice from the vendor. The invoice provided by the vendor listed material costs and labor costs.

4. In final, we reviewed a transaction in the amount of \$6,150.00 for a conference registration. This was not only prohibited because it exceeded the purchase card limit, but it also did not meet all three criteria required in the Statewide Accounting Manual when paying registration in advance. The conference registration was purchased on Sept. 13, 2013, and the conference date was Sept. 23, 2013. The only criterion satisfied was an allowance for substitution of participant.

Cause: Unknown

Effect or Potential Effect: 1. & 2. By splitting or structuring a transaction to avoid the competitive bidding process, the agency is not giving other vendors a fair opportunity to do business with the state. Also, the state is not receiving the best value and/or the lowest price due to the removal of the competitive element.

3. By not providing supporting documentation for purchases made, it cannot be determined what was purchased, at what cost or if the purchase was for a valid business purpose.

4. Purchasing prohibited items may result in cardholder’s loss or reduction of the purchase card program.

Criteria: 1. & 2. **The State of Oklahoma Purchase Card Procedures 2 Definitions** states:

‘Single Purchase Limit’ means the maximum spending (dollar) limit a P-Card holder is authorized to charge in a single transaction. Purchases shall not be split with the intent of and for the purpose of evading (1) the P-Card statutory single purchase limit of \$5,000.00 (does not include Statewide Contract, Interagency, Professional Services per Title 18 or payment of utility transactions); and/or (2) limit(s) established for an individual P- Card; and/or (3) a competitive bidding requirement.

The **Oklahoma Central Purchasing Act Title 74 85.5.L.1** states

1. No limit on the amount of the transaction for the following:
 - a. purchases from statewide contracts issued by the State Purchasing Director,
 - b. utilities,
 - c. interagency payments, and
 - d. professional services as defined in Section 803 of Title 18 of the Oklahoma Statutes...
2. For any other transaction with a state purchase card, the transaction shall not exceed Five Thousand Dollars (\$5,000.00).

3. State of Oklahoma Purchase Card Procedures **6.9 Receipts for purchase** states in part, “Receipts shall be obtained for all purchases... If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), documentation such as an order confirmation, packing slip, or invoice, etc. shall be obtained and shall contain an itemized and detailed description of the purchase;...”

4. The State of Oklahoma Purchase Card Procedures **6.3.6 Prohibited Items** states in part, “Any transaction or series of transactions, which exceed the limits established on an individual P-Card.”

The **Statewide Accounting Manual Chapter 50.5 Disbursing** states,

Registration fees when a discounted fee is offered if registration is paid in advance. To qualify for this procedure, the registration fee must, 1) result in a discount to the state, 2) allow for substitution of participant, and 3) provide for 100% refund should the event be canceled. Documentation on the sponsor's stationary describing these facts should accompany the voucher submitted for payment. In addition, any payment so approved shall be timed as to arrive at the sponsoring vendor not earlier than the absolute due date deadline for the discounted registration.

Recommendation: The agency should ensure that an itemized or detailed receipt supports all purchases made. We further recommend the approving officials review the supporting documentation for completeness during their review. Review of receipts should be made to determine if any modifications have been made. The cardholder should verify total cost prior to using their purchase card to avoid the possibility of going over their approved purchasing authority.

Finally, we recommend to the state purchase card administrator to revoke the purchase card privileges for the cardholder ending in -3373 in addition to their approving official duties.

Management's Response

Date Requested: 6/5/2015

Date Responded: 9/15/2015

Respondent: Purchasing manager

Response: Partially concur. **1. The cardholders state that each, without discussion, delivered broken equipment to a known repair site. With a cost estimate under \$5,000, equipment was left to be prepared. One employee was listed for the Department's account, but some vendors set up one account and list a contact name without updating for each transaction. 2. The cardholder states that he did modify the Southeast OKC Landfill invoice but only because the charges were not his Division's charges. The Purchasing Manager verified that a different ODOT Division was invoiced for this charge (Please see TXN00632965). For the Goldstar Products invoice, the cardholder states the vendor made the changes.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: Ongoing

Corrective Action Planned: Split and prohibited purchases were discussed with the Pcard participants directly involved with these transactions. Contracting and Acquisition Agents were reminded to audit transactions for the appearance of split purchasing by reviewing for multiple purchases to the same vendor. Revised ODOT Purchasing Policy includes disciplinary action progression for inappropriate pcard use and will be submitted to the State Purchasing Director for approval and the Department's adoption. Cardholders are being reminded that invoices and receipts cannot be modified by the Department and that a corrected version should be obtained from the vendor.

Auditor's Response: 1. We forwarded the exceptions listed in the finding to the state purchase card administrator, who later suspended the three cardholders and their respective approving officials for a period no less than 90 days.

After receiving ODOT's response we performed additional audit procedures. We learned it is the vendor's practice to separate invoices for each repair performed by their shop. We did verify the equipment to be repaired was received in Tulsa at the vendor's location on the same day (11/19/2013). We also learned that three separate quotes were submitted to ODOT on 11/21/2013 for the items delivered on 11/19/2013. It is very unlikely three individuals from the same shop delivered parts from division 4 headquarters in Perry to Tulsa on the same day without one another knowing. In addition, the likelihood decreases when the three invoices were delivered on the same day to the same address at division 4.

Finding 14-345-05: Additional Hotel Charges

QUESTIONED COST: \$280.02

Condition: During our testing of lodging transactions, we noted seven charges in addition to the room rate. Five charges included taxes in the amount of \$266.02.

Two of the charges were for valet parking. This hotel offers self-parking at a rate of \$8 and valet for the rate of \$15. The traveler chose valet parking over self-parking. If parking is necessary because the hotel does not provide it for free, the guest is allowed to put the one of lesser charge on the purchase card. If the traveler chooses valet, they are required to pay the difference. The traveler was not the cardholder for these two transactions.

Cause: The charge of hotel tax was an oversight of the cardholder.

One transaction was not supported by the folio received at the time of stay. If the traveler had obtained the copy that was given at the end of their stay they could have noticed the tax charged on their account.

One cardholder stated on their invoice that they attempted to receive a refund for the parking but was refused by the vendor. Cardholder may have been confused about what is allowable on the purchase card at the time of purchase.

Effect or Potential Effect: Paying valet gives the impression that the state employees are not being proper stewards.

Criteria: State of Oklahoma Purchase Card Procedures § 6.13.1.2 **Through Traveler** states in part, "The P-Card holder (Traveler) shall verify the charge to be free of Oklahoma lodging tax, Municipality tax, City tax, Occupancy tax, Tourism tax."

The State of Oklahoma Purchase Card Procedures §6.13.1.2.1 **Meals** states:

Meals—including room service, phone charges (not business related), internet charges (not business related) are NOT allowed on the p-card. State employees and authorized non-state personnel traveling on official business are responsible for paying out-of-pocket for all other travel-related expenses. In the case of inadvertent personal charges, the Traveler shall reimburse the State for any and all personal expenses charged to the P-Card (i.e., phone calls, room service, movies, etc.). Such repayment can be made by actual check or cash submitted to the State Entity. State Entities must use the Comments field on the Invoice Information page to give a brief description of the negative adjustment (e.g., erroneous room service charge on a P-Card payment) and put the voucher number of the P-Card voucher having the overpayment. Also, the State Entity must use the Comments field on the original P-Card voucher to give a description of the error and to put the voucher number of the travel voucher having the adjustment. Non-repayment

of personal expenses to the State by the Traveler shall result in the Traveler's loss of P-Card lodging acquisition privileges and other disciplinary or criminal actions.

Recommendation: The travelers should pay the agency back for the difference in the valet parking. If the travelers do not pay back the difference, then the traveler and the cardholder should lose their privilege of using the purchase card for travel-related expenses.

We recommend proper steps be administered when carrying out lodging purchases to prevent extra costs from being placed on the state purchase card. We recommend the traveler thoroughly review their folio for any discrepancies before checking out of the lodging facility.

Management's Response

Date Requested: 6/5/2015

Date Responded: 8/28/2015

Respondent: Purchasing manager

Response: Concur. Lodging charges are relatively new to pcard policy. PCard participants have been provided training regarding allowable charges to the card.

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 9/1/2015

Corrective Action Planned: Contracting & Acquisition Agents were instructed to perform a 100% audit of all travel related pcard charges. Errors in charges will be corrected within 30 days or the pcard will be suspended until a credit is made.

Auditors Response: The travelers did not pay back the state, we will be forwarding this finding to the state purchase card administrator for additional consideration.

Finding 14-345-11: Contract Qualified Purchases

Condition: During the data mining portion of the planning phase, we summarized purchase card acquisitions to determine if purchases should have been considered for consolidation based upon multi-year spend analysis. We discovered purchases from vendors that were consistently high from one year to the next. The purchase card threshold is set at \$5,000. Although there is no time limit set to the threshold, the agency is to consolidate purchases when amounts are expected to exceed the fair and reasonable threshold of \$5,000. Based upon our analysis, the agency consistently maintained purchase card spend for four vendors that were expected to exceed the fair and reasonable amount. These four vendors and their purchase card spend is noted below:

Contract Qualified FY 14

VENDOR NAME	TOTAL AMOUNT FOR FY 14
MAXWELL SUPPLY	\$30,679.69
GILSON COMPANY, INC	\$30,870.06
OKLAHOMA TODAY MAGAZINE	\$36,200.00
DEANGELO BROTHERS, INC	\$47,950.00

FY 15 transactions from 07/01/2014 to 05/08/2015

VENDOR NAME	TOTAL AMOUNT FOR FY 15
OKLAHOMA TODAY MAGAZINE	\$13,200.00

GILSON COMPANY, INC	\$17,308.60
MAXWELL SUPPLY	\$19,425.63
DEANGELO BROTHERS, INC	\$50,000.00

Cause: Unknown

Effect or Potential Effect: Not consolidating purchases when the known amount is inevitable gives the appearance the agency is avoiding fair and open competition. As a result, the state is not receiving the best value and/or the lowest price due to the removal of the competitive element.

Criteria: The Central Purchasing **PROCUREMENT INFORMATION MEMORANDUM (Number 2009-03)** Split Purchasing – Policy Guidance states in part:

2. The Central Purchasing Division recognizes that fair and open competition is a basic tenet of public procurement; that such competition reduces the appearance and opportunity for favoritism, and inspires public confidence that contracts are awarded equitably and economically; and that documentation of the acts taken and effective monitoring mechanisms are important means of curbing any improprieties and establishing public confidence in the process by which commodities and contractual services are procured. It is essential to the effective and ethical procurement of commodities and contractual services that there be a system of uniform procedures to be utilized by state agencies in managing and procuring commodities and services; that detailed justification of agency decisions in the procurement of commodities and services be maintained; and that adherence by the agency and the vendor to specific ethical considerations be required.

4. Pursuant to the Central Purchasing Rules in the Oklahoma Administrative Code, Title 260:115-7-5, relating to split purchases, state agencies “shall not make split purchases **for the purpose of evading their approved dollar threshold for competitive bids**” (emphasis added). A split purchase occurs when an agency acquisition (known requirement or quantity of items), as defined by the agency, is either divided into separate transactions for the purpose of evading the appropriate statutory threshold for competitive bids; or the agency fails to consolidate a known quantity required for a purchase, and the purchases are conducted as separate transactions because the total costs would have exceeded the established statutory competitive bidding thresholds.

Recommendation: We recommend the agency review usage of the purchase card at the end of the fiscal year to determine any trends in purchases from frequently used vendors. The agency should then make necessary actions for the following year.

Management’s Response

Date Requested: 6/23/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department had already discovered and discussed with Division staff the need to contract with the above listed vendor(s).**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: Ongoing

Corrective Action Planned: Contracting and Acquisition Agents were instructed to review pcard transactions for contracting opportunities or split purchases by searching for transactions with the same vendors. Staff have been developing specifications and a detailed scope of work for solicitation.

Finding 14-345-03: Card Limit

Condition: A spending analysis was performed on cardholder's credit limits. We determined 177 out of 251 purchase cards evaluated appeared to have excessive credit limits. Analysis was performed during the end of the audit period. We have listed 15 of the 177 cards below:

	Credit Limit	Avg Spend per Cycle	Highest Cycle Spend
1	\$2,500.00	\$121.31	\$441.26
2	\$10,000.00	\$114.33	\$1,257.60
3	\$10,000.00	\$165.55	\$828.76
4	\$10,000.00	\$265.94	\$1,482.37
5	\$10,000.00	\$294.31	\$583.40
6	\$10,000.00	\$361.15	\$891.10
7	\$10,000.00	\$369.54	\$1,187.19
8	\$10,000.00	\$397.12	\$864.99
9	\$10,000.00	\$506.41	\$1,524.68
10	\$10,000.00	\$643.84	\$1,165.49
11	\$10,000.00	\$972.43	\$4,051.25
12	\$25,000.00	\$1,724.55	\$4,468.75
13	\$25,000.00	\$1,817.57	\$3,740.44
14	\$1,000,000.00	\$10,546.27	\$59,614.79
15	\$1,000,000.00	\$56,214.43	\$145,499.22

Cause: Setting up multiple profiles is necessary to increase or decrease cardholder credit limits which requires more work from administration.

Effect or Potential Effect: Having the transaction and card limits set in excess of the individual cardholder's needs increases the potential fraud that could occur if the card were to be compromised.

Criteria: The State of Oklahoma Purchase Card Procedures **3.5 State Entity P-Card Administrator** states in part:

This employee and any designated back-up are the only employees authorized with the Issuing Bank to designate or change P-Card holder and card limits for their State Entity. The State Entity P-Card Administrator is the primary interface with the State P-Card Administrator and the issuing bank.

...

The State of Oklahoma Purchase Card Procedures **6.1.5 P/Card Controls and Limits**, states in part:

State Entities are required to establish the following categories of controls and limits on each P/Card. These mandatory limits are required by the Issuing Bank and the card provider, for example MasterCard or Visa. The mandatory categories are:

- Card limit (dollar amount per cycle)

- Single Purchase limit (dollar amount per transaction)
- Merchant Category Code Group (MCCG).

Recommendation: We recommend that the agency evaluate the usage of each purchase card. Adjust card limits as needed and temporarily increase the limits if an unusually large purchase is required.

We recommend that management determine a preapproved minimal usage calculation that can be used to revise credit limits when necessary.

Management's Response

Date Requested: 6/5/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department had been evaluating requests for increases to make certain that limits requested were reasonable and needed.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 1/31/2016

Corrective Action Planned: Staff will annually evaluate spend for each pcardholder to ensure proper credit limits are in place. At least 50% of the cycle limit must be exceeded in four of the twelve month periods and two of the single transaction limits must be within 75% of the limit for the twelve month period. Profile limits will be modified if future anticipated purchases warrant the change.

Finding 14-345-12: Approving Officials

Condition: During the planning phase of the audit we tested 42 out of 209 (20 percent) of the purchase card holder's approving officials listed on the purchase card holder's signature agreement forms to confirm that they all were one level above the cardholder. The ODOT central purchasing office makes this determination based on their personal knowledge of the cardholder's title. The tools used by the ODOT central purchasing office are review of job promotion announcements, contacting human resource department or contacting the division certified procurement officer (CPO).

To test the requirement, we examined the cardholder's level based on the job code listed under the current job information on the human capital management (HCM) website. We then matched this code to a salary guidelines chart provided by the agency's purchase card administrator. After analysis of the approving officials we calculated the following:

- Four of the approving officials on the purchase card holder's signature agreement forms tested were not one level above the cardholder.
- We were unable to determine the level between the cardholder and approving official for three of the approving officials on the purchase card holder's signature agreement forms. The job code retrieved from HCM was not listed on the salary guideline chart.

Furthermore, we verified that all cardholder statements for each transaction in our substantive testwork population were signed by the delegated approving official. If the statement was not signed by the designated approving official, we confirmed that the individual signing as the approver was at least one level above the cardholder and had attended purchase card training. After analysis, we calculated the following:

- Three cardholder statements were signed by someone other than who is listed on the purchase card holder's signature agreement. These three signers were also not one level above the cardholder.

Cause: The agency and/or purchase card administrator does not have an effective way of determining if the approving official is one level above the cardholder due to the size and complexity of the agency. An additional cause is due to approving official turnover within the field divisions.

Effect or Potential Effect: The cardholder could potentially 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.

Criteria: The State of Oklahoma Purchase Card Procedures **3.6 State Entity Approving Officials**, states in part:

One or more State Entity staff members designated by the State Entity P-Card Administrator to review and approve P-Cardholder transactions. State Entity Approving Officials must be at least one level above the P-Cardholder's position and be current with P-Card training. The State Entity P-Card Administrator may designate in writing, Back-up State Entity Approving Officials. The Back-up State Entity Approving Official must be at least one level above the P-Cardholder's position, be current with P-Card training and have a signed P-Card Employee Agreement on file with the State Entity P-Card Administrator.

Recommendation: We recommend the purchase card administrator or designee to periodically review the status of all cardholders and assigned approving officials. The human resources division should immediately notify the purchase card administrator of any field division employees leaving the agency. We recommend cardholders and approving officials be tracked within a centralized database. Purchase card management must have the ability to monitor approving officials.

Management's Response

Date Requested: 7/21/2015

Date Responded: 9/9/2015

Respondent: Purchasing manager

Response: Concur. **The Department recognizes the need to verify pcard approval hierarchy.**

Corrective Action Plan

Contact Person: Purchasing manager

Anticipated Completion Date: 7/31/2015 and ongoing

Corrective Action Planned: The Department, with ITSC approval, is soliciting for the creation of an electronic table of organization which will include all agency staff. Purchasing will utilize this tool for approval hierarchy verification. In addition, Purchasing is annually reviewing pcard group accuracy for approvers and members during the annual background check process.

MANAGEMENT'S OVERALL RESPONSE



OKLAHOMA DEPARTMENT OF TRANSPORTATION

Purchasing Division
200 N.E. 21st Street
Oklahoma City, OK 73105-3204
www.odot.org

December 22, 2015

To: Carol McFarland,
Director, Performance and Efficiency Division
Office of Management and Enterprise Services

We appreciate the review of the Department's procurement process and the opportunity to improve and enhance its documentation, controls and efficiency.

As mentioned in the report the majority of the Department's acquisitions relate to the design, construction and maintenance of the State's highway and bridge infrastructure. Due to the unique nature of these acquisitions most do not fall under the State's Central Purchasing Act. However, they are governed by Federal law and regulations, with specific acquisition requirements as part of their financial participation. In many cases competitive bidding is utilized even in situations not required.

Some of the findings in the report are a result of those acquisitions not being clearly defined between those that fall under the Central Purchasing Act and those that do not. We have and are taking steps to better document those items to enable a more efficient audit and ensure that proper procedures have been followed. Consequently, we would request that the Department's purchasing authority is maintained at the current level of \$50,000 for open market acquisitions.

During and subsequent to the audit, many recommendations and corrective actions have been implemented, including training for all agency CPOs. Recurring training will also be provided annually. We have also hired a manager with extensive experience in State procurement to oversee the general procurement of the Department. Their responsibilities include proper solicitation documentation and to ensure that corrective actions are timely implemented and maintained on a consistent basis.

We believe that subsequent reviews or audits will find the Department more efficient and with more extensive supporting documentation for agency acquisitions.

Thank you for the work of your staff during the audit and the positive efficiencies gained from it.

Sincerely,

A handwritten signature in blue ink that reads "Jennifer K. Mason".

Jennifer Mason, CPO
Purchasing Manager

"The mission of the Oklahoma Department of Transportation is to provide a safe, economical, and effective transportation network for the people, commerce and communities of Oklahoma."

AN EQUAL OPPORTUNITY EMPLOYER

APPENDIX

Methodology

- Interviews were conducted with the agency's staff members.
- Internal controls over the procurement program were documented and evaluated.
- Procurement transactions were examined.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the rules related to the audit objectives was evaluated.

Sampling

We used IDEA data analysis software to categorize and sample units to be tested. Our random samples were selected using statistical sampling methods with confidence levels equal to or greater than 95 percent. Below is a table depicting the sampling size per stratified category for standard purchasing and purchase card transactions.

Procurement

CATEGORY	TOTAL POP (\$)	SAMPLE POP (\$)	% SAMPLE \$ TO TOTAL \$	TOTAL POPULATION UNITS	SAMPLE POPULATION UNITS	% SAMPLE UNITS TO TOTAL UNITS
\$0 - \$5,000	\$199,878.24	\$43,474.96	22%	198	21	11%
\$5,000 - \$10,000	\$438,802.30	\$121,928.31	28%	60	16	27%
\$10,000 - \$25,000	\$1,586,742.69	\$417,079.07	26%	92	24	26%
\$25,000 - \$50,000	\$1,049,683.11	\$683,403.43	65%	32	20	63%
Greater than \$50,000	\$23,561,494.85	\$23,561,494.85	100%	31	31	100%
Totals	\$26,836,601.19	\$24,827,380.62	93%	413	112	27%

The population for substantive testwork was 230 transactions totaling \$2,502,182.90. For all transactions greater than \$5,000 and equal to or less than \$5,000, we used a classical variable sampling to obtain our sample for testwork. Due to the small size of the airfare population we decided to visually scan the population and select at least 10 transactions based on auditor discretion. In addition, 152 transactions were selected at the auditor's discretion and tested against selected attributes.

Purchase Card

CATEGORY	TOTAL POP (\$)	SAMPLE POP (\$)	% SAMPLE \$ TO TOTAL \$	TOTAL POPULATION UNITS	SAMPLE POP UNITS	% SAMPLE UNITS TO TOTAL UNITS
Over \$5,000	\$9,034,040.27	\$2,025,278.32	22.4%	451	25	5.5%
Below \$5,000	\$6,506,727.27	\$61,483.34	0.9%	14,390	41	0.3%
Airfare ¹	\$76,903.52	\$6,639.40	8.6%	158	12	7.6%
Totals	<u>\$15,617,671.06</u>	<u>\$2,093,401.06</u>	<u>31.9%</u>	<u>14,999</u>	<u>78</u>	<u>13.4%</u>
Judgmental ²		\$408,781.84			152	

¹ Due to the small size of the airfare population, airfare sample was selected by visually scanning the population and choosing 10 transactions based on auditor discretion.

² We visually scanned the remaining population and selected transactions based on auditor discretion.

Executive Summary

Organization: Oklahoma Department of Transportation

History and Overview: Established in 1911, the Oklahoma Department of Transportation is charged with the planning, designing, construction, operation and maintenance of Oklahoma’s highway-based transportation infrastructure including the non-toll interstate system, the US highway system and the state highway system, along with management of the state-owned railroads. This infrastructure includes approximately 12,265 miles of highways and 6,828 bridges along with 212 miles of state-owned railroad. ODOT also administers a variety of other multi-modal programs including passenger rail, public transit and waterways. The agency also oversees other state and federal funds and programs directed to the county and city transportation systems. The department is regionally organized with eight field divisions that correspond to the Transportation Commissioner districts and a central office located in the State Capitol Complex in Oklahoma City. More than 70 percent of ODOT’s workforce is based in the eight field divisions. The operations in each field division are directed by the field division engineer who retains the primary responsibility for the daily and long term highway maintenance and construction activities and decisions associated with the highways within their boundaries.

Commissioners:

Mr. John Fidler, Division 1
Mr. J. David Burrage, Division 2
Mr. Dan B. Overland, Division 3
Mr. Greg Love, Division 4
Mr. Todd Huckabay, Division 5
Mr. Bobby J. Alexander, Division 6
Mr. Bradley W. Burgess, Division 7
Mr. Peter J. Regan, Division 8

Staffing Levels

In 1990 ODOT employed more than 3,200 Oklahomans, a number that has been reduced over the last 25 years. The department is currently staffed with 2,317 full-time equivalents for 2015.

Key Staff

Mike Patterson, Executive Director
Tim Gatz, Deputy Director
Russell Hulin, Director of Finance and Administration
Jennifer Mason, Purchasing Manager

TRANSMITTAL LETTER

TO MIKE PATTERSON, EXECUTIVE DIRECTOR

With this letter, we transmit the report of the Oklahoma Department of Transportation Procurement and Purchase card program audit for the period Sept. 12, 2013 to Sept. 18, 2014.

We performed the audit in accordance with professional auditing standards to ensure the Oklahoma Department of Transportation procurement and purchase card program, administered by the Office of Management and Enterprise Services, is conducted in accordance with laws and regulations.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Office of Management and Enterprise Services' website, <http://www.ok.gov/OSF/Audit/>

Respectfully,

Carol McFarland
Director, Performance and Efficiency Division