



Statewide Authority Order

Audit

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This audit was performed pursuant to 74 O.S. § 85.5.e.

AUDIT HIGHLIGHTS

Statewide Authority Order Audit *(Testwork completed May 2017)*

Why We Conducted This Audit

The objective of this audit was to determine whether state agencies have complied with the laws and regulations pertaining to the guidelines regarding the use of authority orders.

The Authorization for Purchases document, also known as "AFP" or "Authority Order," is an encumbrance document authorized by the director of the Office of Management and Enterprise Services that allows certain type of purchasing and transaction processing to occur without using individual purchase orders.

Authority orders, when used effectively, save time and money by increasing efficiency within the organization, however, these orders are ordinarily associated with risks.

Tracking and reporting state spend and supplier activity within the state accounting system becomes more difficult. In addition, there is no documentation pertaining to the approval to purchase unless performed internally by the agency. Transparency is reduced when authority orders are used because supplier information is not reported within the supplier database and detailed vendor information is excluded from standard purchasing reports.

We performed this audit pursuant to the Procurement Information Memorandum 10-02 (PIM 10-02) and the Statewide Accounting Manual. In order to gain a better understanding of the authority order process, we conducted interviews with selected agency buyers. We documented these processes and examined data from the PeopleSoft Financials application to arrive at our testwork population.

The Procurement Information Memorandum 10-02 (PIM) states:

Central Purchasing, in conjunction with the Office of State Finance, is issuing these guidelines regarding the use of Authority Orders.

Reference: OSF Procedure Manual Chapter 200, Section 255 Authorization for Purchases also known as "AFP" or "Authority Order"

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.

The use of a vendor specific PO makes the purchase to pay process much simpler in the State system. As we move to a more automated payment process, it will be necessary to "receive" the products or services in the State system.

The State of Oklahoma Statewide Accounting Manual, Chapter 40.10.06 Authorization for Purchases "AFP" or "Authority Order" states:

The Authorization for Purchases document also known as "AFP" or "Authority Order" is an encumbrance document authorized by the Director of the Office Management and Enterprise Services which permits an agency to make certain types of purchases not requiring the submission of competitive bids ([74 O.S. § 85.7](#)), or excluded from the purview of the Oklahoma Central Purchasing Act ([74 O.S. § 85.12](#)), and for or on behalf of the State whenever the Director of the Office of Management and Enterprise Services determines that the best interests of the State are served thereby. AFP's are encumbered by the agency as an order in the State Purchasing System. OMES recommends limited use of AFP's - only for purchases which the standard encumbrance process cannot serve. Likewise, payment of utilities, telephone services (i.e., regulated services, not purchases), payments to other state agencies, and other acquisitions specifically exempt from the Oklahoma Central Purchasing Act (no matter the cost) could be charged against an AFP order. However, many agencies prefer to use "vendor" specific orders and this is highly recommended. AFP's should **never** be used for mandatory statewide contract purchases, postage, and normally professional service contracts.

....

AFP's are restricted to purchased [sic] not to exceed \$5,000. This limit is established as the amount not requiring bidding/solicitations pursuant to Oklahoma Central Purchasing Division Administrative Rules OAC 580, specifically, [580:16-7-13](#) "*State agencies shall make open market acquisitions not exceeding Five Thousand Dollars (\$5,000.00) that are fair and reasonable.*"

To establish an AFP for those purchases deemed appropriate, the agency must establish it as an order in the State Purchasing System. These orders require the following:

- A. Vendor ID # 0000001100 (standard number – others for P-card authority order purchases)
- B. The vendor will be 'Authority Order Vendor'
- C. The Expenditure Account is 601100.

D. Enter the complete funding code stream and the amount to be encumbered. An agency may opt for multiple funding code streams by entering additional distribution lines.

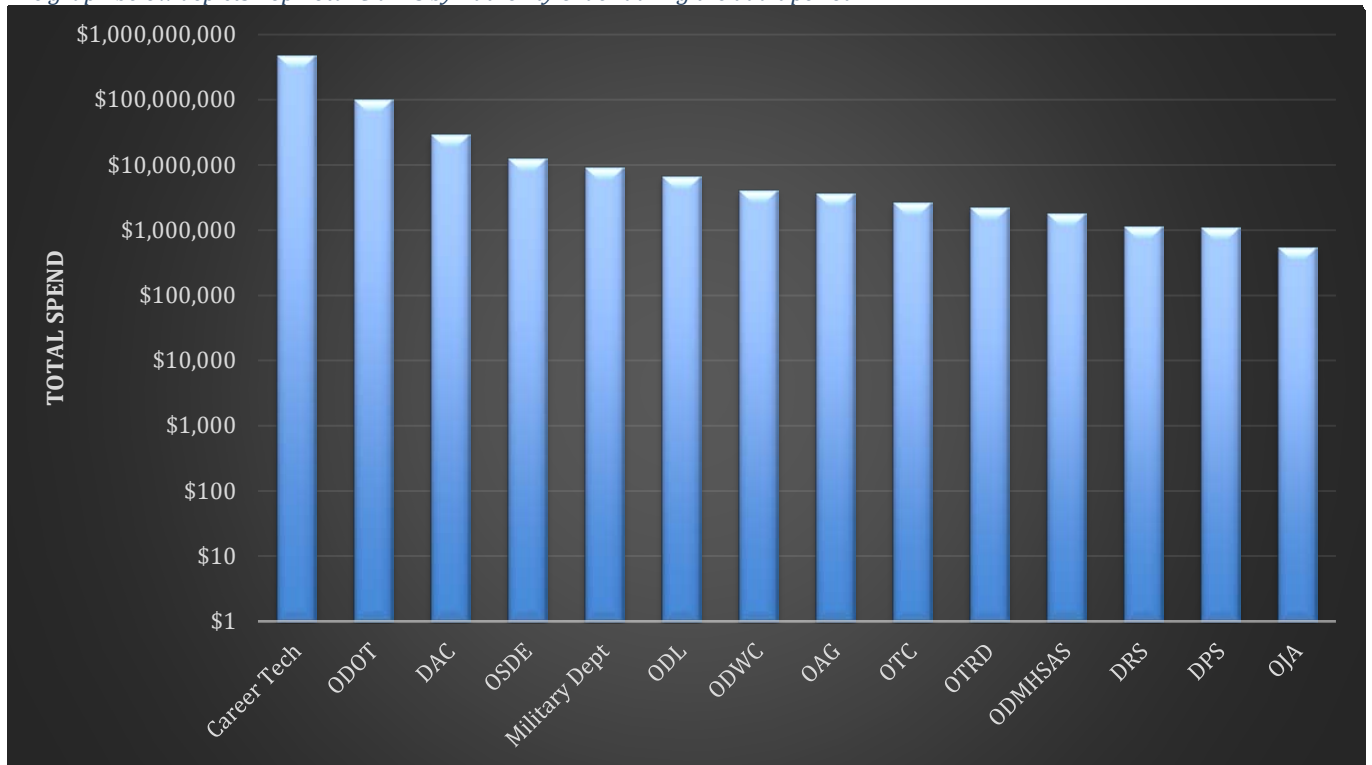
Who We Audited

Our audit included State of Oklahoma agencies. Authority orders examined were processed by the following agencies:

- Career Tech
- OK Department of Transportation (ODOT)
- OK District Attorneys Council (DAC)
- OK State Department of Education (OSDE)
- Oklahoma Military Department (OMD)
- OK Department of Libraries (ODL)
- OK Department of Wildlife (ODWC)
- OK Attorney General (OAG)
- OK Tax Commission (OTC)
- OK Tourism and Recreation Department (OTRD)
- OK Department of Mental Health and Substance Abuse (ODMHSAS)
- OK Department of Rehabilitation Services (DRS)
- OK Department of Public Safety (DPS)
- OK Office of Juvenile Affairs (OJA)
- OK Department of Corrections (ODOC)
- OK Corporation Commission (OCC)
- OK State Department of Health (OSDH)
- OK Department of Veterans Affairs (ODVA)
- Supreme Court of Oklahoma (OSCN)
- OK Wheat Commission
- OK Employment Security Commission (OESC)
- Office of the State Fire Marshal
- Will Rogers Memorial Commission
- OK Department of Environmental Quality (DEQ)
- OK Teachers Retirement System (OTRS)
- OK Space Industry Development Authority (OSIDA)
- OK Department of Agriculture, Food and Forestry (ODA)
- OK Police Pension & Retirement System (OPPRS)
- Department of Mines (ODM)
- OK Aeronautics Commission (OAC)
- OK Health Care Authority (OHCA)
- OK Public Employees Retirement System (OPERS)
- OK Water Resources Board (OWRB)
- OK Arts Council
- OK Center for the Advancement of Science & Technology
- OK State Bureau of Investigation (OSBI)
- OK Bureau of Narcotics and Dangerous Drugs (OBN)

- OK Board of Medical Licensure and Supervision
- OK School of Science and Mathematics (OSSM)
- OK Horse Racing Commission (OHRC)
- OK Insurance Department (OID)
- OK Peanut commission
- OK Industrial Finance Authority
- OK Accountancy Board (OAB)
- OK District Courts
- OK Indigent Defense System (IDS)
- OK Board of Licensed Alcohol and Drug Counselors
- OK Educational Television Authority (OETA)
- OK State Auditor & Inspector (SAI)
- OK Lottery Commission (OLC)
- OK Podiatric Medical Examiners Board

The graph below depicts Top Total Claims by Authority Order during the audit period.



Data Mining

To begin our data mining process and arrive at our testwork population, we extracted a total of \$31 billion, (\$31,129,052,005) in state contracts over a 10-year period. From this data, we extracted all authority orders totaling \$2.7 billion, (\$2,743,148,684). We then matched authority orders from the 10-year period to claims from our review period of July 1, 2014, to Nov. 15, 2016. This process selected any expenditure with an active authority order.



We then joined these authority orders with claims, statewide, from our audit period on common fields (authority order number), resulting in a database totaling \$668,184,524. Of this amount, \$4,150,698 in authority order represented clients of the Office of Management and Enterprise Services and the remaining \$664,033,826 in authority orders represented the remaining state agencies. A total of 990 authority orders in the amount of \$664,033,826 were the focus of this audit.

What We Found

We issued 17 findings to 16 agencies. A summary of our statewide policy recommendations and detailed findings are listed within the report.

Summary of Categories

Category	Details (if applicable)	Number of Records	Authority Order Amount
Authority orders applicable to Central Purchasing Act ¹		689	\$ 556,770,078
Items exempt from Central Purchasing Act		239	\$ 98,593,850
Findings ²	Non-competitive bid service contract	1	\$ 106,500
	AOs do not comply with PIM 10-02	58	\$ 1,643,807
	Consists of a number of AOs greater than 5K & AOs do not comply with PIM 10-02	2	\$ 6,896,966
	Open market vendor used excessively & AOs do not comply with PIM 10-02	1	\$ 22,625
All authority orders included in the audit period		990	\$ 664,033,826

¹\$29,882,217 - Authority orders related to witness fees and victim compensation

²\$10,919,547 - Authority orders related to settlement agreements, non-travel employee reimbursement, multiple payees for federal pass-through, grants, teacher stipends, disbursement of scholarship funds and motor license agent payments that are included in the policy recommendations section below.

CONCLUSION AND POLICY RECOMMENDATIONS

This project began in 2014, taking four years to complete due to its size and complexity. The difficulty of this project involved data mining \$31 billion in state contracts and coordinating interviews and obtaining responses from 51 state agencies.

During our review, we noted transactions exempt from the Central Purchasing Act and the use of authority orders to process these transactions was limited or unclear within the Statewide Accounting Manual. These transactions included:

- Multiple payees for disbursement of scholarship funds.
- Witness fees and victim compensation – postage included.
- Items exempt from Central Purchasing Act.
- Settlement agreements.
- Multiple medical providers for client medical services.

(These five areas totaled \$138,929,154 within our audit period)

We also noted non-travel employee reimbursement. These transactions are not exempt from the Central Purchasing Act and were not addressed by the Procurement Information Memorandum (PIM 10-02). Non-travel employee reimbursements totaled \$416,460 during our audit period.

Overall, authority orders are underutilized. Increasing the use of authority orders for low-risk transactions would increase process efficiency, saving the state time and money. The following statements within the Statewide Accounting Manual place broad limits on the use of authority orders:

- OMES recommends limited use of AFPs - only for purchases which the standard encumbrance process cannot serve.
- AFPs are restricted to purchases not to exceed \$5,000.

Efficiencies can be increased by:

- Increasing the threshold for non-bid and low-risk transactions greater than \$5,000.
- Allowing authority orders to be used for all transactions below \$5,000. This should be limited to \$5,000 per vendor per fiscal year.
- Allowing authority orders to be used for more transaction types that are exempt from the Central Purchasing Act.

Internal Policy and Procedures

We only recommend the increased use of authority orders to boost efficiencies after an internal control assessment and internal policy implementation has been made by the agency in addition to the State Accounting Manual and state purchasing rules. This process should include creating a control structure to segregate duties, define responsibilities for monitoring transactions, outline the process for using authority orders, define prohibited use and provide a structured approval process. Once this review is completed, we recommend agencies internal procedures be updated.



Guidance for internal control activities can be found in the Office of Management and Enterprise Services Statewide Accounting Manual, Chapter 70; Internal Control Guidance, 70.20 Internal Control Activities, under the following subtopics:

B. Subtopics Listing

- 01 Segregation of Duties
- 02 Authorize Transactions
- 03 Control Access to Assets and Resources
- 04 Document Internal Controls

State Policy and Procedures

We recommend the office of the state comptroller and OMES to clarify state policies on the use of authority orders. In addition, recommend an evaluation of the risk of increasing the use of authority orders be considered if agencies do not have adequate internal controls or policy regarding the use of authority orders.

Subsequent Events

Since the completion of our review, a revision to the state authority order policy was issued in the OMES Central Accounting and Reporting Newsletter Feb. 12, 2018 (Volume 28, Number 8). The revised policy states:

Authority Orders

In the past the Statewide Accounting Manual and OMES Procurement Information Memorandum 10-02 have provided inconsistent guidance on the appropriate use of authority orders. This is being remedied in the upcoming revision of the Statewide Accounting Manual and the PIM has been removed from the Central Purchasing website. The new guidance is outlined below and should be considered official in advance of the release of the revised Statewide Accounting Manual.

Approved Uses for Authority Orders

While vendor-specific POs are recommended, AFP's have been authorized by the Director of OMES for the following uses:

- Regulated utilities or regulated services;
- Purchases from another state agency;
- To establish an encumbrance for low-dollar purchases made throughout the year not to exceed \$5,000 to any one payee over the course of the year.
 - o The AFP may not be used to avoid a statewide or state use contract. Statewide contracts should not be paid through an authority order except for emergency payments;
 - o The AFP may be used to cover non-travel employee reimbursements (under \$5,000);
- Acquisitions specifically exempt from the Oklahoma Central Purchasing Act;
- Multiple-payee encumbrances; examples include:
 - o stipends (ie. teachers, real estate agents, etc.);
 - o grant and scholarship recipients;
 - o voter registration commission payments to tag agencies;

- To encumber amounts for bank charges;
- To encumber amounts to be paid through a purchase-card, under the limitations for p-card use;
- Structured, court-ordered, settlement agreements;
- To encumber amounts for payroll.

Agencies under the purview of the Central Purchasing Act are required to request approval of the State Purchasing Director to utilize an authority order for any other type of acquisition not specifically authorized above.

DETAILED FINDINGS AND MANAGEMENT RESPONSES

Links to the findings and management responses:

Formal Finding 15-310-01

- [Office of the State Fire Marshal](#)

Finding 15-02

(Listed in order by authority order totals within the findings.)

- [Oklahoma Tax Commission](#)
- [Oklahoma Department of Veterans Affairs](#)
- [Oklahoma Department of Libraries](#)
- [Oklahoma Teachers Retirement System](#)
- [Oklahoma Department of Mental Health and Substance Abuse Services](#)
- [Oklahoma Corporation Commission](#)
- [Oklahoma Alcoholic Beverage Laws Enforcement Commission](#)
- [Oklahoma State Department of Education](#)
- [Oklahoma Center for the Advancement of Science & Technology](#)
- [Oklahoma Arts Council](#)
- [Oklahoma Employment Security Commission](#)
- [Oklahoma State Department of Health](#)
- [Oklahoma Health Care Authority](#)

Finding 15-03

- [Oklahoma Corporation Commission](#)

Finding 15-04

- [Oklahoma State Department of Education](#)

Finding 15-310-01: Non-Competitive Bid Service Contract

Condition:

1. Office of Management and Enterprise Services (OMES) Audit periodically performs audits to determine compliance and increase efficiencies. We are currently performing a statewide audit of Procurement Information Memorandum 10-02 (PIM 10-02). The purpose of PIM 10-02 is to clarify the use of authority orders, procedure guidance and policy change.

OMES Audit has used datamining software to electronically examine all statewide authority orders during the period of July 1, 2014, through Nov. 15, 2016. As a result of this analysis, we discovered the following transactions that do not conform to conditions of the PIM:

AO #	Amount	Unit	Agency	Date	Buyer	Info	Number of Claims	Total Amount	Number of Vendors
3109000317	\$ 106,500	31000	State Fire Marshal	8/7/2014	SCAIN	Project Admin/Planning	14	\$ 96,745	2

2. While reviewing the authority order listed above, we noted 11 claims for \$94,700.00 to a single vendor over a 10-month period. Even though this is a professional service, it is not considered exempt from competitive bidding per Title 18. Furthermore, 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.

Claim #	Amount	Claim Date	Invoice Date	Vendor Name	Invoice Description
00004296	\$ 8,600	8/28/2014	8/17/2014	Fire Protection Consulting Inc.	July 2014 Invoice
00004345	\$ 9,100	10/15/2014	10/3/2014	Fire Protection Consulting Inc.	August 2014 Invoice
00004346	\$ 8,150	10/15/2014	10/3/2014	Fire Protection Consulting Inc.	September 2014 Invoice
00004372	\$ 9,100	11/12/2014	11/7/2014	Fire Protection Consulting Inc.	October 2014 Timesheet
00004403	\$ 8,000	12/9/2014	12/5/2014	Fire Protection Consulting Inc.	Nov. 2014 Timesheet
00004450	\$ 8,750	2/2/2015	2/2/2015	Fire Protection Consulting Inc.	January 2015 Invoice
00004452	\$ 9,000	2/2/2015	1/24/2015	Fire Protection Consulting Inc.	December 2014 Invoice
00004506	\$ 9,500	3/27/2015	3/24/2015	Fire Protection Consulting Inc.	February 2015 Invoice
00004543	\$ 8,750	5/11/2015	4/24/2015	Fire Protection Consulting Inc.	March 2015 Invoice
00004561	\$ 7,500	5/26/2015	5/13/2015	Fire Protection Consulting Inc.	April 2015 Invoice
00004592	\$ 8,250	6/30/2015	6/9/2015	Fire Protection Consulting Inc.	May 2015 Invoice
Total	\$ 94,700				

Cause: Unknown.

Effect or Potential Effect: By not competitively bidding contracts, the state may not get the best possible price for the goods and services.

Criteria: 1. The Procurement Information Memorandum 10-02 states in part:

Central Purchasing, in conjunction with the Office of State Finance, is issuing these guidelines regarding the use of Authority Orders.

Reference: OSF Procedure Manual Chapter 200, Section 255 Authorization for Purchases also known as “AFP” or “Authority Order”

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.

The use of a vendor specific PO makes the purchase to pay process much simpler in the State system. As we move to a more automated payment process, it will be necessary to “receive” the products or services in the State system.

2. The Oklahoma Central Purchasing Act **74 O.S. §85.7 Competitive bid or proposal procedures** states 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.

The Oklahoma Administrative Code 260:115 **§115-7-17. Acquisitions over \$50,000.00 and not exceeding \$100,000.00** states in part:

State agencies that have an internal CPO or a designated CPO through an inter-agency agreement and approved internal purchasing procedures pursuant to the requirements of 260:115- 5-3 and 260:115-5-7, shall send a written request to the State Purchasing Director to request acquisition authority exceeding \$50,000.00 but not exceeding \$100,000.00. The State Purchasing Director shall consider the agency's internal purchasing procedures, procurement training



and certifications of the agency's procurement staff, and any other information deemed necessary by the State Purchasing Director to make the determination to approve or disapprove the request. If approved, the agency shall:

- (1) make all acquisitions within this acquisition authority pursuant to 74 O.S. §85.7, any other applicable state laws and rules, including Section 260:115-7-15;
- (2) award all contracts based on lowest and best or best value criteria; and,
- (3) solicit all suppliers in the appropriate commodity classification from the Supplier List along with any other suppliers identified by the state agency using solicitation forms prescribed by the OMES Director.

The Oklahoma Administrative Code 260:115 **§115-5-11. State Agency Acquisitions** states in part:

- (a) A state agency shall submit a requisition to the State Purchasing Director for each of its acquisitions, whenever:
- (3) an acquisition exceeds the state agency's acquisition authority.

Recommendation: We recommend the Oklahoma State Fire Marshal use authority orders on a very limited basis and in accordance with PIM 10-02. We also recommend the Oklahoma State Fire Marshal to submit the fire consulting contract to OMES to be competitively bid by OMES.

Management's Response

Date: Nov. 14, 2017

Respondent: Executive Secretary

Response: Non-concur - JC Carroll/Fire Protection Consulting Inc has been a plan review contractor with this Agency for over 15 years for \$50.00/hr (always the lowest contract price). Every year we diligently search for other contractors to assist with these highly-technical plan reviews that are willing to contract for \$50.00/hr. In the past we have tried several other contractors; however, they are either not willing to continue to work for the \$50.00/hr rate or are not adequately trained to handle the work needing to be conducted. We ALWAYS strive to give the customers and citizens of the State our most efficient service at the most AFFORDABLE cost.

Corrective Action Plan

Contact Person: Executive Secretary

Anticipated Completion Date: July. 1, 2017. No Authority Orders will be created.

Corrective Action Planned: We believe we always hold the State's interest as our top priority when conducting our job duties, including all purchases. We respectfully request that we are granted to continue entering into contracts with those persons who are the most qualified for our highly-technical plan reviews after those persons are evaluated for both technical experience and rate of pay.

Auditor's Note: Due to the agency's current delegated purchasing threshold of \$50,000, the agency does not have an option to perform this acquisition. The acquisition is required to go



through OMES and be publically bid through OMES's sealed bidding process. FY 2018 acquisition must be performed by OMES.

Finding 15-02

(Listed in order by authority order totals within the findings.)

The following authority orders did not meet the qualifications listed below for use of authority orders as stated in PIM 10-02:

The Procurement Information Memorandum 10-02 (PIM) states in part:

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

Oklahoma Tax Commission – OTC

After reviewing 12 authority orders for OTC, we noted that the following three authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
6959007211	\$ 139,423	8/6/2014	Warrant filing fees
6959007212	\$ 215,768	8/6/2014	Warrant filing fees
6959007213	\$ 432,301	8/6/2014	Warrant filing fees
<i>Total</i>	<i>\$ 787,492</i>		

Management's Response

Date: 06/26/2017

Respondent: Revenue Administrator III

Response: Concur – The purchase orders in question are for warrant filing fees required by 68 O.S. § 230 – 231. These fees have always been remitted under an Authority Order, however, after further research it has been determined that these fees are budgeted and can be disbursed as an allotment payment instead. This issue will be corrected on future payments for this purpose.

Corrective Action Plan

Contact Person: Revenue Administrator III

Anticipated Completion Date: 07/01/2017

Corrective Action Planned: These fees have always been remitted under an Authority Order, however, after further research it has been determined that these fees are budgeted and can be disbursed as an allotment payment instead. This issue will be corrected on future payments for this purpose.

Oklahoma Department of Veterans Affairs – ODVA

After reviewing nine authority orders for ODVA, we noted that eight of the authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
6509023292	\$ 100,915	7/10/2014	REIMBURSEMENT: Tuition; Employee - Quality Workforce for Oklahoma's Heroes program - C & B
6509023295	\$ 45,000	7/10/2014	LICENSE: Professional license renewal fee - C & B
6509023784	\$ 5,000	11/12/2014	Training reimbursement for ODVA-Norman Staff
6509024753	\$ 42,250	8/10/2015	LICENSE: Professional license renewal fee reimbursement for FY 16 - Claims and Benefit
6509024776	\$ 5,000	8/13/2015	Training reimbursement for ODVA-Norman Staff
6509025930	\$ 84,350	7/14/2016	SERVICE: Education & Training program per OAC Title 770 - 1 Sub-chapter 7 - Claims & Benefits
6509025932	\$ 38,000	7/14/2016	LICENSE: Professional license renewal fee reimbursement for FY 17 - Claims and Benefit
6509026262	\$ 7,000	9/15/2016	Court Reporting Service - Depositions and Legal File - Ardmore
Total	\$ 327,515		

Management's Response

Date: 05-30-17

Respondent: Accountant

Response: Partially Concur – Corrective Action planned on Training Reimbursement Authority Orders - Will let the [Norman] center, know that Training cost reimbursement PO [Authority order] 6509023784 & 6509024776) - to be paid either on Travel Claim form 19 or on Regular PO [authority order]. With regards to the other Authority orders, the Agency does not see another way of processing the claims.

Responses for each authority order are bulleted below:

- AO 6509023292 – AO for FY 15 - to pay for Education and Training program per OAC Title 770-1 Sub-Chapter 7 - for the Whole Agency
- AO 6509023295 – AO for FY 15 License Reimbursement - Model Project in accordance with Title 74 OS 840-1.15(B) and Merit Rule 530:10-1-61 - Approved by HCM effective Nov 1, 2013 - for the Whole Agency
- AO 6509023784 – AO for FY 15 - Training Reimbursement for ODVA Norman Employees
- AO 6509024753 – AO for FY 16 License Reimbursement - Model Project in accordance with Title 74 OS 840-1.15(B) and Merit Rule 530:10-1-61 - Approved by HCM effective Nov 1, 2013 - for the Whole Agency
- AO 6509024776 – AO for FY 16 - Training Reimbursement for ODVA Norman Employees
- AO 6509025930 – AO for FY 17 - to pay for Education and Training program per OAC Title 770-1 Sub-Chapter 7 - for the Whole Agency
- AO 6509025932 – AO for FY 17 License Reimbursement - Model Project in accordance with Title 74 OS 840-1.15(B) and Merit Rule 530:10-1-61 - Approved by HCM effective Nov 1, 2013 - for the Whole Agency



- AO 6509026262 – AO set up for Court Reporting Service for Deposition and Legal file - for all seven Veterans centers - FY 17

Oklahoma Department of Libraries – ODL

After reviewing the following 29 authority orders for ODL, we noted that none of the authority orders conformed to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
4309002059	\$ 7,500	7/10/2014	AUTHORITY ORDER: ADMIN OPS
4309002060	\$ 4,000	7/10/2014	AUTHORITY ORDER: PIO/ALMANAC OPS
4309002061	\$ 3,000	7/10/2014	AUTHORITY ORDER: OLD OPS
4309002062	\$ 30,000	7/10/2014	AUTHORITY ORDER: OLD FEDERAL OPS
4309002066	\$ 10,000	7/10/2014	AUTHORITY ORDER: LITERACY OPS
4309002067	\$ 40,000	7/10/2014	AUTHORITY ORDER: MAIN/OK BOOKS & OPS
4309002077	\$ 15,000	7/22/2014	AUTHORITY ORDER: LAW BOOKS & OPS
4309002081	\$ 2,200	7/22/2014	AUTHORITY ORDER: ILL/LOST BOOKS & OPS
4309002082	\$ 12,500	7/22/2014	AUTHORITY ORDER: REC CENTER REVOLVING FUND OPS
4309002083	\$ 2,500	7/22/2014	AUTHORITY ORDER: ARCHIVE REVOLVING FUND OPS
4309002138	\$ 15,000	11/4/2014	AUTHORITY ORDER: REVOLVING FUND LAW BOOKS & OPS
4309002163	\$ 211	1/20/2015	AUTHORITY ORDER: ADMIN Carryover Funds 1000001
4309002237	\$ 8,184	7/8/2015	AUTHORITY ORDER: ADMIN OPS
4309002241	\$ 15,000	7/15/2015	AUTHORITY ORDER: OLD FEDERAL OPS
4309002246	\$ 6,000	7/16/2015	AUTHORITY ORDER: LITERACY OPS
4309002248	\$ 25,000	7/21/2015	AUTHORITY ORDER: MAIN/OK BOOKS & OPS
4309002249	\$ 1,000	7/21/2015	AUTHORITY ORDER: ARCHIVE OPS
4309002253	\$ 7,000	7/22/2015	AUTHORITY ORDER: LAW BOOKS & OPS
4309002258	\$ 5,000	7/22/2015	AUTHORITY ORDER: REC CENTER REVOLVING FUND OPS
4309002383	\$ 8,000	7/11/2016	AUTHORITY ORDER: ADMIN OPS
4309002384	\$ 2,000	7/11/2016	AUTHORITY ORDER: PIO/ALMANAC OPS
4309002385	\$ 1,000	7/11/2016	AUTHORITY ORDER: OLD OPS
4309002386	\$ 22,000	7/11/2016	AUTHORITY ORDER: OLD FEDERAL OPS
4309002387	\$ 25,000	7/11/2016	AUTHORITY ORDER: MAIN/OK/LAW BOOKS & OPS
4309002391	\$ 500	7/11/2016	AUTHORITY ORDER: ARCHIVE OPS
4309002394	\$ 5,000	7/11/2016	AUTHORITY ORDER: REC CENTER REVOLVING FUND OPS
4309002395	\$ 500	7/11/2016	AUTHORITY ORDER: ARCHIVE REVOLVING FUND OPS
Total	\$ 273,095		

Management's Response

Date: June 2, 2017

Respondent: Director

Response: Concur – Agency process will change to utilize direct purchase orders and only use authority orders as listed above

Corrective Action Plan

Contact Person: Business Manager



Anticipated Completion Date: Beginning July 1, 2017 with the start of the new fiscal year.

Corrective Action Planned: Agency process will change to utilize direct purchase orders and only use authority orders as listed above

Oklahoma Teachers Retirement System – TRS

After reviewing eight authority orders for TRS, we noted that the following six authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
7159001334	\$ 20,000	7/10/2014	AUTHORITY ORDER ADMIN FY15
7159001382	\$ 5,000	8/1/2014	AUTHORITY ORDER FINANCE FY15
7159001448	\$ 20,000	8/18/2015	AUTHORITY ORDER ADMIN FY16
7159001526	\$ 10,000	7/14/2016	FY17 AUTHORITY ORDER - INVESTMENTS
7159001528	\$ 10,000	7/14/2016	FY17 AUTHORITY ORDER - CLIENT SERVICES
7159001530	\$ 60,000	7/14/2016	FY17 AUTHORITY ORDER - ADMIN
Total	\$ 125,000		

Management's Response

Date: 06/16/2017

Respondent: Executive Director

Response: On May 24, 2017, [the auditor] of your office emailed an "Exception Notice" to a member of my accounting staff. Her email stated, in pertinent part, as follows:

Office of Management and Enterprise Services (OMES) Audit periodically performs audits of statewide contracts to determine compliance and increase efficiencies. We are currently performing a statewide audit of Procurement Information Memorandum 10-02 (PIM 10-02). The purpose of PIM 10-02 is for clarification and use of authority orders, procedure guidance and policy change.

Her email went on to identify six (6) Authority Orders of this agency over three fiscal years, i.e. FY 2015, 2016 & 2017. The A01s were from a low of \$5,000 to a high of \$60,000. There were exactly 100 claims listed in total that were paid under the A0s. Referring to these transactions, [the auditor] went on to say:

OMES Audit has used datamining software to electronically examine all authority orders statewide during the period of July 1, 2014 through November 15, 2016. As a result of this analysis, we have discovered transactions that do not conform to any of the conditions of the PIM.

One thing I should point out is that [the auditor] says that you "discovered transactions that do not conform" to the PIM. We were never given a list of the individual claims that were being questioned. There were simply a total number of claims for that particular Authority Order, the total dollar amount for the group of claims, and the number of vendors. It took us a few hours to figure that out, but that seemed odd to us if there was a conclusion that none of these underlying claims conformed to the PIM.

For the record we do not believe that the PIM was legally consistent when it was issued. The PIM added a requirement that small purchases needed to be an “emergency.” That language was not in the OSF manual at the time the PIM was issued. That language is not in the OMES manual now.

It is our view that when the various agencies were consolidated under OMES, and OMES issued a manual after the consolidation, the interpretation by an employee of the Department of Central Services that was inconsistent with both the old manual and new manual is no longer relevant.

We reviewed the claims paid under the six (6) Authority orders listed by [the auditor]. We think that really all of these claims meet the descriptions in Section 40.10.06 Authorization for Purchases “AFP” or “Authority Order” in the current OMES manual. None of these purchases required competitive bidding. A great number could have been paid for on a P-card. The largest number of flagged claims happened when our Business Manager was out on extended leave and she was the main user of the P-Card. An Authority Order was used instead during her absence. A total of thirty-four {34} of the 75 questioned claims were because of this situation.

We think the PIM 10-02 is far too narrow. Some of the claims questioned in this audit were to reimburse employees for small purchases way under the bid limit. They aren't “emergency” purchases by any stretch, but they are legitimate expenses. They are also the type of expense that at the beginning of the year you know you will have several in the category but you will have no idea of the vendor or employee who might get paid. So if an employee, with prior supervisor approval, purchases office supplies or pays for enrollment at a seminar, an Authority Order couldn't be used under the PIM as the basis to reimburse the employee. The only choice would be to do a full Purchase Order to make that payment. We think that's a little extreme.

Examples of past TRS use of Authority Orders

1. We pay some things with the AO that are very infrequent in nature. Examples are:

- a. A \$300 charge for servicing an ice machine once or twice a year - depending on the need.
- b. Servicing our check signing machine or to change a name or for service.
- c. Infrequent legal expenses such as court filing fees, authentication fees for doing business in foreign countries, or an IRS payment.
- d. Payment for background checks. Probably 5-10 per year and we pay the 0581.
- e. Payments for a once a year registration or membership when the P-card is not accepted for some reason and the amount is small.
- f. Occasionally our Medical Board will require an applicant to go for an evaluation and we pay the doctor for that.
- g. We reimburse employees for various things they pay for on occasion - sending something by FedEx to the IRS or a money manager.

All of the above still have the object of the expenditure coded in on every voucher.

We are not against OMES making the use of Authority Orders more clear. We think that the type of expenditures TRS makes on Authority Orders is reasonable, relatively small and infrequent.



In conclusion, we urge that OMES not make any findings that the use of these six {6} Authority Orders was contrary to the OMES manual. We would welcome an opportunity to have input in any clarification of the use of Authority Orders. We believe they should be put in the manual as opposed to appearing in a memo sent to state agencies.

Auditor's Note: We agree with a majority of the agency's assessment and recommend state policy be clarified.

Oklahoma Department of Mental Health and Substance Abuse Services – ODMHSAS

After reviewing eight authority orders for ODMHSAS, we noted that the following authority order did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
4529053067	\$ 10,000	7/29/2016	AUTHORITY ORDER: Multiple medical providers that do not accept the P-card for client medical services.

Management's Response

Date: 2/14/2018

Respondent: Chief Financial Officer

Response: Non-Concur ODMHSAS believes this finding should be removed because ODMHSAS does, as OMES recommends, use Authority Orders on a very limited basis

Specifically, Purchase Order #4529053067 was for "multiple medical providers" for client medical services in which they are given treatment at the hospital. ODMHSAS is responsible for all of the care, including medical care, provided to our consumers while they are admitted to one of our facilities. We have 11 facilities statewide, and admit consumers of all ages and with a variety of pre-existing health conditions. The fact that individuals with mental illness die on average 10-20 years earlier than most Americans helps illustrate this fact. Therefore, we are unable to predict in advance the reasons a consumer may need to be taken to a hospital for medical care, nor can we determine in advance which physicians or specialist the patient will need to see for at the hospital. Instead, the hospital will choose the particular physician or specialist based upon need, and that medical professional will then bill the department for the costs of our consumers care. Moreover, these bills can come in with unpredictable amounts at unpredictable times because we are often waiting for the consumers insurance to first pay their share of the bill. Due to the unpredictability of these costs, it would be impossible to set up a PO for those professional service providers that will not accept a P-card. In these instances the only other option available to the agency would be ratification agreements. Therefore, because ODMHSAS uses Authority Orders on a very limited basis as laid out in PIM 10-02, and this use was not to circumvent open market pricing, we respectfully request that this finding be removed.



Auditor's Response: We agree with the response provided by the agency and recommend this be added to the authorized uses of an authority order.

Oklahoma Corporation Commission – OCC

After reviewing the following authority order for OCC, we noted that it did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
1859014713	\$ 24,150	6/28/2016	Claims for locksmith, telecommunication services, tire center, advertising etc.

Management's Response

Date: 6/8/17

Respondent: Comptroller

Response: Partially Concur – The agency creates an authority order for all the agency's programs/departments to use, for fiscal year 2017 there are four (4) programs with thirty-four (34) departments. The agency's program/departments have seventeen (17) class funding which includes three (3) seven hundred funds to use for fiscal year 2017. The authority orders referenced in this exception notice had a total of thirty-three (33) lines of different funding combinations to meet the agency's need of small purchases. It is not cost efficient for the agency to complete a purchase order for any purchase under seventy dollars (\$70.00). The authority orders referenced in the exception notice covers two fiscal years, three hundred and thirty-five (335) vouchers paid against the authority orders with two hundred and fifty-five (255), or seventy-six percent (76%) of vouchers paid were below seventy dollars (\$70.00).

To give an example of the cost efficiency of the authority order, the agency uses an authority order line to pay for a monthly service bill from AT&T that totaled \$19.31 which was paid using twenty three (23) vouchers which is an average of \$0.84 per voucher. Another example of cost efficiency of using an authority order is in regards to the advertisements of our well plugging in local newspapers. There was a total of one hundred and six (106) vouchers paid for advertisements, of that, sixty-nine (69) or sixty-five percent (65%) of the transactions were below seventy dollars (\$70.00), therefore the average of those vouchers were \$35.26.

The agency had already identified this issue prior to notice and had addressed the issue by creating purchase orders or p-card purchases for one-time small purchases. The agency will continue to monitor transactions dollars amount and determine if that vendor needs to moved to a purchase order. To process a purchase order for our agency it does cost on average sixty-eight dollars and twenty cents (\$68.20). The agency does have a p-card program and when a vendor doesn't accept a p-card and the amount of the service is below \$70.00 the authority order is used for small purchases, which is allowable by statute. Therefore, the agency partially concurs with the exception notice based upon the cost effectiveness of an authority order.

Corrective Action Plan

Contact Person: Administrative Programs Officer



Anticipated Completion Date: November 1, 2017

Corrective Action Planned: The agency will review transactions of fiscal year 2017 authority orders and determine what vendors will be moved a purchase order.

Oklahoma Alcoholic Beverage Laws Enforcement Commission – ABLE Commission

After reviewing the following authority order for ABLE Commission, we noted it does not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
309000621	\$ 35,650	8/18/2015	FY 15 MISC PURCHASES – credit cards, refunds and tobacco rebates

Management's Response

Date: 6/5/17

Respondent: Accountant

Response: Concur – After review, The Director of Budget and Management had the Accountant set up the purchase order and pay for the credit cards, refunds, and tobacco rebates from this purchase order.

Corrective Action Plan

Contact Person: Financial Manager/Comptroller or Accountant

Anticipated Completion Date: 7/1/17

Corrective Action Planned: Beginning with FY18 budget we will set up individual purchase orders for Bank of America and American Express. This should bring us in compliance with the purchasing guidelines.

Oklahoma State Department of Education – SDE

After reviewing eight authority orders for SDE, we noted that two of the authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
2659016082	\$ 27,000	8/18/2016	Grant Application Review Stipend
2659016095	\$ 8,500	8/24/2016	Grant Application Review Stipend
Total	\$ 35,300		

Management's Response

Date: 06/05/2017

Respondent: Director of Operational Support

Response: Non-Concur – Procurement Information Memorandum 10-02 does not address the use of Authority Orders for the disbursement of scholarship funds; however, the SDE needs a mechanism to encumber funds for these transactions. These transactions are scholarship disbursements paid under the Lindsey Nicole Henry



(LNH) Scholarship for Students with Disabilities Program. Payments are made in accordance with 70 O.S. § 13-101.2. An Authority Order is set up to issue scholarship warrants that are made payable to the parent or legal guardian, who then restrictively endorse the warrants to the private school for deposit into the account of the private school. All parents and legal guardians receiving the LNH scholarship payments from the state are required to obtain a supplier ID number issued by OMES/Vendor Maintenance.

Corrective Action Plan

Contact Person: Director of Operational Support

Anticipated Completion Date: 06/05/2017

Corrective Action Planned: The SDE is mandated statutorily to disburse scholarship funds in accordance with Title 70 O.S., Section 13-101.2. Due to the nature of payments as described above, SDE is unable to discontinue the use of Authority Order for this purpose. The SDE is requesting an exception to this finding since there are no procedures in place for encumbrance of funds for scholarship disbursements.

Auditor's Note: We recommend the use of authority order for this type of transaction be added to the authorized authority order list.

**Oklahoma Center for the Advancement of Science & Technology –
OCAST**

After reviewing four authority orders for OCAST, we noted that the following two authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
6289005283	\$ 4,000	6/12/2015	FY16 Obligations not previously encumbered
6289005621	\$ 3,000	5/18/2016	FY17 Authority Order
Total	\$ 7,000		

Management's Response

Date: 5/31/2017

Respondent: Director of Administration & Finance

Response: Non-Concur – The agency only used an authority order in payment of the vouchers in question due to circumstances where the agency felt the need was warranted. Some direction from OMES or the State Auditors' office would be welcome as to how they would prefer payment be handled in such instances.

Corrective Action Plan

Contact Person: Director of Administration & Finance

Anticipated Completion Date: Immediately

Corrective Action Planned: Authority orders will not be used for payment of vouchers as per PIM 10-02, unless there is a mitigating circumstance.



Oklahoma Arts Council

After reviewing the following three authority orders for the Oklahoma Arts Council, we noted that none conformed to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
559000528	\$ 5,000	6/6/2016	REIMBURSEMENT FOR PANELIST TIME AND EXPERTISE
559000537	\$ 190	6/30/2016	SERVICE: Professional Repair
559000538	\$ 1,000	6/30/2016	SERVICE: Professional Art Presentation
Total	\$ 6,190		

Management's Response

Date: 5/24/2017

Respondent: Finance Director

Response: Partially Concur – Oklahoma Arts Council uses Authority Orders on a very limited basis: annually for p-card, travel, and panelist reimbursement.

Authority Orders 537 & 538 were exceptions to our standard operating processes due to the following:

- The vendors for these projects did not at the time of encumbrance have active vendor ID's in the payables system.
- To expedite encumbering funds prior to end of the fiscal year and pay for FY16 services with FY16 funds, we utilized AO's 537 and 538.

PO [authority order]# 528 This AO for panelist reimbursement was set up just as done by OMES on behalf of the Council in previous years.

Oklahoma Employment Security Commission – OESC

After reviewing four authority orders for OESC, we noted the following authority order did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
2909010074	\$ 5,000	7/28/2014	MEMBERSHIP: Professional Affiliations

Management's Response

Date: 05-26-17

Respondent: Administrative Programs Officer IV

Response: Concur – The agency, at one time, did pay for agency memberships to Oklahoma Area Chamber of Commerce. The agency concurs that an Authority Order was created and used to pay this membership. The Chamber of Commerce sent an invoice so it wasn't known, until the invoice was received which Chamber of Commerce would be utilized. The agency corrected this issue in 2016. The agency only pays for memberships as allowed per Pcard or Purchase Order procedures.



Corrective Action Plan

Contact Person: Administrative Programs Officer IV

Anticipated Completion Date: 2016

Corrective Action Planned: The agency corrected this issue in 2016. The agency only pays memberships as allowed per Pcard or Purchase Order procedures.

Oklahoma State Department of Health – OSDH

After reviewing the following authority order for OSDH, we noted it does not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
3409021149	\$ 5,000	8/5/2016	IPO # 170012

Management's Response

Date: 6/2/17

Respondent: Procurement Manager

Response: Non-Concur

Upon review of the payments included in the finding, we do not find that they are non-compliant with the PIM. OSDH only uses Authority Orders as the normal process for payment of Purchase Card Transactions. OSDH uses Authority Order payments to satisfy certain obligations incurred without a valid purchase order and for which funding for the appropriate budget period of the obligation are available as an exception to the normal purchase order encumbrance procedures. The process for such a payment requires the program area to provide a justification describing why the obligation was incurred without a purchase order encumbrance and requires a higher level of approval than a normal small-dollar purchase to reinforce the need for a proper encumbrance and to limit the need for such payments. The OSDH utilizes the guidance included in both PIM 10-02 and in the OMES Accounts Procedures Manual (Rev. 2015) in relation to the use of the Authority Orders for payments.

Each of the purchases obtained without a purchase order encumbrance is significantly less than \$5,000.00, in compliance with PIM category #3.

The payments included in the finding are:

- 1) \$500.00 to the OUHSC College of Medicine in Tulsa. The total amount of the invoice was actually \$2,500.00, with the remainder of the payment paid from a different line item on the Authority Order). Payment to another government agency, in amount less than \$5,000.00.
- 2) \$242.81 to Neopost for maintenance for the first quarter on a mailing meter machine. Total cost of the agreement is less than \$5,000.00. The statewide contract is a non-mandatory statewide contract.
- 3) \$350.00 for CodeFinder software as a one-time purchase.
- 4) \$1,076.40 for Mirion Instadose Dosimeters Badge Monitoring Service as a one-time annual payment.

Each of these purchases were obtained without a proper purchasing document. In those cases where additional/ongoing products or services were required, the proper purchasing documents were put into place upon identification of need. OSDH properly takes the total value of the contract and the identity of the vendor as another state agency into consideration, in addition to the value of the single invoice, when determining whether to use an Authority Order or a ratification agreement for such a payment.

Further, OSDH circumspectly relies upon the guidance in the Statewide Accounting Manual which emphasizes and expounds upon the relevant Statutes and Rules:

40.10.06 Authorization for Purchases “AFP” or “Authority Order”

The Authorization for Purchases document also known as “AFP” or “Authority Order” is an encumbrance document authorized by the Director of the Office Management and Enterprise Services which permits an agency to make certain types of purchases not requiring the submission of competitive bids (74 O.S. § 85.7), or excluded from the purview of the Oklahoma Central Purchasing Act (74 O.S. § 85.12), and for or on behalf of the State whenever the Director of the Office of Management and Enterprise Services determines that the best interests of the State are served thereby.

*AFP’s are encumbered by the agency as an order in the State Purchasing System. OMES recommends limited use of AFP’s - only for purchases which the standard encumbrance process cannot serve. Likewise, payment of utilities, telephone services (i.e., regulated services, not purchases), payments to other state agencies, and other acquisitions specifically exempt from the Oklahoma Central Purchasing Act (no matter the cost) could be charged against an AFP order. However, many agencies prefer to use “vendor” specific orders and this is highly recommended. AFP’s should **never** be used for mandatory statewide contract purchases, postage, and normally professional service contracts.*

Oklahoma Health Care Authority – OHCA

After reviewing 22 authority orders for the OHCA, we noted that the following two authority orders did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
8079002946	\$ 2,000	9/3/2014	Blanket Reimbursement Fund for SFY 2015
8079002987	\$ 215	10/6/2014	Blanket reimbursement Fund for SFY 2015
Total	\$ 2,215		

Management’s Response

Date: 5/30/2017

Respondent: Procurement & Contracts Development Director, P-Card Administrator

Response: Concur – In the past few years the OHCA has been working to change its’ internal process and the utilization of Authority Orders to comply with PIM 10-02, limiting the use of AO’s only to p-card and multi-payee vouchers. Additionally, the



individual whom requested these particular Authority Orders is no longer with the agency.

Corrective Action Plan

Contact Person: Procurement & Contracts Development Director, P-Card Administrator /Director, Fiscal Planning & Procurement

Anticipated Completion Date: Completed

Corrective Action Planned: The OHCA has and continues to change its' internal process to comply with PIM 10-2.

Finding 15-03

The following authority order did not meet the qualifications listed below for use of authority orders as stated in PIM 10-02 and the Statewide Accounting Manual:

The Procurement Information Memorandum 10-02 (PIM) states in part:

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.

The State of Oklahoma Statewide Accounting Manual § Chapter 40.10.06 – Authorization for Purchases “AFP” or “Authority Order” states in part, “AFP’s are encumbered by the agency as an order in the State Purchasing System. OMES recommends limited use of AFP’s - only for purchases which the standard encumbrance process cannot serve.”

Oklahoma Corporation Commission – OCC

After reviewing the following authority order for OCC, we discovered excessive use of open market vendors and non-conformity to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
1859013056	\$ 22,625	7/21/2014	FY 15 Multiple funding for multiple divisions

Management’s Response

Date: 6/21/17

Respondent: Comptroller

Response: Partially Concur – The authority order referenced in this exception notice had a total of sixteen (16) authority order lines of different funding combinations to meet the agency’s need of small purchases for fiscal year 2015. It is not cost efficient for the agency to complete a purchase order for any purchase under seventy dollars (\$70.00). The authority order referenced in the exception notice had one hundred and ninety-seven (197) vouchers paid against the authority order with one hundred and thirty-two vouchers (132), or sixty-seven percent (67%) of the vouchers paid were below seventy dollars (\$70.00). The average amount of the one hundred and

thirty-two (132) vouchers was twenty-eight dollars and eight cents (\$28.08). The average amount of all the vouchers (197) paid against the authority order was sixty-three dollars and forty cents (\$63.40).

The agency had already identified this issue prior to notice and had addressed the issue by creating purchase orders or p-card purchases for one-time small purchases. The agency will continue to monitor transactions dollars amount and determine if that vendor needs to moved to a purchase order. To process a purchase order for our agency it does cost on average sixty-eight dollars and twenty cents (\$68.20). The agency does have a p-card program and when a vendor doesn't accept a p-card and the amount of the service is below \$70.00 the authority order is used for small purchases, which is allowable by statute. Therefore, the agency partially concurs with the exception notice based upon the cost effectiveness of an authority order.

Corrective Action Plan

Contact Person: Administrative Programs Officer

Anticipated Completion Date: November 1, 2017

Corrective Action Planned: The agency will review transactions of fiscal year 2017 authority orders and determine what vendors will be moved to a purchase order.

Finding 15-04

The following authority orders did not meet the qualifications listed below for use of authority orders as stated in PIM 10-02 and the Statewide Accounting Manual:

The Procurement Information Memorandum 10-02 (PIM) states in part:

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.

The State of Oklahoma Statewide Accounting Manual § Chapter 40.10.06 – Authorization for Purchases “AFP” or “Authority Order” states in part, “AFP’s are restricted to purchase[s] not to exceed \$5,000. This limit is established as the amount not requiring bidding/solicitations pursuant to Oklahoma Central Purchasing Division Administrative Rules OAC 580, specifically, 580:16-7-13 ‘State agencies shall make open market acquisitions not exceeding Five Thousand Dollars (\$5,000.00) that are fair and reasonable.’”

Oklahoma State Department of Education – SDE

After reviewing eight authority orders for SDE, we discovered transactions in the following two authority orders that exceeded the established \$5,000 limit and did not conform to conditions of PIM 10-02.

AO NUMBER	AO AMOUNT	AO DATE	AUTHORITY ORDER INFO
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2659015444	\$ 3,448,483	7/7/2015	Scholarship stipend
2659015804	\$ 3,448,483	4/12/2016	Scholarship stipend
Total	\$ 6,896,966		

Management's Response

Date: 05/31/2017

Respondent: Director of Operational Support

Response: Non-concur – The State Department of Education (SDE) believes that the transactions listed above cannot be classified as a “purchase” as defined in the [State of Oklahoma Statewide Accounting Manual, Chapter 40.10.06 Authorization for Purchases “AFP” or “Authority Order”](#) or as an “acquisition” as defined in the Oklahoma Central Purchasing Division Administrative Rules OAC 580, specifically, 580:16-7-13. These transactions are scholarship disbursements paid under the Lindsey Nicole Henry (LNH) Scholarship for Students with Disabilities Program. Payments are made in accordance with 70 O.S. § 13-101.2. An Authority Order is set up to issue scholarship warrants that are made payable to the parent or legal guardian, who then restrictively endorse the warrants to the private school for deposit into the account of the private school. All parents and legal guardians receiving the LNH scholarship payments from the state are required to obtain a supplier ID number issued by OMES/Vendor Maintenance.

Due to the nature of payments as described above, SDE is unable to discontinue the use of Authority Order for this purpose.

Corrective Action Plan

Contact Person: Director of Operational Support

Anticipated Completion Date: 05/31/2017

Corrective Action Planned: The SDE is mandated statutorily to disburse scholarship funds in accordance with Title 70 O. S., Section 13-101.2. The SDE is requesting an exception to this finding since there are no procedures in place for encumbrance of funds for scholarship disbursements.

Auditor's Note: We agree with the response provided by the agency and recommend this be added to the authorized uses of the authority order.

APPENDIX

Methodology

- We conducted interviews with selected State of Oklahoma agency buyers.
- We documented and evaluated internal controls over selected State of Oklahoma agency purchase orders.
- We evaluated overall compliance with the Statewide Accounting Manual and the Procurement Information Memorandum 10-02.
- We examined authority orders from the PeopleSoft financials application.

