



# Oklahoma Department of Corrections

## Purchase Card Program Audit

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## AUDIT HIGHLIGHTS

### Oklahoma Department of Corrections (ODOC) – Purchase Card Program Audit

#### Why We Conducted This Audit

This report provides information on the Oklahoma Department of Corrections compliance of their purchase card program with the State Purchase Card Procedures and the evaluation of the strength and execution of the agency's purchase card internal control structure.

#### What We Found

We have determined the Oklahoma Department of Corrections has complied with the State Purchase Card Procedures and the agency's internal purchase card procedures. Oklahoma Department of Corrections has implemented internal controls that are operating effectively in relation to the agency's purchase card program. We performed analytical testwork during our planning phase, completed internal control walkthroughs, and tested 310 purchases against defined compliance requirements. We reported eight formal findings.



#### Audit Finding Summary

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

#### [Finding 16-131-08: OCI](#)

- The Oklahoma Tax Commission used an interagency agreement with ODOC for items that were not manufactured, produced, processed or assembled by the agency.

#### [Finding 16-131-03: Single Purchase Limit](#)

- Thirteen transactions were separated to avoid the single purchase limit.

#### [Finding 16-131-01: Receiving Documents](#)

- Out of 92 transactions that were reviewed, 64 (70 percent error rate) did not include proof of delivery documents that are required when products are shipped to the agency.

#### [Finding 16-131-02: IT Purchases](#)

- Fourteen information technology (IT) transactions, totaling \$21,500.04, occurred where the purchased items were not found on the OMES Information Services approved hardware and software list. Six IT transactions totaling \$322,565.30 exceeded the \$15,000 IT hardware and software purchase limit and exceeded the \$25,000 IT hardware and software purchase card statutory limit.

#### [Finding 16-131-06: Food Policy](#)

- Three transactions, where food was purchased, did not follow the agency's internal food policy.

#### **Finding 16-131-04: Contract Qualified Purchases**

- Three vendors were paid a total of \$112,033.30 throughout the audit period and a total of \$505,411.95 during the past four fiscal years. Due to the payment amounts, an appropriate contract for each vendor should have been utilized.

#### **Finding 16-131-07: General Liability Coverage**

- Eight transactions were reviewed for general liability coverage per the agency's internal purchasing procedures. Of the eight transactions reviewed, all eight (100 percent error rate) that required a contractor's service did not include general liability coverage.

#### **Finding 16-131-05: Supporting Documents**

- There were four missing cardholder statements, 10 transactions missing a detailed or itemized receipt, and five transactions that did not have receipts or supporting documentation.

## **AUDIT OVERVIEW**

This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures. Our audit was to determine if ODOC's purchase card program complied with the audit objectives during the period of March 1, 2016, to April 9, 2018. As of Oct. 24, 2016, there were 156 cardholders and 75 approving officials.

ODOC processed 42,012 purchase card transactions totaling \$30.8 million during the audit period. Categories for purchase card transactions for the agency included: purchases under \$5,000, purchases above \$5,000, airfare, lodging, and information technology purchases. We used the classical variable sampling method to randomly select our sample for testing. We exercised auditor's discretion in adjusting the confidence level and expected proportion of errors based on a risk assessment when applying the classical variable sampling technique. To ensure a sound statistical sample, a random sample of 85 standard transactions was tested along with 33 lodging, 14 airfare, 50 IT transactions, and 128 transactions were selected based upon auditor's discretion and tested against selected criteria.



#### **Follow-up to Prior Audit**

The Oklahoma Department of Corrections purchase card program was last audited by OMES Audit in 2007. The overall conclusion stated the following:

Based upon our audit, we have determined the Oklahoma Department of Corrections has materially complied with the following objectives:

- Compliance with purchase card laws and regulations.



- The agency has implemented internal controls and the agency's controls are operating effectively in relation to the purchase card program.

Some notable exceptions related to the objectives above were related to the proper receipting methods for purchase card transactions, card and data security, and approving officials not attending training or one level higher than the cardholder.

We have also determined, based upon our audit findings, the agency has not materially complied with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards. Ninety-seven percent of the purchase card transactions reviewed were not supported by a Local Purchase Order (an internal request for purchase form).

Current review of agency internal purchasing procedures indicates the requirement to use an internal request form for purchase card transactions has been removed.

#### **State Law Revision Recommendation**

We recommend adding acquisitions that are exempt from the Central Purchasing Act to Title 74 § 85.5.L.1 to allow agencies such as ODOC to use the purchase card for these low-risk purchases. This change would increase the agency's process efficiency, create an economical payment process, reduce the vendor payment cycle, reduce the cost of inventory by ordering items as needed and allow the agency to earn a higher rebate.

## DETAILED FINDINGS

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

### Finding 16-131-08: OCI

**Condition:** During our testwork, we discovered purchase card purchases in the amount of \$10,625.03 for boxes shipped to Lexington Correctional Center and then shipped to the Oklahoma Tax Commission. The Oklahoma Tax Commission ordered the boxes from ODOC Oklahoma Correctional Industries (OCI).

#### Details related to the purchasing process –

- The boxes were not manufactured, produced, processed or assembled by the prison industries, therefore the purchases are not exempt from the Central Purchasing Act or competitively bidding requirements.
- The purchases were not competitively bid by the Tax Commission or ODOC when required. Competitive bidding begins at \$5,000. Interagency purchases are exempt from the bidding requirements except when the agency the purchase is made from does not provide the product or perform the service.
- The single purchase card limit of \$5,000 was exceeded since the transactions were not properly consolidated at the time of the purchase by ODOC.
- Split purchasing has occurred since the agency failed to consolidate and divided a known quantity for a purchase that was not exempt from the Central Purchasing Act.
- Tax Commission used an interagency agreement with ODOC for items that were not manufactured, produced, processed or assembled from the agency the purchase was made from.

Table 1: Boxes – Alpha Packaging Inc.

INVOICE NUMBER	INVOICE DATE	RECEIVED DATE	PAID BY	SHIP TO	AMOUNT
262567	12/6/2017	12/21/2017	CH 8300	OCI MODULAR LARC	\$ 380.56
262568	12/6/2017	12/21/2017	CH 8300	OCI MODULAR LARC	\$ 1,431.95
262569	12/6/2017	12/21/2017	CH 8300	OCI MODULAR LARC	\$ 2,706.00
262570	12/6/2017	12/21/2017	CH 8300	OCI MODULAR LARC	\$ 3,758.82
262571	12/6/2017	12/21/2017	CH 8300	OCI MODULAR LARC	\$ 2,347.70
					<b><u>\$10,625.03</u></b>





**Cause:** Boxes remain within the OCI catalog during the time frame the agency was not manufacturing them.

The Tax Commission was following the merchant preference hierarchy published by OMES Central Purchasing to give OCI merchant preference over open market vendors.

**Effect or Potential Effect:** The agency may not be obtaining the best value or lowest price when a purchase is structured to remove the competitive bidding element. Additional shipping cost and wait time to the state will ensue when items are required to be shipped multiple times.

**Criteria:** The Oklahoma Administrative Code § 260:115-7-3 **Methods state agencies use to make acquisitions** states in part:

(7) Acquisitions from other governmental agencies. A state agency may contract with any other department of state government or institution pursuant to 74 O.S. §581 or §1001 through §1008. A state agency may contract with any "public agency" pursuant to 74 O.S. §1001 through §1008, which includes a political subdivision of this state or another state, and any agency of this state or of the United States. Acquisitions shall not be made for the purpose of evading competitive bidding requirements, provisions of the Oklahoma Central Purchasing Act, rules of the Purchasing Division or provisions related to the State Use Committee.

The **2014 Oklahoma Statutes Title 57. Prisons and Reformatories §57-549.1. Purchase of prison industries goods and services** states in part:

A. The Department of Corrections is authorized to purchase in the manner prescribed by law, facilities, equipment, raw materials and supplies, and to engage the supervisory personnel necessary to establish and maintain for this state at the penal institutions, now or hereafter under the control of the State Board of Corrections, industries and agricultural programs for the utilization of services of prisoners in the manufacture or production of the articles or products as may be needed for the construction, operation, maintenance or use of any office, department, institution or agency supported in whole or in part by this state and the political subdivisions thereof. Upon the request of the Oklahoma Historical Society or the Oklahoma Tourism and Recreation Department, the Department of Corrections shall provide labor for and shall produce or manufacture articles, products or materials needed for the repair, construction and maintenance of historical sites and state parks including, but not limited to, the production of materials and products needed for the reconstruction of historic forts in the state.

B. All articles and services provided by the Department of Corrections in the state correctional institutions, and not required for use therein, shall be purchased as required by all offices, departments, institutions, agencies, counties, schools, colleges, universities, or political subdivisions or any agency thereof of this state which are supported in whole or in part by this state, if such article or service is the lowest and best bid, and no such article or product may be purchased by any such office, department, institution, agency, county, school, college, university, or political subdivisions or agency thereof from any other source unless excepted from the provisions as hereinafter provided. Purchases made by the above-described state agencies may be made by submitting the proper requisition through the Office of Management and Enterprise Services or by direct order to the prison industries program of the Department of Corrections.

...

D. All offices, departments, institutions, agencies, counties, cities, districts or political subdivisions, schools, colleges, or universities, or any agency thereof, or any agencies of the state, which are supported in whole or in part by this state, may purchase the goods or services manufactured, produced, processed or assembled by the prison industries of the Department of Corrections through their properly authorized purchasing authority, or they may place a direct order without competitive bid, with the prison industries of the Department of Corrections.

...

I. Exceptions from the mandatory provisions hereof may be made in any case where, in the opinion of the Office of Management and Enterprise Services, the article or product does not meet the reasonable requirements of or for such offices, departments, institutions or agencies, or in any case where the requisitions made cannot be reasonably complied with. No such offices, departments, institutions or agencies, shall be allowed to evade the intent and meaning of this section by slight variations from standards adopted by the Office of Management and Enterprise Services, when the articles, services or products produced, manufactured, processed or assembled by the Department of Corrections, in accordance with established standards, are reasonably adapted to the actual needs of such offices, departments, institutions or agencies.

**Recommendation:** We recommend Oklahoma Correctional Industries to discontinue selling products to agencies that are not manufactured, produced, processed or assembled by OCI.

#### ***ODOC Management's Response***

**Date:** Oct. 31, 2018

**Respondent:** OCI/Ag Business Services Coordinator

**Response:** Concur / Non-Concur - OCI does have and has had a bid contract for boxes. These particular boxes were specialty boxes that were not listed on that contract. Rather than have them bid, OCI elected to use the purchase card. As a side note, the boxes come in flats that have to be assembled prior to sending to the customer.

#### ***Corrective Action Plan***

**Contact Person:** Comptroller, Transaction Accounting

**Anticipated Completion Date:** March 1, 2019

**Corrective Action Planned:** Historically, OCI has operated outside the direct purview of DOC Business Services. Supervision and direction of OCI and Agri-Services purchasing and accounting functions are being moved to the Director of Business Services. This move will include the introduction of the agency's internal purchase request system (IPR) to OCI and Agri-Services which requires most purchases (including purchase card purchases), be approved in advance of the purchase. This will allow finance staff to determine the best purchasing method for all purchases. Business services will incorporate a review of current OCI and Agri-Services cardholders and evaluate the types of purchases they will be allowed to initiate going forward.

Related to boxes specifically, OCI is working to reopen the box manufacturing segment.





### **Oklahoma Tax Commission Management's Response**

**Date:** Oct. 26, 2018

**Respondent:** Deputy Director – Management Services

**Response:** Management partially concurs with the finding. The finding will resolve itself if OCI follows the audit recommendation. Until that time the Tax Commission (OTC) has put a process in place to inquire if products purchased from OCI are manufactured, produced, processed or assembled by OCI prior to initiating a purchase order. If OCI does not manufacture, produce, process or assemble the product, OTC will obtain three quotes to obtain lowest price and/or best value. If the purchase is over \$10,000.00 the competitive bid process will be completed to ensure the best value and/or lowest price is received.

As stated in the finding, OTC was following the merchant preference hierarchy published by the Central Purchasing division to give OCI merchant preference over open market vendors. With that being said, OTC looks forward to clarification on this issue in both the Certified Procurement Officer training, published Central Purchasing processes and State Statute.

### **Finding 16-131-03: Single Purchase Limit**

**Condition:** During our data analysis of the purchase card transactions, we noted transactions that were separated and not consolidated at the time of purchase. This allowed the individual transactions to be processed below \$5,000. Quotes and sales orders were not included with the purchase card supporting documentation.

**Table 1: Albright Steel Wire OKC**

INVOICE NUMBER	INVOICE DATE	RECEIVED DATE	PAID BY	SHIP TO	AMOUNT
Invoice not found.	Invoice not found.	1/17/2018	CH 4920	OCI (DCCC)	\$ 3,429.50
337928	1/18/2018	1/18/2018	CH 9278	OCI (DCCC)	\$ 4,550.00
					<b><u>\$7,979.50</u></b>

**Table 2: Enutron Industrial Corp.**

INVOICE NUMBER	INVOICE DATE	RECEIVED DATE	PAID BY	SHIP TO	AMOUNT
08-4474	12/19/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 4,703.68
08-4475	12/19/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 2,053.47
					<b><u>\$6,757.15</u></b>

**Table 3: Industrial Welding and Tool Supply**

INVOICE NUMBER	INVOICE DATE	RECEIVED DATE	PAID BY	SHIP TO	AMOUNT
33759641	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 808.50
33759643	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 46.00
33759696	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 967.05
33759698	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 519.50
33759715	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 1,306.19
33759733	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 2,055.00
33759824	10/31/2017	No receiving document.	CH 9946	OCI (DCCC)	\$ 257.40
					<b><u>\$5,959.64</u></b>

**Table 4: Knappe & Vogt Manufacturing**

INVOICE NUMBER	INVOICE DATE	RECEIVED DATE	PAID BY	SHIP TO	AMOUNT
10342064	4/29/2016	5/11/2016	CH 5571	OCI (JHCC)	\$ 3,986.50
10342065	4/29/2016	4/27/2016 - 5/09/2016	CH 5571	OCI (JHCC)	\$ 4,104.28
					<b><u>\$ 8,090.78</u></b>

**Cause:** Unknown.

**Effect or Potential Effect:** The purchase card cannot be used when the acquisition results in a financial transaction greater than \$5,000. These transactions would be allowable if the purchase card statutory limit was increased.

**Criteria:** The State of Oklahoma Purchase Card Procedures **Definitions** states:

‘Single Purchase Limit’ - 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 (the limit does not apply on statewide contract purchases, interagency purchases, professional services per Title 18, or payment of utility transactions); and/or (2) limit(s) established for an individual p-card; and/or (3) any competitive bidding requirement. For travel purposes, lodging and transportation are considered separate transactions.

‘Split Purchase’ - dividing a known quantity or failing to consolidate a known quantity of an acquisition for the purpose of evading a competitive bidding requirement. Conviction



for making an acquisition by split purchase is a felony pursuant to the Oklahoma Central Purchasing Act.

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).

**Recommendation:** We recommend the cardholder verify total cost prior to using their purchase card to avoid the possibility of going over the single purchase card transaction limit of \$5,000.

#### ***Management's Response***

**Date:** Nov. 30, 2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Concur - Oklahoma Correctional Industries has historically treated each work order as a new project. As it relates to the purchase card, transactions were also treated as independent of each other. Transactions for Albright Steel and Wire and Knappe and Vogt Manufacturing were for specific customer work orders for the metal fabrication factory and modular furniture units. Even though the paper quotes and sales orders were not included with the statements, sales order numbers were included for two of the transactions in the "Notes" field in WORKS.

The purchase card should not have been used for Industrial Welding and Tool Supply or Enutron Corp. OCI has a contract with Industrial Welding and Tool Supply, they should have been processed from the established purchase order. The Enutron charges were for replacement parts on two different machines.

#### ***Corrective Action Plan***

**Contact Person:** Comptroller, Transaction Accounting

**Anticipated Completion Date:** March 1, 2019

**Corrective Action Planned:** Historically, OCI has operated outside the direct purview of DOC Business Services. Supervision and direction of OCI and Agri-Services purchasing and accounting functions are being moved to the Director of Business Services. This move will include the introduction of the agency's internal purchase request system (IPR) to OCI and Agri-Services which requires most purchases (including purchase card purchases), be approved in advance of the purchase. This will allow finance staff to determine the best purchasing method for all purchases. Business services will incorporate a review of current OCI and Agri-Services cardholders and evaluate the types of purchases they will be allowed to initiate going forward.

## **Finding 16-131-01: Receiving Documents**

**Condition:** The total purchase card population for the audit period consisted of 310 transactions totaling \$1.6 million. During our substantive testwork, we noted 64 transactions (92 tested transactions, 70 percent error rate) were not accompanied with a packing slip or proof of delivery. The agency has not implemented the practice of maintaining third-party shipping documentation within their purchase card program.

We also noted one transaction during the testing of greater than \$5,000 that was missing part of its packing slip. Only \$2,380.56 out of the \$48,833.80 purchase was accounted for with a packing slip.

**Cause:** The agency uses an internal receiving and inspection memorandum to document their receiving process.

**Effect or Potential Effect:** There is no third-party documentation to support that goods were shipped to the agency or to support the destination the items were shipped to by the carrier.

**Criteria:** State of Oklahoma Purchase Card Procedures § 10.6 **Products shipped** states, "In addition to the receipt, a packing slip or proof of delivery must be obtained (proof of delivery may be obtained from carrier's website)."

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

- 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.

### ***Management's Response***

**Date:** Oct. 29, 2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Concur - The Department of Corrections does have an internal receiving policy in place and does require the receiving employee to acknowledge receipt of goods using a variety of methods to include use of an internal receiving document, acknowledgement of receipt on the delivery document, acknowledgement via email, etc. However, policy does not require the cardholder to submit the delivery document with the invoices and statement to the purchase card office at central administration. It is our belief that these documents exist in the files of the multiple cardholders across the state.

### ***Corrective Action Plan***

**Anticipated Completion Date:** Dec. 1, 2018

**Corrective Action Planned:** Changes will be made to current policy clarifying the need for delivery documentation and making it a requirement to include such documentation with the invoice and statement when submitted to the purchase card office at central administration. The inclusion of delivery documentation will become part of the central purchase card offices review process.

In a meeting with agency finance staff on 10/23/2018, the need for inclusion of delivery documents was relayed, this group represents many of the card with frequent use. We will be sending a blast out to all card holders by 11/16/2018 to reinforce the request.

## **Finding 16-131-02: IT Purchases**

**Condition:** The total population of information technology purchases for the audit period consisted of 50 transactions totaling \$761,156.68. During our testing of IT purchase card purchases, we noted 14 transactions (50 tested, 28 percent error rate) that included an item not listed on the Office of Management and Enterprise Services IT-approved hardware and software list.

<u><b>TXN Number</b></u>	<u><b>Vendor</b></u>	<u><b>Post Date</b></u>	<u><b>Amount</b></u>
TXN00959439	MAILFINANCE	7/17/2017	\$152.26
TXN00977403	STANDLEY SYSTEMS LLC	8/24/2017	\$383.67
TXN00981341	PBI LEASED EQUIPMENT	9/6/2017	\$653.34
TXN00981301	PBI LEASED EQUIPMENT	9/6/2017	\$688.74
TXN00877846	STANDLEY SYSTEMS LLC	1/4/2017	\$621.66
TXN00903444	STANDLEY SYSTEMS LLC	3/7/2017	\$480.76
TXN00903192	STANDLEY SYSTEMS LLC	3/7/2017	\$494.91
TXN00903375	STANDLEY SYSTEMS LLC	3/7/2017	\$639.23
TXN00903358	STANDLEY SYSTEMS LLC	3/7/2017	\$645.55
TXN00903180	STANDLEY SYSTEMS LLC	3/7/2017	\$2,826.37
TXN00945894	STANDLEY SYSTEMS LLC	6/14/2017	\$330.22
TXN00992131	TELCO SUPPLY COMPANY	9/29/2017	\$1,213.00
TXN00841693	STANDLEY SYSTEMS LLC	9/26/2016	\$12,370.33
TXN00769073	PAGE PLUC INC	4/5/2016	\$34.75
		TOTAL:	\$21,500.04

We also noted six transactions (50 tested, 12 percent error rate) that exceeded the \$15,000 IT hardware and software purchase limit per OMES IT Procurement Information Memorandum (PIM) 06302015 and exceeded the \$25,000 IT hardware and software purchase card statutory limit.

<u><b>TXN Number</b></u>	<u><b>Vendor</b></u>	<u><b>Post Date</b></u>	<u><b>Amount</b></u>
TXN01045187	STANDLEY SYSTEMS LLC	2/14/2018	\$165,936.88
TXN00873052	DMI DELL HIGHER EDU	12/17/2016	\$38,024.48
TXN00872954	DMI DELL HIGHER EDU	12/19/2016	\$29,749.00
TXN01060566	SHI INTERNATIONAL CORP	3/23/2018	\$47,989.66
TXN00783168	DMI DELL HIGHER EDU	5/10/2016	\$40,865.28
TXN01022279	SHI INTERNATIONAL CORP	12/13/2017	\$82,060.00
		TOTAL:	\$322,565.30

**Cause:** The agency received multiple approvals both internal and external to the agency for these transactions and, with these approvals, proceeded to purchase IT items that are not on the hardware and software list with the purchase card. A misunderstanding of current IT purchasing policy may have occurred.

**Effect or Potential Effect:** IT purchases did not receive pre-approval by state chief information officer when items are not on the hardware/software list.

**Criteria:** The State of Oklahoma Purchase Card Procedures § 7.11, **Information Technology**, states in part:



IT purchases shall be made in accordance with the IS Procurement Policies and the IT and Telecom ePro Requisition Procedures located at <http://www.ok.gov/cio/Procurement/index.html>. All hardware/software acquisitions must be on the Approved Hardware/Software list located on the above website. All IT purchases exceeding \$5000 must be listed on a statewide contract.

IT acquisitions shall comply with the applicable Oklahoma Information Technology Accessibility Standards issued by OMES, also available on the above website.

Also, please refer to the OMES Administrative Rules, OAC 260:115-7-54 for rules and procedures regarding information technology acquisitions and exceptions [https://www.ok.gov/dcs/searchdocs/app/manage\\_documents.php?id=946](https://www.ok.gov/dcs/searchdocs/app/manage_documents.php?id=946), and to the Procurement Information Memorandum (PIM) 06302015 for Delegation of Authority for Certain Purchases at [https://www.ok.gov/dcs/searchdocs/app/manage\\_documents.php?id=1195](https://www.ok.gov/dcs/searchdocs/app/manage_documents.php?id=1195)

The Oklahoma State Finance Act **62 O.S. § 34.11.1.F - Chief Information Officer states:**

For all state agencies, approve the purchasing of all information technology and telecommunication services and approve the purchase of any information technology and telecommunication product except the following:

- a. a purchase less than or equal to Five Thousand Dollars (\$5,000.00) if such product is purchased using a state purchase card and the product is listed on either the Approved Hardware or Approved Software list located on the Office of Management and Enterprise Services website, or
- b. a purchase over Five Thousand Dollars (\$5,000.00) and less than or equal to Twenty-five Thousand Dollars (\$25,000.00) if such product is purchased using a state purchase card, the product is listed on an information technology or telecommunications statewide contract, and the product is listed on either the Approved Hardware or Approved Software list located on the Office of Management and Enterprise Services website;

**Recommendation:** We recommend the policy and procedures for purchasing IT hardware and software with the state purchase card be reviewed to ensure approvals take into consideration the method of purchase. In addition, more education on this topic is advised to communicate to individuals involved the requirements and processes when using the purchase card to obtain hardware or software.

#### ***Management's Response***

**Date:** Nov. 26, 2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Partially Concur - In order to navigate the complex process of making routine acquisitions considered IT related, the agency developed an office within Business Services responsible for agency-wide IT purchases. Internal processes have been refined over time, routing all IT/Telecom requests through Business Services, to ensure IT acquisition requests have all necessary approvals before those products or services are ordered or received. All transactions listed in the





finding received both internal approval and approval from OMES – ISD prior to purchase and are/were on a state contract at the time of the purchase.

Of the transactions listed in the finding, eleven were for the lease of multi-function copiers. As of this date, multi-function copiers are not listed on the approved hardware list. In FY 17, Business Services in the central office assumed most copier contracts for the agency from the individual units and transitioned to using the purchase card for payment. We have worked with Standley Systems to process a single quarterly invoice for most of the agencies copiers that includes a verification process before the purchase card transaction is processed to insure the consolidated invoice matches our copier list. In FY 19, the single purchase order for the multi-function machines was approved through E-Pro as a purchase card authority order by OMES-ISD. The postage machine leases also followed the above path and represent three addition transactions above.

TXN00872954 and TXN00873052 to DMI Dell Higher were part of a \$160,000 request of 104 desktop computers with monitors and 25 laptops to replace obsolete machines. The request was sent through E-Pro as a purchase card authority order and approved as such by OMES – ISD. We believed that the Business Segment Director’s approval on the authority order purchase card increase was sufficient authorization to proceed with the purchase.

#### **Corrective Action Plan**

**Anticipated Completion Date:** Jan. 1, 2019

**Corrective Action Planned:** For all accounts above, the agency has a good internal process to ensure proper approvals are in place to legally acquire IT items. The agency will seek clarification as to when it can and cannot use the purchase card as it relates to IT purchases not on the Approved Hardware/Software list or above \$25,000 then revisit its internal procedures to ensure we are in compliance.

### **Finding 16-131-06: Food Policy**

**Condition:** During our substantive testwork of judgmental transactions, we noted three transactions that did not meet the requirements of the ODOC internal food policy. The three transactions did not have the director’s preapproval or request with the required information for purchase so we could not determine who the purchases were made for. The transactions also were not considered light refreshments as stated in the food policy.

TXN Number	Purchase Date	Amount	Vendor
TXN01026118	12/28/2017	\$1,098.99	TALLY’S CAFE
TXN00961720	7/21/2017	\$325.30	DOMINO’S
TXN00875071	12/21/2016	\$63.93	SUNNY’S

**Cause:** Unknown.

**Effect or Potential Effect:** Determining if the purchase is for a personnel use or an agency purpose is an extremely difficult task without following the agency’s internal food policy. Without a pre-approved request from the director of ODOC, what would be allowed and necessary food purchases appear to be personal in nature. The perception from public review of the food transactions may imply improper stewardship of state resources without preapproval by the director.



**Criteria:** The Oklahoma Department of Corrections internal purchasing procedures **V.B. Food Items** states:

1. Food items may only be purchased by the DOC in limited situations. This section provides information regarding those situations whereby the department is statutorily authorized to make acquisitions for food. All authorized acquisitions of food items must:
  - a. Comply with approvals as required below;
  - b. Be processed using the appropriate method of acquisition as defined in Section III; and
  - c. Identify on the purchasing document(s) the specific authority for the acquisition.
2. Food purchases that are specifically authorized by the OMES procedures or Oklahoma statute:
  - a. Light Refreshments  
OMES operating procedures (Chapter 300, Section 319 A.) do allow for the limited purchase of light refreshments in the following situations:
    - (1) Payments for purchase of light food and drink items, such as doughnuts, cake, coffee, tea, soft drinks, used as refreshments and required in connection with meetings or similar type activities held or conducted for and in the interest of the general public, shall be considered a valid operating expense of the agency to the extent that such purchases serve a public purpose. This also covers payments for purchase of related refreshment service items, such as disposable plates/flatware, stirrers, coffee cream, sweeteners, etc.
    - (2) A “public purpose” shall mean activities or functions conducted/held in the interest of the general public at large. The general public at large may include business guests of the agency.
  - b. Meals  
The following list provides situations whereby Oklahoma statute specifically authorizes the agency to provide meals:
    - (1) Food for consumption by offenders is authorized by 57 O.S. § 533.
    - (2) Meals for employees in travel status in lieu of per diem; and meals for employees, regardless of travel status, who are attending an official course of instruction or training conducted or sponsored by any state agency is authorized by 74 O.S. § 500.2 (State Travel Reimbursement Act).
    - (3) Employee Recognition Banquets is authorized by 74 O.S. § 4121 C.
    - (4) Canteen operations and employee/offender welfare fund expenditures as authorized by the Canteen System Board of Directors and by OP-120701 entitled “Employee and Offender Welfare Fund” is authorized by 57 O.S. § 537 B.
3. Other food purchases as approved by the department
  - a. In addition to the specific authorizations in Section V. B. item 2. of this procedure, there are limited instances where departmental approval may be given to

expend appropriated funds for food purchases that are necessary and serve a public purpose that affects the inhabitants of the state as a whole. Consideration is given on a case by case basis and requires documentation, thorough analysis of the facts surrounding the situation, and prior approval by the director or designee.

b. Departments, facilities, districts, division, or units within DOC must seek prior approval by submitting a request through their proper chain of command to the administrator of Contracts and Acquisitions for review. Upon confirmation that the basic criteria are met, the administrator of Contracts and Acquisitions will then forward the request to the director, or its designee for final approval. Upon receiving the director's approval, the proper method of acquisition in accordance with the Central Purchasing Act and Central Purchasing Rules must be followed to complete the acquisition. The request shall, at a minimum, contain the following information:

- (1) Name of person submitting the request;
- (2) Total amount of expenditure;
- (3) Description of food being purchased;
- (4) Description of event, including date, location, purpose, and attendees; and
- (5) Description of how the expenditure serves a lawful public purpose that affects the inhabitants of the state as a whole rather than as individuals.

c. Approvals granted through the processed outline in this section do not waive the requirements of the Central Purchasing Act and upon receipt of the approval to make the acquisition, the proper purchasing processes, method of acquisition, and documentation requirements must be followed.

**Recommendation:** We recommend the agency implement and communicate the importance of following the internal food policy with the employees at ODOC.

#### ***Management's Response***

**Date:** Nov. 19, 2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Partially Concur - The agency does have a policy in place for food purchases as stated above. Agency staff are authorized to purchase food for inmates without requiring special approval through the food policy. One of the three transactions, TXN00875071 to Sunny's, was for inmates on a work crew moving equipment to Mack Alford Correctional Center and would not have required special approval. The cardholder stated the purchase for inmates in the transaction description and comment line in WORKS.

The remaining two transactions were for employee appreciation and a district awards luncheon. In both instances, a food request should have been filed and approved.

#### ***Corrective Action Plan***

**Anticipated Completion Date:** Jan. 1, 2019

**Corrective Action Planned:** Correspondence will be initiated to the two cardholders explaining this finding and their role as a cardholder to insure the proper approvals are obtained. Additionally, to justify the purchases prior to initiating the transaction, the agency has implemented an internal

purchase request system (IPR) that requires most purchases (including purchase card purchases), be approved in advance of the purchase and ensuring the required approvals are documented. A reminder will be sent to all cardholders and approvers reinforcing the food policy approval process.

### **Finding 16-131-04: Contract Qualified Purchases**

**Condition:** During the datamining 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 single transaction purchase card limit is set at \$5,000. The individual transactions within these yearly totals are below \$5,000. Based upon our analysis, the agency consistently maintained purchase card spending for three vendors that was expected to exceed the fair and reasonable amount during the following year. These three vendors and their purchase card spend is noted below:

Vendor Name	FY 15 Total	FY 16 Total	FY 17 Total	7/1/2017 - 4/9/2018 Total	FY Totals
Heritage Food Service	\$50,738.65	\$62,838.03	\$52,186.22	\$28,037.68	\$193,800.58
Uline Ship Supplies	\$42,051.37	\$43,156.96	\$53,275.09	\$53,156.57	\$191,639.99
McMaster - Carr	\$29,257.44	\$48,933.01	\$10,941.88	\$30,839.05	\$119,971.38
<b>Total</b>	<b>\$122,047.46</b>	<b>\$154,928.00</b>	<b>\$116,403.19</b>	<b>\$112,033.30</b>	<b>\$505,411.95</b>

Competitive bidding for all three of these vendors did not occur. Quotes and bids are generally not obtained for individual purchases below \$5,000.

**Cause:** Agency was not aware of the amount being spent towards these vendors each year.

**Effect or Potential Effect:** Not consolidating purchases when the agency consistently purchases large amounts from a vendor under the \$5,000 threshold 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 to obtain competitively bid contracts for the products purchased from the vendors noted in the condition. We also recommend the agency to 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:** 11/29/2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Partially Concur - In reviewing a three year transaction history for the three vendors noted, it does not appear there was intent to evade the thresholds established for competitive bidding. At any given time, the agency has 150 to 175 cardholders expending from 140 cost centers across the state.

Many of the facilities use Heritage Food Service to purchase parts for the industrial appliances used in the cafeteria, laundry, and warehouse. The agency uses internal sources when possible to repair equipment. The list of items purchased over the period includes hundreds of different items ranging from a \$6 thermostat knob to \$4,400 of oven parts. The average transaction for Heritage Food Service was \$357 by 25 different cardholders. With the variety of unique items purchased, a catalog contract would be the only solution, identifying and bidding each single item would be cost and time prohibitive.

Like Heritage Food Service, Uline Shipping Supplies was used by multiple cardholders for many different items related to shipping and storage. The average transaction was \$697. With the variety of unique items purchased, a catalog contract would be the only solution, identifying and bidding each single item would be cost and time prohibitive.

McMaster-Carr was used almost exclusively by OCI for furniture production parts, production machinery maintenance and supplies. The average expenditure was \$440 with a multitude of different items being purchased.

#### ***Corrective Action Plan***

**Contact Person:** Comptroller, Transaction Accounting

**Anticipated Completion Date:** July 1, 2019



**Corrective Action Planned:** Administrative purchase card staff and the agency's procurement office will look at these specific vendors along with others with heavy use that are not on a state contract to identify potential contract opportunities. With the variety of items purchased from these vendors, it is unlikely specific item contracts can be established, but a catalog type contract such as the "MRO" or "Lowe's" contracts may be a possibility.

## **Finding 16-131-07: General Liability Coverage**

**Condition:** During our substantive testwork, we noted eight transactions (eight tested transactions, 100 percent error rate) did not obtain worker's compensation insurance, general liability coverage, or automobile insurance coverage for the services that were provided to the agency by the supplier per the agency's internal purchasing procedures.

**Cause:** The agency does not follow this internal policy.

**Effect or Potential Effect:** Uninsured contractors may pose a risk to ODOC.

**Criteria:** The Oklahoma Department of Corrections internal purchasing procedures **I.1 Open Market Acquisitions not exceeding \$5,000** states in part:

- b. If the acquisition is for a service, the department, facility district, division, or unit shall obtain proof of worker's compensation insurance or proof of an alternative or exemption authorized by state law from the contractor prior to commencement of any work.
- c. If the supplier/contractor will be working on-site at ODOC property or there is risk of damage to ODOC assets, the department, facility, district, division, or unit shall obtain proof of general liability coverage, worker's compensation insurance and automobile insurance coverage, as necessary, from the contractor prior to commencement of any work.

**Recommendation:** We recommend the agency adhere to the internal purchasing procedures as designed by the agency's management for vendors servicing ODOC properties. We further recommend the agency to review and evaluate internal procedures to determine if the requirements are necessary, effective and efficient. At the completion of the review and evaluation of the agency's internal procedures, the agency may decide to make revisions as deemed necessary. If revisions are made, the agency should submit the revised internal purchasing procedures to OMES Central Purchasing for approval.

### ***Management's Response***

**Date:** Nov. 6, 2018

**Respondent:** Comptroller. Transaction Accounting

**Response:** Non-Concur - The agency's internal purchasing procedures require staff to obtain worker's compensation and general liability insurance for all vendors that are accessing the premises to perform services. Internal Purchase Card procedures and practices do not require cardholders to submit those verifications with the signed purchase card statements and invoices each month. Transactions identified in the finding have been verified with supporting documentation of the necessary worker's compensation and general liability insurance.



Transaction	Date	Vendor	Results	Included
TXN00829315	8/26/2016	Evans Enterprises	Business office was able to provide Certificate of Liability	Yes
TXN00842183	9/27/2016	Advanced Boiler Repair	Business office was able to provide Certificate of Liability	Yes
TXN00850334	10/18/2016	United Rentals	Equipment was taken to the vendor. No certificate required.	No
TXN01010526	11/13/2017	OMES - CAP	Cap Fees to OMES. No certificate required	No
TXN00951697	6/29/2017	Clifford Power Systems	Business office was able to provide Certificate of Liability	Yes
TXN00952910	7/1/2017	Clifford Power Systems	Business office was able to provide Certificate of Liability	Yes
TXN00999432	10/16/2017	Dacoma Farmers COOP	Certificate of Liability on purchasing database	Yes
TXN00999685	10/16/2017	Dacoma Farmers COOP	Certificate of Liability on purchasing database	Yes

### ***Corrective Action Plan***

**Anticipated Completion Date:** Dec. 1, 2018

**Corrective Action Planned:** Current policy and practice suggests an understanding of the rules related to liability, workers compensation, and automobile insurance. Agency implementation of an internal purchase request system (IPR) requires most purchases to be routed through business staff for approval. This system improves the visibility of cardholder purchases to ensure proper documentation is obtained.

In a meeting with agency finance staff on 10/23/2018, the importance of these documents was relayed, this group represents many of the cardholders. We will be sending an email blast out to all card holders by 11/16/2018 as reinforcement.

## **Finding 16-131-05: Supporting Documents**

**Condition:** 1) During our substantive testwork, we noted five transactions (153 tested transactions, 3 percent error rate) were missing receipts and had no supporting documentation.

2) The total population tested to determine if the receipt was itemized is 243 transactions totaling \$843,370.15. We noted 10 transactions (4 percent error rate) were missing a detailed description of the purchase, unit price and quantity on the receipts.

3) During our substantive testwork, we tested a total of 232 cardholder statements and only found four missing statements. These four statements totaled \$47,966.31.



**Cause:** 1 and 2) A large volume of receipts increases the odds that not all receipts are reviewed at the detail level.

3) The requested missing cardholder statements were from the beginning of our audit period and have been boxed and placed in a warehouse that are difficult to locate.

**Effect or Potential Effect:** 1 and 2) We were unable to determine what was purchased, at what cost and quantity, and if the purchase was made for legitimate and valid governmental purposes. In addition, insufficient receipting documentation creates an opportunity for unauthorized transactions to occur and go undetected.

3) For records older than two years, the agency may not adequately provide documentation for an open records request.

**Criteria:** 1 and 2) State of Oklahoma Purchase Card Procedures § 10.1 Receipts and Supporting Documents for all Purchases states,

Receipts shall be obtained for all purchases regardless of the order method. The receipt shall give an itemized and detailed description of the purchase and must include at a minimum: (1) merchant name; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total. A detailed and itemized carbon copy is acceptable. A copy of the rental car contract must accompany any fuel receipt for which payment was made by p-card.

3) State of Oklahoma Purchase Card Procedures § 12.2 Cycle Reconciliation states in part,

All supporting documentation must be retained by the agency for the specified records retention period. If this option is selected, the entity p-card administrator must run and retain the RPT 170 Transaction Detail Report with Sign Offs. State entities should determine additional end-of-cycle processes internally.

**Recommendation:** We recommend the agency develop and implement a process at the cardholder and approving official level that ensures all purchase card transactions are supported by a receipt and the receipt is detailed and itemized. Process should include two mechanisms that ensure proper documentation supports the transaction. The first mechanism should be at the point in which memo statements are reconciled. Cardholders should verify that each transaction is supported by a detailed and itemized receipt. A procedure should be in place for the cardholder to obtain missing or incomplete receipt documentation. The second mechanism should be at the point in which reconciliation is reviewed. The approving official should not approve the reconciliation until all supporting documentation which provides sufficient detail for the transaction has been submitted.

We also recommend the agency to properly maintain supporting documentation and consider converting their program to a paperless process to reduce the risk of losing or misplacing supporting documentation.

#### **Management's Response**

**Date:** Nov. 19, 2018

**Respondent:** Comptroller, Transaction Accounting

**Response:** Concur - During the audit period of April 2016 to March 2018, agency cardholders produced 40,153 transactions and 2,629 statements. Statements and receipts are received by the

purchase card administrator during the month following the cycle. They are reviewed for signatures and receipts then filed by cardholder. A checklist of expected statements is generated at the end of the cycle, that checklist is used to ensure all statements are received. Current year and previous year statements are kept in the purchase card office while older statements are stored onsite in a storage container. Further, to justify the purchases prior to initiating the transaction, the agency has implemented an internal purchase request system (IPR) that requires most purchases (including purchase card purchases), be approved in advance of the purchase and routed through business staff.

Additionally, the agency's internal audit staff reviews a sampling of all cardholders each year for timely and appropriate submission of statements and receipts. Findings are reported to the Board of Correction quarterly.

### ***Corrective Action Plan***

**Anticipated Completion Date:** Jan. 1, 2019

**Corrective Action Planned:** Based on overall volume and the minimal error rates listed above, we believe the agency currently employs a good process for capturing and maintaining statements and receipts for the purchase card. To further improve our processes, the following steps will be implemented:

1. To address the issue of detailed receipts, reminders will be sent to all card holders and approvers emphasizing the requirement for detailed receipts. The Purchase Card Administrator and accountant will also review receipts once received on statements to ensure they meet the basic standards outlined in the State Purchase Card Rules.
2. The Purchase Card Administrator and Accountant will continue to contact cardholders and approvers if statements or receipts have not been received. Processes will be established to escalate the request if statements and/or receipts are not provided by the cardholder to a point of suspending the purchase card when necessary.
3. The Agency Purchase Card Administrator and Comptroller of Transaction Accounting will begin researching the possibility of a "Paperless System" as described above. Considering the size of the agency and the number of cardholders and approvers at the multiple levels of the organization, no firm timetable can be set on developing and initiating a process.

## APPENDIX

### Methodology

- Interviews were conducted with the agency's staff members.
- Internal controls over the purchase card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto were evaluated.

### Sampling

	Transactions	Amount
Total Expenditures	42,012	\$30,838,497.61
Reverse Transactions	-884	\$0.00
Agent Fees	-74	-\$794.00
Negative Transactions	-834	\$176,812.88
Payment Adjustment	-1	-\$1,167,775.72
Filtered Population	40,219	\$29,846,740.77
Sub Population	40,219	\$29,846,740.77
Lodging	1,729	\$428,527.32
Airfare	71	\$36,017.36
IT Over \$5,000	78	\$1,653,565.21
IT Under \$5,000	4,668	\$2,556,972.29
Over \$5,000	540	\$7,617,662.92
Under \$5,000	33,133	\$17,553,995.67
Total:	40,219	\$29,846,740.77
Samples		
Lodging	33	\$46,901.96
Airfare	14	\$7,583.50
Over \$5,000	37	\$416,707.13
Under \$5,000	48	\$58,550.59
IT Over \$5,000	19	\$728,557.39
IT Under \$5,000	31	\$32,599.29
Auditor's Discretion	128	\$321,838.47
Total	310	\$1,612,738.33



## EXECUTIVE SUMMARY

### Organization: Oklahoma Department of Corrections

**Mission Statement:** The core mission of the Oklahoma Department of Corrections is to protect the public and increase public safety, promote a safe working environment for the staff and to encourage positive change in offender behavior by promoting successful reentry and rehabilitation programs.

**History and Overview:** In May 1967, the Oklahoma Corrections Act was signed into law by Governor Dewey F. Bartlett. Governed by a bipartisan, seven-member board of gubernatorial appointees serving six-year staggered terms, the Board of Corrections establishes and reviews policies for the department's operation, appoints a director, and reviews appointments of management personnel. The department protects the public, the employees and the offenders, and is responsible for the operation of 19 institutions ranging from maximum to minimum security, six probation and parole districts, and four community corrections centers.

### Agency Information

The agency is made up of 3,741 classified, 428 unclassified, and 18 temporary employees according to the [Oklahoma Agencies, Boards and Commissions Book](#) as of Sept. 10, 2018.

### Board Members

Frank X. Henke IV, **Chair**  
John T. Holder, **Vice-Chair**  
Adam Luck, **Secretary**  
Michael W. Roach, **Member**  
Kevin J. Gross, **Member**  
Gene Hayes, **Member**  
Dianne Owens, **Member**

### Key Staff

(during the audit period)

Joe M. Allbaugh, Director  
Scott Crow, Chief of Operations  
Ashlee Clemmons, Director of Business Services  
Tina Hicks, Director of Administration  
Chris Kennedy, Finance Comptroller III  
Paula Flowers, Purchase Card Administrator – as of Jan. 1, 2018  
Bob Wilkerson, Purchase Card Administrator – preceding Jan. 1, 2018