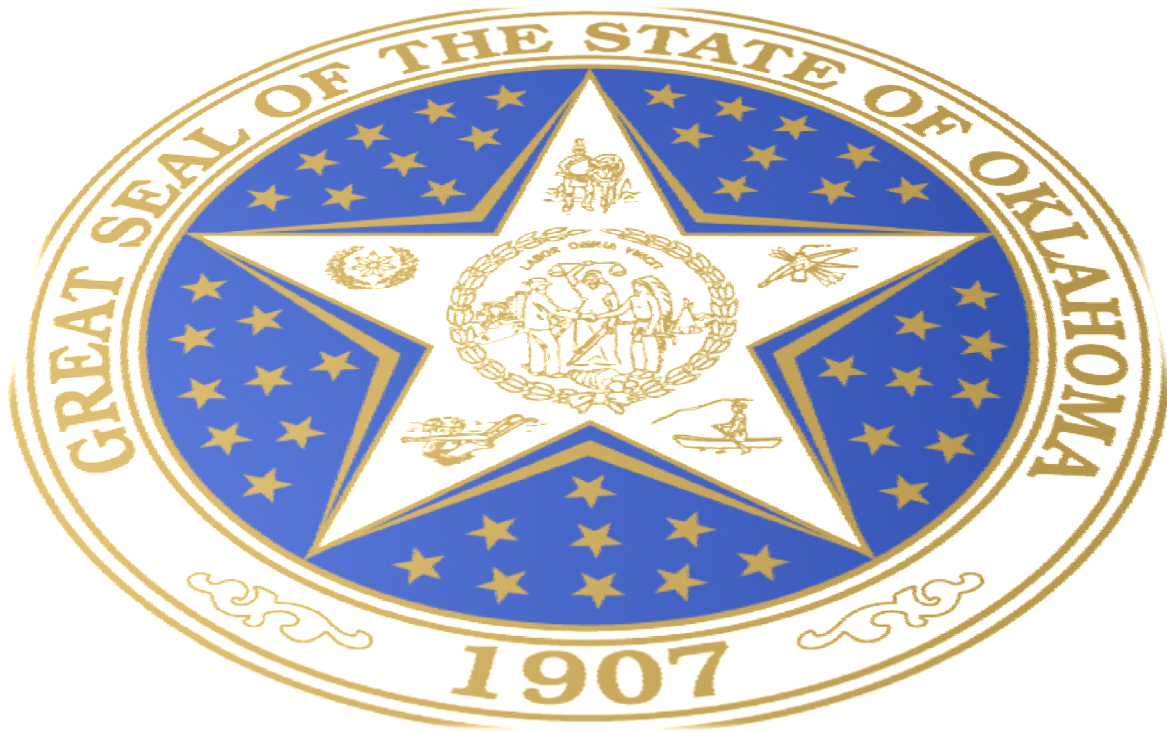


STATE OF OKLAHOMA



DEPARTMENT OF CENTRAL SERVICES

AUDIT UNIT

CONTINUIOUS MONITORING: PURCHASE CARD TRANSACTIONS

***FOR THE PERIOD JANUARY 1, 2011 THROUGH
JULY 10, 2011***

REPORT RELEASED SEPTEMBER 13, 2011

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OVERVIEW

We performed a review of purchase card transactions of the 89 state agencies that participate in the state purchase card program. Oklahoma Housing Finance Authority and Grand River Dam Authority were not included in this review. We data mined all purchase card transactions for the period January 1, 2011 to July 10, 2011. During this period there were 159,748 transactions totaling \$28,319,294.40.

After performing analytical procedures we selected 144 transactions for review. During our review we noted transactions that did not comply with the State of Oklahoma Purchase Card Procedures.

SUMMARY

The following issues were noted during review of purchase card transactions from the period of January 1, 2011 to July 10, 2011.

- Purchases exceeding the single purchase limit
- Split purchases
- Prohibited Purchases
- Instances of unregulated utility payments totaling over \$5,000.00 per vendor

Each of the issues listed above was submitted to the purchase card program management of the agencies affected.

CONTINUOUS MONITORING FINDING DETAIL

Finding CM-11-01

Criteria: State of Oklahoma Purchase Card Procedures § 6.1.6 Purchase Card Operations “P/Card Purchases” (v 12/14/2010) states, “There is no limit on the amount of a P/Card transaction for purchases from a Statewide Contract and payment of regulated utilities. For any other transaction with a state purchase card, the transaction shall not exceed Five Thousand Dollars (\$5,000.00).”

Condition: Cardholder made five purchases exceeding the \$5,000 single purchase limit. These purchases totaled \$120,506.02.

Outcome: Upon noting this issue, we immediately notified the agency that non-statewide contract purchases exceeding \$5,000 were not allowable purchase card transactions. The agency immediately discontinued the practice of paying invoices processed through the

accounts payable division in excess of \$5000 via purchase card. The agency stated that they were trying to increase efficiency and lower operating costs by utilizing the purchase card which results in “Cash Back” payments and no associated transaction cost to the agency.

Finding CM-11-02

Criteria: State of Oklahoma Purchase Card Procedures § 2.0 Definitions “Single Purchase Limit” (v 12/14/2010) states in part “... Purchases shall not be split with the intent of and for the purpose of evading (1) the P/Card statutory single purchase limit of \$5,000.00 (does not include Statewide Contract or payment of regulated utility transactions); and/or (2) limit(s) established for an individual P/Card; and/or (3) a competitive bidding requirement.”

“**Split Purchase**” means 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.

Condition: Cardholder failed to consolidate two purchases, totaling \$7,249.55, at an auto parts supplier. When consolidated the purchases exceed the \$5,000 single purchase limit.

Outcome: The agency required the cardholder to attend purchase card training taught by DCS on August 11, 2011 to refresh their knowledge on the rules of the program. The cardholder has been counseled by the Agency P-Card Administrator responsible for oversight of their area. The Agency’s Business Office will monitor the cardholder’s purchase card activity closely for one year.

Finding CM-11-03

Criteria: State of Oklahoma Purchase Card Procedures § 6.2.4 Purchase Card Operations “Other prohibited purchases” (v 12/14/2010) states:

The P/Card shall NOT be used for the following types of purchases unless a State Entity submits a request for such use to the State P/Card Administrator for approval by the State Purchasing Director in accordance with Section 1.5. (Conditions of Participation):

...

§ 6.2.4.8 Motor fuel.

...

Condition: Cardholder made a prohibited purchase of motor fuel in the amount of \$75.00.

Outcome: The agency used the purchase card to purchase fuel for a moving truck leased by the agency. The agency was not aware that all motor fuel purchases were prohibited and has applied for an exemption to enable them to purchase fuel for non-state owned vehicles in the future. See Outlook section of Trends and Outlook for auditor's recommendation.

Finding CM-11-04

Criteria: State of Oklahoma Purchase Card Procedures § 6.1.6 Purchase Card Operations "P/Card Purchases" (v 12/14/2010) states, "There is no limit on the amount of a P/Card transaction for purchases from a Statewide Contract and payment of regulated utilities. For any other transaction with a state purchase card, the transaction shall not exceed Five Thousand Dollars (\$5,000.00)."

Condition: Cardholder made a non-statewide contract purchase in the amount of \$9,597.46; thus, exceeding the \$5,000 single purchase limit.

Outlook: The cardholder's limits were higher because she is the field division CPO and makes large statewide contract purchases. The agency suspended the cardholder's card on August 1st, for six months and their purchase authority for all other transactions has been reduced to \$5,000.00. The cardholder will be required to attend P-Card training at the Department of Central Services and to complete a review of the CPO manual with their Central Office buyer prior to her card being reinstated and her purchase authority restored.

Finding CM-11-05

Criteria: State of Oklahoma Purchase Card Procedures § 2.0 Definitions "Single Purchase Limit" (v 12/14/2010) states in part "...Purchases shall not be split with the intent of and for the purpose of evading (1) the P/Card statutory single purchase limit of \$5,000.00 (does not include Statewide Contract or payment of regulated utility transactions); and/or (2) limit(s) established for an individual P/Card; and/or (3) a competitive bidding requirement."

"Split Purchase" means 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.

Condition: Cardholder failed to consolidate two purchases of brochures totaling \$7,558.00; thus, exceeding the \$5,000 single purchase limit.

Outcome: The agency's response explained that they consider the acquisition of the two brochures to be separate projects, because they are actually two different programs,

although the two programs do share some infrastructure. However, the total quantity of the acquisitions was known. Furthermore, single transactions can be assigned multiple funding streams and therefore the two brochure orders should have been combined and bids should have been obtained in accordance with state purchasing procedures. We will forward this finding to the State Purchase Card Administrator for further review and consideration.

Finding CM-11-06

Criteria: State of Oklahoma Purchase Card Procedures § 2.0 Definitions “Single Purchase Limit” (v 12/14/2010) states in part “...Purchases shall not be split with the intent of and for the purpose of evading (1) the P/Card statutory single purchase limit of \$5,000.00 (does not include Statewide Contract or payment of regulated utility transactions); and/or (2) limit(s) established for an individual P/Card; and/or (3) a competitive bidding requirement.”

“**Split Purchase**” means 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.

Condition: Cardholder failed to consolidate the purchase of four types of printed forms totaling \$5,885.04; thus, exceeding the \$5,000 single purchase limit.

Outcome: The agency’s Director of Budget and Finance discussed with the agency’s Certified Procurement Officer the need for better communication and the importance of paying attention to total accumulated purchases in light of the Central Purchasing Act and internal purchasing policy, especially regarding routine supplies that may accumulate to levels over the bid requirements. The Agency’s Director of Budget and Finance will review all future requests for acquisitions more thoroughly to ensure compliance with bid limits. Additionally, the agency’s Certified Procurement Officer immediately began compiling information necessary for the Department of Central Services to rebid check stock for a new statewide contract.

TRENDS AND OUTLOOK

Trends:

- Increased transaction volume
- Use of purchase cards to purchase unregulated utilities that exceeded or are estimated to exceed the annual \$5,000.00 unregulated utility purchase card limit.
- Non-Statewide Contact purchases exceeding the single purchase limit.
- State purchasing agents are failing to consolidate multiple transactions that would exceed the single purchase limit if properly consolidated. We noted that these individuals are making multiple transactions to the same vendors on the basis of separate funding source, separate projects, or separate facilities when the transactions should have been identified, combined and bids should have been obtained.

Outlook:

- We expect purchase card transactions to increase as agencies broaden their utilization of the State's purchase card program.
- Revised Central Purchasing Act will be implemented November 1, 2011. Changes to the purchase card rules include:
 - Interagency purchase card transactions will no longer have a dollar limit.
 - Professional services as defined inspection 803 of Title 18 of Oklahoma Statutes will no longer have a dollar limit.
- We made a recommendation to the State Purchase Card Administrator to allow for motor fuel to be purchased with the purchase card for fuel associated with vehicles other than state owned passenger cars. This would allow agencies to purchase fuel for tractors, four-wheelers, lawn equipment, boats and vehicle rentals with the purchase card.
- We will be issuing an Audit Advisory to ensure agencies are aware of the requirement to consolidate known quantities of goods that would exceed the single purchase limit (\$5,000). These requirements include consolidating transactions with differing projects, funding or divisions. Our current law requires the consolidation and bidding of these transactions; therefore, allowing vendors to compete for state contracts greater than \$5,000. On-the-other-hand, when the purchases are properly consolidated the agent can no longer use the purchase card and must go through a lengthy and costly process to perform the acquisition for the State. We strongly recommend the State of Oklahoma consider amending the Central Purchasing Act to allow the purchase card to be used for all transactions, including competitively bid contracts.

MERCHANT CATEGORY CODE BREAKDOWN

The following is a breakdown by Merchant Category Code (MCC) and description of the 144 transactions reviewed.

MCC	MCC DESCRIPTION	DOLLAR TOTAL
780	LANDSCAPING AND HORTICULTURAL SERVICES	\$12,864.00
1771	CONTRACTORS,CONCRETE WORK	\$19,779.59
2741	MISCELLANEOUS PUBLISHING AND PRINTING SERVICES	\$5,885.04
4900	UTILITIES - ELECTRIC,GAS,WATER,SANITARY	\$91,849.86
5039	CONSTRUCTION MATERIALS NOT ELSEWHERE CLASSIFIED	\$33,911.20
5046	COMMERCIAL EQUIPMENT, NOT ELSEWHERE CLASSIFIED	\$22,974.00
5065	ELECTRICAL PARTS AND EQUIPMENT	\$20,977.85
5085	INDUSTRIAL SUPPLIES NOT ELSEWHERE CLASSIFIED	\$63,482.36
5099	DURABLE GOODS, NOT ELSEWHERE CLASSIFIED	\$119,296.62
5111	STATIONERY, OFFICE SUPPLIES, PRINTING AND WRITING PAPER	\$10,966.16
5172	PETROLEUM AND PETROLEUM PRODUCTS	\$9,152.40
5192	BOOKS, PERIODICALS AND NEWSPAPERS	\$59.67
5199	NON-DURABLE GOODS NOT ELSEWHERE CLASSIFIED	\$8,687.40
5200	HOME SUPPLY WAREHOUSE STORES	\$739.71
5310	DISCOUNT STORES	\$4,141.79
5311	DEPARTMENT STORES	\$174.98
5331	VARIETY STORES	\$987.06
5411	GROCERY STORES,AND SUPERMARKETS	\$1,001.36
5533	AUTOMOTIVE PARTS AND ACCESSORIES STORES	\$34,019.88
5542	AUTOMATED FUEL DISPENSER	\$120.61
5691	MEN'S AND WOMEN'S CLOTHING STORES	\$134.95
5712	FURNITURE,HOME FURNISHINGS AND EQUIPMENT STORES	\$6,550.08
5719	MISCELLANEOUS HOME FURNISHING SPECIALTY STORES	\$199.98
5732	ELECTRONICS STORES	\$99,290.67
5733	MUSIC STORES-MUSICAL INSTRUMENTS,PIANOS,AND SHEET MUSIC	\$531.94
5812	EATING PLACES AND RESTAURANTS	\$909.65
5912	DRUG STORES AND PHARMACIES	\$330.66
5941	SPORTING GOODS STORES	\$393.00
5942	BOOK STORES	\$1,187.79
5943	STATIONERY,OFFICE AND SCHOOL SUPPLY STORES	\$7,558.00
5949	SEWING,NEEDLEWORK,FABRIC AND PIECE GOODS STORES	\$677.86
5965	COMBINATION CATALOG AND RETAIL MERCHANT	\$275,572.16
5969	DIRCT MARKETING/DIRCT MARKETERS--NOT ELSEWHERE CLASSIFIED	\$16,534.70

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5977	COSMETIC STORES	\$59.50
5999	MISCELLANEOUS AND SPECIALTY RETAIL STORES	\$10,119.38
7230	BEAUTY AND BARBER SHOPS	\$23.90
7311	ADVERTISING SERVICES	\$6,641.00
7349	CLEANING AND MAINTENANCE,JANITORIAL SERVICES	\$9,597.46
7399	BUSINESS SERVICES NOT ELSEWHERE CLASSIFIED	\$6,300.00
7531	AUTOMOTIVE TOP AND BODY SHOPS	\$13,960.15
7832	MOTION PICTURE THEATERS	\$200.00
7922	THEATRICAL PRODUCERS (EXCEPT MOTION PICTURES), TICKET AGNC	\$408.20
7933	BOWLING ALLEYS	\$211.25
8351	CHILD CARE SERVICES	\$1,930.00
8699	MEMBERSHIP ORGANIZATIONS--NOT ELSEWHERE CLASSIFIED	\$6,412.50
8999	PROFESSIONAL SERVICES NOT ELSEWHERE CLASSIFIED	\$6,283.42
9399	GOVERNMENT SERVICES--NOT ELSEWHERE CLASSIFIED	\$7,120.21
	GRAND TOTAL	<u>\$940,209.95</u>