



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

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OKLAHOMA
DEPARTMENT OF
TRANSPORTATION

MARCH 1, 2004 THROUGH MARCH 31, 2005



JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Oklahoma Department of Transportation
State Purchase Card Examination Report
For the Period March 1, 2004 to March 31, 2005

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

July 25, 2005

**TO THE DIRECTOR AND COMMISSION MEMBERS
OF THE OKLAHOMA DEPARTMENT OF TRANSPORTATION**

Transmitted herewith is the State Purchase Card Examination Report for the Oklahoma Department of Transportation. The procedures we performed were conducted at your request and pursuant to 74 O.S. §212.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

JEFF A. McMAHAN
State Auditor and Inspector

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

INDEPENDENT AUDITOR'S REPORT

**TO THE DIRECTOR AND COMMISSION MEMBERS
OF THE OKLAHOMA DEPARTMENT OF TRANSPORTATION**

We have examined the Oklahoma Department of Transportation's compliance with State of Oklahoma Purchase Card Procedures established by the Oklahoma State Department of Central Services and any related requirements set forth in the Oklahoma Central Purchasing Act for the period of March 1, 2004 to March 31, 2005. Management is responsible for the Department's compliance with those requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the attestation standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, it included examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

In our opinion, the Oklahoma Department of Transportation complied, in all material respects, with the aforementioned requirements for the period of March 1, 2004 to March 31, 2005.

This report is intended solely for the information and use of the management of the Oklahoma Department of Transportation and is not intended to be and should not be used by anyone other than the specified party.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government's records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

JEFF A. McMAHAN
State Auditor and Inspector

July 15, 2005

Background

The Oklahoma Department of Transportation (ODOT) was created by the Legislature in 1976 as an overall coordinating agency for the state's highways, railways and waterways. This agency superseded the original Oklahoma State Department of Highways, implemented by legislation in 1911. The Oklahoma Aeronautics Commission, the Oklahoma Highway Safety Office, and Rail Planning were also placed under ODOT jurisdiction. Highway Safety was transferred to the Oklahoma Department of Public Safety in 1993. The Waterways Branch was transferred from the Commerce Department to ODOT in 1993. The Oklahoma Aeronautics Commission became a separate agency as of July 1, 2002. The Department is primarily funded by motor vehicle fuel taxes, legislative appropriations and a return of federal matching dollars from the Federal Highway Trust Fund. ODOT's annual budget, totaling more than \$600 million in federal and state funds, is applied to highway construction and maintenance activities, railways, waterways, public rural transit programs and administration statewide. While the primary business is construction and maintenance of the state's highways, the agency also promotes intermodal transportation. An eight-member Transportation Commission appointed by the Governor and confirmed by the Senate sets departmental policy and oversees general operations. The members represent eight geographic districts corresponding with ODOT's eight Field Divisions. The Commission meets on the first Monday of each month in the R.A. Ward Transportation Building in Oklahoma City.

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

The Department participates in the State of Oklahoma purchase card (p/card) program which was established by the Department of Central Services for the use, by designated State employees, of commercial purchase cards to facilitate the acquisition of lower dollar goods and services needed for conducting official State business. Single transactions are limited to a maximum of \$2,500; however, State entities have the discretion to set let lower limits on individual cards. State entities are encouraged to use the p/card in lieu of purchase orders and authority orders for the purpose of enhancing agency effectiveness and economy of operation. Cards are issued in the name of the State but also bear the name of the cardholder and the cardholder's unique account number. Liability for payment to the p/card provider rests with the State. However, employees involved in the program are subject to State ethics laws and directives.

Scope

The examination of the Oklahoma Department of Transportation's State purchase card transactions and policies and procedures related to State purchase card usage was initiated March 31, 2005, at the request of Mr. Gary Ridley, Oklahoma Department of Transportation Director. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and attestation standards contained in *Government Auditing Standards*, established by the Comptroller General of the United States of America. Our examination covered the time period of March 1, 2004 to March 31, 2005.

Objectives

The objectives of our engagement were as follows:

1. Determine whether the Department's policies are, in all material respects, in compliance with the *State of Oklahoma Purchase Card Procedures* established by the Oklahoma State Department of Central Services and any related requirements set forth in the Oklahoma Central Purchasing Act.
2. Determine whether the Department's State purchase card procedures and transactions are, in all material respects, in compliance with the *State of Oklahoma Purchase Card Procedures* established by the Oklahoma State Department of Central Services and any related requirements set forth in the Oklahoma Central Purchasing Act.

Observations, Findings and Recommendations

OBJECTIVE #1 Determine whether the Department's policies are, in all material respects, in compliance with the *State of Oklahoma Purchase Card Procedures* established by the Oklahoma State Department of Central Services and any related requirements set forth in the Oklahoma Central Purchasing Act.

Methodology

To meet this objective, we performed a detailed review of the Department's policies as they relate to State purchase card usage.

Observations

Based on our review, it appears that the Department's policies are, in all material respects, in compliance with the *State of Oklahoma Purchase Card Procedures* established by the Oklahoma State Department of Central Services and other related requirements set forth in the Oklahoma Central Purchasing Act.

OBJECTIVE #2 Determine whether the Department's State purchase card procedures and transactions are, in all material respects, in compliance with the *State of Oklahoma Purchase Card Procedures* established by the Oklahoma State Department of Central Services and any related requirements set forth in the Oklahoma Central Purchasing Act.

Methodology

To meet this objective, we performed the following:

1. Documented and tested internal controls related to State purchase card usage.
2. Reviewed the listing of all individuals at the Department who had been issued a State purchase card. In addition we noted the limits established for each card holder such as credit limit (dollar amount per cycle), single purchase limit (dollar amount per transaction) and Merchant Category Code Group (MCCG).
3. Selected a sample of 45 State purchase card holders and performed the following substantive tests for the months of January, February and March 2005 (*Note: this represents 932 individual transactions tested out of approximately 10,565 total transactions, or 8.82%, for the time period examined. We were unable to reconcile the actual total number of transactions to Bank One/Chase's detailed records because of data reliability issues at Bank One/Chase. Bank One/Chase updated their information system in February 2005 and encountered problems with reliability of the data when they uploaded the information from the old system to the new. We requested the data from the old system but were informed that it was unavailable because it had been purged from that system.*):
 - a. Determined whether State purchase card transactions were appropriately supported by receipts and transaction log.
 - b. Determined whether transactions were in compliance with the *State Purchasing Procedures* and the *Oklahoma Central Purchasing Act*. This included:
 - i. Determining whether there were any transactions for which the dollar amount exceeded the purchase limit;
 - ii. Determining whether transactions for each purchase card were only for approved Merchant Category Code Groups (MCCG) and types of purchases;
 - iii. Determining whether any transactions appeared to be for split purchases;

- iv. Performing additional analytical procedures to determine whether there were any unusual trends, patterns, etc.
- c. Determined whether transactions appeared reasonable.
- d. Determined whether transaction logs/reconciliations were properly reviewed and approved.

Based on the testwork performed, we noted the following:

Finding #1

During the course of our work, we requested a listing of purchase card holders and their approving officials. We found that the Department's listing of purchase card holders did not match Bank One/Chase's listing of purchase card holders for the Department. Bank One/Chase indicated that the Department had 184 active purchase cards while the Department's listing indicated there were only 170. Upon investigation, we determined the following:

- 16 of the card holders included on the Bank One/Chase listing had been requested to be closed by the Department, but were still active (*Auditor's Note: We performed additional testwork to verify that there had not been any charges made to these cards after the Department requested that they be closed.*)
- One of the card holders appropriately included on the Bank One/Chase listing was not present on the Department's listing;
- One of the card holders included on the Bank One/Chase listing as inactive had not been requested to be closed by the Department;
- The Department's listing included duplicate listings for 2 cardholders.

After making the adjustments for the issues noted above, the true number of purchase card holders for the Department appears to be 169.

Recommendation #1

The Department should periodically review its listing of purchase card holders and compare it to the listing maintained by Bank One/Chase to review for issues such as the ones noted above. Failure to maintain control over this area could lead to unauthorized transactions on purchase cards the Department assumes have been closed.

.....
Finding #2

Paragraph 6.1.3 of the *State of Oklahoma Purchase Card Procedures*, issued by the Oklahoma State Purchasing Director for the Department of Central Services Central Purchasing Division, states:

The Entity P/Card Administrator shall maintain the original employee-signed copy of the *State of Oklahoma Purchase Card Employee Agreement*. A copy of the signed agreement shall be provided to the employee. The form shall also contain card limitations applying to the employee.

(Auditor's Note: The Employee Agreement Form also includes the Receipt for P/Card form which documents the card limitations applying to the employee.)

During the testwork of our sample of 45 files, we noted that one file did not have a copy of a signed P/Card Employee Agreement.

Recommendation #2 We recommend that the Department exercise diligence in ensuring the P/Card Administrator retains all original employee-signed copies of the *State of Oklahoma Purchase Card Employee Agreement* and *Receipt for P/Card* forms in the applicable files.

Finding #3 Paragraph 6.9.1 of the *State of Oklahoma Purchase Card Procedures*, issued by the Oklahoma State Purchasing Director for the Department of Central Services Central Purchasing Division, states in part:

...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying that the transaction log and memo statement has been reconciled. All cardholders (including Entity P/Card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an Approving Official at least one level above their position.

During the testwork of our sample of 45 files, we noted that 2 of the purchase card holders tested did not have their transactions logs/reconciliations for January 2005 reviewed and approved by the appropriate personnel. One of the 2 transactions logs was for an Approving Official and should have been reviewed and approved by that individual's superior.

Recommendation #3 We recommend that the Department exercise diligence to ensure that transaction logs, including those of Approving Officials, are properly reviewed and approved.

Additional Items Noted

Item #1

We recommend that the Department consider periodically assessing the appropriateness of the number of purchase cards issued as well as the appropriateness of to whom the cards have been issued. Our concern is based on the principle that as the number of cards issued increases, the risk of misuse increases proportionately. As noted previously, the Department currently has 169 active purchase cards, some of which have rarely been used by the card holder to whom they were issued. For example, 9 cards (5.3%) were not used by the cardholders during the time period we examined. Another 2 cards (1.18%) had not been used by the cardholders since October of 2004.

Another method the Department could use to increase internal control in this area would be to require purchase card applicants to provide justification for the necessity of having a purchase card.

Item #2

One of the statewide controls implemented by the Department of Central Services is the use of an authorized Merchant Category Code Group (MCCG) for each purchase card. The MCCG is a defined group of Merchant Category Codes (MCC) which is a set of standard codes used by the credit card industry to categorize merchants based on the types of goods or services provided by the merchant. For example, an MCC of "1771" indicates that the merchant is a concrete work contractor while an MCC of "5021" indicates that the merchant sells office and commercial furniture. The use of an MCCG limits the type of purchases the card holder may make based on the merchant's category. As part of our testing of internal controls, we requested from the Program Coordinator for Bank One/Chase Commercial Credit Card Solutions Division a listing of Department employees with purchase cards that included the MCCG assigned to each card holder. As a result of this request, Bank One/Chase discovered that 3 Department employees were assigned an MCCG of "99". This particular MCCG indicates that the card holder has no limits on the types of purchases that can be made. Therefore, the control being relied on to help control the type of purchases made by the purchase card holders was not in place for these 3 employees. *(Auditor's Note: It should be noted that upon discovery, Bank One/Chase immediately corrected this issue for the 3 employees identified. In addition, we performed expanded testwork and noted that there had been no inappropriate transactions for the 3 employees identified.)*

Although this was an error by Bank One/Chase, we believe that the Department should consider implementing procedures to periodically verify that these types of controls are in fact operating properly.

Views of Responsible Officials



OKLAHOMA DEPARTMENT OF TRANSPORTATION

200 N. E. 21st Street

Oklahoma City, OK 73105-3204

July 15, 2005

Honorable Jeff A. McMahan
State Auditor and Inspector
Attn: Mike Starchman
2300 North Lincoln Boulevard, Room 100
Oklahoma City, OK 73105-4896

Dear Mr. McMahan,

Listed below you will find the Department's responses to the recommendations contained in the draft report of the Purchase Card Examination conducted by your office. For ease of reference, the responses are in order of the recommendations and noted items as presented in your report.

Recommendation #1 The Department should periodically review its listing of purchase card holders and compare it to the listing maintained by Bank One/Chase to review for issues such as the ones noted above. Failure to maintain control over this area could lead to unauthorized transactions on purchase cards the Department assumes have been closed.

Response The Department concurs with this recommendation. With recent system revisions and improvements by the Department of Central Services, agencies are now in a position to better review and reconcile records with those of Bank One/Chase. As a process modification, the Department will be reconciling the list of card holders with Bank One/Chase on a monthly basis to maintain control of the active purchase cards.

Recommendation #2 We recommend that the Department exercise diligence in ensuring the P/Card Administrator retains all original employee-signed copies of the *State of Oklahoma Purchase Card Employee Agreement* and *Receipt for P/Card* forms in the applicable files.

Response This recommendation refers to missing documentation related to one (1) card holder. Upon request, the card holder provided a copy of the missing documentation to complete the file. To comply with this recommendation the Department will review each of the card holder files quarterly to ensure that all necessary and required documentation is available for review.

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

AN EQUAL OPPORTUNITY EMPLOYER

Honorable Jeff A. McMahan
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July 15, 2005

Recommendation #3 We recommend that the Department exercise diligence to ensure that transaction logs, including those of Approving Officials, are properly reviewed and approved.

Response Current procedures require that the Comptroller's office verify that the purchase card monthly transaction logs are properly reviewed and approved prior to processing for payment. The appropriate staff have been reminded of this procedure and that compliance is required.

Item #1 We recommend that the Department consider periodically assessing the appropriateness of the number of purchase cards issued as well as the appropriateness of to whom the cards have been issued. Our concern is based on the principle that as the number of cards issued increases, the risk of misuse increases proportionately. As noted previously, the Department currently has 169 active purchase cards, some of which have rarely been used by the card holder to whom they were issued. For example, 9 cards (5.3%) were not used by the cardholders during the time period we examined. Another 2 cards (1.18%) had not been used by the cardholders since October of 2004.

Another method the Department could use to increase internal control in this area would be to require purchase card applicants to provide justification for the necessity of having a purchase card.

Response Current procedures require that Division Managers and Division Engineers must submit a request to the Purchasing Branch in order to initiate the issuance of a purchase card. Because the Department concurs with this item of concern, all future requests will require a proper justification that provides adequate reasoning to support the issuance of a purchase card. Additionally, quarterly verifications will be required of the management level to justify the continued activation of any purchase cards that have been issued.

Item #2

One of the statewide controls implemented by the Department of Central Services is the use of an authorized Merchant Category Code Group (MCCG) for each purchase card. The MCCG is a defined group of Merchant Category Codes (MCC) which is a set of standard codes used by the credit card industry to categorize merchants based on the types of goods or services provided by the merchant. For example, an MCC of "1771" indicates that the merchant is a concrete work contractor while an MCC of "5021" indicates that the merchant sells office and commercial furniture. The use of an MCCG limits the type of purchases the card holder may make based on the merchant's category. As part of our testing of internal controls, we requested from the Program Coordinator for Bank One/Chase Commercial Credit Card Solutions Division a listing of Department employees with purchase cards that included the MCCG assigned to each card holder. As a result of this request, Bank One/Chase discovered that 3 Department employees were assigned an MCCG of "99". This particular MCCG indicates that the card holder has no limits on the types of purchases that can be made. Therefore, the control being relied on to help control the type of purchases made by the purchase card holders was not in place for these 3 employees. It should be noted that upon discovery, Bank One/Chase immediately corrected this issue for the 3 employees identified.

Although this was an error by Bank One/Chase, we believe that the Department should consider implementing procedures to periodically verify that these types of controls are in fact operating properly.

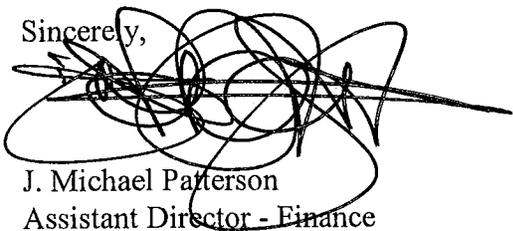
Response

Item #2 is similar in nature to Recommendation #1 in that it involves the Department reconciling its records with those of Bank One/Chase. As stated before, the recent system improvements have afforded the Department the opportunity to access the bank's records and to reconcile those records with those of the Department. As with Recommendation #1, the Department will include this item as part of the monthly reconciliation that will be performed to insure that Bank One/Chase is processing the transactions properly.

Honorable Jeff A. McMahan
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I want to extend to your office our appreciation of a thorough and responsive examination of the Department's Purchase Card process. If you or your staff have any questions regarding the Department's responses feel free to contact me. I may be reached by telephone at 405-521-2591.

Sincerely,

A handwritten signature in black ink, appearing to be "J. Michael Patterson", written over a circular scribble.

J. Michael Patterson
Assistant Director - Finance



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