

AGREED-UPON PROCEDURES REPORT

OKLAHOMA DEPARTMENT OF TRANSPORTATION STATE PURCHASE CARDS

For the period June 29, 2010 through June 30, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Oklahoma Department of Transportation
State Purchase Cards Agreed-upon Procedures Report
For the Period
June 29, 2010 through June 30, 2011



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 29, 2011

**To the Transportation Commission Members and the Director
of the Oklahoma Department of Transportation**

This is the agreed-upon procedures report of the Oklahoma Department of Transportation for the period June 29, 2010 through June 30, 2011. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Mission Statement

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.

Commission Members

Greg Love	District 4 - Chairman
J. David Burrage	District 2 - Vice-Chairman
Todd Huckabay	District 5 - Secretary
John Fidler	District 1 - Member
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Mike Patterson	Deputy Director/Chief Financial Officer
Gary Evans.....	Deputy Director/Chief Engineer
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Casey Shell.....	Director of Operations
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Transportation Commission Members and the Director of the Oklahoma Department of Transportation

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma Department of Transportation (Department), solely to assist management in evaluating whether purchase card (P/Card) use for the period June 29, 2010 through June 30, 2011 was consistent with *State of Oklahoma Purchase Card Procedures*, which can be viewed on the Oklahoma Department of Central Services (DCS) website. The *State of Oklahoma Purchase Card Procedures* were updated during the audit period with an effective date of December 14, 2010. The changes in the P/Card procedures did not significantly affect the procedures performed by our office. Therefore, we will cite the procedures effective December 14, 2010 throughout this report. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For the engagement period, we systematically selected one-fourth of the Department's total cardholders quarterly for the period June 29, 2010 through June 30, 2011. For each quarter, we applied the procedures listed below to all transactions for each cardholder selected that had ten or less transactions. For each cardholder selected that had more than ten transactions during that quarter, we applied the procedures listed below to 50 percent of the transactions, but not less than ten transactions. Our selection of employees was designed so that each cardholder was selected at least once. However, in certain instances this may not have been possible for employees who terminated their employment with the Department during the course of our engagement.

During our selection process, we noted 10 cardholders who were cardholders prior to June 30, 2010 that had no transactions during the period June 29, 2010 through June 30, 2011. Management should be aware that these open and unused P/Cards could be susceptible to misuse, fraud and/or abuse.

Our procedures were to determine if P/Card transactions were consistent with the *State of Oklahoma Purchase Card Procedures* issued by the Department of Central Services (DCS) and were based on the latest version in effect at the time of our engagement. The following procedures were performed:

1. Confirmed with the Department of Central Services to determine the State Entity P/Card Administrators and designated back-ups, Authorized Signers, State Entity Approving Officials and designated back-ups, and Cardholders had successfully completed the P/Card Training conducted by the Department of Central Services prior to being issued P/Cards, and additional training had been successfully completed if five or more years from date of the last training session had lapsed (3.8 *Training*).

According to *State of Oklahoma Purchase Card Procedures: 3.8 – Training* issued by the Oklahoma Department of Central Services:

All State Entity P/Card Program Participants must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued a P/Card. All State Entity P/Card Program Participants must attend initial P/Card training provided by DCS.

Training is required every five (5) years from the date of the last training session; however, State Entities are encouraged to send employees to training more often. It is the responsibility of the State Entity P/Card Administrator to ensure employees are re-trained in accordance with DCS requirements.

- One hundred thirty-two of the 194 Cardholders had not successfully completed additional training and more than five years from date of the last training session had lapsed for these Cardholders. SA&I contacted the State P/Card Administrator, who stated the re-training requirement was waved on July 1, 2010 and the refresher training should have begun no later than April, 2011. As of June 30, 2011, three of the 194 Cardholders had not successfully completed additional training and more than five years from date of the last training session had lapsed for these Cardholders.
- Fifty-three Authorized Signers, State Entity Approving Officials and designated back-ups had not successfully completed additional training and more than five years from date of the last training session had lapsed for these Authorized Signers, State Entity Approving Officials and designated back-ups. SA&I contacted the State P/Card Administrator, who stated the re-training requirement was waved on July 1, 2010 and the refresher training should have begun no later than April, 2011. As of June 30, 2011, all Authorized Signers, State Entity Approving Officials and designated back-ups had successfully completed additional training.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department does not concur with this finding. Of the three cardholders referenced, two have retired and were deactivated in the Bank system. The remaining one was on extended leave and attended training at DCS when they returned to work (on August 11).

Auditor Response:

The two Cardholders the Department references as retired and deactivated in the system were not deactivated in the system prior to the beginning of the time period (April 1, 2011); therefore, these exceptions will remain. No transactions were noted for these cardholders subsequent to April 1, 2011.

Since the Cardholder's P/Card was not suspended, SA&I was unable to identify that the Cardholder was on extended leave. According to the State P/Card Administrator, suspending a Cardholder's P/Card when he or she is on extended leave is not required, it is recommended.

2. Inspected the P/Card administrative files to determine Entity P/Card Administrators and designated back-ups, Authorized Signers, State Entity Approving Officials and designated back-ups, and Cardholders had signed the State of Oklahoma Purchase Card Employee Agreement form prior to being issued P/Cards (3.9 *Purchase Card Employee Agreement*).
 - Two Authorized Signers, Entity P/Card Administrators, or designated back-ups had not signed the State of Oklahoma Purchase Card Employee Agreement form.
 - Four State Entity Approving Officials or designated back-ups had not signed the State of Oklahoma Purchase Card Employee Agreement form.
 - Seventeen of the 194 Cardholders have not signed the State of Oklahoma Purchase Card Employee Agreement form prior to being issued Bank of America P/Cards.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department partially concurs with this finding. All approvers, Authorized Signers, Entity P/Card Administrators, or designated back-ups and State Entity Approving Officials or designated back-ups now have signed forms on file. Administrator and back-up administrator also have signed forms on file. All cardholder agreements were signed at the time the cardholders received their cards.

Auditor Response:

Cardholder agreements were signed after the card activation date in the P/Card system.

3. Inspected administrative files to determine Entity P/Card Administrators and designated back-ups, Authorized Signers, State Entity Approving Officials and designated back-ups, and Cardholders were full time or permanent part time (not temporary or contract) employees (3.10 *Employee Status*).

Entity P/Card Administrators and designated back-ups, Authorized Signers, State Entity Approving Officials and designated back-ups, and Cardholders were full time or permanent part time (not temporary or contract) employees.

4. Inspected the Cardholder Profile Data report obtained from Pathway Net/Bank of America (BOA) Works system to determine mandatory limits were established for the mandatory categories as specified in 6.1.5 *Card controls and limits*. Categories include:
 - A card limit (dollar amount per cycle);
 - Single purchase limit (dollar amount per transaction); and
 - Merchant Category Code Group (MCCG).

A card limit, single purchase limit and Merchant Category Code had been established for each cardholder.

5. Inspected the Cardholder Profile Data report obtained from Pathway Net/BOA Works system to determine if any transactions from the same vendor on the same date were for the same item and if, in the aggregate, the single purchase limit was exceeded. (6.2.3 *Split purchases* and 2. *Definitions – “Single Purchase Limit” and “Split Purchase”*).

No transactions with the same vendor on the same date were for the same item.

6. Inspected transaction receipts and/or documentation to determine transactions were not for prohibited purchases, unless such use was approved by the State Purchasing Director (6.2.4 *Other prohibited purchases*). These prohibited purchases include:
- Transportation - Use of a P/Card to acquire transportation is strictly limited to (1) vehicle rental purchased through the Statewide Contract for Vehicle Rental (SW771); and, (2) airfare, when purchased in accordance with 74 O.S. § 85.45k., DCS Central Purchasing Administrative Rules and these P/Card Procedures. Use of a P/Card for all other forms of transportation is prohibited;
 - Entertainment;
 - Per diem food and beverages as authorized by the State Travel Reimbursement Act, OSF State Travel Procedures, and any other statute pertaining thereto;
 - Cash, cash advances, automatic teller machines (ATM) transactions;
 - Purchase of any goods or services for personal use;
 - Purchase of any goods or services not for official State use;
 - Any transaction or series of transactions, which exceed the limits established on the individual P/Card;
 - Motor fuel;
 - Automotive general maintenance, ancillary items, and emergency repairs pursuant to Statewide Contract (SW101) for Automated Fleet Fuel Management System (Maintenance, repairs, or parts for equipment is not prohibited);
 - Automatic Drafts; and
 - Gift certificates. This does not apply to gift certificate purchases made pursuant to 74 O.S. § 4121 (Employee Recognition).
- One of the 194 Cardholders had four automatic draft payment transactions without evidence of approval by the State Purchasing Director.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department concurs with this finding. The State of Oklahoma Purchase Card Procedures were reviewed with the cardholder and cardholder was reminded to follow the procedures for all purchases.

7. Inspected transaction receipts and/or documentation to determine merchant preference was used by the Department for certain merchants or types of contracts, i.e. statewide contracts (6.2.6 *Merchant preferences*).

According to *State of Oklahoma Purchase Card Procedures 6.2.6.4 – Additional information* issued by the Oklahoma Department of Central Services:

Additional information on the above preferences may be obtained from a State Entity Certified Procurement Officer and are found in the Oklahoma Purchasing Division codified rules (580:15-6-5).

According to the *Oklahoma Department of Central Services Central Purchasing Administrative Rules OAC 580:15-6-5. Methods State Agencies Use to Make Acquisitions*:

State agencies shall make acquisitions using a method of acquisition in this section.

(1) **Statewide Contracts.** The State Purchasing Director shall designate statewide contracts as mandatory or nonmandatory.

(B) **Nonmandatory statewide contracts.** State agencies may use nonmandatory statewide contracts when an agency determines it is in the best interest of the state.

- Ten of the 194 Cardholders did not use merchant preference on 13 transactions. The item(s) purchased were available through a non-mandatory statewide contract at a lower cost to the Department.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department concurs with this finding and every attempt is made to get the best possible price for goods ordered by ODOT, if the merchandise is in stock and available when needed by the division. The State of Oklahoma Purchase Card Procedures were reviewed with the cardholders and cardholders reminded to first check pricing on the office supply portal even though it is not a mandatory contract and use that as a tool to get the best prices for ODOT.

8. Inspected transaction receipts and/or documentation to determine transactions were supported by an itemized and detailed description of the purchase that included, at a minimum: (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total (6.4 *Receipts for Purchase*).

According to *State of Oklahoma Purchase Card Procedures: 6.4 – Receipts for Purchase and 6.4.2 – Itemized Receipt Unobtainable* issued by the Oklahoma Department of Central Services:

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) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total. A detailed and itemized carbon copy is acceptable.

If the receipt is not a detailed and itemized receipt, the P/Cardholder shall: request the vendor attach a written itemization of the charges to the receipt showing at a minimum: (1) vendor name; (2) transaction or purchase date; (3) description of each item purchased, including unit price and quantity; and (4) transaction total. The written itemization shall be signed by the vendor or its authorized designee; or, in the event all attempts to obtain an itemized receipt from the vendor have failed, attach a written itemization of the charges to the receipt showing at a minimum: (1) vendor name; (2) transaction or purchase date; (3) description of each item purchased, including unit price and quantity; (4) transaction total and (5) statement explaining why all other methods of obtaining an itemized receipt were not available. The written itemization shall be signed by the P/Cardholder's Approving Official or designated back-up.

- Twenty-one of the 194 Cardholders had 27 transactions that were not supported by an itemized and detailed description of the purchase that includes, at a minimum (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department concurs with this finding. The State of Oklahoma Purchase Card Procedures were reviewed with the cardholders and cardholders were reminded to follow the procedures for all purchases.

9. Inspected transaction receipts and/or documentation to determine state sales tax was not charged during the transaction. If sales tax was charged, we inspected transaction receipts and/or documentation to determine whether or not the cardholder obtained a credit from the vendor for the amount of sales tax charged (6.5 *State Sales Tax*).

According to *State of Oklahoma Purchase Card Procedures: 6.5 – State Sales Tax* issued by the Oklahoma State Purchasing Director, Department of Central Services, Central Purchasing Division:

State Entity purchases are exempt from the State of Oklahoma sales tax. P/Cardholders should use care to ensure they are not being charged nor paying such tax. P/Cardholder shall obtain a credit from the vendor for any sales tax charged. The sales tax identification number is provided on the face of each P/Card. A copy of the Oklahoma Tax Commission letter citing state sales tax exemption is located on the DCS website.

State Entity purchases made out of state are not exempt from that state's sales tax; however, it is possible some states may not charge state sales tax on a transaction depending on reciprocal statutes, tax laws, etc.

- Six of the 194 Cardholders had six transactions for which state sales tax was charged during the transaction and a credit was not obtained from the vendor for the amount of sales tax charged.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department concurs with this finding. All sales tax charged has been credited back to the Cardholder's accounts or will be credited back in a subsequent month. Cardholders were reminded to notify vendors of the state's tax exempt status and verify that tax had not been charged prior to signing for the charge.

Auditor Response

SA&I reviewed all transactions subsequent to the end of the period (June 30, 2011) and noted four of the six transactions charged sales tax had been credited back.

10. Inspected memo statements and supporting transaction documentation to determine the P/Card statement was reconciled and approved (signed and dated) by the cardholder and reviewed and approved (signed and dated) by the cardholder's designated State Entity Approving Official (6.8.1 *P/Cardholder responsibilities*; 6.8.2 *State Entity Approving Official(s) responsibilities*).

According to *State of Oklahoma Purchase Card Procedures: 6.8 – P/Cardholder and State Entity Approving Official Responsibilities* issued by the Oklahoma State Purchasing Director, Department of Central Services, Central Purchasing Division:

6.8.1 P/Cardholder responsibilities. The statement shall be reconciled by the P/Cardholder. In reconciling the statement, P/Cardholders shall use transaction documents to verify purchases and returns are accurately listed on the statement.

The statement shall be signed and dated by the P/Cardholder verifying responsibility for purchases and proper reconciliation (signature stamps are not acceptable).

6.8.2 State Entity Approving Official(s) responsibilities. State Entity Approving Official(s) shall review the Standard P/Cardholder's reconciled statement and transaction documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, these Procedures, and sound business practice.

To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement. (Signature stamps are not acceptable.)

- One of the 194 Cardholders had one P/Card statement which was not reconciled and approved (signed and dated) by the Cardholder.
- Eight of the 194 Cardholders had nine P/Card statements which were not reviewed and approved (signed and dated) by the Cardholder's designated State Entity Approving Official.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department concurs with this finding. With the implementation of the new P-Card program there was some confusion if the Approving Official's signature was required on the P-cardholder's statement since they are not approving the transactions in the P-Card system and signature lines were not provided on the statements. Cardholders and Approvers have been instructed to follow the State of Oklahoma Purchase card procedures and sign, date, and have their statement approved by their Approving Official.

11. Inspected transaction receipts and/or documentation to determine reconciled statements and supporting documents were retained and made available upon request for review and audit purposes in accordance with 6.8.3 *State Entity retention of statements*.

Reconciled statements and supporting documents were retained and made available upon request for review and audit purposes in accordance with the *State of Oklahoma Purchase Card Procedures*.

12. Inspected transaction receipts and/or documentation to determine P/Card use was limited to the employee whose name was embossed on the card (6.9 *Card Security*).

According to *State of Oklahoma Purchase Card Procedures: 6.9 – Card Security* issued by the Oklahoma Department of Central Services:

Use of the State Purchase Card is limited to the person whose name is embossed on the card. The P/Card shall not be loaned to another person.

Additionally, the Cardholder affirms, by signature, the following as stated on line number 1 on the *State of Oklahoma Purchase Card Employee Agreement*:

“I accept full responsibility for the safekeeping of all P/Cards assigned to me, and I understand that absolutely no one, other than myself, is permitted to use the P/Card(s) assigned to me.”

- Twenty-nine of the 194 Cardholders allowed another employee to use his or her standard P/Card on 94 transactions.

Views of Responsible Official(s)

Contact Person: Karen Wallis, Purchasing Branch Manager, P/Card Administrator

Corrective Action Planned: The Department does not concur with this finding. All cardholders provided the vendors their P-card information. None of the cardholders allowed another employee to use their card. Procedures have been reviewed with the cardholders and reminded to make appropriate notations on the receipts so there is no question about security in the future. Phone orders are to be so designated in the space provided for the cardholder's signature and not signed by the person picking up the merchandise to avoid confusion.

Auditor Response

Supporting receipts and/or documentation for the P/Card transactions inspected give the appearance that someone other than the Cardholder either used the P/Card directly with the vendor or placed a phone or online order using the P/Card information.

We were not engaged to, and did not conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the Purchase Card transactions for the Department. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to management.

This report is intended solely for the information and use of management of the Oklahoma Department of Transportation and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a long horizontal flourish extending to the right.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

December 29, 2011



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV