

**OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS
REPORT ON INTERNAL CONTROLS RELATED TO PURCHASING
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

September 9, 2004

TO THE OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS

Transmitted herewith is the Oklahoma School of Science and Mathematics Report on Internal Controls Related to Purchasing for the fiscal year ended June 30, 2004. By its nature, this report focuses on weaknesses in controls. This focus should not be understood to mean there are not also various strengths and accomplishments.

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

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 to ensure a government, which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahan".

JEFF A. McMAHAN

State Auditor and Inspector

**OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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<u>NAME</u>	<u>POSITION</u>	<u>HOME TOWN</u>	<u>TERM EXP.</u>
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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

TO THE OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS

We have applied the procedures enumerated below to certain aspects of internal control for the period July 1, 2003 through June 30, 2004.

1. We reviewed management's internal controls over the purchasing process and performed a walk-through of controls to determine whether they have been designed and are operating as represented by management.
2. We selected a sample of purchases made by the Oklahoma School of Science and Mathematics and performed substantive tests to determine if the agency is complying with the appropriate state statutes and internal policies and procedures related to purchasing.

The purpose of these procedures was to identify the internal controls designed or developed by the Oklahoma School of Science and Mathematics, make recommendations in certain areas, and determine whether stated controls were operating as represented to us or if additional controls were necessary to reduce the risk of errors and irregularities.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the Oklahoma School of Science and Mathematics' internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Oklahoma School of Science and Mathematics' internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached comments and recommendations section of this report.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

August 31, 2004

**OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS
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COMMENTS AND RECOMMENDATIONS

**OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS
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REF NO: 04-629-001

STATE AGENCY: Oklahoma School of Science and Mathematics

CONTROL CATEGORY: Internal Controls for Purchasing

Criteria: 74 O.S. 2001 §85.39 (C) states:

Each state agency shall maintain a document file for each acquisition the state agency makes which shall include, at a minimum, justification for the acquisition, supporting documentation, copies of all contracts, if any, pertaining to the acquisition, evaluations, written reports if required by contract, and any other information the State Purchasing Director requires to be kept.

Oklahoma Administrative Code 580:15-6-5 (1) (A) states in part:

...(A) The State Purchasing Director may designate a statewide contract for mandatory use. State agencies shall make acquisitions from mandatory statewide contracts regardless of acquisition price...

Oklahoma Administrative Code 580:15-6-9 states:

State agency open market acquisitions exceeding ten thousand dollars (\$10,000) and not exceeding twenty-five thousand dollars (\$25,000)

...The state agency shall not select a supplier that is suspended or debarred by the State Purchasing Director or the OK Tax Commission or a supplier that is suspended or debarred by the federal government if federal funds are being used in the acquisition.

The state agency shall provide suppliers a noncollusion affidavit form pursuant to 74 O.S. Section 85.22w. Suppliers shall submit the forms with the supplier's bid.

The OK School of Science and Math Department of Central Services (DCS) approved Internal Purchasing Procedures, Section 4, Needs Assessment, states in part:

...Internal purchase requisitions are submitted to the CPO by the OSSM staff. The requisition should contain any necessary and pertinent information that is known, i.e., descriptions of requirements, vendor information, date items or services are needed, etc. The CPO will review the acquisition request and obtain any additional information necessary to determine that the acquisition is necessary, justified and is not excessive.

The Oklahoma School of Science and Mathematics Department of Central Services (DCS) approved Internal Purchasing Procedures, Section 7, CPO Review, states in part:

The CPO will approve the purchase request form when he can ensure that the purchase is justified and that all necessary documents and information are complete and attached. The CPO will then assign a fund, account number and sub activity number to the proposed purchase...

...The CPO will ensure any necessary non-collusion affidavits are signed and received and will then transmit the purchase order to the vendor.

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Condition: During our testwork of 22 purchases, we noted the following exceptions:

- Three did not have the required requisition form completed.
- Two did have the requisition form however it was incomplete.
- Six did not have a requisition form, nor was there documentation to verify the agency had checked to ensure the vendor had not been suspended or debarred and to ensure the CPO had checked to see if there was a mandatory statewide contract that could provide the goods or services needed prior to procuring an outside vendor.
- Additionally, three of these did not have a non-collusion affidavit.
- One of the 22 did not have a non-collusion affidavit, additionally, there was no documentation to verify: the agency had checked to see if the vendor had been suspended or debarred, if the agency had checked to see if there was a mandatory Statewide contract that could provide the goods and services needed prior to procuring an outside vendor.

Cause: The Oklahoma School of Science and Mathematics is not consistently applying their DCS approved internal purchasing procedures to all purchases.

Effect: If purchases are not made in accordance with the DCS approved internal purchasing procedures, the agency could be in violation of the OAC and state statutes. Further this could result in the agency making inappropriate or unnecessary purchases.

Recommendation: We recommend the Oklahoma School of Science and Mathematics follow their approved internal purchasing procedures, Oklahoma Administrative Codes and the Oklahoma state statutes.

Contact Person: Karen Johnson, Controller

Anticipated Completion Date: Effective Immediately

Management's Response: The Oklahoma School of Science and Mathematics is a small agency with a limited financial staff, making internal controls a constant challenge. We are confident that all purchases made by the Agency are valid, properly approved, necessary and adequately funded. Management requested this special audit to identify any oversights in the Agency's purchasing procedures.

Prior to the audit the Agency was aware that our internal purchasing procedures needed to be updated and approved by the Department of Central Services. Management delayed this update until we could determine how the statewide financial system, PeopleSoft, would effect the Agency's purchasing procedures. The Agency will update the procedures and incorporate recommendations made by the State Auditor's Office.

The exceptions noted during the audit primarily related to the requisitioning process and documentation issues. Management would emphasize that all purchase requests are cleared through either the primary or alternate Certified Procurement Officer (CPO). An internal sequential purchase requisition log is maintained by Agency CPO's. The log indicates the date, person requesting, description, estimated amount, internal purchase requisition number, funding, object codes and a cross-reference to the purchase order number when issued. Before a purchase order is created, the CPO determines if the items or service must be purchased through a State Use vendor, Oklahoma Correctional Industries or a mandatory statewide contract. Additionally, the CPO checks the availability of any non-mandatory statewide contracts. All purchase orders are prepared by the primary CPO and approved by the Controller, the alternate CPO. The purchase order approval process includes verification of the funding and object codes on the People Soft system. The approved purchase order is the point where the Agency becomes financially obligated. Large dollar or non-routine items are reviewed by the Vice President of Administrative Services and / or the Agency

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Director.

Management's Response to the audit exceptions is as follows:

- **Three purchases did not have the required requisition form completed.**
While the three purchases did not have the standard requisition form completed, all three had attached e-mails from Agency personnel requesting the goods. The e-mails served as the Agency's requisition and all were included on the internal purchase requisition log.
- **Two purchases did have the requisition form, however, it was incomplete.**
One of the purchases having an incomplete requisition did not include the funding and object code on the requisition, the second requisition was not signed by a CPO. Both purchases were included on the purchase order requisition log, which includes funding and object codes and is prepared by the Agency CPO's.
- **Six purchases did not have a requisition form, nor was there documentation to verify the agency had checked to ensure the vendor had not been suspended or debarred and to ensure the CPO had checked to see if there was a mandatory statewide contract that could provide the goods or services needed prior to procuring an outside vendor. Additionally, three of these purchases did not have a non-collusion affidavit.**
Of the six purchases that did not have a requisition form, four of the purchases were part of the Agency's annual purchasing process and were included on the annual purchasing spreadsheet. Annual purchasing takes place in the spring when Agency staff is asked to submit requests for educational and lab supplies for the following school year. The CPO compiles all requests and creates a spreadsheet that is submitted to the Vice President of Administrative Services for approval. The two purchases without requisitions were verbally requested by the Vice President of Administrative Services. All six purchases were included on the internal purchase requisition log maintained by the CPO's. Although the verification was not documented, as with all Agency purchases, these six purchases were checked to ensure that there was no mandatory statewide contract available. The Agency agrees that vendors on these six purchases were not verified to ensure the vendor had not been suspended or debarred. The Agency also agrees that three of the purchases were missing non-collusion affidavits.
- **One purchase did not have a non-collusion affidavit, additionally, there was no documentation to verify: the agency had checked to see if the vendor had been suspended or debarred, if the agency had checked to see if there was a mandatory statewide contract that could provide the goods and services needed prior to procuring an outside vendor.**
The Agency agrees that a non-collusion affidavit was not completed and the vendor verification for suspension or disbarment was not performed for this purchase. The CPO verified that the purchase could not be made through mandatory statewide contract, however, did not document the verification.

Management's Corrective Action Plan:

- Management will review the Agency's Internal Purchasing Procedures and submit the procedures in the near future to the Department of Central Services (DCS). The review of the procedures will include a determination as to if the standard internal purchase requisition must be completed or an alternative document may serve as the requisition. In either case all information and approvals that would normally be included on the standard form will be included.
- The Agency has updated the standard requisition form to include a line indicating that the CPO has verified that a statewide contract is or is not available for the purchase.
- The Agency has implemented a procedure to verify the suspension or disbarment of vendors utilized by the Agency. The verification is made online using the Excluded Parties Listing System, which identifies parties excluded throughout the U.S. Government from receiving contracts and certain subcontracts. The Agency has added a line item on the standard requisition form to indicate that the vendor has been verified.

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- The Agency will require the bidding vendors to complete the non-collusion affidavits when required by State statutes. Verification of this step has been included as a checklist item on the bid worksheet.