



OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES INFORMATION SERVICES DIVISION

Performance Audit

For the Period July 1, 2014 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Office of Management and Enterprise Services
Information Services Division**

**For the Period
July 1, 2014 through June 30, 2019**



Office of Management and
Enterprise Services – Information
Services Division
Fiscal years 2015-2019

WHAT WE FOUND

- **Weaknesses in OMES ISD’s billing process hurt their cash flow.**
 - Service contracts with state agencies are not kept up to date and often contain errors. Invoices also contain frequent errors.
 - This leads to complex billing adjustments – ISD processed \$13 million in credits and adjustments between July 2017 and February 2019.
 - It also leads to clients correcting their own invoices, feeling frustrated and dissatisfied, and making late payments.
 - OMES ISD did not have the staff and processes in place to prepare and update accurate contracts or to adequately review and track invoices.
 - These weaknesses contributed to difficulty budgeting and paying vendors.
- **The 2019 ISD Budget included \$16 million in anticipated rate increases that did not happen.**
 - The resulting shortfall contributed to the agency’s request for supplemental appropriations.
 - Expenditures exceeded revenues for ISD’s operating fund every year.
 - Budget totals consistently did not reflect historical performance.
- **OMES ISD frequently made late payments to vendors.**

IMPACT ON THE STATE

OMES is the State of Oklahoma’s central finance agency, responsible for overseeing the distribution of billions of dollars a year. They help other state agencies manage their own finances through budget oversight, accounting, and purchasing services.

Their inability to effectively budget, bill, and collect in a timely and accurate manner for the Information Services Division does not inspire confidence in the state agencies who are required to use their services. The resulting unpredictable cash flow at ISD has led to late payments that may damage the state’s reputation with key IT vendors. Based on regular discussions with state agencies and recent discussions with OMES staff, **ISD has struggled to recover its costs and to satisfy state agencies since IT consolidation began in 2011.**

OMES management must examine ISD’s role in the state, ensure it has realistic objectives in place, and improve its billing, budgeting, and other practices to support those objectives.

See further solutions on the next page.

SOLUTIONS

- **Improve the accuracy and timeliness of client agreements:**
 - Update Management Service Agreements (MSA) annually and provide them to the client with adequate time to correct any errors and allow for budgeting,
 - Ensure written agreements include accurate and detailed descriptions of services provided and are approved by the client before work is performed, and
 - Monitor the total cost of the project so as not to exceed the agreed-upon amount.
- **ISD and OMES Finance should collaborate** to ensure:
 - invoices are accurate, well supported, and reconciled to resulting payments with review of credits and adjustments,
 - the vendor payment process is improved to resolve delays and track timeliness, and
 - accurate financials and budgeting information are available to management.
- **Management should improve the budget process** by ensuring:
 - budget estimates reflect reasonable projections,
 - major changes are reflected in a revised budget, and
 - expenditures do not exceed revenues.

TOPICS FOR FUTURE CONSIDERATION

We also recommend management take future steps to examine:

- ISD and OMES staffing levels, which impact process effectiveness and client satisfaction
- Internal controls significant to ISD's financial processes, including detailed expenditure review and billing and collections practices
- Best practices from large-scale IT service providers that might assist with budgeting, rate setting, contracting, and invoice tracking

ENGAGEMENT BACKGROUND & OBJECTIVES

The Governor requested this audit, as authorized by 74 § 212(C) and §213.2(B), following OMES leadership's March 2019 request for \$23 million in supplemental state funding for IT Services (later reduced to \$16 million).

Due to extensive, ongoing turnover and process changes at OMES, we were unable to document the relevant processes in adequate detail to perform a detailed assessment of internal controls. Our objectives were developed based on the available information and an assessment of risk, to provide those charged with governance of OMES and the public with some explanation of the financial situation that resulted in the request for supplemental funding:

- Analyze budget trends to determine whether OMES ISD budgets were developed in line with the State-Wide Accounting Manual and budgeting best practices.
- Compare the OMES ISD accounts receivable process with best practice guidelines and determine whether the audit period process impacted the division's cash flow.
- Determine whether OMES ISD expenditures were made within the 45-day time frame required by 62 O.S. § 34.71.

November 2, 2020

**TO GOVERNOR KEVIN STITT AND THE OFFICE OF MANAGEMENT AND
ENTERPRISES SERVICES - INFORMATION SERVICES DIVISION**

We present the audit report of the Office of Management and Enterprise Services-Information Services Division for the period July 1, 2014 through June 30, 2019. 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.

This report is 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.

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**OMES Information Services Division
Performance Audit**

Table of Contents

Background.....	1
Scope and Methodology	1
Objective and Conclusion	2
Budget	3
Payables	7
Receivables	8
Recommendations.....	12
Views of Responsible Officials.....	13
Future Topics.....	14
Appendix A: Information Services Division Background Information	15
Appendix B: Scope and General Methodology	15
Appendix C: Computer Enhancement Fund	17
Appendix D: Payables Timeliness Procedure Details.....	18
Appendix D: Receivables Analysis Additional Information.....	19

Background

The Office of Management and Enterprise Services (OMES) is a multifaceted agency that manages the State of Oklahoma’s finances and offers technology, financial, information services, and other administrative support to the rest of state government.

OMES leadership met with the State Appropriations Committee in March 2019 to request \$23 million in supplemental funding for IT Services. According to the Governor’s Office, the Secretary of Agency Accountability helped bring the original supplemental appropriations request down to \$16 million. OMES had attempted to shift funds and reduce staffing levels to close the gap but was unable to cover the budget shortfall.¹ Concerns over this situation led the Governor to request a performance audit by SA&I over budgeting and cash flows associated with the Information Services Division (OMES ISD or ISD).²

Scope &
Methodology

Audit Request

Our audit was conducted in response to the Governor’s request, as authorized by 74 § 212(C) and § 213.2(B). His original request included:

1. Review of OMES ISD processes to estimate cash in-flows and out-flows for ISD for Fiscal 2015 through Fiscal 2019, as part of budgeting process
2. Performance audit of OMES ISD billing and accounts receivable processes
3. Performance audit of OMES ISD accounts payable process

Scope Limitation and Objective Refinement

We documented the accounts payable, accounts receivable, and budget processes to the greatest extent possible with the intention of assessing the audit period internal controls significant to these areas. However, due to changes in administration and turnover, most individuals who were involved in key aspects of those financial processes are no longer with the Agency.

As a result, we were unable to gain a sufficient understanding of the audit period processes to conclude on the controls that were in place at that time. We met with the Agency Director, CFO, other financial and ISD

In addition to turnover at all levels, the role of Director has changed three times since the beginning of the audit period and the CFO has changed twice.

¹ See articles regarding the request for supplemental funds at: <https://kfor.com/2019/03/20/state-agency-says-it-desperately-needs-16-million/> and <https://journalrecord.com/2019/03/21/oklahoma-it-agency-seeks-16m-to-cover-higher-costs/>

² See additional information on ISD at Appendix A.

OMES Information Services Division Performance Audit

personnel, and performed research to help us develop alternative procedures to provide those charged with governance of the Agency with meaningful information and recommendations. Our final objectives are listed in the next section.

Audit Period

- Accounts receivable and accounts payable: July 1, 2017 through February 28, 2019, as the Governor’s request suggested February as an end date.
- Budget area of operations: July 1, 2014 through June 30, 2019, extended to fiscal year end in order to provide comparable data for year to year comparisons.

Our scope, methodology, and applicable standards are discussed in more detail in Appendix B.

Objectives

1. Analyze budget trends to determine whether OMES ISD budgets were developed in line with the State-Wide Accounting Manual and budgeting best practices.
2. Determine whether OMES ISD expenditures were made within the 45-day time frame required by 62 O.S. § 34.71.
3. Compare the OMES ISD accounts receivable process with best practice guidelines and determine whether the audit period process impacted the division’s cash flow.

Overall Conclusion

ISD annual budgets do not appear to have been developed in line with the State-Wide Accounting Manual and budgeting best practices. The ISD accounts receivable process, which likely impacted the division’s audit period cash flow, has opportunities for improvement, and ISD expenditures were not made within the 45-day time frame required by 62 O.S. § 34.71.

The following report discusses the deficiencies and difficulties noted, opportunities for improvement and future study, and recommendations based on state guidelines and best practices.

See detailed methodology at Appendix B.

**Budget
Trends and
Compliance
Concerns**

Objective I

2019 Budget Shortfall

According to OMES management, ISD has been refining its financial approach to adequately cover its costs since its inception. A recent billing increase was planned as far back as 2017 but repeatedly delayed.

Anticipated revenues for this rate increase were included in the FY 2019 budget, but the increase did not occur. While the staff responsible for this original ISD budget are no longer with OMES, current staff provided us with a draft of the FY2019 Budget Summary.

The excerpt below shows \$15,966,000 in “new revenue,” reportedly based on pro forma figures that were not intended to be final. Note that this section of the budget document reflects a net operating deficit for ISD even *before* the \$16 million line is removed.

Division	All IS
Name	
Operating Unit	
Description	
Revenue MSA	80,392,000
SW Admin Fees	1,157,000
Revenue Projects	2,890,000
Revenue PassThru	37,640,157
New Revenue	15,966,000
Appropriations	15,362,416
Total Revenue	153,407,573
Personnel	64,828,283
Direct Expenses	89,529,995
Total Expenses	154,358,277
Net Operating	(950,704)

Given that the Oklahoma Secretary of Finance and Revenue was also the director of OMES, there were allegedly concerns that it would be inappropriate for someone in this position to impose budget cuts on state agencies while at the same time increasing ISD billing rates. The billing rates were therefore not increased, leaving a revenue shortfall. This is

OMES Information Services Division Performance Audit

especially troublesome as demand for IT services and the cost of providing those services continue to increase.³

Fiscal years 2015-2018

In an effort to assess the budgeting process for the previous years of the audit period, we met with current Finance staff, who helped us attempt to piece together documentation utilized in budget preparation during past fiscal years. We were met with inconsistently organized electronic records, primarily spreadsheets and reports with no clear purpose.

It should also be noted that ISD's internal finance staff was dissolved during the audit period. Current staff feels this physical and operational separation from OMES Finance continues to hinder communication on financial matters.

Budgeting Guidance

In order to assess the budget data that is available for the audit period, we referred to budgeting best practices and state guidance.

- Oklahoma State-Wide Accounting Manual section 4.5⁴:
When preparing the budget “an analysis should be made of the sources of the amounts available for use in the operation of the agency. A review is made of prior year’s expenditures, with emphasis on the most recently completed fiscal year.”
- Government Finance Officers Association (GFOA) best practice for Achieving a Structurally Balanced Budget:
“State and local governments are subject to a requirement to pass a balanced budget. It is recommended that governments adopt rigorous policies, for all operating funds aimed at achieving and maintaining a structurally balanced budget. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.” The GFOA further emphasizes that some revenues have non-recurring and recurring components. These sources require finance officials to exercise judgment in determining how much of the sources are truly recurring.⁵

³ Per the deputy director of OMES, “requests for IT services have increased and that OMES costs for providing services also have increased, especially when computer systems and programs have had to be updated to replace older ‘legacy’ systems.” <https://journalrecord.com/2019/03/21/oklahoma-it-agency-seeks-16m-to-cover-higher-costs/>

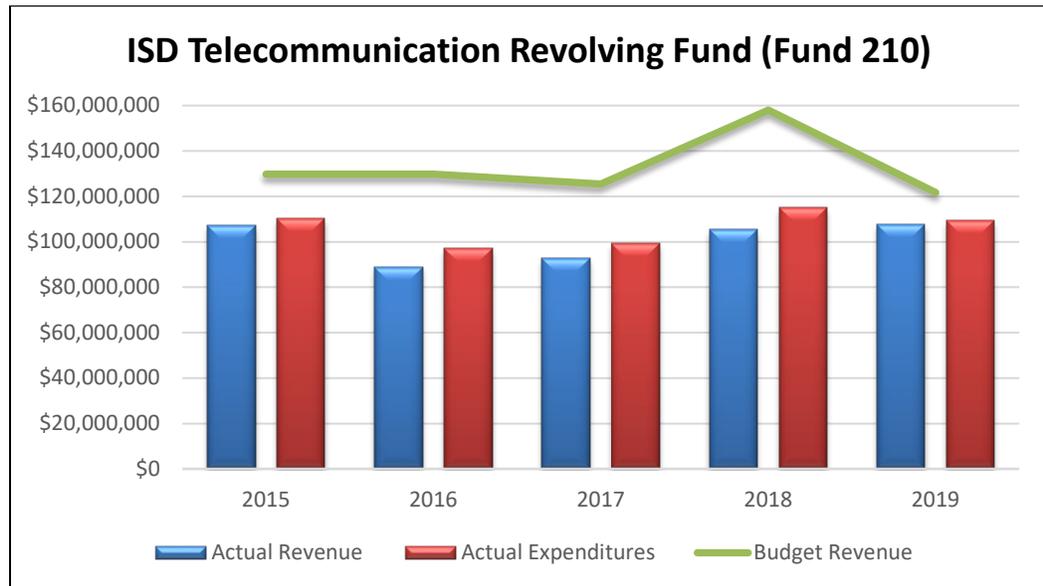
⁴ Accessible at <https://omes.ok.gov/services/accounting-reporting>

⁵ Government Finance Officers Association (GFOA), Best Practice: *Achieving a Structurally Balanced Budget*, <https://www.gfoa.org/achieving-structurally-balanced-budget>

OMES Information Services Division Performance Audit

Budget Analysis

The ISD Telecommunication Revolving Fund (Fund 210) encompasses over 80% of ISD's annual budget and expenditures, and we therefore focused our primary procedures on this fund. The issues identified below surely contributed to the Agency's need to request an additional \$16 million in funds.⁶



Revenues

- Budgeted revenues were consistently higher than the actual revenues received. We found no clear relationship between the annual budget amount and the previous year's revenues, suggesting ISD management (or whoever was ultimately responsible for this division's budget) was likely not basing their budgetary forecast on realistic historical data.
- Budgeted revenues were closer to actual revenues received in FY2019. This appears to be a positive trend, and could be attributed to management shifting funds and reduced staffing levels in order to address the shortfall. We were also informed that urgent collection letters were sent out to clients with past due bills in FY2019, likely resulting in a surge in collections.
- Revenues may have been difficult to forecast in part due to OMES being a relatively newly consolidated agency and statewide budget deficits. As an OMES spokesperson stressed to the media, the Agency is still working with the legislature to "identify a

⁶ Graph Data: Annual budget and expenditure amounts are from the Budget Comparison by Department Reports from the State-Wide Accounting System, limited to data for fund 210 for divisions 88 and 89, comprising the majority of OMES-ISD financial activity. Expenditures include encumbrances and pre-encumbrances. Actual revenues are derived from the fund 210 Summary of Receipts and Disbursement report from the State-Wide Accounting System.

permanent funding solution for the state’s IT infrastructure going forward.”⁷

Expenditures

- We found no clear relationship between the budget and the previous year’s expenditures. This again suggests management did not rely strongly on historical expenditure data to prepare the annual budgets. Inflated revenue and expenditure budgets are misleading and provide an inaccurate representation of available funds. Actual expenditures were closer to actual revenues.

Expenditures consistently exceeded revenues, and budget figures do not appear to be based on historical data

Expenditures vs. Revenues

- Actual expenditures from Fund 210 consistently exceeded actual revenues. The fund disbursed more than it received annually, which is not a sustainable operating practice. Accuracy in determining budgeted revenue is crucial in ensuring that the Agency can cover their expenditures while continuing to provide services and maintain a stable budget.

Computer Enhancement Fund

Questions were brought to our attention during our planning process that activity in ISD’s Computer Enhancement Fund had declined and disappeared during the audit period. We discussed the fund’s history with the state comptroller and reviewed relevant statutes and fund activity; see details in Appendix C. Activity reportedly declined first due to a decrease in the funding source, then “disappeared” due to OMES transferring the diminished amounts directly into Fund 210 rather than continuing to retain them in a separate fund.

⁷ <https://kfor.com/news/state-agency-says-it-desperately-needs-16-million/>

**OMES Information Services Division
Performance Audit**

**Accounts Payable
Timeliness**

Objective II

News articles and OMES staff revealed concerns that OMES ISD vendor payments were not being made in a timely manner.

Statutory Requirement to Pay Invoices within 45 Days

Section 8.5 of the Oklahoma Statewide Accounting Manual⁸ states: “Invoices should be timed to pay within 45 days of the invoice date.” This section further refers to statute 62 O.S. § 34.71, which requires that the “Director of the Office of Management and Enterprise Services establish a procedure to issue payment of a proper invoice for goods or services within no more than forty-five (45) days from the date on which the invoice was received.”

77% of Claims Tested Were Paid Late

During our procedures, we tested a total of 85 ISD expenditure claims to determine whether they were paid within 45 days of the invoice date. (See our selection methodologies and details about our procedures in Appendix D.) Of those 85 claims, 66 were paid more than 45 days after the invoice date. The following table details the time between invoice date and corresponding expenditure for the late payments.

Number of Days Expenditure Fell After Invoice Date	46-76 Days	77-107 Days	108-138 Days	139-169 Days	>170 Days	Total
Number of Claims	25	19	12	6	4	66

Effects of Late Payments

Untimely payment of invoices not only places OMES out of compliance with 62 O.S. § 34.71 and state accounting guidelines, but impacts the cash-flow of ISD. Further, payment delays negatively impact vendors and could hinder vendors’ abilities to meet their own commitments, jeopardizing OMES’s and the state’s relationship with these vendors. According to management, certain vendors will not continue to provide services if payment is not received timely, and those vendors are considered a higher priority.

ISD’s clients also expressed concerns about vendors not being paid in a timely manner, or at all, in our interviews discussed on page 11. Clients and vendors have become frustrated by these occurrences and in some cases, vendors now reportedly contract directly with clients in order to bypass working with OMES.

Vendors may cease working with client agencies due to nonpayment from OMES, resulting in lost productivity and project delays.

⁸ Accessible at <https://omes.ok.gov/services/accounting-reporting>

**Accounts
Receivable
Practices and
Cash Flow
Impact**

Objective III

ISD provides shared information technology services to nearly 200 state agencies. Its services are provided according to signed agreements prepared by ISD then billed and collected by OMES Finance.

While, as discussed previously, we were not able to gain an adequate understanding of audit period processes to assess detailed internal controls related to receivables, we were able to gather enough information from remaining staff and available data to compare to best practices.

Billing and Contract Processes Need Improvement

The Finance division employs a complex billing process in which credits are applied as part of any invoice adjustment. Adjustments can arise from a wide variety of events, including incorrect billing codes used on invoices, contract updates, rate changes, and clients being overbilled for project hours or for services not provided per written agreements. Rate changes are sometimes due to the Agency and clients having approved the master service agreement (MSA) for ongoing services after the fiscal year, causing line items to be credited at the old rate and rebilled at the new rate.

ISD clients reported that when annual MSA updates do occur, they are not always provided in a timely manner and often include inaccuracies in quantities and service lines. This increases the risk that quantities and the resulting line items billed are incorrect. This practice most likely contributed to unrecovered costs for ISD, as well as incorrect charges to clients that required subsequent credit adjustments.

Billing & Receivables Guidance

The State-Wide Accounting Manual section 4.13⁹ requires certain elements of IT shared services expenditures to be budgeted as a separate line item within agency budgets. This makes the timeliness and accuracy of the MSA even more crucial for clients.

While Oklahoma's State-Wide Accounting Manual does not contain much additional detailed guidance related to receivables and invoicing, the State of Washington has developed receivables collection best practices¹⁰ that apply here:

- Prepare and send timely, clear, and complete billing statements that include contact information and remittance information.
- Employ in-house collections personnel where practical.

⁹ Accessible at <https://omes.ok.gov/services/accounting-reporting>. See § 4.13, Line Item Budgeting for Information Technology, on page 37 (January 2020 version).

¹⁰ Washington Office of Financial Management, *Receivable Collection Best Practices*, <https://www.ofm.wa.gov/accounting/administrative-accounting-resources/miscellaneous-accountingresources>. Last accessed January 2020.

- For past due accounts, contact the debtor within 30 days of the due date, and by phone. Prepare and send past due collection letters and statements.

John G. Salek, a professional receivables cycle management consultant, lays out further best practices in his book *Accounts Receivable Management Best Practices*.¹¹

- “Contract administration is all about charging the correct price on the invoice. Price discrepancies are the leading cause of disputed invoices, which result in delayed payments, short payments, and substantial rework.” Contract terms and conditions must be clear and agreed to by both parties. Timely contract renewal is an integral part of contract administration and . . . “every invoice generated off an incorrect or expired contract will likely be disputed and result in decreased cash flow, rework, and diminished customer satisfaction.”
- Disputed invoices comprise the majority of invoices past due more than a few days, and pricing discrepancies are a leading cause of disputed invoices. Key steps to improving receivables management are pricing invoices accurately and resolving disputes quickly and efficiently.
- “The receivables asset reflects the quality of the entire revenue cycle operation. If an error is made in taking an order, fulfilling it, invoicing it, applying the customer payment, or if the customer is dissatisfied with the product or service, it will manifest itself as a past due or short payment in the receivables ledger. The quality of the receivables asset is an excellent barometer of customer service.”

**“The quality of the
receivables asset is an
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customer service.”**

Outstanding Receivables, Invoice Inaccuracies, and Frequent Adjustments

We reviewed the audit period Invoice Detail Report provided by the Agency (the only receivables data available; see further discussion of our procedures and related considerations in Appendix E). This report lists amounts invoiced, received, and credited on separate lines, making it difficult to link these integral pieces of information together in broad analysis, especially given the number of credits/adjustments and partial payments involved. It does not explain why any credit was given.

We analyzed this representation of invoice activity for July 2017 through February 2019 and found a \$16,382,782 difference between what the

¹¹ John G. Salek, *Accounts Receivable Management Best Practices*. Wiley, 2005.

OMES Information Services Division Performance Audit

Finance Department had invoiced and what clients had paid, and \$13,169,146 in total credits applied to client accounts (for any of a wide variety of reasons including those listed on page 8), with \$3,213,636 in remaining receivables.

FY18 and FY 19 (July 1, 2017 through February 28, 2019)				
Invoice Amounts Total	Total Payments Received	Difference Between Invoices and Receipts	Credits	Remaining Receivables
\$182,823,035	\$166,440,253	\$16,382,782	\$13,169,146	\$3,213,636

Our procedures were limited to what we were able to accomplish with the data and documentation available; see discussion in Appendix E. We attempted procedures to tie invoices to payments received, which proved extremely difficult given the nature of the data available, the number of adjustments and partial payments that occurred, and the vague descriptions and lump sums listed on written agreements for ISD services. During these efforts we noted that the supporting documentation reflected clients regularly recalculating and correcting their own invoices before making payments. This suggests invoice inaccuracies or other disputes, which were reported by client agencies as discussed on the next page.

No Effective Invoice Follow-up Process

Current staff told us that during the audit period there was no formal and effective process in place for tracking timely distribution of invoices or following up on outstanding invoices. Management does believe the Agency had internal policies and procedures in place during the audit period, but it is clear those procedures were not effective in ensuring timely and accurate invoice distribution or collection. Not only were we informed that urgent collection letters were sent out in early 2019, suggesting a large volume of outstanding payments existed, but we generally observed receivables being delayed due to the problems with invoice accuracy discussed earlier. While improving the accuracy and transparency of invoices is important, having an effective process in place for invoice follow-up and collection is also integral to maintaining a healthy cash flow in receivables that reflects the revenue budget.

It was also brought to our attention by ISD staff that during the audit period there were as few as five account executives within the division. These personnel play a vital interfacing role in providing services to the nearly 200 state agencies, working to develop and update service agreements and project details and enable communication between ISD and the client. The account executives' large workloads surely impact their ability to negotiate timely and accurate contracts and keep detailed records to support the services provided to clients.

Input from Client Agencies

To collect further independent information regarding the billing process, we contacted several clients of ISD – state agencies ranging in size from 30 to over 5,000 employees. These clients reported receiving invoices that contained incorrect services, billing codes, and amounts. In some cases, clients were billed for more project hours than approved on written agreements, or for projects not agreed to at all.

ISD's clients struggle to negotiate corrections to inaccurate invoices and written agreements

Clients also shared that MSAs were not presented to them by the beginning of the fiscal year, which impacted their ability to properly prepare their budgets. They reported that MSAs were not calculated correctly and contained inappropriate services and inaccurate quantities (such as number of employees or phones). Clients have resorted to detailed internal tracking of ISD invoices and supporting documentation, and meeting regularly with OMES management to resolve errors and get invoice support, requiring the clients to use their own time and resources to correct the billing errors.

Recommendations

OMES is the State of Oklahoma's central finance agency, responsible for overseeing the distribution of state funds and assisting other state agencies with financial management. However, their inability to effectively budget, bill, and collect in a timely and accurate manner for the Information Services Division left them with an unpredictable cash flow and in need of emergency funding. This does not inspire confidence by the state agencies required to use their services or in key IT vendors. In order to achieve their vision of being state government's backbone,¹² they must prioritize improvements to these processes.

Below we provide some recommendations related to the issues discussed in this report, as well as topics for future consideration and study.

1. ISD management should address the timeliness and accuracy of its client agreements as follows:
 - a. Update the MSAs on an annual basis to ensure the resulting totals are billed accurately.
 - b. Ensure the MSA and other written agreements include detailed and accurate descriptions of the shared services. The MSA should

¹² <https://omes.ok.gov/about>

OMES Information Services Division Performance Audit

- be provided to the client in a reasonable amount of time before the fiscal year begins to ensure quantities and services are correct and that clients have reliable information and adequate time to properly prepare their budgets.
- c. Ensure that projects documented on the Statement of Work Agreement are approved by the client prior to work being performed. In addition, formal processes should be in place to monitor the cost of the project within the agreed upon amount.
2. ISD and OMES Finance should work to develop a direct line of communication, and collaborate to:
- a. Ensure receivables are accurately calculated and entered internally and in the State-Wide Accounting System by ensuring invoice codes, amounts, and descriptions are supported by approved and current client agreements.
 - b. Formally reconcile client invoices to the resulting payments, including a thorough review of credits and adjustments to ensure they are appropriate and approved as necessary.
 - c. Formally assess the vendor payment process and develop specific remedies to address payment delays. Ensure vendor payments are made within 45 days in order to comply with 62 O.S. § 34.71 and the Statewide Accounting Manual. Monitor outstanding payables so they can be addressed promptly and paid in a timely manner.
 - d. Ensure appropriate and accurate financial data is available to ISD management to adequately prepare and manage the budget, and to assist in general decision making.
 - e. Perform a future assessment to ensure proper internal controls are in place and operating effectively, and consider further topics for future procedures as listed on page 14.
3. Management should address the budget process as follows:
- a. Prepare budgets that reflect reasonable revenue and expenditure projections based on historical information.
 - b. Consistently monitor revenues and expenditures to ensure that expenditures do not exceed revenues and actual financial activity does not deviate greatly from the budget. If major changes occur that impact the budget (such as anticipated rate increases not being implemented), the budget should be revised to reflect the changes.

Views of Responsible Officials

See attachment at the end of the report.

Topics for Future Study

1. **Internal Controls:** After tremendous and ongoing change in management and operations, a review of ISD's current financial internal controls and policies and procedures should be conducted.
2. **Best Practices:** Given the newness of the infrastructure, OMES could benefit from seeking best practice advice from experienced IT providers on ways to implement and prepare contract agreements with clients and to execute those goals without going over budget.
3. **Expenditure Review:** Although this is a key area in assessing internal controls it is worth mentioning in detail. In our discussions with Management it was brought to our attention that a detailed expenditure review is not being performed, not only for ISD expenditures but for all OMES. This is alarming given the current climate of OMES's financial state. Without a reliable detailed expenditure review, it increases the risk for inappropriate payments to go undetected when there are sporadic payments being made to vendors.
4. **Billing and Collections:** In addition to a review of internal controls, there should be a review of the current processes in place for timely invoice distribution, tracking the status of outstanding invoices, and that documented follow-up procedures are in place to track the attempts that have been made to collect payments.
5. **Staffing Levels:** Low staffing levels within ISD and OMES in general could have played a role in invoice and MSA inaccuracies, as well as hindered communication on financial and budgeting matters between ISD and Finance. OMES should perform an analysis concerning appropriate staffing levels within ISD and related funding needs. Given that information, management could consider whether some level of internal finance staff in ISD would be beneficial in invoice accuracy, bill collection, and reliable financial reporting to help ISD in decision making.

APPENDIX A

Information Services Division Background Information

- **Services:** OMES ISD provides shared information technology services to nearly 200 state agency clients. They provide services related to security, web, client support, network/connectivity, software and business applications, and other technology projects and consulting.
- **Structure:** The state's chief information officer directs the division as authorized by 62 O.S. § 34.11.1. ISD provides services under ongoing master service agreements (MSA), as authorized by 62 O.S. § 35.1, and for unique projects under individual work orders. Their rates are based on actual costs as outlined by statute ([62 O.S. § 35.5](#)) and subject to approval by the Government Technology Application Review Board (GTARB).
- **Billing Process:** ISD is responsible for preparing the billing details and obtaining the approvals that are required for services provided to clients. The billing details are then given to the OMES Finance division, which is responsible for creating the receivable in the State-Wide Accounting System and sending the invoice to the state agency being served. We will refer to the agencies ISD serves as "clients" in this report.

APPENDIX B

Scope and General Methodology

In planning and conducting our audit, we focused on the accounts receivable and payable areas of operations based on assessment of materiality and risk, and subject to the limitations discussed in the Scope and Methodology section of the report, for the period July 1, 2017 through February 28, 2019. We focused our assessment of the budget area of operations on the period of July 1, 2014 through June 30, 2019 in order to provide comparable data for year to year comparisons.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of current OMES

ISD operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Objective Methodology

Note that we did not identify any of the components or underlying principles of internal control (as outlined in Government Auditing Standards) as significant due to the nature of our objectives. However, an assessment of internal controls is recommended in the future; see page 14.

To accomplish our objective, we performed the following:

- We met with various staff within the Finance Division and the Information System Division to identify significant processes related to expenditures. In addition, we:
 - Examined reports from the internal Expenditure Approval System and reviewed Accounts Payable Reports provided by OMES Finance Department.
 - Reviewed a random sample of 60 expenditure claims (1%) from the population of 7,239 to ensure the total claim amount matched the total invoice amount and that the invoice was paid within 45 days in accordance with Statute 62 O.S. § 34.71.
 - Reviewed 25 expenditure claims (1%) from the population of 1,858 identified as potential duplicate payments (same amount and same payment date to the same vendor) by the duplicate payment function in our Analysis Application. We reviewed the claims to ensure that the expenditure claim paid one singular invoice. We also noted the payment timeframe for these invoices, as discussed on page 19.
- Met with management at various State Agencies to gain an understanding of their experience with the billing process.
- Examined internal Invoice Detail Reports to gain an understanding of the Receivable processes that were provided by the OMES Finance Department. In addition, we:

OMES Information Services Division Performance Audit

- Judgmentally selected a sample of 11 receivables (totaling \$1,873,450.84) out of the population of 8581, totaling \$365,646,070 (less than 1% of the population due to the nature of the data). We attempted to reconcile invoice entries made in the State-Wide Accounting System to the payments that were applied to the invoice. We also reviewed the related invoice that was provided to the client and the supporting documentation.
- Examined internal budget documents and reports that were provided to us by the Finance Department in an effort to gain an understanding of the budget processes and the method used to create the budget for ISD, including the supporting budget summary for FY2019 that documented nearly \$16 million in projected new revenue.
- Performed analysis on budgets, revenue, and expenditure reports from the State-Wide Accounting system to document ISD's financial state during the audit period.
- Reviewed applicable portions of the State-Wide Accounting Manual and best practices from the Government Finance Officers Association that could help provide meaningful and proactive recommendations.

Note: In several cases during these procedures we used the receivable data that was provided to us by the Agency. Because there was no independent source of documentation to validate the completeness of this data, we relied on the Agency's representation of the receivable activity to the extent necessary to present the condition in this report.

APPENDIX C

Computer Enhancement Fund

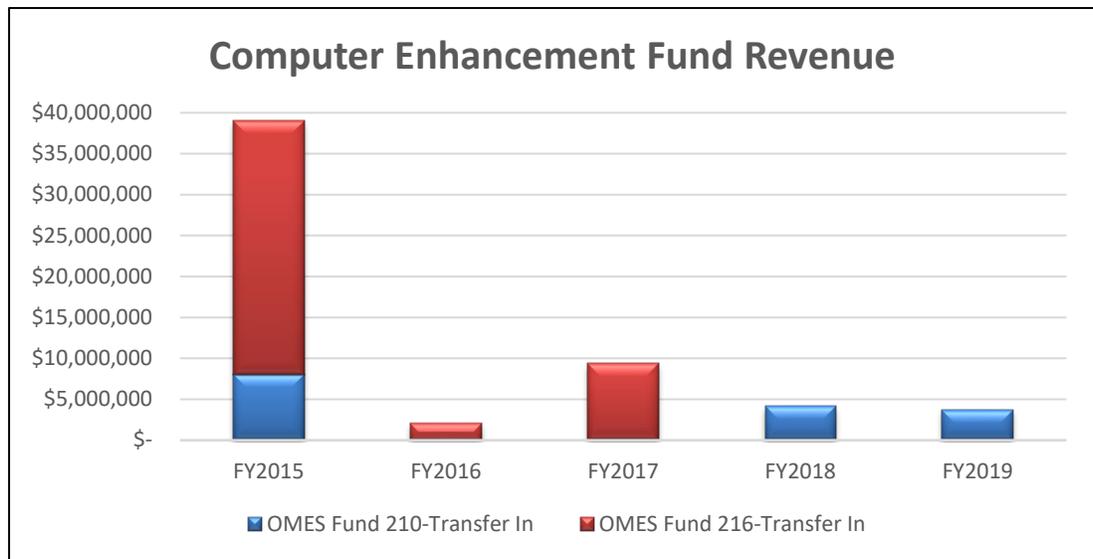
As noted in the report, it was brought to our attention during our planning process that activity in the Computer Enhancement Fund had declined and disappeared during the audit period. The Oklahoma Tax Commission and Office of State Finance Joint Computer Enhancement Fund was created by 68 O.S. § 265.

According to the state comptroller, the Computer Enhancement Fund has evolved over the past 10 years. She explained that the funds are made up of revenues collected from municipalities by the Oklahoma Tax Commission (OTC). These funds went first to pay for an OTC system implementation and ongoing maintenance, and OMES was then to receive the remainder. Once OTC's implementation was paid for, OMES began getting a substantial amount to help with consolidation and IT projects. OMES set up Fund 216 for this purpose. In 2015, municipalities lobbied to reduce or eliminate the fee that was funding this activity, and

OMES Information Services Division Performance Audit

legislation was passed that reduced the amount that was collected in the Computer Enhancement Fund. According to OMES staff, after the amount became less significant, OMES began directing the transfers from OTC to Fund 210 rather than to Fund 216.

The most current statutory language confirms that a portion of the revenue apportioned to the Oklahoma Tax Commission and Office of Management and Enterprise Services Joint Computer Enhancement Fund shall be credited to the Oklahoma Tax Commission “in an amount which is equal to the sum of one-half of one percent (0.5%) of gross collections of sales and use tax levied by counties and one-half of one percent (0.5%) of sales and use tax levied by municipalities.”



We analyzed reports from the State-Wide Accounting System and found that revenues from this source indeed greatly declined from fiscal year 2015 to 2019. We also found variation in which Fund, either 210 or 216, the Computer Enhancement Revenues were transferred to. Overall, the activity generally reflects the history we were provided, and transfers from OTC appear to have leveled off.

APPENDIX D

Payables Timeliness Procedure Details

We tested 60 randomly selected expenditure claims to determine if the claim amount matched the invoice and if the invoice was paid within 45 days of the invoice date. See detailed methodology in Appendix B. Out of the 60 expenditure claims we tested, we found that 46 of the invoices, or 77% of payments tested, were *not* paid within 45 days of the invoice date.

**OMES Information Services Division
Performance Audit**

We also performed an analysis targeted to identify potential duplicate payments, and while no duplicate payments were identified, we did note instances in which multiple payments to vendors were made on the same day for past invoices in the same amount, causing the payments on the expenditure reports from the State-Wide Accounting System to *appear* as potential duplicates.

During this analysis we reviewed in detail 25 instances of these potential duplicate payments (ISD expenditures bearing the same payment amount and date) and also took note of their invoice dates versus payment dates. Of the 25 reviewed, 20 of those invoices were not paid within 45 days of the invoice date. This further supports our results relating to delayed expenditure payments above.

While we attempted to analyze the timeliness of payments over the full population of ISD expenditures during the audit period, we were unable to do so because invoice dates are not included in the State-Wide Accounting System data. Had the dates been included, they would have been manually entered by OMES staff, and therefore still not reliable without an assessment of audit period controls.

A total of nineteen out of the 85 expenditures we reviewed were paid within 45 days of the invoice date. The following chart shows the number of days beyond the invoice date that the remaining 66 invoices were paid. (This information is presented in total in the body of the report.)

Procedure Type	46-76 Days	77-107 Days	108-138 Days	139-169 Days	>170 Days	Total
Random Sample (60 claims)	18	11	8	6	3	46
Invoices Reviewed During Analysis of Potential Duplicate Payments (25 claims)	7	8	4	0	1	20

APPENDIX E

Receivables Analysis Additional Information

Regarding the Invoice Detail Report

Due to our limited access to the crediting data within the State-Wide Accounting System and the absence of an independent source of invoicing data to ensure completeness, we relied upon the Invoice Detail Report provided by the Agency in order to perform procedures. This report constitutes the Agency’s representation of the audit period receivables population.

The format of the Invoice Detail Report lists invoice amounts and payments against them on separate lines, making it difficult to link these integral pieces of information together in broad analysis, especially given

OMES Information Services Division Performance Audit

the number of credits/adjustments and partial payments involved. To the extent possible, we developed procedures to compare the dollar amount of invoices sent to clients compared to what clients had paid, both overall and by payment line in the data.

Additional Details on Our Procedures

The Invoice Detail Report reflected nearly 8,000 variances between client payment amounts and related invoice totals recorded on the same line of data. (Again this does not necessarily indicate payment was not received, but that it was received in a differing amount, in multiple payments, with credits applied, etc.) For a total of 77 entries, the amount paid by the client against each invoice was at least \$60,000 less than what the original invoice amount was. We were able to verify that a majority of these 77 invoices *were* eventually paid in full; however, a total of 11 of the invoices were not paid in full. They ranged in amount from \$1,275.00 to \$105,918.46. We obtained the supporting documentation for the 11 invoices and attempted to match the invoice to supporting documentation. Due to the MSA documents and statements of work listing lump sums and bearing vague descriptions, we were unable to independently determine exactly which agreements supported each invoice. In addition, the invoices themselves are vague and do not show a clear correlation to the supporting documentation.

In examining invoices, we repeatedly found evidence that clients recalculated and corrected their own invoices before making payments. On all 11 invoices we reviewed in detail, we found markings where the clients had crossed out the amount and handwritten a different amount they owed, clearly suggesting invoice inaccuracies or other disputes.

We determined that further pursuing this method of tying invoices to supporting agreements would require us to rely on ISD to piece their own work together and require us to take OMES staff at their word that the provided documents corresponded, with no efficient method to verify their work.

The format of the Invoice Detail Report also made it difficult to perform broad analysis on the timeliness of collections. General information gained from discussion with staff on this issue is included in the report.



October 17, 2020

Cindy Byrd, CPA
Oklahoma State Auditor and Inspector
2300 N. Lincoln Blvd, Room 123
Oklahoma City, Oklahoma 73105

Attention: Melissa Capps

Dear Ms. Byrd:

Please accept the following as the Office of Management and Enterprise Services' response to the performance audit for the Information Services Division (ISD) for fiscal years 2015-2019. OMES welcomes the opportunity to provide comments on the recommendations contained in this report.

On behalf of the employees and administration of OMES, I would like to express our sincere gratitude for the hard work that the State Auditor & Inspector's Office provided. It was a pleasure working with your team, and we are extremely appreciative of the findings they have identified, in order to help OMES to continue improving services to our customers with regard to Information Technology. OMES recognizes that there were several areas related to the performance of the Information Services Division that required steps for improvement. OMES is dedicated to providing our customers with excellent services, which enable them to accomplish their missions by providing the efficiencies that technology offers as well as the highest level of security for the sensitive data across the State's landscape. OMES has been able to make improvements to many of the areas identified in the audit report prior to the finalization of the audit. Many of the deficiencies were identified, and immediately addressed. We have outlined the improvements made that are in alignment with the findings of the Information Services Division performance audit. Furthermore, we have provided additional actions OMES will take based on the recommendations from the State Auditor's office.

Budget

Measures were taken beginning with the FY-2020 budget development, in order to more accurately budget for both revenues and expenditures.

Revenues

Revenues are now initially calculated based on the drafted App C agency agreements, and are adjusted as agencies make adjustments and sign those agreements.

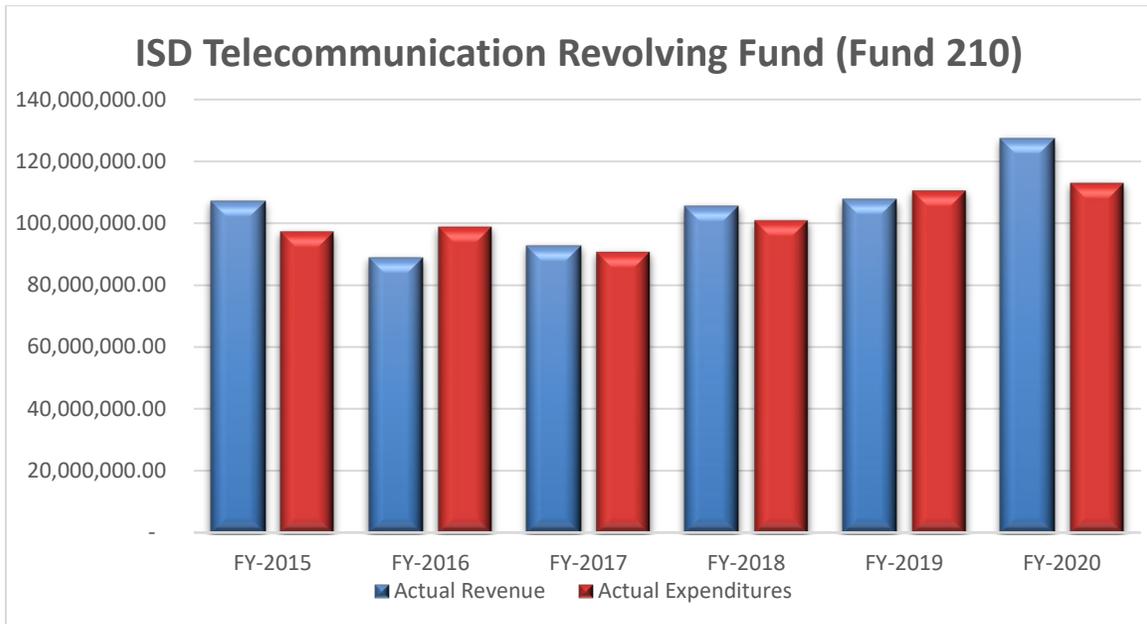
Expenditures

During the FY-2020 and FY-2021 budget development, OMES Finance met with each department director within ISD in order to review the details of amounts expended in the prior fiscal year, and gather information on any new, changing, or no longer needed expenses. OMES Finance will continue providing prior year expenditures to develop the ISD budget in future years. In cases where budgeted line items are higher than prior year historical expenses, detailed notation will be taken and provided with justification for the increase, and will be maintained in the backup documentation for each fiscal year's budget development files.

Expenditures vs. Revenues

In addition, OMES will ensure that expenses do not exceed the projected revenue. Both FY-2020 & FY-2021 budgets were within expected revenue projections. OMES will take steps to adjust expenses throughout the fiscal year if revenue comes in lower than projections.

As noted in the audit report, expenditures consistently exceeded revenue in FY-2015 through FY-2019. However, taking both the total revenue and total expenditures from the Summary of Receipts and Disbursements report, which does not include encumbrances and pre-encumbrances in the actual expenditures total, the actual expenditures for the audit period do not exceed the actual revenue. In addition, FY-2020 expenditures did not exceed revenue as shown in the following graph.



1

Financial Reporting

In addition to the budgeting changes made, OMES has also developed more robust reporting for the Information Services Division. In December of FY-2019 OMES created new detailed budget to actuals reports for each department in order to ensure we were tracking the budgeted expenditures versus the actual expenditures accurately.

In October of FY-2020, OMES created financial statements for each ISD department that are provided to OMES and ISD leadership on a monthly basis. The reports show revenue, expenses paid, expenses incurred, and the variance between budget and expenditures each month, and for a 12-month period, for their review. The new reports assist management and finance with monitoring the revenues and expenditures, in order to make timely decisions regarding financial activity. Also in October of FY-2020, OMES began monitoring the daily cash balances for the funds utilized for ISD, as well as identifying what caused the change in cash balances from the prior day. The daily

¹ Actual revenues and expenditures are derived from the fund 210 Summary of Receipts and Disbursement report from the State-Wide Accounting System.

Accounts Receivables and Accounts Payables balances are also included in the daily monitoring effort.

Billing Process

Billing and Contract Processes Need Improvement

Billing for OMES IT services has been in a process of maturing since consolidation in 2012. OMES has taken many steps to improve the billing process for these services. In many instances, changes were made as a response to customer requests and feedback.

Beginning in March of FY-2018, changes to monthly service invoices were only made when supported by signed Statements of Work (SOW), and Work Orders (WO). This prevented any changes to monthly billing without the customers documented authorization, and has resulted in a reduction to the amount of credits issued over disagreements of what services were agreed upon.

In June of FY-2018, OMES began including the SOW/WO number that caused any changes to the monthly services on the invoice, which gave customers the ability to better identify what the billing changes were for, and in turn allowed for more timely payment. This change was driven by listening to customer feedback, and finding a solution to enable greater ease for our customers to approve and validate changes in their billing.

With regard to project billing, which is separate from the monthly services billing, a query was developed in September of FY-2019 to prevent duplicate billing items. As a result, OMES has reduced the amount of credits that have occurred due to duplicate billing.

Beginning in November of FY-2019, in response to customer feedback, OMES started providing the hours worked by each Information Services employee in the backup documentation provided to customers for project billing. These invoices now show the hours worked by each ISD employee for each day, rather than a lump sum total for the entire month. This allows our customers to have additional information to validate their invoices, which has helped to receive payments in a timelier manner.

Finally, in January of FY-2020, OMES achieved more consistency in billing by creating a schedule of dates when billing for services. We now bill for services received through the 18th of the month in the current month, and bill services received after the 19th of the month in the following month. This has helped eliminate confusion on when items are billable to our customers, and in turn allowed for more timely payment, as well as a reduction in credits issued.

Additional improvements that will be made moving forward for the billing and contract process, will include adhering to a strict timeline for presenting App C's to our clients, and leveraging technology for an Integrated Business Management Solution (IBMS).

OMES will ensure the presentation of new charges and/or rates to our customers for the App C agreements will be provided with enough time to allow for review and discussion prior to the start of the fiscal year. App C's will be presented to customers between March-May to ensure the customer has adequate time to review and approve before the fiscal year begins July 1st.

OMES is engaging in a technology solution to further improve the process between ordering new services, updating service agreements to reflect changes, and billing for said services. OMES will be implementing an Integrated Business Management Solution to assist with the comprehensive management of all IT service contracts, in addition to helping with the monitoring of the total costs of projects to avoid exceeding agreed-upon amounts. OMES is actively engaged in a Business Management System Solution project, with a target of July 1, 2021 for Phase 1 implementation.

An Integrated Business Management Solution will help improve business processes and improve delays in a multitude of ways, as follows:

- Risk Mitigation- IBMS reduces the risk of human error because many tasks within the system are automated.
- Efficiency- An IBMS will promote efficiency by having a central system for all employees so they can check/find information without having to ask the business or track different teams to pull data from different sources.
- Accessibility- The efficiencies gained yield accessibility by giving employees access to what they need to get the job done. Having the right information at the right time, improves the experience for everyone.

- Scalability- A system will help identify roles and responsibilities, processes and view risks and opportunities. This view will allow the business a tool to be able to scale accordingly.
- Alignment- A central system can update individuals, groups and the entire organization when changes are made to documents, customers, requests, risks and/or opportunities, which makes it easier for employees to be aligned and focus on the same goals.
- Consistency- We understand the importance of consistency and want that in the products and services provided to customers. Implementing an IBMS to create and automate repeatable methodology to provide this consistency will make for a better/improved customer experience.
- Productivity- IBMS will increase productivity and streamline processes by reducing redundancy and inefficient tasks by replacing them with automation.
- Real Time Visual- Using disperse systems and information makes it difficult to get an overall picture of business performance. Integrating information systems and uniting the data into one platform can provide an accurate picture of how the business is performing and that information can empower decision makers.
- Customer Engagement and Experience- Managing customers, contracts, requests, projects, and inventory between sales and service teams working out of different systems can cause some of the delays and errors that we've seen in the past. Having a centralized system will provide automated workflow across the entire business, not just individual teams.
- Continuous Improvement- We want to proactively review and aim to improve processes, keeping in mind the importance of communicating the effects of the improvements. IBMS can help build and foster a learning culture in daily routines.

The benefits from implementing an IBMS should enable more timely delivery of annual contracts, supporting documentation and billing. Centralized system and process automation and improvement should mitigate the volume of credit/rebills in the future.

Accounts Receivable

No Effective Invoice Follow-up Process

It became clear that the collection process set in place in FY-2018 was not effective. Changes were made in April FY-2019 to focus the collections efforts back to Accounts Receivable, in the centralized financial operations, where a new collections process was

created. Prior to this, collections were started in the Information Services Division, and passed to the centralized financial operations (OMES Finance) after 60 days. A reminder letter was sent out by OMES finance after 45 days, but follow-up was not expected from OMES Finance. Collections were being driven by the Account Executives (AE) in ISD, and as mentioned in the audit report, the number of AE's within the division working to provide services to nearly 200 customers were likely too few. By placing the collections duties in the AE's purview it added to an already difficult-to-manage workload, which caused inconsistency in the collections process, and ultimately caused collections to suffer.

Bringing the accountability back to the centralized financial operations has helped improve collections. Customers are contacted via email between 30-45 days of an invoice being past due. Reaching out by email provides backup documentation for both OMES and the customer. If there are any issues with an invoice, OMES Finance staff can easily answer and provide backup, or bring in the appropriate department for assistance. Due to the change in our collections process, the receipt of payment within 45 days has increased, as well as the overall cash flow to the Information Services Division class fund.

Outstanding Receivables, Invoice Inaccuracies, and Frequent Adjustments

In FY-2018, OMES and our customers entered into new MSA's, due to a new service part agencies would be charged. The change in service charges caused delays, and many were not signed until after the start of the fiscal year, and after monthly invoicing had already begun. This resulted in OMES issuing credits and rebilling with the new service charge, once the MSA's were signed. While OMES issued over \$13 million in credits as shown in the audit report, the majority of this was due to crediting invoices at the old MSA rate and rebilling at the new FY-2018 rates.

Since such a significant part of the credits noted in the audit report were due to the credit and rebilling in FY-2018, OMES will ensure the presentation of new charges and/or rates to our customers for the App C agreements will be provided with enough time to allow for review and discussion prior to the start of the fiscal year. App C's will be presented to customers between March-May to ensure the customer has adequate time to review and approve before the fiscal year begins July 1st.

Accounts Payable

OMES concurs that improvements were needed with regard to timely vendor payment. The timeliness of payments to vendors were significantly affected by the billing and receivables deficits that were mentioned in this report, in large part due to limited cash flow as a result of a delay in payments received. All of the actions taken to date will result in more timely payments being made to vendors. The appropriate budgeting practices, and billing improvements will assist in improving OMES's cash flow in the Information Services Division class fund (210), which will result in vendors being paid on time.

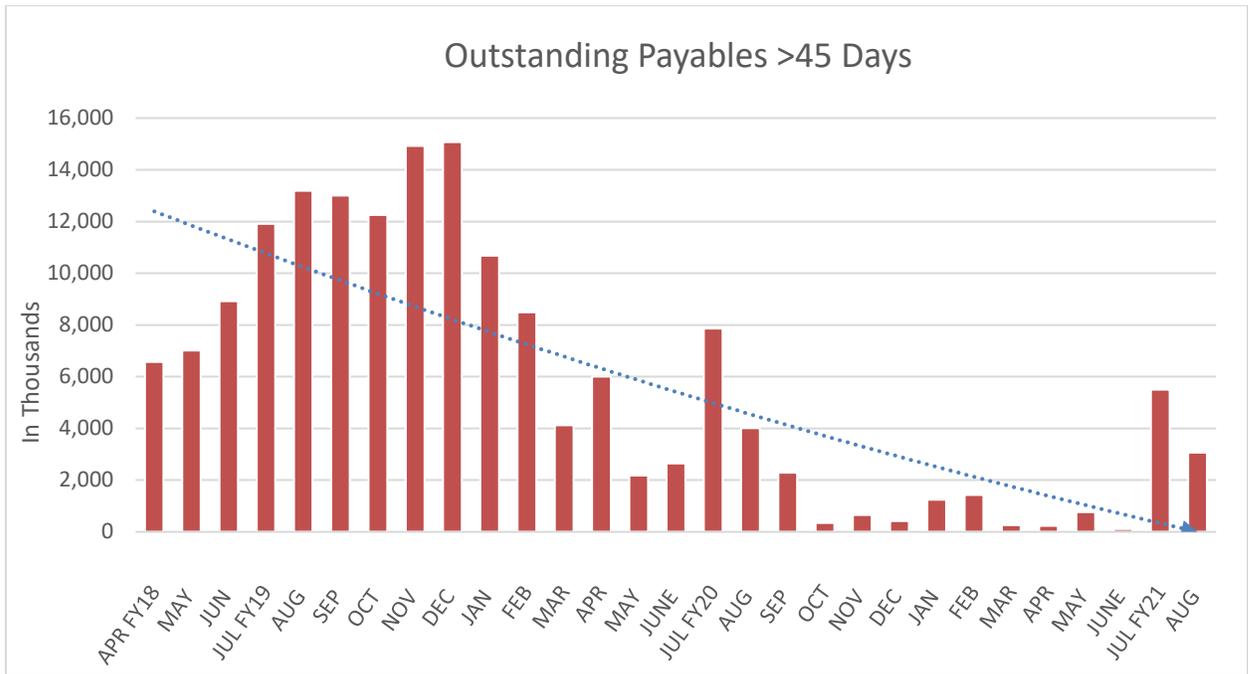
Statutory Requirement to Pay Invoices within 45 Days

In December of FY-2019, OMES established a report to monitor the NET terms and to help ensure invoices were paid on time. In addition, once services are received the invoice is now paid prior to NET 45. This adjustment has given us more visibility to manage the invoices timely.

In addition to cash flow causing delays in payments, pass-through invoices were also a cause for payment delays. Beginning in January of FY-2020, OMES began billing pass-through costs more frequently, on a weekly basis, in order to ensure more timely payments to vendors.

77% of Claims Tested Were Paid Late

Beginning in April of FY-2019, OMES began charting outstanding payables over 45 days, for a 12-month historical view. In March of FY-2019 OMES was able to decrease the amount of outstanding payables over 45 days to its lowest level in recent history. In addition, OMES has continued to improve the amount that tends to be overdue at the beginning of each fiscal year with the large quantity of annual renewals that we receive in June each year. OMES also improved the lag that is caused each year while waiting for a new budget to be posted, by submitting the budget sooner. OMES will continue adjusting budget submission, in order to eliminate any lag in payments due to waiting on a new fiscal year budget. The changes mentioned above are represented in the following graph.



Effects of Late Payments

OMES works diligently with every vendor to build and maintain good relationships. In FY-2019 weekly calls were made to vendors with outstanding invoices, to provide updates for expected payment date. In late FY-2019 calls from vendors inquiring about payments began to ease, and in FY-2020 vendor complaints with regard to late payments stopped altogether.

Where it has been feasible to do so, while still maintaining statutory oversight requirements, OMES has provided the capability for clients to work directly with vendors in order to alleviate delays caused by being the pass-through agent between the vendor and client. In many cases, this was the cause of the payment delays to vendors, when OMES had not received the payment from our client in time to pay the vendor in 45 days.

As a response to this, in April of FY-2019, OMES developed a portal in partnership with Dell to allow clients to lease laptops and purchase equipment accessories directly through the portal. This allowed OMES to continue to manage the state standard by providing devices that will work in our technology environment, meeting state

architecture and security requirements, and maintaining compliance with the IT Consolidation and Coordination Act, while getting out of the middle of setting up purchase orders and passing through the payment between the client and the vendor for these products.

In conclusion, OMES is committed to providing excellence in service to our customers, and in turn committed to making the necessary improvements in our processes to accomplish this goal. Through the many actions that OMES has already taken to achieve these improvements, and with the continued improvements on the horizon, OMES is confident it will meet this goal. The changes to budgeting practices, billing improvements, collections processes, and timeliness of payments will allow OMES to continue seeing the results of these efforts, which has already improved relationships with our customers and our vendors.

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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