



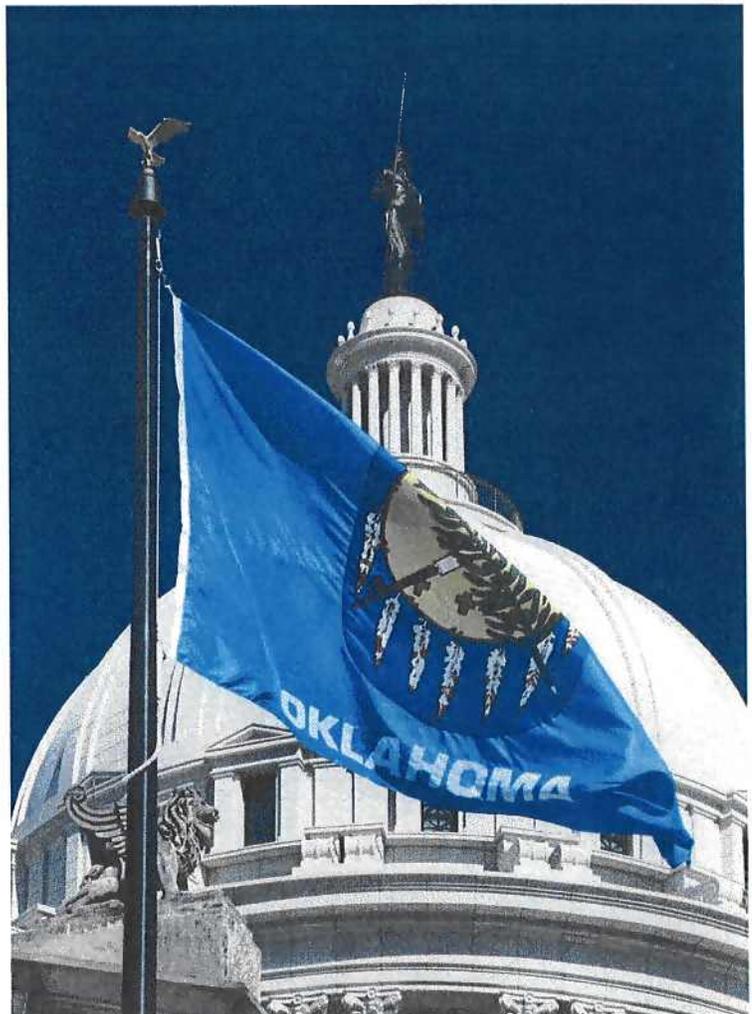
**STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR**

**STATE OF OKLAHOMA
PURCHASE CARD
PROGRAM**

JULY 1, 2004 THROUGH JUNE 30, 2005

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**JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR**

**STATE OF OKLAHOMA
PURCHASE CARD PROGRAM**

SPECIAL REPORT

JULY 1, 2004 THROUGH JUNE 30, 2005

**OFFICE OF THE STATE AUDITOR AND INSPECTOR
JEFF A. McMAHAN**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

October 11, 2006

Attorney General Drew Edmondson
State of Oklahoma
State Capitol, Room 112
Oklahoma City, Oklahoma 73105

Dear Attorney General Edmondson:

Transmitted herewith is the special report of certain transactions of the State of Oklahoma Purchase Card program. We performed these procedures as a result of concerns of abuse within the purchase card program as expressed by citizens of the State of Oklahoma and state agency management.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and 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.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of this special audit.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector



STATE OF OKLAHOMA PURCHASE CARD PROGRAM SPECIAL REPORT SUMMARY

**JEFF A. MCMAHAN,
CFE**

**OFFICE OF THE STATE
AUDITOR & INSPECTOR**

Why the audit was performed

This special audit was conducted as a result of concerns of abuse within the purchase card program as expressed by citizens of the State of Oklahoma and state agency management.

The objective of our audit was to determine whether agencies made reasonable, appropriate, and necessary purchases using their purchase cards. During the fiscal year ended June 30, 2005, the p/card program had the following activity:

- 1,946 active cards
- 77 state agencies had at least one active card
- 79,885 purchases made on p/cards
- \$18,248,094 in purchases made on p/cards

Our audit consisted of the analysis of 336 p/card transactions totaling \$53,436.56. Significant findings from our report are summarized below.

- One state agency had 24 purchase cards for two cardholders with each card having monthly purchase limits of \$50,000 and single purchase limits of \$25,000. This creates a financial exposure for the agency of \$14.4 million annually. We also noted each card was assigned a Merchant Category Code Group of 99 which allows the cardholder to use the purchase card at any type of vendor including liquor stores, pawn shops, adult entertainment, etc.... (page 12)
- One cardholder had allowed another employee to use their purchase card to make purchases. In one instance the card was lost by the employee to whom it had been loaned. The lost card was used to make \$992.95 in purchases although \$991.83 of this amount was recouped. (page 12)
- Receipts giving an itemized and detailed description are to be obtained for all purchases. Our audit showed that of the 336 purchases reviewed, 85 purchases totaling \$13,667.74 were missing receipts. Without receipts detailing the items purchased, it is not possible to determine whether the items were for state need. (page 8)
- State entity purchases are exempt from the State of Oklahoma sales tax. We noted state sales tax of \$233.79 was paid on 17 purchases. (page 8)
- Out of 336 purchases examined, 76 items available on a mandatory statewide contract were not purchased from the statewide contract. (page 5)
- We noted two food purchases totaling \$148.82 made in violation of Office of State Finance Policy. Policy states that payments for purchase of light food and drink items (e.g., doughnuts, cake, coffee, tea, soft drink, etc.) are considered a valid operating expense of an agency to the extent the purchase serves a public purpose such as refreshments purchased in connection with meetings or similar type activities held/conducted for and in the interest of the general public. (page 6)

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BACKGROUND

The purpose of the State of Oklahoma Purchase Card (p/card) program is to “simplify and reduce red tape on purchases while placing the cards in the hands of employees who actually utilize the goods and services purchased.”¹

The p/card program is administered by the Department of Central Services through a contract with JPMorgan Chase Bank. Most state agency p/cards are issued under this contract; however, the Oklahoma Housing Finance Agency, Grand River Dam Authority, and the state’s institutions of higher education operate separate p/card programs.



The State currently utilizes three different types of purchase cards, the standard p/card, the Travel p/card, and the Statewide Contract p/card. Each card is designed for a specific purpose or purposes. Our audit covered only transactions made on the standard p/card and did not cover purchases made on the Travel p/card or Statewide Contract p/card. Use of the standard p/card is limited to purchases of \$2,500 or less for a single transaction and may be used for walk-in, telephone, or internet purchases.

During the fiscal year ended June 30, 2005, the standard p/card program had the following activity²:

- 1,946 active cards
- 77 state agencies had at least one active card
- 79,885 purchases made on p/cards
- \$18,248,094 in purchases made on p/cards

In comparison, the state’s higher education institutions account for the following p/card activity:

- 10 schools had a least one active card³
- \$91,848,248 in purchases made on p/card^{4 5}

**SCOPE AND
METHODOLOGY**

This audit was conducted pursuant to 74 O.S. § 212. The audit period was purchase card transactions made between July 1, 2004 and June 30, 2005.

The primary objective of our special audit was to determine whether agencies made reasonable, appropriate, and necessary purchases using their purchase

¹ Department of Central Services website-Purchase Card Information

² Excludes purchase cards utilized by agencies, colleges and universities who operate their own purchase card program outside the purview of the Department of Central Services.

³ Inspection of internal audits conducted by the institutions and filed with this office reveal only two instances since 2004 in which p/cards was the primary focus of the engagement.

⁴ Data for nine of the schools in based on calendar year 2005 data rather than fiscal year 2005.

⁵ The University of Oklahoman and Oklahoma State University comprise 94% of this total.

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cards. In addition, an inherent byproduct of the review of the transactions was an evaluation as to whether the purchases complied with applicable laws, regulations, policies, and procedures.

Because of the primary objective of our audit, we focused on only certain transactions that, in our judgment, met at least one of the following criteria:

- the vendor does not offer products and/or services that appeared relevant to the agency's objectives;
- the vendor offers a wide variety of products and/or services that could be purchased for personal use;
- the vendor and/or the products or services the vendor offers could not be identified based on the review of the transaction at the summary level;
- the transaction appears to be part of a split purchase.

To select our transactions for audit, we downloaded all p/card transactions from the PathwayNet system. This system includes all p/card transactions made under the State of Oklahoma p/card contract and is administered by JPMorgan Chase Bank. We input the data into ACL (Audit Command Language) and sorted the data by vendor to assist in identifying our transactions for audit.

Our audit consisted of the analysis of 336 p/card transactions totaling \$53,436.56 at 25 different agencies (See Appendix A). These totals do not include the review of p/card transactions of the Pardon and Parole Board. During our p/card analysis of this agency, we noted significant concerns regarding the financial management practices of the agency, including p/card purchases. This led to a request from the Executive Director of the Pardon and Parole Board to perform a special audit. This report was issued on November 5, 2005 and is available for viewing on our website at www.sai.state.ok.us. Significant findings from this report include:

- Lack of records available for audit;
- Destruction of records without proper authorization;
- Questionable purchases of \$625.69 in gasoline with eighteen purchases made on Saturday, Sunday, or State holiday;
- The former business manager was approving her own travel claims. Travel claims were insufficiently supported, separate claims were filed for travel on the same dates, claims were filed for questionable purposes and mileage appears to have been inflated.
- The agency could only provide time records for four (4) of the seventeen (17) months the former business manager was employed. As such we are unable to confirm or refute over six hundred (600) hours of compensatory time claimed by the former business manager.
- Dates and times reflected on the former business manager's monthly time reports conflict with building access records. Additional discrepancies were found with the former business manager's day/date book.
- The agency was unable to provide documentation for State Purchase card (p/card) purchases totaling \$8,702.92. Additionally the agency was not maintaining records in compliance with State statutes and State p/card procedures.

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- We question p/card purchases totaling \$1,592.81 for candy, pop, Christmas decorations, plants, silk flowers, 'smiling elephants', treasure chests and other ornaments and decorations.
- Digital cameras purchased with a State p/card are unaccounted for.
- The agency began FY05 with a \$100,000 surplus and ended with a deficit amount of \$6,930.60.
- Purchase/authority orders and claims paid by the agency were not properly supported and included payments based on 'cut-off' and 'suspension' notices.

We also reviewed the p/card transactions of the Oklahoma Housing Finance Agency (OHFA) which operates its own p/card program. During our audit period, OHFA had 24 purchase cards with 273 transactions totaling \$133,229.71. Because the OHFA p/card is operated outside of the standard state agency p/card program, the results of our review of OHFA is presented separately beginning on page 10 of this report.

Based on the results of our audit of these selected transactions, it is evident there are numerous internal control issues that require improvement. A strong control environment is critical to the purchase card program as it will help to minimize the risk of abuse.

OTHER AUDITS CONDUCTED

In addition to the transactions audited as part of this special report, other purchase card audits have also been performed.

The Department of Transportation has contracted with our office to provide ongoing monitoring of the Department's purchase card transactions. Our initial report of p/card monitoring activities dated July 15, 2005, is available for viewing on our website at www.sai.state.ok.us. Our report states that the Department of Transportation complied, in all material respects, with the State of Oklahoma Purchase Card Procedures for the period March 1, 2004, through March 31, 2005.

Purchase card transactions were also included as part of our agreed-upon procedures engagements performed at the agencies listed below. These engagements were performed in accordance with *Government Auditing Standards* and reports are available for viewing on our website at www.sai.state.ok.us.

Commission on Children and Youth	Conservation Commission
Commission on Marginally Producing Oil and Gas Wells	Department of Agriculture J.D. McCarty Center
Office of Handicapped Concerns	Horse Racing Commission
School of Science and Mathematics	Indian Affairs Commission
Space Industry Development Authority	State Banking Department
Boll Weevil Eradication Organization	
Commission for Teacher Preparation	

In addition to audits performed by the State Auditor and Inspector, the Central Purchasing Act authorizes the Department of Central Services (DCS) to employ audit staff to conduct procurement audits. Audit staff of the DCS has issued

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p/card audits for the agencies listed below. Reports for these audits can be viewed at www.ok.gov/DCS/Administrative_Units/Audit_Unit.

Water Resources Board	Office of the State Treasurer
Secretary of State	Military Department
Historical Society	State Fire Marshal
CompSource	Office of State Finance
Board of Osteopathic Examiners	State Auditor and Inspector
Real Estate Commission	Board of Cosmetology
Department of Central Services	State Arts Council
Department of Rehabilitation Services	

In addition, DCS has p/card audits planned for fiscal year 2007 for the following agencies:

Lottery Commission	State Bureau of Investigation
Department of Health	Insurance Department
Employment Security Commission	Indian Affairs Commission
Department of Commerce	

OBSERVATIONS

Finding 1: Purchases were made in violation of state procurement requirements regarding mandatory statewide contracts.

The Department of Central Services enters into mandatory statewide contracts with vendors to allow agencies to purchase items directly from those vendors. Section 580:15-6-5 of the Oklahoma Administrative Code states:

The State Purchasing Director may designate a statewide contract for mandatory use. State agencies shall make acquisitions from mandatory statewide contracts regardless of the acquisition purchase price. A state agency may submit a written request to the State Purchasing Director to waive requirements for a state agency's use of a mandatory statewide contract for acquisitions. The State Purchasing Director shall grant exceptions prior to a state agency making the acquisition from another supplier.

In addition, Part 6.2.5.3 of the State of Oklahoma Purchase Card Procedures states:

State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.”

During our audit, we noted 76 purchases for items available on a mandatory statewide contract that were not purchased from the statewide contract. These purchases were made by the following agencies:

	<u>Number of Purchases</u>
Commission for Teacher Preparation	12
Physician Manpower Training Commission	9
J.M. Davis Memorial Commission	2
Board of Veterinary Medical Examiners	2

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Board of Examiners for Speech-Language Pathology and Audiology	1
Department of Consumer Credit	48
Board of Dentistry	1
State Bond Advisor	1

The intent of mandatory statewide contracts is to ensure the State is receiving the best value for items purchased. Therefore, failure to make purchases from statewide contracts may reduce the likelihood the State is purchasing items at its lowest or most reasonable price.

Finding 2: Food purchases were made in violation of Office of State Finance policy.

Office of State Finance Policy states, "Payments for purchase of light food and drink items (e.g., doughnuts, cake, coffee, tea, soft drink, etc.) used as refreshments and required in connection with meetings or similar type activities held/conducted for and in the interest of the general public, shall be considered a valid operating expense of the agency to the extent that such purchases serve a public purpose. This policy also covers payments for purchase of related refreshment service items, such as disposable plates/flatware, stirrers, coffee cream, sweeteners, etc. A "public purpose" as used in this policy shall mean activities or functions conducted/held in the interest of the general public at large. The general public at large may include business guests of the agency."

During our audit, we identified two purchases made in violation of the above mentioned policy. The J.M. Davis Memorial Commission purchased \$54.45 in food from a restaurant for an employee Christmas dinner. The Professional Engineers and Land Surveyors Board purchased \$94.37 in items from Target that included bread, ham, vegetables, little smokies, rice, cheez whiz, and soup. We were told that these items were for meeting refreshments; however, we were unable to locate minutes for this particular meeting.

Finding 3: Purchases were made in violation of State of Oklahoma Purchase Card Procedures.

The Department of Central Services has issued procedures to follow in the use of purchase cards. During our audit, we noted numerous instances where these procedures were not followed.

Section 6.7.1 of the Purchase Card Procedures states:

Goods or services received at the time of purchase. The receipt for purchase can also serves [sic] as the receiving document. The receiving document should be annotated "Received" and signed and dated by the receiving employee. The combination purchase receipt/receiving document shall be attached to the transaction log.

Our audit showed this procedure to be violated most often. Of the 336 transactions reviewed, 145 were not annotated "Received" and signed and dated by the receiving employee.

	<u>Number of Transactions</u>
State Pharmacy Board	1
Professional Engineers and Land Surveyors Board	23

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Secretary of State	9
Commission for Teacher Preparation	12
J.M. Davis Memorial Commission	7
Board of Veterinary Medical Examiners	5
Cosmetology Board	5
Department of Education	5
Board of Examiners for Speech-Language Pathology and Audiology	2
Department of Consumer Credit	66
Firefighters Pension and Retirement System	2
State Bond Advisor	1
Oklahoma Tax Commission	1
State Arts Council	6

* * * * *

Section 6.9.1 of the Purchase Card Procedures states:

Cardholder responsibility. SW Contract p/card and Travel p/card holders must obtain approval for purchases daily from their Entity Approving Official. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase. Regular p/card, Statewide Contract p/card, and Travel p/card holders shall obtain an electronically generated memo statement upon closing of the bank's monthly billing cycle from the Pathway Net System. The memo statement shall be reconciled by the cardholder and submitted to the cardholder's designated State Entity Approving Official. In reconciling the statement, cardholders should use appropriate documents (ie, transaction log, purchase receipts, receiving documents, credit receipts) to verify that purchases and returns are accurately listed on the memo statement. After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying that the transaction log and memo statement have been reconciled.

We noted instances of violation of this policy at the following agencies:

Professional Engineers and Land Surveyors Board -Memo statements were not signed and dated to verify that the transaction log and memo statement had been reconciled.

J.M. Davis Memorial Commission-No memo statements were present or the memo statement was not signed by the cardholder or approving official

Commission for Teacher Preparation -No memo statements were present or the memo statement was not signed by the approving official.

Physician Manpower Training Commission-Monthly transaction logs were not maintained. We also noted instances of memo statements not being signed.

Cosmetology Board-Transaction logs and memo statements were not signed by the cardholders.

Department of Education-Transaction logs were not signed by the cardholder.

Department of Consumer Credit-Transaction logs were not maintained and support documentation for several transactions did not include signed memo statements.

Section 6.9.1 of the Purchase Card Procedures also states:

All cardholders (including Entity P/card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.

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The following agencies Executive Director utilized a purchase card. Even though the p/cards were issued by the Department of Central Services, it is not possible for purchases made by the Executive Director to be approved in accordance with this policy because there is not an individual "at least one level above their position".

Board of Veterinary Medical Examiners
Office of Personnel Management
Firefighters Pension and Retirement System
State Bond Advisors Office
Funeral Board
J.M. Davis Memorial Commission

* * * * *

Section 6.6 of the Purchase Card Procedures states:

State sales tax. State entity purchases are exempt from the State of Oklahoma sales tax. Cardholders should exercise care to ensure that they are not being charged nor paying such tax. The sales tax identification number is provided on the face of each p/card.

Our audit showed that of the 336 transactions reviewed, state sales tax of \$233.79 was paid on 17 transactions.

	<u>Transactions</u>	<u>Tax Paid</u>
Department of Consumer Credit	10	\$160.03
Commission for Teacher Preparation	2	\$6.08
Board of Veterinary Medical Examiners	2	\$4.78
Cosmetology Board	2	\$59.25
Board of Examiners for Speech-Language Pathology and Audiology	1	\$3.65

* * * * *

Section 6.5 of the Purchase Card Procedures states:

Receipts for purchase. Receipts shall be obtained for purchases. The receipt shall give an itemized and detailed description of the purchase. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation, confirmation number, or packing slip should be obtained. If neither a receipt, confirmation information, nor packing slip is available for a transaction, documentation shall be attached to the transaction log notating all attempts made to obtain a receipt from the merchant. In the latter situation, cardholders should consider future use of another merchant who will provide a receipt or confirmation information. If a receipt is lost, the cardholder shall note the loss on the transaction log and complete a Lost Receipt Report (Attachment 4). The Lost Receipt Report shall be included in the cardholder's reconciliation submission. Repeated loss of receipts may be grounds for discontinuing a cardholder's p/card use or other disciplinary or legal action.

Our audit showed that of the 336 transactions reviewed, 85 transactions totaling \$13,667.74 were missing receipts.

	<u>Transactions</u>	<u>Amount Paid</u>
Commission for Teacher Preparation	1	\$23.70
J.M. Davis Memorial Commission	16	\$642.85
Board of Veterinary Medical Examiners	1	\$38.42
Board of Examiners for Speech-Language Pathology and Audiology	2	\$71.62

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Department of Consumer Credit	61	\$11,697.83
Firefighters Pension and Retirement System	1	\$1,000.00
Funeral Board ⁶	3	\$193.35

* * * * *

Section 6.4 of the Purchase Card Procedures states:

Transaction logs. Cardholders shall maintain a transaction log of all p/card purchases, returns, credits and disputed transactions as the transactions are made. A separate log shall be maintained for each p/card for each cycle.

We noted instances of violation of this policy at the following agencies:

Commission for Teacher Preparation –We noted one transaction was not listed on the transaction log.

Physician Manpower Training Commission-A separate transaction log was not maintained for each cardholder; however, a consolidated log was maintained.

J.M. Davis Memorial Commission – A separate transaction was log not maintained for each cardholder; however a consolidated log was maintained although it was found to be incomplete.

Department of Consumer Credit-Monthly transaction logs were not maintained.

Firefighters Pension and Retirement System-A transaction log not maintained to support purchases made in January 2005.

* * * * *

Section 6.2.3 of the Purchase Card Procedures states

Other prohibited purchases. The p/card, Statewide Contract p/card, and Travel p/card shall NOT be used for the following types of purchases:

- Motor fuel or fluids.

We noted the J.M. Davis Memorial Commission purchased an oil change and tire rotation for its state owned vehicle in the amount of \$49.94. Purchases of this type are to be made on the Fuel Man card.

* * * * *

Section 6.9.2 of the Purchase Card Procedures states in part:

Entity approving official(s) responsibility. ...State Entity Approving Official(s) shall review the regular p/card, Statewide Contract p/card, or Travel p/card holder's reconciled memo statement and supporting 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. Any issue that cannot be resolved between the State Entity Approving Official and the cardholder shall be brought to the attention of the cardholder's immediate supervisor and the State Entity P/Card Administrator for resolution. To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement and forward the memo statement and supporting documentation for payment as required by entity p/card procedures.

⁶ Agency subsequently produced receipts after obtaining them from the vendor.

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We noted instances of memo statements not being signed by the approving official at the following agencies:

Commission for Teacher Preparation
Physician Manpower Training Commission
J.M. Davis Memorial Commission
Department of Education
Department of Consumer Credit
State Bond Advisors Office

* * * * *

Section 6.9.3 of the Purchase Card Procedures states:

Entity retention of statements. Entity P/Card procedures shall designate where State Entity Approving officials shall retain reconciled statements and supporting documents and to make available upon request by OSF and/or DCS for review and audit purposes. Entities are responsible for achieving a status as the state entity of record for said documents through the State Archives and Records Commission.

During our audit, we noted several transactions at the J.M. Davis Memorial Commission and the Department of Consumer Credit with little or no supporting documentation, i.e. receipts, transaction logs, month memo statements.

* * * * *

Section 3.9 of the Purchase Card Procedures states:

Training: Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must successfully complete the training prescribed by the State Purchasing Director prior to assuming their duties and prior to being issued p/cards. SW Contract cardholders and their approving officials must also go through another training session, covering use & familiarization with SW Contracts.

We noted the approving official at the Department of Consumer Credit had not been through the required p/card training.

Oklahoma Housing Finance Agency

As previously discussed, the Oklahoma Housing Finance Agency (OHFA) operates its p/card program under its own contract with JPMorgan Chase Bank. As a result, the nature of our findings related to this agency may vary from those previously noted. Therefore, the results of our p/card review for OHFA are presented separately.

We reviewed 273 p/card transactions totaling \$133,229.71 and noted the following.

Finding 1: OHFA should be included in the p/card contract under the State of Oklahoma rather than having their own p/card contract.

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The OHFA is a Public Trust created by Executive Order by the Governor in 1975. The Agency is a non-profit entity and tax exempt, with the State of Oklahoma as the beneficiary of the Trust.

We discussed with both OHFA and DCS management about the basis for OHFA's separate p/card contract. Based on our discussion, it appears both agencies were under the assumption that OHFA, as a public trust, was exempt from the Oklahoma Central Purchasing Act. The Central Purchasing Act provided the authority for DCS to establish the p/card program. As a result, OHFA was not included in the p/card contract under the State of Oklahoma and they negotiated a separate contract with JP Morgan Chase.

We noted the following Attorney General Opinion, 1984 OK AG 135, I.4., which states

Clearly, trustees of a state beneficiary public trust, as public officers, fall within the definition of "agency" and "state agency" in 85.2 of the Central Purchasing Act. They are officers of the executive branch of state government and are not excluded from the Central Purchasing Act's requirements. See, 74 O.S. 85.12 (1983). Therefore, we conclude that state beneficiary public trusts are subject to the Central Purchasing Act."

In addition, the Oklahoma Housing Finance Agency Internal Purchasing Procedures state,

All acquisitions of the Oklahoma Housing Finance Agency ("OHFA") shall comply with provisions of the Oklahoma Central Purchasing Act, rules of the Purchasing Division of the Department of Central Services, provision of the State Use Committee and these internal procedures.

Based on the Attorney General Opinion, 1984 OK AG 135, I.4, it appears the OHFA is not exempt from the Central Purchasing Act and therefore should be included in the State of Oklahoma p/card contract.

Finding 2: Purchases were made in violation of internal purchase card procedures.

The Oklahoma Housing Finance Agency's internal procedures for credit card purchases are as follows:

1. Each department should complete the Credit Card Purchase Request Form which should contain the following elements:
 - a. Date of request.
 - b. Date items are needed.
 - c. Name or department making the request.
 - d. Cost center to be charged.
 - e. Vendor's names, address, telephone number, and if possible contact person.
 - f. Quantity of item(s).
 - g. Product description.
 - h. Unit cost.
 - i. Total cost.
 - j. Explanation of charge.
 - k. Requestor's Signature.
 - l. Receiver's name and date it was received.

2. Upon the completion of the Credit Card Purchase Request Form, the requestor should submit the form to the Certified Procurement Officer.

3. The Certified Procurement Officer will make the purchase and document the following information:
 - a. Date the charge was made.
 - b. Their name.
 - c. Confirmation number (if applicable).
 - d. Account Code.

When the transaction is completed the Certified Procurement Officer shall retain documents for each acquisition.

During our review, we noted OHFA was not routinely completing their internal form titled "Credit Card Purchase Request Form". In addition, the agency was not properly retaining or maintaining adequate, accurate, and reliable information. Most of the supporting documentation we reviewed was not complete. For example some transactions were not supported by receipts and/or the Credit Card Purchase Requisition Form was not properly completed, reviewed, or approved. Therefore in some instances we could not identify the items purchased.

Finding 3: OHFA's p/card financial exposure is \$14.4 million annually.

We noted OHFA had 24 purchase cards for two cardholders. The high number of cards is based on the number of cost centers administered in OHFA's accounts. OHFA has a separate p/card for each of their twelve cost centers. We noted each card had monthly purchase limits of \$50,000 and single purchase limits of \$25,000. Because of the number of cards issued and the high purchase limits, the financial exposure for the agency is \$14.4 million annually and with no additional controls in place, the opportunity for abuse is high. We also noted each card was assigned a Merchant Category Code Group (MCCG) of 99. The MCCG is a safeguard and can be set to limit the card for use at only certain types of vendors with a specific code. However, a MCCG of 99 allows the cardholder to use the purchase card much like a personal credit card. It allows cash advances and allows the card to be used at any type of vendor including liquor stores, pawn shops, adult entertainment, etc....

Prudent business practices would include, but not be limited to the following:

1. Limit the number of purchase cards per employee to one (1) per type of purchase card.
2. Limit the credit line of each purchase card to a reasonable amount based on the analysis of prior year's total number of transactions and dollar amount, thus limiting the financial exposure of the Agency.
3. Implement safeguards on purchase cards, such as Merchant Category Code Groups (MCCGs) to help deter the possible abuse of the cards and setting the single purchase limit to \$2,500 as required in the Oklahoma Central Purchasing Act.

Finding 4: Employees other than cardholder using p/card to make purchases.

Based on our discussion with management and the inspection of supporting documentation for purchase card transactions, we noted that one of the cardholders had allowed another employee of the agency to use the purchase card(s) to make purchases. In one of the instances the card was lost by the employee to whom it had been loaned and used to make the following purchases:

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<u>Vendor</u>	<u>Amount</u>
7 Eleven	\$ 21.13
Staples	1.12
Common Wealth Tobacco	490.80
Common Wealth Tobacco	<u>479.90</u>
Total	<u>\$992.95</u>

The agency did recoup \$991.83 of these purchases with only the purchase from Staples not being recouped.

Prudent business practices would not allow the use of a purchase card by anyone other than the employee whose name is embossed on the card.

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**Appendix A
Detail of Agencies Examined**

Agency	# of P/cards	Total p/card transactions	Total Dollars	Transactions Examined	Dollar value of Transactions Examined
Board of Pharmacy	8	47	\$ 4,060.38	25	\$ 825.21
Board of Licensure for Professional Engineers and Secretary of State	2	74	9,941.31	24	1,982.12
Commission for Teacher Preparation	4	25	5,370.66	11	2,236.62
Physician Manpower Training Commission	6	235	24,835.44	40	5,096.76
J.M. Davis Memorial Commission	2	50	13,772.68	15	2,419.64
Board of Veterinary Medical Examiners	4	42	2,314.99	42	2,314.99
Cosmetology Board	2	70	6,496.46	12	581.03
Optometry Board	2	41	9,181.97	9	1,546.71
Handicapped Concerns	1	13	4,974.79	7	911.85
Commissioners of the Land Office	3	6	1,040.74	5	364.08
Lottery Commission	3	12	1,696.13	5	1,492.31
Police Pension and Retirement System	1	1	155.00	1	155.00
Department of Education	2	3	451.94	3	451.94
Speech-Language Pathology & Audiology	1	34	3,283.08	24	2,984.76
Department of Consumer Credit	1	30	1,086.88	3	168.08
Board of Dentistry	1	66	14,765.69	66	14,765.69
Commission on Children & Youth	2	17	2,321.02	9	1,708.12
Employment Security Commission	2	5	1,059.00	1	309.98
Office of Personnel Management	4	66	14,608.85	5	1,430.58
Firefighters Retirement & Pension System	3	6	2,339.96	4	1,730.96
State Bond Advisor	4	42	13,822.79	9	3,304.41
Oklahoma Tax Commission	3	11	2,737.19	3	2,077.36
Arts Council	2	23	11,863.38	4	766.89
Funeral Directors Board	3	12	4,249.18	6	3,618.12
	1	9	1,275.24	3	193.35
	67	940	157,704.75	336	53,436.56
Housing Finance Agency	24	273	133,229.71	273	133,229.71
	91	1213	\$ 290,934.46	609	\$ 186,666.27



OFFICE OF THE STATE AUDITOR & INSPECTOR

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