



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 or see the full report online at <https://www.sai.ok.gov>.

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.