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STATE OF OKLAHOMA

OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES

AUDIT AND INTERNAL INVESTIGATION UNIT



CONTINUOUS MONITORING: PURCHASE CARD TRANSACTIONS FOR THE PERIOD JULY 1, 2011 THROUGH NOVEMBER 5, 2012

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OVERVIEW

The Office of Management and Enterprise Services (OMES), Audit and Internal Investigation Unit performed a review of purchase card transactions of 95 state agencies that participate in the state purchase card program. We data mined all purchase card transactions for the period July 11, 2011 through November 5, 2012. During this period there were 181,550 transactions totaling \$81,017,499.59. The purchase card continuous monitoring was performed pursuant to 74 O.S. § 85.5.E.

We electronically examined all transactions to determine if there were any anomalies that would indicate fraud or improper transactions. We used 136 different analyses including clustering, decision trees and Benford's Law within our data analysis software IDEA¹. Once our exploration was completed, we requested supporting documentation for 303 transactions from 35 different agencies for a detailed examination. In addition to the findings stated below, we performed a preliminary fraud investigation and the report is posted on the Office of Management and Enterprise Services website. This investigation stemmed from monitoring activity performed during this continuous monitoring period. All other findings are noted below:

CONTINUOUS MONITORING FINDINGS

The following issues were noted during our review of purchase card transactions:

1. Condition: One card did not have the corporate Merchant Category Code (MCC)² block placed on the card profile.

Outcome: The block was placed on the card.

2. Condition: Card was used to purchase airport taxi and parking totaling \$31.00.

Outcome: Cardholder reimbursed the Agency. As of 1/22/2013 these types of transactions are allowable on the State purchase card.

¹ Audimation Services, Inc.

² **Corporate Blocked MCC codes** - A merchant category code (MCC) is a four-digit number assigned to a business by MasterCard or VISA when the business first starts accepting one of these cards as a form of payment. The MCC is used to classify the business by the type of goods or services it provides. The State of Oklahoma maintains a list of blocked MCC codes that no purchase user is allowed unless specifically approved by the State Purchase Card Administrator.

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3. Condition: We requested supporting detail for two purchases made by a cardholder in the amount of \$4,975.00 and \$625.00 to the same vendor. Upon review these transactions were split to avoid the single transaction limit and/or competitive bidding process.

Outcome: These transactions were already discovered by the internal review process performed by the Agency. The Agency had formally addressed the issue and banned the cardholder from ever using the vendor in question.

4. Condition: Three transactions were not credited to the Agency. These were fraudulent transactions due to the card being compromised.

Outcome: The Agency notified the provider and the account was credited for the transactions.

5. Condition: We noted two Agencies with employees not showing up to hotels when reserved with the purchase card. One Agency reservation where the employee did not stay the night was for one night in the amount of \$81.00. One Agency had 7 different reservations where the traveler did not stay the night. These transactions totaled \$606.61. These transactions are not allowable on the State purchase card since the traveler did not occupy the room.

Outcome: Both Agencies created internal policy and submitted to all their cardholders a statement that in the future any no show hotel reservations with the State purchase card will be required to be reimbursed by the traveler. We will forward to the State Purchase Card Administrator for further review.

6. Condition: We noted a purchase of \$721.52 to Blue Moon Restaurant that did not comply with the statutory requirements to report this type of purchase to the Governor, the Speaker of the House of Representatives and the President Pro Tempore of the Senate. Some Agencies have statutory authority to purchase food, lodging, meeting facilities and beverages for sponsoring seminars and receptions. As a requirement of the law the Agency must provide a report of these expenditures to the above mentioned individuals quarterly. This purchase was not reported on the quarterly report.

Outcome: The quarterly report was modified to include the purchase and resubmitted to the proper authorities.

7. Condition: One Agency had \$1,332.91 in food purchases to Panera Bread, Little Caesars, Dunkin Donuts and Popeye's. Under the Agency's food policy the Director must pre-

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approve all food purchases. No documentation was produced indicating the Director had given prior approval for general food purchases.

Outcome: Response from the Agency personnel stated that management approval will be obtained for all future food purchases.

8. Condition: We discovered one transaction that exceeded the \$5,000 transaction limit. This transaction did not meet one of the required exceptions that allow a transaction to exceed \$5,000 as stated in the Central Purchasing Act Title 74 § 85.5.L. The purchase was made within the emergency purchasing rules (580:16-7-19) therefore competitive bidding was not required. The Agency was appropriate in quickly responding to the emergency even though it meant non-compliance with a purchase card policy.

Outcome: No action necessary.

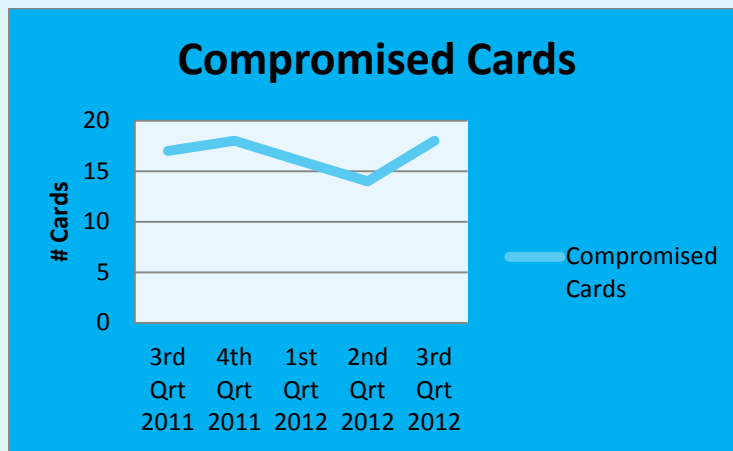
9. Condition: We discovered one purchase card that was not suspended when the employee ended employment with the Agency. The card remained open for 5 months after the employee left. Unknown by the agency, a vendor charged the card during this time period.

Outcome: Card was closed and the Agency disputed the unauthorized charge.

TRENDS AND OUTLOOK

Trends:

During our review we noted compromised purchase cards³ have been noticeably increasing. We will continue closely monitoring purchase card transactions for patterns connected to compromised cards. Of the 1,888 active purchase cards during our review period, 87 cards were found to be compromised, almost 1 in every 20 cards.



Outlook:

We expect purchase card transactions to increase as agencies broaden their utilization of the State's purchase card program.

³ **Compromised Purchase Cards** - A fraudulent or misrepresented use of purchase card account information by an unauthorized third party. Forms of compromised cards are cards that were stolen, lost, never received or altered or counterfeited. These transactions also include account takeovers better known as identity theft and unauthorized transactions made from a vendor who maintained account information from a previous purchase.